



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

MEMORANDUM FOR SECRETARY YELLEN

FROM: Daniel I. Werfel, Commissioner of Internal Revenue
SUBJECT: Future of the Direct File Program

Following a highly successful pilot during the 2024 Filing Season, the IRS recommends making Direct File a permanent option for taxpayers to file their federal tax returns. This memorandum details the IRS's analysis of the Direct File pilot and my recommendation to proceed with Direct File as a permanent tax filing option beginning in Filing Season 2025.

Direct File fits squarely into the IRS's mission to save Americans time and money when filing their taxes. To meet this mission, we are using new funding from the Inflation Reduction Act to simplify forms and notices; ramp up customer service on our phone lines and in our walk-in centers; and add new online tools for generations of taxpayers who increasingly want to conduct their business with the IRS online.

To truly make the tax filing process easier, we are listening to taxpayers and working to deliver options that work for them. Taxpayers across the nation have told us they want no-cost filing options. Direct File – which provides taxpayers a new option to file online, for free, directly with the IRS – is the answer to that call. Next year, we recommend inviting all states to participate and expect a number of states will do so. Our goal over the next few years is to make Direct File an available option that supports most common tax situations, with a particular focus on those situations that impact working families.

There are strong opinions across the spectrum on the future of Direct File; however, there is considerable support for a permanent, expanded Direct File option, as evidenced by our stakeholder engagement, as well as letters of support from more than 130 members of Congress and hundreds of organizations. Thus, it is in the best interest of tax administration to offer such an option.

Giving taxpayers additional options strengthens the tax filing system. Direct File is an additional option to file federal tax returns. It is not meant to replace other important options by commercial providers, who are critical partners with the IRS in delivering a successful tax system for the nation.

Background

As mandated by the Inflation Reduction Act, the IRS delivered a Direct File Report to Congress in

May 2023, which found broad interest in a tool to electronically file taxes directly with the IRS. After reviewing the report, the Department of the Treasury directed the IRS to pilot Direct File in Filing Season 2024 to gather data to further assess issues identified in the report before deciding whether to deploy a permanent Direct File solution.

In building the Direct File platform, the IRS explored the feasibility of a direct e-filing tool by focusing on three overarching goals:

1. **Get it right from the start** – Give every taxpayer the tools they need to file an accurate return and receive all credits, deductions, and benefits for which they are eligible;
2. **Make taxes the product** – Improve the experience of tax filing itself;
3. **Deliver one option among many** – It is essential that Americans have choices to file their taxes however best suits them, and Direct File ensures the availability of an always-free filing option.

Following the spirit of the goals and best practices for deploying new products, the pilot was limited to a targeted group of states and limited in scope. This approach ensured that we could have a significant number of potential users across the United States, in states both with and without state income tax, but limited to taxpayers with relatively simple tax situations. A limited pilot gave us enough information to collect data but also ensured that we could provide a good pilot product and collect data metrics to help gauge user satisfaction.

In February, the IRS began testing Direct File with a handful of volunteer federal and state government employees. The team continuously refined and strengthened the system based on its technical performance and feedback from the first users. The IRS incrementally opened the system to new users in short availability windows before fully launching Direct File on March 8, 2024.

Throughout this filing season, the IRS saw strong interest in Direct File from taxpayers throughout the country. Millions of people – including many from outside of the 12 pilot states – visited the Direct File website to learn about the new system, and many asked live chat assistants to make Direct File available in their state.

Over the course of the pilot, more than 3.3 million taxpayers started the Eligibility Checker to see if they could use Direct File; 423,450 taxpayers logged into Direct File; and 140,803 taxpayers submitted accepted returns. In 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. Direct File issued more than \$90 million in tax refunds and collected \$35 million in tax balances due.

Post-Filing Season Analysis and Engagement

Over the past six weeks, the IRS has closely analyzed data collected during the pilot. We have held numerous meetings with diverse groups of stakeholders and gathered feedback from Direct File users, pilot state officials, and representatives across the tax landscape.

Data analysis and stakeholder engagement are ongoing, with the goal of improving Direct File for future filing seasons. To this point, our post-pilot analysis has yielded three conclusions that support making Direct File a permanent tax filing solution:

1. Taxpayers overwhelmingly liked using Direct File

As detailed in the *IRS Direct File Pilot: Filing Season 2024 After Action Report* (IRS Publication 5969, 5-2024), more than 15,000 Direct File users participated in the General Services Administration's Touchpoints survey, which collects comprehensive user feedback about government systems. In the GSA Touchpoints survey about Direct File:

- **90% of respondents** ranked their experience as Excellent or Above Average.
- When asked what they particularly liked, respondents most commonly cited Direct File's ease of use, trustworthiness, and that it was free.
- Additionally, **86% of respondents** said that their experience with Direct File increased their trust in the IRS.
- **90% of survey respondents** who used customer support rated that experience as Excellent or Above Average.

For the primary quantitative measure of taxpayer opinions of Direct File, the IRS selected the Net Promoter Score (NPS) customer sentiment metric, which asks users, "On a scale from 0 to 10, how likely are you to recommend Direct File to a friend or family member?" Direct File has a NPS of +74 (the range of NPS scores runs from -100 to +100); if compared to benchmark scores from financial services companies, Direct File would lead in eight of nine categories.

2. Direct File made the tax filing experience easier

Direct File's users reported that the system saved them time – filing their taxes with Direct File generally took less than an hour, and many reported filing in as little as 30 minutes. One taxpayer even said it was fun. Nearly half of Direct File users reported paying for tax preparation last year, and the Treasury Department estimates that Direct File users saved \$5.6 million in tax preparation fees this filing season.

Lessons learned and technology developed during the Direct File pilot are being shared across the IRS and the tax filing ecosystem to make all taxpayers' experiences better, no matter how they file. For example, more than 4% of Direct File users report filing on paper last year, and a key lesson from the pilot is how the IRS can help ease the transition from paper to electronic filing.

3. Direct File helps catalyze the IRS's digital transformation

To build Direct File, the IRS assembled a team of experienced tax experts, digital product specialists, engineers, pilot strategists, and data scientists from across the federal government who designed a secure, easy-to-use direct e-filing system. The Direct File team consisted of partners from the U.S. Digital Service and GSA's 18F, as well as private sector partners, who all brought critical agile technology expertise. Working side by side in a room at IRS headquarters and collaborating with remote team members across the country, the Direct File team developed and delivered a strong technology product.

The Direct File pilot also gave the IRS the chance to test customer service innovations on a large scale. For example, Live Chat was selected as Direct File's primary customer support channel because it could be integrated directly into the product and did not require taxpayers to leave the system to get assistance through another channel. This allowed customer support to gradually expand in concert with the overall number of users in each phase of the pilot. We are exploring how this approach could impact taxpayer service overall, as the agency works to provide taxpayers with more

choices in how they can interact with the IRS.

Direct File's Role in a Stronger, Comprehensive Tax Filing System

Filing a tax return is a legal obligation and a civic duty for nearly all adult Americans. The core mission of the IRS is to meet taxpayers where they are, give them options to interact with the IRS in ways that work for them, and help them meet their tax obligations as easily and quickly as possible.

The IRS took giant leaps in accomplishing that mission when the Free File Alliance launched in 2003 and the agency worked with Free File to offer fillable PDF forms in 2008. Direct File is a critical part of the IRS's ongoing modernization effort, and it is an important component of a stronger, comprehensive tax filing system that gives taxpayers choices of electronic filing options that best suit their needs.

One of the lessons from the Direct File pilot is that there is strong interest in no-cost filing options across the country. Millions of taxpayers who did not live in one of the 12 pilot states visited the Direct File website to learn more about this option or asked live chat assistants to make Direct File available in their state.

As a permanent filing option, Direct File will continue to be one option among many from which taxpayers can choose. We have heard from many taxpayers that they prefer to file their taxes directly with the IRS, and 86% of Direct File users reported that their experience with Direct File increased their trust in the IRS. We also know from public polling that many taxpayers prefer to work with a third party, whether that is a trusted tax professional or use tax preparation software (both free and commercial), and the IRS will continue to support all filing options.

We remain committed to the IRS's ongoing relationship with the Free File Alliance, who have been critical partners in serving taxpayers for two decades. As we work to expand the Direct File system, we will also strengthen free filing options for taxpayers. Giving taxpayers additional options strengthens the tax filing system.

The Future of Direct File

The IRS learned a great deal from the Direct File experience. The most important decision we made was to start small and get it right, focusing on executional certainty. We found the right first step to test the demand and the user experience and build a strong product. By sizing the Direct File pilot correctly – limiting the tax scope and making it available to taxpayers in 12 states – the IRS was able to be more agile and build and launch a strong product that served taxpayers well.

Building on the success of the Pilot, the IRS will make the Direct File service a permanent option to file federal tax returns. We are excited to expand Direct File and make it available to more taxpayers for the 2025 Filing Season. To that end, we are interested in working with all states that want to partner with Direct File; there will be no limit to the number of states that can participate in the coming year.

The IRS is also exploring ways to expand the scope of tax situations supported by Direct File to make additional taxpayers eligible to use the system in future years. Over the coming years, our goal is to expand the scope of Direct File to support the most common tax situations, with a particular focus on those situations that impact working families.

Over the next year, however, the IRS must make tradeoffs between expanding the team's capacity, expanding scope and functionality, and expanding state integration. During the pilot, the Direct File team was laser focused on delivering a strong product and answering key questions about Direct File's feasibility. To ensure the long-term success of Direct File, we will need to spend significant time over the next year focused on building an organization, hiring, and onboarding new team members. These foundational activities are key to unlocking additional capacity within Direct File, and failure to focus on building a strong organization will slow down Direct File's ability to expand.

Applying critical lessons from the pilot, the IRS plans to take an iterative approach to expanding Direct File's availability and capabilities. One of the reasons the Direct File pilot was so successful, was that we identified an appropriate level of scope – both in terms of tax scope and state integration. In the next year, we will work hard to identify the right level of expansion that will not compromise the successful delivery of an expanded, stronger product. Above all, we will ensure that taxpayers remain the focus as we expand Direct File. User experience – both with Direct File and the integration with states – will continue to be the foundation for Direct File moving forward.

Exploring Challenges and Opportunities Identified in the Pilot

In the Direct File Pilot *After Action Report*, we identified several challenges and opportunities for the future of Direct File. As we look ahead to a second year, this provides an opportunity to address these issues, specifically:

- Examine releasing components of Direct File as open-source software to demonstrate our commitment to building public trust and allowing an independent assessment of our work, particularly with regard to our focus on ensuring that every taxpayer receives the full benefit of any tax provision for which they are eligible;
- Explore eliminating one of the most frequent reject reasons and improve the taxpayer experience by allowing Direct File to leverage the existing Electronic Signature Storage and Retrieval system (ESSAR) to simplify the process of signing a tax return;
- Enhance customer support by improving training to customer support representatives (CSRs) and expanding our chat function to authenticated chat to better equip CSRs to handle more complex and difficult cases;
- Improve the transfer of data between Direct File and state tools to further streamline the process and enhance the experience of state tools for both taxpayers and states.

Filing Season 2025 and Beyond

Building on our three over-arching goals, we will focus – first and foremost – on continuing to get it right. Accuracy and comprehensive credit uptake will be paramount concerns. And our North Star will be improving the experience of tax filing itself and helping taxpayers meet their tax obligations as easily and quickly as possible.

Through smart, strategic expansion, Direct File will become a key component of a stronger, comprehensive system that will allow taxpayers across the country the opportunity to file for free, catalyze new technologies, and strengthen service for all taxpayers in the years and decades to come.

Attachment:

IRS Direct File Pilot Program: Filing Season 2024 After Action Report