



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

May 16, 2023

Dear Madam Secretary Janet L. Yellen,

I am pleased to submit to you the IRS's report evaluating the feasibility of providing taxpayers with a free direct e-file system, or Direct File. As required by the Inflation Reduction Act (IRA), our evaluation of such a system focused on three areas: taxpayer opinions based on surveys, cost, and opinions of an independent third party.

Central to the IRS's mission is meeting taxpayers where they are, to ensure they have the options that work best for them for fulfilling their tax obligations. The concept of Direct File – deployed by numerous tax jurisdictions around the world – has long been considered by some to be an option for improving the customer experience for taxpayers in the U.S., but there has been a wide range of views on the issue. For example, the National Taxpayer Advocate, the Government Accountability Office, members of Congress, and some academics and advocacy organizations have requested that the IRS create a free IRS-run tax preparation and filing tool to improve the taxpayer experience. At the same time, other stakeholders that support the IRS's tax administration mission have expressed concerns around the operational challenges of Direct File. Understanding this diverse set of views on costs, benefits, and operational challenges, the report provides an evidence base upon which Treasury can decide whether to move forward with a Direct File option.

The report lays out the costs, benefits and operational challenges associated with implementing Direct File. It reflects a range of perspectives from taxpayers who were surveyed and interviewed about their preferences and tax filing experiences. The report shows that many taxpayers are interested in using an IRS-provided tool to prepare and file their taxes. It also shows the IRS is technically capable of delivering Direct File, but that doing so would require additional resources and add complexity to IRS operations. Additionally, the report includes an independent analysis done by New America and Professor Ariel Jurow Kleiman, who evaluated the feasibility of a IRS Direct File option.

After reviewing the report, you directed the IRS to launch a Direct File pilot to gather data to further assess issues identified in the report before deciding whether to deploy a full-scale Direct File Solution. As noted in your letter directing the IRS to launch this

pilot, the report provides many important findings but there remains an opportunity to gather more information and further hone the evidence base before any decision is made whether to make Direct File more widely available. Best practice for new product launches in both government and the private sector requires the transition from research and development (R&D) to customer-facing be done in an incremental manner to enable additional testing of hypotheses considered during the R&D phase.

The IRS stands ready to continue the important work serving the nation and taxpayers while working to transform and improve the agency's operations.

Sincerely,

Daniel I. Werfel
Commissioner