

United States Senate

WASHINGTON, DC 20510

April 25, 2023

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

Dear Commissioner Werfel:

As you implement the strategic operating plan to revitalize the Internal Revenue Service (IRS) and finalize a report to Congress on direct e-filing, we write to urge you to take meaningful steps to simplify the tax filing process and expand access to free e-filing options. A key objective of the IRS should be to improve the taxpayer experience and make the process of filing income taxes simpler and more efficient. Better, more accessible e-filing tools can improve taxpayer compliance, minimize unintentional errors, and help taxpayers claim refunds quickly. As you know, the recent investments in the IRS under the *Inflation Reduction Act* present a unique opportunity to show how the agency can work better for the American people, and we strongly urge you to prioritize expanded access to simple, free e-filing options as part of this effort.

Americans spend an average of \$250 and 13 hours filing their taxes.¹ Previous efforts by an underfunded IRS to improve and simplify the tax filing process and promote e-filing have produced mixed results. In particular, the IRS has partnered with private-sector tax preparation companies to create the Free File Program (“Free File”), intended to simplify the tax preparation process and provide lower-income taxpayers the opportunity to file their returns for free, while encouraging the growth of e-filing.² However, the usage rate of Free File is unacceptably low: while 70 percent of taxpayers qualify for Free File, only 2 percent used the program in the 2022 tax year, according to the National Taxpayer Advocate.³

The vast majority of taxpayers who are eligible to utilize the program instead file tax returns using other, often costlier, options⁴ – or do not file returns at all. Despite Free File’s two decades of operation, millions of taxpayers annually still miss out on critical tax benefits like the Earned Income Tax Credit and Child Tax Credit because they do not file returns.⁵ This low utilization rate is deeply concerning, and suggests a lack of transparency and clear communication from tax

¹ U.S. Department of Treasury, “How a Transformed IRS Will Improve Tax Fairness,” April 6, 2023, pg. 3, <https://home.treasury.gov/system/files/136/TaxFairnessSOPOnePager.pdf>; Internal Revenue Service, “1040 (and 1040-SR) Instructions,” Tax Year 2022, pg. 107, <https://www.irs.gov/pub/irs-pdf/i1040gi.pdf#page=107>.

² Government Accountability Office, “IRS Free File Program: IRS Should Develop Additional Options for Taxpayers to File for Free,” April 2022, <https://www.gao.gov/assets/gao-22-105236.pdf>.

³ National Taxpayer Advocate, “2022 Annual Report to Congress,” January 11, 2023, pg. 104, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_06_FilingDelays.pdf.

⁴ Delaware Department of Justice, “Attorney General Jennings Announces \$141 Million TurboTax Settlement,” May 4, 2022, <https://news.delaware.gov/2022/05/04/attorney-general-jennings-announces-141-million-turbotax-settlement/>.

⁵ Tax Policy Center, “Do all people eligible for the EITC participate?,” <https://www.taxpolicycenter.org/briefing-book/do-all-people-eligible-eitc-participate>; Tax Policy Center, “Brief

preparation companies that participate in the program. Further, the current memorandum of understanding (“MOU”) that governs the Free File program does not reflect federal digital service guidelines because it lacks accessibility requirements for mobile devices, taxpayers with disabilities, and foreign languages.⁶ The GAO concluded that the “IRS is not managing the potential risks of relying on the Free File program as the way it helps taxpayers file for free online.”⁷

These challenges indicate that the IRS can, and should, do more to expand access to free, simplified filing options. As part of its examination of the Free File program, the GAO has recommended that the IRS develop additional options for taxpayers to access free online filing services.⁸ Similarly, the National Taxpayer Advocate has called on the IRS to offer a proprietary e-file system for taxpayers. Analysts from the Treasury Department, Federal Reserve, and Dartmouth also found that a government-run simplified filing tool taking advantage of the IRS’s own data about taxpayers’ circumstances could help tens of millions of Americans, including 12 million non-filers who missed out on \$8.5 billion in refunds in 2019.⁹ Access to free, simple e-filing can help lower-income taxpayers claim important tax benefits, minimize filing errors, and improve the fairness of our tax system, while also saving the IRS money and improving processing times.

We are laser focused on finding ways to reduce barriers that taxpayers face when filing returns, including those among us who are members of the Senate Committee on Finance. While the IRS has previously had limited success in addressing these challenges due to lack of resources, the investments in the agency included in the *Inflation Reduction Act* (IRA) – including dedicated funding to develop a roadmap for greater e-filing options – make it possible to reverse course and significantly improve the taxpayer experience. The recently released IRS strategic operating plan highlighted the forthcoming direct e-file report, noting that “many other tax authorities have rolled out the ability to file taxes directly for free as part of their digital transformations.”¹⁰ The Treasury Department also commented upon the release of the IRS operating plan that “a viable Direct File option would ease the burden on many taxpayers who would otherwise pay to file their taxes via third party tax preparation services.”¹¹ This follows an Executive Order from

Lessons Learned from Expanded Child Tax Credit Outreach to Immigrant Communities in Boston,” Luisa Godinez-Puig, Aravind Boddupalli, Livia Mucciolo, October 7, 2022, <https://www.taxpolicycenter.org/publications/lessons-learned-expanded-child-tax-credit-outreach-immigrant-communities-boston/full>; National Bureau of Economic Research, “Automatic Tax Filing: Simulating a Pre-Populated Form 1040,” Lucas Goodman, Katherine Lim, Bruce Sacerdote, Andrew Whitten, Working Paper 3008, https://www.nber.org/system/files/working_papers/w30008/w30008.pdf.

⁶ Government Accountability Office, “IRS Free File Program: IRS Should Develop Additional Options for Taxpayers to File for Free,” April 2022, <https://www.gao.gov/assets/gao-22-105236.pdf>.

⁷ *Id.*

⁸ *Id.*

⁹ National Bureau of Economic Research, “Automatic Tax Filing: Simulating a Pre-Populated Form 1040,” Lucas Goodman, Katherine Lim, Bruce Sacerdote, Andrew Whitten, Working Paper 3008, https://www.nber.org/system/files/working_papers/w30008/w30008.pdf.

¹⁰ Internal Revenue Service, “Inflation Reduction Act Strategic Operating Plan: FY2023-2031,” April 6, 2023, pgs. 30, <https://www.irs.gov/pub/irs-pdf/p3744.pdf>.

¹¹ U.S. Department of Treasury, “How a Transformed IRS Will Improve Tax Fairness,” April 6, 2023, pgs. 3-4, <https://home.treasury.gov/system/files/136/TaxFairnessSOPOnePager.pdf>.

President Biden that instructed Treasury Secretary Janet Yellen to consider “expanded electronic filing options,”¹² and testimony from Secretary Yellen before the Senate Finance Committee last year prior to the passage of the IRA that building a free direct filing program is “definitely a priority” and “when the IRS is adequately resourced, it’s something that will happen.”¹³

Ultimately, the fairness and fiscal stability of our nation relies on an equitable tax system, and this moment presents a unique opportunity to deliver on this goal. By addressing the challenges that have plagued the Free File program and expanding the ability for taxpayers to access low-cost e-filing tools, we can reduce the tax filing burden on American families, cut costs and improve the efficiency of the IRS, and ultimately help restore confidence in the integrity of our tax system. We look forward to your report on direct e-filing in May. If the report concludes that such a system is feasible, we urge you to roll it out as quickly as possible.

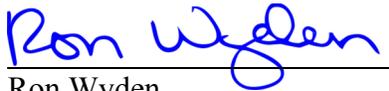
Sincerely,



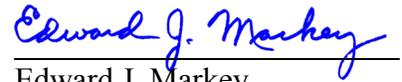
Thomas R. Carper
United States Senator



Elizabeth Warren
United States Senator



Ron Wyden
United States Senator
Chairman, Committee on
Finance



Edward J. Markey
United States Senator

¹² The White House, “Executive Order on Transforming Federal Customer Experience and Service Delivery to Rebuild Trust in the Government,” December 13, 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/12/13/executive-order-on-transforming-federal-customer-experience-and-service-delivery-to-rebuild-trust-in-government/>.

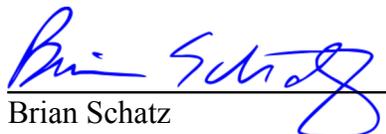
¹³ Office of U.S. Senator Elizabeth Warren, “At Hearing, Secretary Yellen Agrees with Senator Warren on Need to Create a Free Tax Filing System That Actually Works for Americans,” June 7, 2022, <https://www.warren.senate.gov/newsroom/press-releases/at-hearing-secretary-yellen-agrees-with-senator-warren-on-need-to-create-a-free-tax-filing-system-that-actually-works-for-americans>.



Bernard Sanders
United States Senator



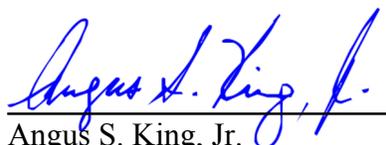
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Mazie K. Hirono
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Alex Padilla
United States Senator



Tammy Duckworth
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Jack Reed
United States Senator



Robert P. Casey, Jr.
United States Senator



Sheldon Whitehouse
United States Senator



Margaret Wood Hassan
United States Senator



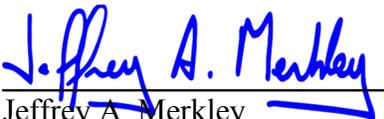
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Richard Blumenthal
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Patty Murray
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