



U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS
1139 LONGWORTH HOUSE OFFICE BUILDING
Washington, DC 20515

June 13, 2024

The Honorable Daniel Werfel
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, D.C. 20224

Dear Commissioner Werfel,

We write to you now that this year's tax filing season has come to a close to reiterate our objections to the Internal Revenue Service's ("IRS") Direct File pilot program and inquire about the program's cost, operation, and future. Despite opposition to the program and questions surrounding the agency's authority to do anything beyond studying the concept of such a tool, the IRS aggressively pursued the creation and launch of a Direct File pilot program. On May 30, the IRS announced that it would make Direct File a permanent option for taxpayers despite the numerous concerns.¹

The IRS's decision to establish Direct File appears to have been "predetermined" from the outset, regardless of the need or desire for such a program.² Democrats gave the IRS \$15 million in the Inflation Reduction Act ("IRA") to study and report to Congress on the feasibility, taxpayer interest, and cost of a direct e-file tax return system.³ The IRA's explicit language that set out this limited purpose required the study to draw on the "opinions of an independent third party."⁴ Disregarding Congress' mandate, the Biden Administration "cooked the books to get exactly the outcome it wanted"—a Direct File program.⁵ Specifically, before even starting its study, the IRS selected left-leaning think tank New America to complete the work.⁶ This same organization previously asserted in

¹ Internal Revenue Service, *IRS makes Direct File a permanent option to file federal tax returns; expanded access for more taxpayers planned for the 2025 filing season* (May 30, 2024), <https://www.irs.gov/newsroom/irs-makes-direct-file-a-permanent-option-to-file-federal-tax-returns-expanded-access-for-more-taxpayers-planned-for-the-2025-filing-season>.

² Letter from The Hon. Jason Smith, Chairman, H. Comm. on Ways and Means and The Hon. David Schweikert, Chairman, H. Comm. on Ways and Means, Subcomm. on Oversight to Hon. Douglas O'Donnell, Acting Comm'r, Internal Revenue Service (Mar. 6, 2023), <https://waysandmeans.house.gov/wp-content/uploads/2023/03/03.06.2023-Ltr-on-IRS-Direct-eFile-Study.pdf>.

³ The Inflation Reduction Act of 2022, § 10301(1)(B), Pub. L. 117-168.

⁴ *Id.*

⁵ H. Comm. on Ways and Means, *Report on Direct E-File Program Confirms Biden Administration Always Intended to Make the IRS America's Tax Preparer, Filer, and Auditor* (May 16, 2023), <https://waysandmeans.house.gov/report-on-direct-e-file-program-confirms-biden-administration-always-intended-to-make-the-irs-americas-tax-preparer-filer-and-auditor/>.

⁶ Letter from The Hon. Jason Smith, Chairman, H. Comm. on Ways and Means and The Hon. David Schweikert, Chairman, H. Comm. on Ways and Means, Subcomm. on Oversight to The Hon. Douglas O'Donnell, Acting Comm'r, Internal Revenue Service (Mar. 6, 2023), <https://waysandmeans.house.gov/wp-content/uploads/2023/03/03.06.2023-Ltr-on-IRS-Direct-eFile-Study.pdf>.

March 2021 that the government “can and should build” Direct File.⁷ The agency also tasked law professor Ariel Jurow Kleiman, who advocated that the IRS “should adopt the most expansive version of” a government-run direct e-file system, to work on the report.⁸ Based on this study, the Biden Administration announced its plan to launch Direct File on May 16, 2023.⁹ This decision was made despite a separate, independent study conducted by MITRE, on their own accord, which showed very little taxpayer interest in establishing a government-run Direct File program.¹⁰

The IRS’s decision to unilaterally build a Direct File pilot program raises significant legal questions. In February 2024, we condemned the agency’s efforts to establish this program without authorization from Congress.¹¹ The Attorneys General of 13 States joined this objection, calling Direct File “unnecessary and unconstitutional.”¹² In response to a question you were asked regarding the pilot program’s legality during the Committee’s February 15, 2024, hearing you said that the IRS has “direct authority to implement the tax system in a way that provides tools and solutions for taxpayers.”¹³

In a March 16, 2023, letter to your predecessor, Acting Commissioner Douglas O’Donnell, Members of the Committee raised “concerns over designating the IRS as both tax collector and tax preparer.”¹⁴ Moreover, we criticized the IRS’s attempts to tip the scales “in favor of a Direct File program that the American people did not want or need.”¹⁵ As the IRS rolled out this tool, other voices echoed our concerns. For example, former Obama-Biden Administration Chief Information Officer Tony Scott said that the program is “virtually guaranteed to fail.”¹⁶ *The Wall Street Journal* recently

⁷ New America, *Create a Modern, Government-Run Tax Filing Option, Starting with “The Portal,”*

<https://www.newamerica.org/new-practice-lab/reports/the-irs-as-a-benefits-administrator/2-create-a-modern-government-run-tax-filing-option-starting-with-the-portal> (last accessed Feb. 16, 2023); Letter from The Hon. Jason Smith, Chairman, H. Comm. on Ways and Means and The Hon. David Schweikert, Chairman, H. Comm. on Ways and Means, Subcomm. on Oversight to The Hon. Douglas O’Donnell, Acting Comm’r, Internal Revenue Service (Mar. 6, 2023), <https://waysandmeans.house.gov/wp-content/uploads/2023/03/03.06.2023-Ltr-on-IRS-Direct-eFile-Study.pdf>.

⁸ Tobias Burns, *IRS to Release Report on Free Online Tax-Filing System in May*, THE HILL (Feb. 8, 2023), <https://thehill.com/finance/3849684-irs-to-release-report-on-free-online-tax-filing-system-in-may/>; Jonathan H. Choi and Ariel Jurow Kleiman, *Subjective Costs of Tax Compliance* (Feb. 1, 2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4345082.

⁹ David Lawder, *US IRS to Launch Free Tax E-File Pilot Program in 2024*, REUTERS (May 16, 2023), <https://www.reuters.com/world/us/irs-launch-free-us-direct-tax-filing-pilot-program-2024-2023-0516/>; Internal Revenue Service, *IRS Submits Direct File Report to Congress, Treasury Department Directs Pilot to Evaluate Key Issues* (May 16, 2023), <https://www.irs.gov/newsroom/irs-submits-direct-file-report-to-congress-treasury-department-directs-pilot-to-evaluate-key-issues>.

¹⁰ Editorial, *Cooking the IRS Study Books*, THE WALL STREET JOURNAL (Apr. 26, 2023), <https://www.wsj.com/articles/irs-study-taxes-progressives-new-america-elizabeth-warren-caecc62d>.

¹¹ H. Comm. on Ways and Means, *Twelve State Attorneys General Join Chairman Smith in Condemning IRS’s Direct File Scheme* (Feb. 2, 2024), <https://waysandmeans.house.gov/twelve-state-attorneys-general-join-chairman-smith-in-condemning-irss-direct-file-scheme/>.

¹² Letter from Attorney General of Montana Austin Knudsen *et al.* to The Hon. Janet Yellen, Sec’y of the U.S. Dept. of the Treasury (Jan. 30, 2024), <https://dojmt.gov/wp-content/uploads/IRS-Direct-File-Letter-Final.pdf>.

¹³ H. Comm. on Ways and Means, *Hearing with Commissioner of the Internal Revenue Service, Daniel Werfel* (Feb. 15, 2024), <https://waysandmeans.house.gov/event/hearing-with-commissioner-of-the-internal-revenue-service-daniel-werfel/>.

¹⁴ Letter from The Hon. Jason Smith, Chairman, H. Comm. on Ways and Means and The Hon. David Schweikert, Chairman, H. Comm. on Ways and Means, Subcomm. on Oversight to The Hon. Douglas O’Donnell, Acting Comm’r of the IRS (Mar. 6, 2023), <https://waysandmeans.house.gov/wp-content/uploads/2023/03/03.06.2023-Ltr-on-IRS-Direct-eFile-Study.pdf>.

¹⁵ H. Comm. on Ways and Means, *Smith: Direct E-File Program No One Asked for Is Simply a Way to Expand IRS* (Mar. 12, 2024), <https://waysandmeans.house.gov/smith-direct-e-file-program-no-one-asked-for-is-simply-a-way-to-expand-irs/>.

deemed Direct File “a bust.”¹⁷ The IRS, however, ignored these warnings, instead choosing to spend millions of taxpayer dollars without express congressional authorization to launch the pilot program.¹⁸

The agency’s justifications to become tax preparer, filer, and auditor were deeply flawed. The Treasury Inspector General for Tax Administration (“TIGTA”), an independent watchdog, found in October 2023, that the IRS potentially overstated taxpayer interest and understated Direct File’s costs.¹⁹ TIGTA concluded that taxpayer interest in this tool may have been exaggerated due to the substandard survey design that the IRS employed to gauge interest.²⁰ In the survey, which TIGTA criticized as possibly “overstat[ing]” taxpayer interest in Direct File, IRS touted how 72 percent of all taxpayers expressed interest in Direct File.²¹ A separate, independent report examining only tax filers with simple returns—the IRS’s target demographic for this year’s pilot program—showed that a mere 37 percent of these taxpayers would use an IRS-run system.²²

Various independent entities also noted significant shortcomings in the IRS’s spending on Direct File. In its October 2023 report, TIGTA not only discovered that the IRS “could not provide . . . any supporting documentation” to support its estimates, but also heavily criticized the IRS’s assumption that there would be between 5 and 25 million users.²³ On April 9, 2024, the Government Accountability Office (“GAO”) further criticized the IRS’s Direct File cost projections. The IRS reported to Congress in May 2023, that Direct File annual costs could range from \$64 million to \$249 million.²⁴ While the IRS recently reported \$24.6 million in costs through the end of the pilot, it excluded from this total certain expenditures to build and run the pilot for services provided by the U.S. Digital Services (“USDS”), which is estimated to be \$7.2 million annually.²⁵

¹⁶ Tony Scott, *The Government’s Free Tax-Filing Software is Virtually Guaranteed to Fail*, THE HILL (Oct. 13, 2023), <https://thehill.com/opinion/4253283-the-governments-free-tax-filing-software-is-virtually-guaranteed-to-fail/>.

¹⁷ Editorial, *The IRS Is Here to Help with Direct File. Oh No*, THE WALL STREET JOURNAL (Apr. 12, 2024), <https://www.wsj.com/articles/irs-direct-file-taxes-elizabeth-warren-joe-biden-aa7c214d>.

¹⁸ Treasury Inspector General for Tax Administration, *Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System*, Rep. No. 2024-408-002 (Oct. 2, 2023), <https://www.tigta.gov/sites/default/files/reports/2023-10/2024408002fr.pdf>; Internal Revenue Service, *IRS Direct File Pilot Program: Filing Season 2024 After Action Report* (May 3, 2024), <https://www.irs.gov/pub/irs-pdf/p5969.pdf>.

¹⁹ Treasury Inspector General for Tax Administration, *Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System*, Rep. No. 2024-408-002 (Oct. 2, 2023), <https://www.tigta.gov/sites/default/files/reports/2023-10/2024408002fr.pdf>.

²⁰ *Id.*

²¹ *Id.*

²² Editorial, *Cooking the IRS Study Books*, THE WALL STREET JOURNAL (Apr. 26, 2023), <https://www.wsj.com/articles/irs-study-taxes-progressives-new-america-elizabeth-warren-caecc62d>; Kate Dore, *IRS Adds “Important Update” for Free Direct File Pilot as Federal Tax Deadline Approaches*, NBC4 Washington (Apr. 8, 2024), <https://www.nbcwashington.com/news/business/money-report/irs-adds-important-update-for-free-direct-file-pilot-as-the-federal-tax-deadline-approaches/3586701/> (“Direct File eligibility is limited to those with simple tax returns this filing season,” Deputy Secretary of the Treasury Wally Adeyemo said during a press call in March.”).

²³ *Id.*

²⁴ U.S. Government Accountability Office, *IRS Direct File: Actions Needed during Pilot to Improve Information on Costs and Benefits*, Rep. No. GAO-24-107236 (Apr. 9, 2024), <https://www.gao.gov/assets/d24107236.pdf>.

²⁵ Internal Revenue Service, *Direct File Pilot Officially Closes after More Than 140,000 Taxpayers Successfully Use Direct E-Filing System in 12 States, including Integration with 4 State Tax Systems*, IR-2024-122 (Apr. 26, 2024); Internal Revenue Service, *IRS Direct File Pilot Program: Filing Season 2024 After Action Report* (May 3, 2024), <https://www.irs.gov/pub/irs-pdf/p5969.pdf>.

In addition, the GAO determined that the cost estimates the IRS provided to Congress “did not fully align with best practices for cost estimation,”²⁶ The IRS failed to ensure that “all costs were included and documented,” to integrate “start-up costs” such as “technology for a novel system,” and to include “documentation to support [its] underlying data, analysis, [and] assumptions.”²⁷ The GAO found that these missed costs “could be substantial.”²⁸ Moreover, by not fully accounting for such costs, the IRS’s projections could “understate the full amount of resources required” to develop and maintain a Direct File pilot program.²⁹

The pilot launch for Direct File further confirmed our suspicions that American taxpayers are not interested in this program. After a brief and small-scale testing phase, on March 12, 2024, the IRS rolled out Direct File to an estimated 19 million eligible taxpayers in 12 states.³⁰ The vast majority of people who started the Direct File process appear to have abandoned the program. By the end of the pilot, of the 3,340,500 million taxpayers who started the eligibility checker, only 423,450 (12.6 percent) of those individuals logged into Direct File, 395,483 (11.8 percent) started a tax return, 161,042 (4.8 percent) submitted a tax return, and *only* 140,803 (4.2 percent) taxpayers of the more than 3.3 million that checked their eligibility submitted an accepted tax return.³¹ Moreover, the IRS’s after action report notes that since Direct File only files federal tax returns, but taxpayers also have state and local tax filing obligations, Direct File provided an option for taxpayers to “import their federal return data into a third-party tool that can file state and/or local taxes.”³² It is unclear from the agency’s report whether the IRS included in the 140,803 figure the individuals who used the import feature to ultimately file their taxes through a third-party tool. Either way, this total barely passed the IRS’s modest goal for taxpayer participation in the pilot.³³ A coalition of 21 top financial officials from 18 states highlighted this issue in a March 25, 2024, letter.³⁴ They recognized that the IRS had “undoubtedly overestimated the need for an IRS-run tax preparation service” and that “taxpayers are not clamoring for Direct File.”³⁵

The availability of options that existed before Direct File—including many free ones—for Americans to prepare and file their taxes reinforces the redundancy of a government-run Direct File

²⁶ *Id.*

²⁷ *Id.*

²⁸ *Id.*

²⁹ *Id.*

³⁰ Lauren Loricchio, *IRS Direct File Launches in 12 Pilot States*, TAX NOTES (Mar. 13, 2024), <https://www.taxnotes.com/tax-notes-today-federal/tax-system-administration/irs-direct-file-launches-12-pilot-states/2024/03/13/7j9jq>.

³¹ Internal Revenue Service, *IRS Direct File Pilot Program: Filing Season 2024 After Action Report* (May 3, 2024), <https://www.irs.gov/pub/irs-pdf/p5969.pdf> (total number of users who started the eligibility tracker was 3,340,500); Internal Revenue Service, *Direct File Pilot Officially Closes after More Than 140,000 Taxpayers Successfully Use Direct E-Filing System in 12 States, including Integration with 4 State Tax Systems*, IR-2024-122 (Apr. 26, 2024).

³² Internal Revenue Service, *IRS Direct File Pilot Program: Filing Season 2024 After Action Report* (May 3, 2024), <https://www.irs.gov/pub/irs-pdf/p5969.pdf>.

³³ Fatima Hussein, *140,000 People Did Their Taxes with the Free IRS Direct File Pilot. But Program’s Future Is Unclear*, THE ASSOCIATED PRESS (Apr. 26, 2024), <https://apnews.com/article/tax-season-april-income-taxes-direct-file-b1121cd4dac92dd9b33aad0d6757e0d0>.

³⁴ Letter from Alaska Commissioner of Revenue Adam Crum *et al.* to The Hon. Janet Yellen, Sec’y, The U.S. Dept. of the Treasury, The Hon. Wally Adeyemo, Deputy Sec’y, The U.S. Dept. of the Treasury, & The Hon. Daniel Werfel, Commissioner, Internal Revenue Service (Mar. 25, 2024), myfloridacfo.com/docs-sf/cfo-news-libraries/news-documents/2024/irs-direct-file-letter.pdf.

³⁵ *Id.*

system. As one tax preparation company's spokesman emphasized, "100 percent of Americans can already file their taxes completely free of charge, free to the government, and actually free to taxpayers."³⁶ Taxpayers can prepare and file their own tax returns; select a tax preparation software company and take advantage of free services many tax preparation companies provide to eligible taxpayers; rely on a tax return preparer; access the Volunteer Income Tax Assistance Program; or use the Free File Program. Millions of taxpayers have taken advantage of these options in recent years.³⁷ Just last year, for example, approximately 28 million Americans filed their returns at zero cost by drawing on these options.³⁸

The Free File Program was first implemented in 2003,³⁹ and is a successful "public-private partnership between the IRS and many tax preparation and filing software industry companies who provide their online tax preparation and filing for free."⁴⁰ The Free File Program "makes it possible for individuals, regardless of their filing status, with adjusted gross incomes (AGIs) at or below a specified amount (\$79,000 in the 2023 tax year) to e-file their federal income tax returns, free of charge, using software provided by participating tax preparation companies."⁴¹ As the IRS itself notes, the Free File Program is especially useful because taxpayers can prepare and file their federal income taxes online for free if their annual adjusted gross income is \$79,000 or less.⁴² Moreover, as of February 24, 2024, the Free File Program has seen a year-over-year increase of 9.7 percent.⁴³ Additionally, "taxpayers saved an estimated \$1.5 billion from 2003 to 2018 as a result of e-filing through the [Free File Program], and the IRS saved hundreds of millions of dollars in processing costs."⁴⁴ In addition, the IRS's after action report on Direct File notes that "[i]n cases where a user's tax situation was out of scope for the pilot, they were directed to other options to complete their tax returns."⁴⁵

³⁶ Fatima Hussein, *140,000 People Did Their Taxes with the Free IRS Direct File Pilot. But Program's Future Is Unclear*, THE ASSOCIATED PRESS (Apr. 26, 2024), <https://apnews.com/article/tax-season-april-income-taxes-direct-file-b1121cd4dac92dd9b33aad0d6757e0d0>.

³⁷ Letter from The Hon. Jason Smith, Chairman, H. Comm. on Ways and Means and The Hon. David Schweikert, Chairman, H. Comm. on Ways and Means, Subcomm. on Oversight to The Hon. Douglas O'Donnell, Acting Commissioner, Internal Revenue Service (Mar. 6, 2023), <https://waysandmeans.house.gov/wp-content/uploads/2023/03/03.06.2023-Ltr-on-IRS-Direct-eFile-Study.pdf>; Letter from The Hon. Jason Smith, Chairman, H. Comm. on Ways and Means and The Hon. David Schweikert, Chairman, H. Comm. on Ways and Means, Subcomm. on Oversight to The Hon. Douglas O'Donnell, Acting Commissioner, Internal Revenue Service (Mar. 6, 2023), <https://waysandmeans.house.gov/wp-content/uploads/2023/03/03.06.2023-Ltr-on-IRS-Direct-eFile-Study.pdf>.

³⁸ Editorial, *The IRS Is Here to Help with Direct File. Oh No*, THE WALL STREET JOURNAL (Apr. 12, 2024), <https://www.wsj.com/articles/irs-direct-file-taxes-elizabeth-warren-joe-biden-aa7c214d>.

³⁹ Donald Moynihan, *Digital Government, Public-Private Partnerships, and Administrative Burdens: The Free File Program*, Georgetown University, McCourt School of Public Policy, <https://mccourt.georgetown.edu/wp-content/uploads/2022/06/Free-File-Case-Study.pdf>.

⁴⁰ Internal Revenue Service, *File your taxes for free*, <https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free>.

⁴¹ *The Internal Revenue Service's Free File Program (FFP): Current Status and Policy Issues*, Congressional Research Service (updated Jan. 22, 2024), <https://crsreports.congress.gov/product/pdf/IF/IF11808>.

⁴² Internal Revenue Service, *IRS Free File: Guided Tax Software*, <https://apps.irs.gov/app/freeFile>.

⁴³ Internal Revenue Service, *IRS Free File Program Sees Early Increase in Use; Filings up nearly 10%* (March 1, 2024), <https://www.irs.gov/newsroom/irs-free-file-program-sees-early-increase-in-use-filings-up-nearly-10-percent>.

⁴⁴ *The Internal Revenue Service's Free File Program (FFP): Current Status and Policy Issues*, Congressional Research Service (updated Jan. 22, 2024), <https://crsreports.congress.gov/product/pdf/IF/IF11808>.

⁴⁵ Internal Revenue Service, *IRS Direct File Pilot Program: Filing Season 2024 After Action Report* (May 3, 2024), <https://www.irs.gov/pub/irs-pdf/p5969.pdf>.

As you highlighted in a recent interview, “these commercial software providers are valuable partners and the work they do with their customers is critical to the health and success of the tax system.”⁴⁶ When you appeared for an April 16, 2024 hearing before the Senate Committee on Finance, one Senator noted that, given the steep cost the IRS paid to develop Direct File, if the IRS had “use[d] this year’s Direct File spending to pay third party providers to prepare and file returns instead, literally hundreds of times the numbers of taxpayers could [have] file[d] for free.”⁴⁷ The IRS should reverse course and prioritize improvements to and awareness of existing options for taxpayers to file for free rather than spending taxpayer money to maintain and grow an unpopular and redundant program like Direct File.

The IRS, however, now appears to be favoring Direct File over traditional tax preparers. In a recent update, IRS allowed first-time filers to directly import their previous year AGI into Direct File.⁴⁸ This option is still unavailable to private tax preparers despite years of requests to the IRS for a fix, and it remains a key obstacle for first-time taxpayers seeking to file their returns with private entities.⁴⁹ In its 2023 annual report, the Electronic Tax Administration Advisory Committee recommended that the IRS should allow certain third parties to “pull” information return data on demand and that the IRS should “make tax information documents digitally available in real-time, empowering taxpayers to easily export their tax data into third party tax software.”⁵⁰ They found that these steps would “enhance the taxpayer experience,” “improve fraud and error detection,” “ensure timely return processing,” “reduce the burdens of compliance,” increase “accuracy,” and decrease “customer service requests.”⁵¹ Though the IRS claims that Direct File is merely “one option among many,” the agency has thus far decided not to take actions that would better equip traditional tax preparers to serve Americans and grant them the same capabilities that the IRS has given Direct File.⁵² Rather than work collaboratively with these entities, the IRS instead chose to offer this important feature only for its own Direct File pilot program. The IRS should not be preventing tax preparers, who have the consent of taxpayers to access such data, from having the same capabilities as Direct File.

According to the GAO, IRS senior leadership tied renewal plans to several factors.⁵³ In particular, the IRS discussed issues from the 2024 pilot, new capabilities, and the size of the team working on Direct File.⁵⁴ Officials emphasized that hiring new employees to replace outgoing ones is a “lengthy process.”⁵⁵ Additionally, as the GAO notes, the IRS planned to survey a “stratified random

⁴⁶ Sandy Mazza, *Leader of IRS: Claim More Tax Refunds*, THE TENNESSEAN (Apr. 8, 2024).

⁴⁷ Sen. Comm. on Finance, *The President’s Fiscal Year 2025 IRS Budget and the IRS 2024 Filing Season* (Apr. 16, 2024), <https://www.finance.senate.gov/hearings/the-presidents-fiscal-year-2025-irs-budget-and-the-irs-2024-filing-season>.

⁴⁸ Kate Dore, *IRS Adds “Important Update” for Free Direct File Pilot as Federal Tax Deadline Approaches*, NBC4 WASHINGTON (Apr. 8, 2024), <https://www.nbcwashington.com/news/business/money-report/irs-adds-important-update-for-free-direct-file-pilot-as-the-federal-tax-deadline-approaches/3586701/>.

⁴⁹ *Id.*

⁵⁰ Electronic Tax Administration Advisory Committee, *Annual Report to Congress* (June 2023), <https://www.irs.gov/pub/irs-pdf/p3415.pdf>.

⁵¹ *Id.*

⁵² Internal Revenue Service, *Direct File Pilot Officially Closes after More Than 140,000 Taxpayers Successfully Use Direct E-Filing System in 12 States, including Integration with 4 State Tax Systems*, IR-2024-122 (Apr. 26, 2024).

⁵³ Government Accountability Office, *IRS Direct File: Actions Needed during Pilot to Improve Information on Costs and Benefits*, Rep. No. GAO-24-107236 (Apr. 9, 2024), <https://www.gao.gov/assets/d24107236.pdf>.

⁵⁴ *Id.*

⁵⁵ *Id.*

sample of 5,000 Direct File participants” to evaluate the pilot.⁵⁶ Based on these considerations, it appears that the planned extension of Direct File will require a significant expenditure of resources better used on other IRS priorities.

The end of the filing season raises critical questions about Direct File’s cost, operation, and future, even in the face of the agency’s premature decision to make it permanent. The program also raises concerns regarding the agency’s efforts to expand its power at the cost of taxpayer dollars, gain greater control over Americans’ taxes and confidential information, and redefine the agency’s obligations as a tax administrator. As the Committee with primary jurisdiction over tax administration issues, we are committed to fostering a tax system that serves the needs of the American people, but not at the expense of creating costly tools that are already available to taxpayers.

To assist in our oversight of the Direct File program, we request responses to the following questions as soon as possible, but no later than 5:00 p.m. on June 28, 2024:

1. From the passage of the IRA to the close of the most recent tax filing season, how much was spent to study, build, maintain, and administer the Direct File program, including the funds spent by USDS and any other third-party?
 - a. Please provide a breakdown of who spent the funds, and how the funds were used.
 - b. Please also describe any spending that is expected to occur after the end of this year’s tax filing season.
2. Did the IRS reallocate funds obligated to other programs or initiatives to pay for the creation of Direct File, maintenance during the testing and pilot phases, or any other past or ongoing activities related to Direct File?
 - a. If so, please provide a breakdown of these costs, including how much was reallocated, and from and to where it was allocated.
 - b. If not, please explain the origin of the funds allocated to establish and run Direct File.
3. How many individuals (IRS, other federal employees, and contractors) worked and are currently working on the Direct File program? Please include the staff breakdown for the number of individuals who worked on the study, development, launch, customer service, maintenance, outreach, and promotion efforts of the Direct File pilot.
4. What steps, if any, did the IRS take to ensure adequate customer service for Direct File users?
 - a. What were the average customer service wait times for taxpayers with questions related to Direct File? How do those wait times compare to the average wait times for other IRS customer service tools that are available to taxpayers during the filing season?

⁵⁶ *Id.*

- b. For how many individuals did the IRS provide customer service support for Direct File? Of those, how many individuals were IRS employees or contractors?
 - c. Please provide a breakdown of how many IRS employees or contractors were hired to help with Direct File customer services versus those who were already employed by the IRS and were re-assigned from a previous task or assignment within the IRS to help with Direct File customer service.
 - d. Of those who were already employed by the IRS, please detail where they were previously assigned and what were they previously tasked with before being assigned to assist with Direct File customer service.
5. Please elaborate on your testimony from the February 15, 2024, hearing regarding the legal or statutory basis for the IRS's "direct authority" to move forward with a Direct File pilot program despite the lack of clear congressional authorization.
6. Of the 140,803 individuals who successfully submitted an accepted tax return, how many were U.S. government employees or contractors?
7. Were any of the individuals who imported their federal return data into a third-party tool that can file state and/or local taxes included in the 140,803 figure of those who successfully submitted an accepted tax return?
8. Please explain the discrepancy between the 161,042 who submitted a tax return, and the 140,803 who submitted an accepted tax return. Please include details regarding why the 20,239 individuals submitted a tax return but were unable to submit an accepted tax return, how those individuals were notified that they were unable to submit an accepted tax return, and whether the IRS provided assistance or directed those individuals to other options to ensure they were able to successfully submit their tax return.
9. How many of those who successfully submitted an accepted tax return through Direct File were eligible for a free tax preparation option that existed prior to the creation of Direct File?
10. What were the "other options" to which the IRS directed Direct File users whose tax situation was out of scope for the pilot so that they could complete their tax returns?
 - a. How many users were directed to these "other options?"
11. When justifying the creation and launch of Direct File, what inadequacies or shortcomings did the IRS identify regarding existing tax filing options for Americans, including the Free File program?
12. Is the IRS giving its own Direct File program a critical competitive advantage over other tax preparers with the recent AGI import update?
 - a. Does the IRS plan to make this feature available to other tax preparers in the future? If so, when will this feature be available to other tax preparers? If not, why not?

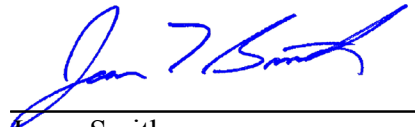
- b. How much did the IRS spend to create this AGI feature for Direct File?
13. What safeguards is the IRS implementing to ensure that its post-pilot survey of a “stratified random sample of 5,000 Direct File participants” provides a fair, independent review of Direct File?
14. Please explain the rationale behind this decision, including the authority the agency believes it has to make this decision, and factors considered regarding this decision.
15. How much money was spent on advertising the availability of Direct File for this tax season?
16. How much money was spent on advertising the Free File Alliance options over the last three tax years? Please provide a breakdown of the advertising spending for the Free File Alliance by tax year.

If you have any questions or wish to discuss the request, please contact the Ways and Means Committee staff at (202) 225-3625. Thank you in advance for your prompt attention to this inquiry, and your response.

Sincerely,



Adrian Smith
Member of Congress



Jason Smith
Member of Congress



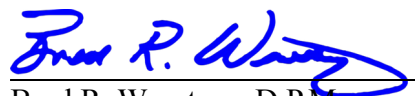
Vern Buchanan
Member of Congress



Mike Kelly
Member of Congress



Darin LaHood
Member of Congress



Brad R. Wenstrup, D.P.M.
Member of Congress



Jodey C. Arrington
Member of Congress



A. Drew Ferguson IV
Member of Congress



Ron Estes
Member of Congress



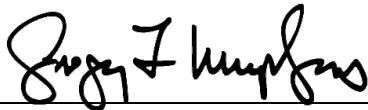
Lloyd Smucker
Member of Congress



Kevin Hern
Member of Congress



Carol D. Miller
Member of Congress



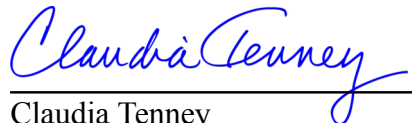
Gregory F. Murphy, M.D.
Member of Congress



David Kustoff
Member of Congress



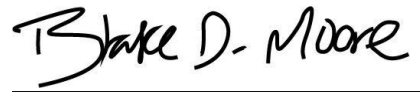
W. Gregory Steube
Member of Congress



Claudia Tenney
Member of Congress



Michelle Fischbach
Member of Congress



Blake D. Moore
Member of Congress



Michelle Steel
Member of Congress



Beth Van Duyne
Member of Congress



Randy Feenstra
Member of Congress



Nicole Malliotakis
Member of Congress



Mike Carey
Member of Congress