



March 25, 2024

The Honorable Janet Yellen
Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Wally Adeyemo
Deputy Secretary
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

The Honorable Daniel Werfel
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Secretary Yellen, Deputy Secretary Adeyemo and Commissioner Werfel:

We write to you with concerns about Direct File, the Internal Revenue Service (“IRS”) program that enables some taxpayers to file their federal tax returns online directly with the IRS. The IRS is operating Direct File on a pilot program basis for this tax season. We urge you to terminate Direct File following the current pilot program, as Direct File will create challenges for taxpayers and state treasurers and the costs of Direct File far outweigh any potential benefits it may confer to taxpayers. Regrettably, Direct File is a solution in search of a problem.

Direct File has the potential to do more harm than good for taxpayers. It will only enable them to file their federal tax returns.¹ Taxpayers who are unaware that they must separately file state returns will not receive anticipated state refunds this spring. This is significant because many taxpayers who use Direct File are likely to be lower-income and build budgets around anticipated tax refunds. Even worse, confused taxpayers who neglect to file their state returns will be at risk of incurring state penalties. Imagine the surprise to the taxpayer who becomes subject to audit by the IRS after having filed through Direct File and having felt assurances that the tax return was prepared properly through the IRS's own system.

These fundamental flaws will be exacerbated by the IRS's lack of resources to provide sufficient customer service to assist those taxpayers who use Direct File. All inquiries must be submitted through a chat feature – with no option to call and speak with a live agent – which is sure to cause taxpayer frustration.²

Taxpayers are not the only parties who will suffer from Direct File. States will suffer too. States will lose out on payments from Direct File taxpayers who owe state taxes but incorrectly assume that Direct File covers federal and state filings. States will then have to increase resources dedicated to collection efforts. Also, because the IRS will reassign customer service agents to staff the Direct File chat feature, fewer agents will be available to assist state officials who must contact the IRS to resolve issues with tax filings. It is not uncommon for states to contact the IRS for assistance in reviewing state tax returns to confirm if the state has received a fraudulent return or address issues that arise based on state credits or deductions that are based on the federal credit.³

We are concerned that Direct File is not necessary and may cause serious harm. The IRS has undoubtedly overestimated the need for an IRS-run tax preparation service. Taxpayers are not clamoring for Direct File. The Treasury Inspector General for Tax Administration (“TIGTA”) confirmed as much in a report issued last year. The report found faults in the survey conducted by the IRS to gauge public interest in Direct File that potentially overestimated taxpayer interest. For example, it led respondents to believe that state returns would be included. This along with responses that likely led to respondents overreporting their agreement with questions, skewed the responses in favor of Direct File.⁴ In any event, the results showed that only 28% of taxpayers were very interested in using Direct File.

The most prominent voices calling for Direct File are those of Senator Elizabeth Warren (MA) and a handful of colleagues who incorrectly claim that Direct File is necessary because it can save taxpayers from spending money on tax preparation services. However, there are many free tax preparation services that are better suited to serve taxpayers that are widely available. We are aware of over 30 non-profits alone that offer free tax preparation services.⁵ There are also

¹ See Paragraph 6, “Direct File can only be used to file federal income taxes...” <https://apnews.com/article/irs-direct-file-taxes-98dbc44cc764972991072efbf40f2291>

² <https://www.fastcompany.com/90897988/irs-direct-file-free-tax-filing-customer-service-poor>

³ See paragraphs 10, 11. <https://www.indystar.com/story/opinion/2023/10/26/irs-direct-file-tax-system-tries-to-solve-non-existent-problem/71299499007/>

⁴ Report can be found here: <https://www.tigta.gov/sites/default/files/reports/2023-10/2024408002fr.pdf>

⁵ The IRS has a service to connect taxpayers with non profit/volunteer tax prep support: <https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers>

over 30 million free filings for taxpayers made available by the for-profit tax preparation industry last year. Additionally, the IRS itself markets do-it-yourself tax preparation options, such as the Volunteer Income Tax Assistance Grant Program and the Free File Alliance, the IRS Free File Program.

The IRS originally estimated that Direct File would only cost taxpayers \$2.5 billion over ten years, but the TIGTA report could not substantiate those estimates. Indeed, a third-party report from Govini estimated that the actual costs would be closer to those of Healthcare.gov, which has cost the taxpayers tens of billions of dollars. Surely a better use of taxpayer funds would be for the IRS to boost existing marketing efforts, or undertake new marketing efforts, for existing low- and no-cost tax preparation options rather than try to build a flawed service with the potential to harm those it seeks to help.

* * *

Again, we urge you to shut down Direct File. We appreciate your attention to this important matter to protect taxpayers.

Sincerely,

A handwritten signature in blue ink, appearing to read "Adam Crum", with a long horizontal flourish extending to the right.

Alaska Commissioner of Revenue Adam Crum

A handwritten signature in blue ink, appearing to read "Jimmy Patronis", with a stylized, cursive script.

Florida Chief Financial Officer Jimmy Patronis

A handwritten signature in blue ink, appearing to read "Julie A. Ellsworth", with a cursive style and a long horizontal flourish.

Idaho Treasurer Julie Ellsworth

A handwritten signature in blue ink, appearing to read "Elise M. Nieshalla", with a cursive style.

Indiana Comptroller Elise Nieshalla

A handwritten signature in blue ink, appearing to read "Dan Elliott", with a cursive style.

Indiana Treasurer Dan Elliott

A handwritten signature in blue ink, appearing to read "Roby Smith", with a cursive style and a long horizontal flourish.

Iowa Treasurer Roby Smith

A handwritten signature in blue ink, appearing to read "Steven Johnson", with a cursive style.

Kansas Treasurer Steven Johnson

A handwritten signature in blue ink, appearing to read "Allison Ball", with a cursive style.

Kentucky Auditor Allison Ball


Louisiana Treasurer John Fleming



Mississippi Treasurer David McRae


Nebraska Auditor Mike Foley


North Carolina Treasurer Dale Folwell

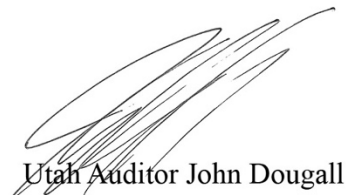

Ohio Treasurer Robert Sprague


Oklahoma Auditor & Inspector Cindy Byrd


Oklahoma Treasurer Todd Russ

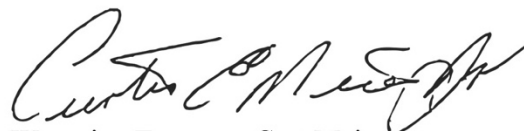

South Carolina Treasurer Curtis Loftis


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