

Congress of the United States

Washington, DC 20515

May 12, 2023

The Honorable Danny Werfel, Commissioner
Internal Revenue Service
1111 Constitution Ave, NW
Washington, DC 20224

RE: IRS Direct File Tool Report

Dear Commissioner Werfel:

In anticipation of this month's long-awaited report on the prospect of an IRS Direct File tool as required by the Inflation Reduction Act of 2022,¹ we write to urge you to prioritize reforms to America's patchwork tax filing system.

Filing a tax return is one of the most intimate and critical ways many Americans interact directly with the federal government. Filing a return is not just a legal requirement for hundreds of millions of families; it is also how tens of millions access vital social supports that Congress has authorized through the tax code, including through the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The neediest families in our society apply for our largest anti-poverty programs by filing tax returns. It is incumbent on the IRS to make the filing process free, easy, painless, and respectful.

Sadly, America's tax filing system is not meeting the challenge. We hear constantly from constituents about the immense difficulties and costs of filing a return. The IRS estimates that it takes the average American 13 hours and \$250 to file a return.² Tens of millions of American families are spending hundreds of dollars they can scarcely afford just to fulfill their basic obligations with the IRS. Every year, millions more — among the neediest families in our society — fail to navigate the system entirely. One in five families eligible for the EITC fail to claim it,³ and millions more families may have missed out on expanded CTC and Economic Impact Payments during the pandemic.⁴ These families leave billions of dollars of federal anti-poverty benefits on the table simply because it is too hard or too expensive to file a return.

The IRS's principal program to address these problems is Free File, a two-decade old partnership with private tax prep companies to provide free filing services to 70% of taxpayers. But Free File

¹ P.L. 117-169. Sec. 10301 (1)(B). The report is due within nine months following the date of the enactment of the Act (August 16, 2022).

² IRS Form 1040 Instructions, p. 107. <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf>

³ "EITC Participation Rate by States Tax Years 2012 through 2019." IRS. <https://www.eitc.irs.gov/eitc-central/participation-rate-by-state/eitc-participation-rate-by-states>

⁴ "IRS sending letters to over 9 million potentially eligible families who did not claim stimulus payments, EITC, Child Tax Credit and other benefits." IRS News Release. October 13, 2022. <https://www.irs.gov/newsroom/irs-sending-letters-to-over-9-million-potentially-eligible-families-who-did-not-claim-stimulus-payments-eitc-child-tax-credit-and-other-benefits-free-file-to-stay-open-until-nov-17>

is not working. Less than 3% of eligible taxpayers use Free File, and the Government Accountability Office (GAO),⁵ Treasury Inspector General for Tax Administration (TIGTA),⁶ and Internal Revenue Service Advisory Council (IRSAC)⁷ have all found the program to be deeply flawed. Still worse, in recent years, the two largest companies in the program have abandoned it entirely.⁸

We believe it is time for a new strategy.

The IRS is uniquely positioned to make the tax filing process free and easy by directly providing free filing services to American households, without relying on private intermediaries. An IRS-run filing service could streamline the filing process by making use of taxpayer data the agency already has on hand, and could integrate seamlessly with the agency's existing customer service resources. Moreover, building such a filing service is precisely the kind of reform that Congress expected of the IRS in allocating \$80 billion to the agency's modernization in the Inflation Reduction Act. Providing an easy and streamlined filing service is both technology modernization, and good customer service. An IRS filing service could indeed be a centerpiece of the agency's ongoing renewal.

We look forward to your forthcoming report on the feasibility of an IRS direct file tool. In the report, we encourage you to lay out a viable plan to provide an IRS tax filing service that expands access to the public and makes compliance easy. If the report does so, we hope you will prioritize and expedite such a project. The fairness and integrity of our tax system depend on it.

Sincerely,



Brad Sherman
Member of Congress



Katie Porter
Member of Congress

⁵ "IRS Free File Program." GAO Report GAO-22-105236. April 28, 2022. <https://www.gao.gov/products/gao-22-105236>

⁶ "Complexity and Insufficient Oversight of the Free File Program Result in Low Taxpayer Participation." Treasury Inspector General for Tax Administration. February 3, 2020. <https://www.oversight.gov/sites/default/files/oig-reports/202040009fr.pdf>

⁷ Internal Revenue Service Advisory Council. Publication 5316 (Rev. 11-2018), Catalog Number 71824A. November 2018. <https://www.irs.gov/pub/irs-prior/p5316--2018.pdf>

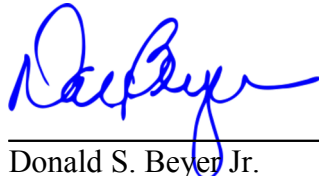
⁸ H&R Block in 2020 <https://news.bloombergtax.com/daily-tax-report/irss-free-file-partners-moving-forward-without-h-r-block>, Intuit in 2021 <https://www.intuit.com/blog/news-social/accelerating-technology-innovation-to-better-help-consumers-solve-their-most-pressing-financial-problems/>



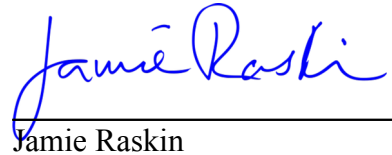
Eleanor Holmes Norton
Member of Congress



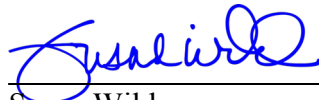
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