IRS Direct File

Independent Third Party Report Summary

The Inflation Reduction Act (IRA) required that the Internal Revenue Service (IRS) produce a report on taxpayer opinions about and the cost to develop and run a direct efile tax return system ("Direct File"), and that the IRS report include "the opinions of an independent third party on the overall feasibility, approach, schedule, cost, organizational design, and Internal Revenue Service capacity to deliver...a direct efile tax return system." [1]

The IRS selected New America and Ariel Jurow Kleiman, Associate Professor of Law at Loyola Law School, Los Angeles, to serve as the independent third party ("Third Party"). Neither New America nor Professor Jurow Kleiman are receiving monetary compensation from the IRS in exchange for providing this independent review.

[1] Inflation Reduction Act of 2022, Pub. L. No. 117 169, 136 Stat. 1832 (2022).

A new Direct File system, as Congress has directed the IRS to explore, might create both operational complexity for the IRS and an opportunity to improve services for taxpayers.

After analyzing the IRS report, interviewing 72 experts, and reviewing reports and data from surveys, **the Third Party review concludes that the feasibility of the IRS to successfully build a Direct File product depends critically on their ability to maintain this initiative as a leadership priority, start with limited scope, expand over time, and address each of the imperatives we've highlighted at each stage of design and implementation.**

If the IRS decides to implement a Direct File system, it must consistently and effectively address the following technical and operational imperatives:

Product expectations

Many different stakeholders inside and outside of the government have different views on the potential scope of a Direct File system. IRS leadership would need to define a clear vision for what a potential Direct File system would do at launch and continually define how it would change in successive tax years.

Gradual rollout

Products as complex as tax-filing software take time and must be rolled out methodically. To be successful, the IRS would need to test, grow, and improve functionality over multiple tax years. The IRS would need to implement functionality in an iterative manner and avoid trying to deliver too much functionality at one time.

Taxpayer experience

Without continuous improvement, digital services can quickly become cumbersome or dated. Following industry best practices for research, continuous improvement, and user feedback would be necessary for a Direct File system to maintain a high-quality taxpayer experience.

State tax filing

Taxpayers expect tax-filing software to include state and federal tax filing together. Additionally, a Direct File system could impact state and local tax collection as well as the administration of state and local benefits.

Customer support

Customer support is a vital part of the user experience and would also be the most significant, ongoing cost of a potential Direct File system. The success of a potential Direct File system would depend largely on the IRS's capacity to provide effective, dependable customer support to users.

Data privacy & security

Tax filing involves turning over sensitive personal information. A potential Direct File system would need to carefully protect taxpayer information. This includes secure systems, clear data-usage policies, and accountability mechanisms that garner taxpayer trust.

Funding

A Direct File system would require a stable, ongoing appropriation that accounts for changing user needs and functionality, user numbers, and inflation.

Findings of the Third Party assessment include:

Approach

After assessing possible approaches, Third Party review research suggests that if the IRS pursues a Direct File project, it should employ current software development practices widely used in the private sector and increasingly used within the federal government.

Schedule

The IRS has not proposed any specific schedule or timeline for the development or launch of a potential Direct File tool. Therefore, the Third Party cannot evaluate or recommend a schedule without further information.

Cost

The Third Party review found that the IRS cost estimate ranges are reasonable.

Organizational Design

Establishing strong, full-time product ownership is the first and most important organizational design challenge that must be resolved in order for the IRS to successfully deliver Direct File.

Capacity

A potential Direct File tool must have the capacity to protect taxpayer information, which contains substantial sensitive personal identifying and financial information.

The IRA does not task the Third Party with determining whether the IRS ought to develop a Direct File system, and this report does not do so. Instead, this report documents the process and findings used to determine the broad feasibility and operational implications of a Direct File system, should the IRS choose to implement such a system.