

Congress of the United States

Washington, DC 20515

June 26, 2023

The Honorable Daniel Werfel
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

The Honorable Adewale Adeyemo
Deputy Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Commissioner Werfel and Deputy Secretary Adeyemo:

Last month, the Internal Revenue Service (IRS) released its long-awaited report demonstrating the feasibility and importance of a free, government-owned direct file tool, and announced its intention – at the Treasury’s direction – to pilot such a tool during the 2024 filing season.¹ Many of us have previously called for expanding access to simple, free, and easy-to-use e-file tools to streamline Americans’ access to the tax system.² We write to applaud this announcement and your leadership on this issue, and to share our support for making a strong tool available to as many taxpayers as feasible next filing season and for continuing to build the free and easy filing tool that many Americans want and deserve.

As you know, the U.S. tax filing system is not working as well as it should be. The IRS estimates that the average American spends \$140 and eight hours filing their taxes each year (not including business income).³ The IRS’s effort to guarantee free and simple e-filing services to most American taxpayers through the Free File Program, a partnership with private tax preparation companies, has not been successful throughout its more than two decades in operation. While 70 percent of taxpayers qualify for Free File, the program reached only 2 percent in the 2022 tax year.⁴ Meanwhile, private tax preparation companies offer tax preparation services that should be free, are advertised to be free, but all too often are, in fact, not free for taxpayers.⁵ For example, just last month, Intuit began paying \$141 million in settlement

¹ Internal Revenue Service, “IRS Report to Congress: Inflation Reduction Act §10301(1)(B), IRS-run Direct e-File Tax Return System,” May 16, 2023, <https://www.irs.gov/pub/irs-pdf/p5788.pdf>; Letter from Internal Revenue Commissioner Daniel Werfel to Treasury Secretary Janet Yellen, May 16, 2023, <https://www.irs.gov/pub/newsroom/letter-to-secretary-yellen-direct-file.pdf>.

² Letter from U.S. Senators Tom Carper, Elizabeth Warren, et al. to Internal Revenue Commissioner Daniel Werfel, April 25, 2023, <https://www.carper.senate.gov/wp-content/uploads/2023-04-25-Carper-Warren-IRS-E-file-letter-FINAL.pdf>; Letter from U.S. Representatives Brad Sherman, Katie Porter, et al. to IRS Commissioner Daniel Werfel, May 12, 2023, <https://sherman.house.gov/sites/sherman.house.gov/files/Sherman-Porter%20IRS%20Direct%20File%20Letter.pdf>.

³ U.S. Department of Treasury, “How a Transformed IRS Will Improve Tax Fairness,” April 6, 2023, pg. 3, <https://home.treasury.gov/system/files/136/TaxFairnessSOPOnePager.pdf>; Internal Revenue Service, “1040 (and 1040-SR) Instructions,” Tax Year 2022, pg. 107, <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf#page=107>.

⁴ National Taxpayer Advocate, “2022 Annual Report to Congress,” January 11, 2023, pg. 104, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_06_FilingDelays.pdf.

⁵ NPR, “Federal Trade Commission accuses Intuit of deceptively advertising TurboTax as free,” Laurel Wamsley, March 29, 2022, <https://www.npr.org/2022/03/29/1089490958/free-turbotax-ftc-intuit>.

payments to American taxpayers who the company steered into paying for tax preparation software they should have received for free.⁶

This broken system is not only an unauthorized tax on middle-class families, but also a significant obstacle to the IRS fulfilling its role as our country's second-largest benefits administrator. The expense and difficulty of filing a tax return prevents millions of American families every year from claiming thousands of dollars in benefits Congress has authorized via the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC).⁷

As the report clearly shows, an IRS direct file tool is a simple, common-sense solution to these problems. The report shows that 72 percent of taxpayers are interested in an IRS direct file tool,⁸ and 68 percent of taxpayers who currently self-prepare their returns are likely to switch to the IRS tool,⁹ consistent with previous polling.¹⁰

The report also shows that taxpayers trust the IRS to provide a direct file service, and, indeed, think it is the agency's rightful role to do so, especially given the cost of private software options and concerns about their data privacy.¹¹ In the words of one research participant: "If the government is requiring me to file, they should offer a free service."¹² Another expressed the view that their data would be "very protected" with an IRS tool, adding "I don't think the IRS is going to sell [my personal data] off,"¹³ which we know is a concern with private tax software companies.¹⁴ This interest and trust mirror the comments we hear from our own constituents, who want the government to make it cheaper, easier, and more secure to fulfill their tax filing obligations.

Commissioner Werfel, as you noted, the report also "shows the IRS is technically capable of delivering Direct File."¹⁵ In fact, the IRS's research process included the development and

⁶ CNN, "TurboTax is sending checks to 4.4 million customers as part of a \$141 million settlement," Jordan Valinsky, May 9, 2023, <https://www.cnn.com/2023/05/09/business/turbotax-settlement/index.html>.

⁷ National Bureau of Economic Research, "Automatic Tax Filing: Simulating a Pre-Populated Form 1040," Lucas Goodman, Katherine Lim, Bruce Sacerdote, Andrew Whitten, Working Paper 3008, https://www.nber.org/system/files/working_papers/w30008/w30008.pdf.

⁸ Internal Revenue Service, "IRS Report to Congress: Inflation Reduction Act §10301(1)(B), IRS-run Direct e-File Tax Return System," May 16, 2023, pg. 7, <https://www.irs.gov/pub/irs-pdf/p5788.pdf>.

⁹ *Id.*

¹⁰ Navigator Research, "IRS Free Filing Slides," May 12, 2023, <https://navigatorresearch.org/wp-content/uploads/2023/05/Navigator-IRS-Free-Filing-Slides-05.12.2023.pdf>; Data for Progress, "Senator Warren: Filing Taxes Should Be Free, Fast, and Easy," U.S. Senator Elizabeth Warren, July 14, 2022, <https://www.dataforprogress.org/blog/2022/7/13/senator-warren-filing-taxes-should-be-free-fast-and-easy>.

¹¹ Internal Revenue Service, "IRS Report to Congress: Inflation Reduction Act §10301(1)(B), IRS-run Direct e-File Tax Return System," May 16, 2023, pg. 8-9, <https://www.irs.gov/pub/irs-pdf/p5788.pdf>.

¹² *Id.*, pg. 8.

¹³ *Id.*, pg. 8.

¹⁴ The Markup, "Tax Filing Websites Have Been Sending Users' Financial Information to Facebook," Simon Fondrie-Teitler, Angie Waller, and Colin Lecher, November 22, 2022, <https://themarkup.org/pixel-hunt/2022/11/22/tax-filing-websites-have-been-sending-users-financial-information-to-facebook>.

¹⁵ Letter from Internal Revenue Commissioner Daniel Werfel to Treasury Secretary Janet Yellen, May 16, 2023, <https://www.irs.gov/pub/newsroom/letter-to-secretary-yellen-direct-file.pdf>.

testing of a prototype filing tool, which test users found simple and easy to use.¹⁶ The findings and the thorough work behind them are clear: the IRS and its partners have shown that taxpayers want a direct filing tool and that the IRS is able to provide one. It is high time to make it a reality.

We stand in strong support of the IRS's project to make a pilot version of this tool available to taxpayers in filing season 2024. Last year, Congress passed the *Inflation Reduction Act* (IRA) and invested nearly \$80 billion in the IRS over the next 10 years to ensure both that the wealthiest taxpayers pay what they owe and that hardworking Americans just trying to honestly file their taxes get the service they deserve.¹⁷ The reality that a new free, direct filing tool will be available to some taxpayers less than 18 months after the IRA's passage shows that this generational investment was worthwhile, and when given sufficient resources, the IRS can move nimbly and competently to serve American taxpayers. Unfortunately, some of that funding has been rescinded and additional amounts have been threatened,¹⁸ but that makes it more important than ever for the IRS to show that it can meet and exceed its goals.

We urge you to make this pilot of the direct file tool available to as many taxpayers as is feasible, in order to deliver real value quickly to American taxpayers and demonstrate the value of modernizing the IRS, while also gathering data to make improvements and to better serve American taxpayers. We also know that next year's pilot is only the first step toward the robust direct file system that Americans deserve. Deputy Secretary Adeyemo, as you wrote in your letter to Commissioner Werfel, next year's pilot will be just "the first step in [an] iterative process."¹⁹

We also appreciate that direct file will be just one option for taxpayers, as you both have made clear. Many taxpayers will continue to use private providers,²⁰ and some will use existing IRS filing support at Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites, both successful programs that for which direct file is a complement, not a substitute.²¹ Direct file, as you both have said, is about creating an additional option for taxpayers²² – an option that many badly need.

We stand ready to assist in publicizing and supporting the direct file tool as it launches next year and to work with you beyond that to build and maintain the free and easier tax filing system our

¹⁶ Internal Revenue Service, "IRS Report to Congress: Inflation Reduction Act §10301(1)(B), IRS-run Direct e-File Tax Return System," May 16, 2023, pg. 15, <https://www.irs.gov/pub/irs-pdf/p5788.pdf>.

¹⁷ *Inflation Reduction Act of 2022*, H.R. 5376, Sec. 10301.

¹⁸ The New York Times, "New Details in the Debt Limit Deal: Where \$136 Billion in Cuts Will Come From," Jim Tankersley and Alan Rappeport, May 29, 2023, <https://www.nytimes.com/2023/05/29/business/debt-ceiling-agreement.html>.

¹⁹ Letter from Deputy Secretary of the Treasury Adewale Adeyemo to Internal Revenue Commissioner Daniel Werfel, May 16, 2023, <https://home.treasury.gov/system/files/136/Deputy-Secretary-Adeyemo-Letter-to-Commissioner-Werfel-20230516.pdf>.

²⁰ Internal Revenue Service, "IRS Report to Congress: Inflation Reduction Act §10301(1)(B), IRS-run Direct e-File Tax Return System," May 16, 2023, pg. 7, <https://www.irs.gov/pub/irs-pdf/p5788.pdf>.

²¹ Internal Revenue Service, "IRS-certified volunteers make a difference for millions of taxpayers," October 20, 2022, <https://www.irs.gov/newsroom/irs-certified-volunteers-make-a-difference-for-millions-of-taxpayers>.

²² *Id.*; Letter from Internal Revenue Commissioner Daniel Werfel to Treasury Secretary Janet Yellen, May 16, 2023, <https://www.irs.gov/pub/newsroom/letter-to-secretary-yellen-direct-file.pdf>.

country and its citizens deserves. We thank you for your leadership on this issue, and look forward to continuing to work with you and the dedicated IRS workforce to better serve American taxpayers.

Sincerely,



Elizabeth Warren
United States Senator



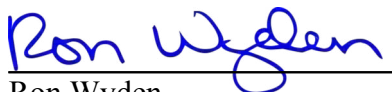
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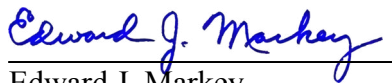
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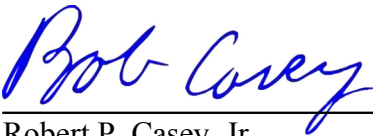
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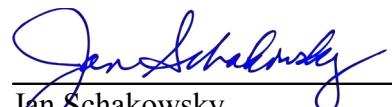
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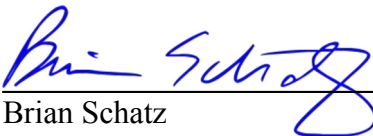
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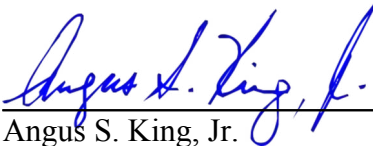
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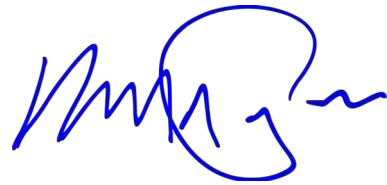
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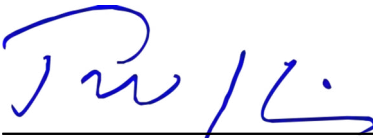
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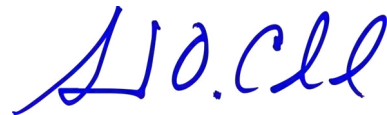
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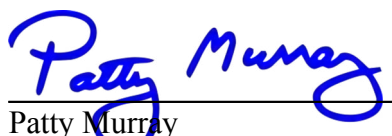
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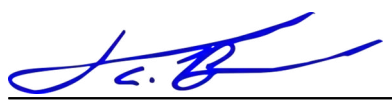
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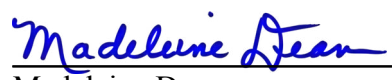

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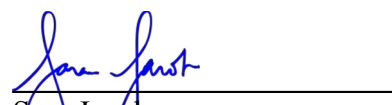

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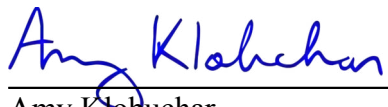

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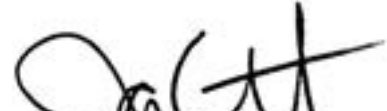
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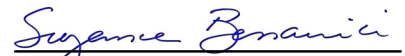
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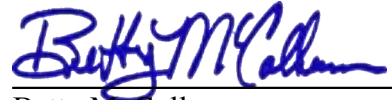
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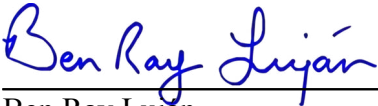
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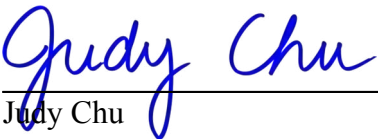
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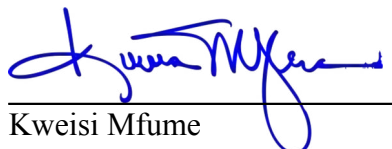
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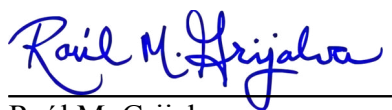
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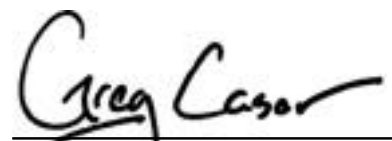
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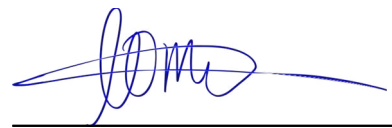
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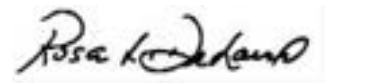
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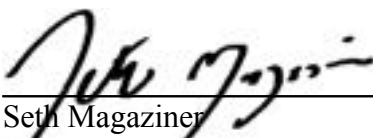
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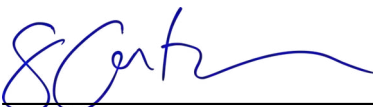
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