

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Inflation Reduction Act: Results of the Direct File Pilot

March 20, 2025

Report Number: 2025-408-015

HIGHLIGHTS: Inflation Reduction Act: Results of the Direct File Pilot

Final Audit Report issued on March 20, 2025

Report Number 2025-408-015

Why TIGTA Did This Audit

The Inflation Reduction Act (IRA) was signed into law in August 2022. Section 10301(1)(B) of the IRA provided the IRS with \$15 million to establish a task force to design an IRS-run, free direct electronic filing system and prepare a report for Congress by May 2023.

In May 2023, the IRS provided its required report to Congress. That same day, the Deputy Secretary of the Treasury issued a letter to the IRS requesting that it pilot a Direct File option for the 2024 Filing Season.

This audit provides the results of our continued assessment of the IRS's Direct File Pilot, which occurred between Feb. 1, 2024 and April 20, 2024.

Impact on Tax Administration

Direct File is a new, free federal tax preparation tool piloted by the IRS for the 2024 Filing Season. Once a taxpayer submits their federal tax return in Direct File, their return is transmitted and processed just like all other electronically filed returns received by the IRS.

The IRS announced that Direct File would be a permanent option for filing tax returns beginning with the 2025 Filing Season. However, in January 2025, during his Senate confirmation hearing, the incoming Treasury Secretary committed that Direct File would be operative for the 2025 Filing Season but would subsequently "consult and study the program and understand it better and make sure it works to serve the IRS's three goals of collections, customer service, and privacy." The Secretary did not say if it would continue after the 2025 Filing Season.

What TIGTA Found

The IRS's total reported obligations of \$24.6 million to develop and operate the Direct File Pilot did not include all costs incurred by the government. Specifically, the IRS's reported totals did not include an estimated \$8.8 million for costs incurred by the Office of Management and Budget for employees detailed to the IRS to help develop and pilot Direct File and costs incurred to create or leverage existing accounts through the IRS's Credential Service Provider. The IRS also did not include all the costs of IRS employees from other functions who collaborated to support Direct File.

The IRS developed a phased approach to the Direct File Pilot during the 2024 Filing Season, allowing it to test Direct File in a limited and controlled environment. The pilot was conducted from Feb. 1, 2024 to April 20, 2024. During the pilot, 423,450 taxpayers created or signed in to a Direct File account. However, only about one-third of these taxpayers (140,803 taxpayers) submitted a tax return that was accepted by the system through Direct File.

Our review of accepted and rejected Direct File tax returns identified that the error conditions and identity theft rates for Direct File were similar to or lower than other software providers. However, the IRS rejected Direct File tax returns for 35,675 taxpayers during processing because the taxpayer reported something on their return that was not expected or allowed. To reduce the number of rejected tax returns, the IRS implemented programming to systemically provide taxpayers with their prior year Adjusted Gross Income (AGI) amount from their Individual Online Account. However, we identified that there was a system error that prevented some taxpayers from successfully seeing their prior year AGI amounts.

We also identified opportunities for management to reduce the number of additional assistors needed during the 2025 Filing Season. For example, Direct File could use chat bots to respond to some live chats, improve the authentication process, better monitor chat demand in real time, and systemically queue chats for assistors based on their experience. Finally, challenges remain in further increasing state participation in Direct File. Taxpayers may be less likely to use Direct File if they cannot also easily submit their state tax return.

What TIGTA Recommended

We made eight recommendations to improve Direct File. The IRS agreed with six recommendations and partially agreed with two. The IRS will use additional analysts to ensure the efficient use of resources and systemically queue chats to assistors based on their experience level and scheduled availability. The IRS also plans to explore the feasibility of creating a notice to send to all taxpayers (not just those filing with Direct File) who were potentially eligible for education credits but did not claim them. However, all Direct File costs were not included because supporting functions did not break out their time and associated labor costs to the degree of specificity sought by our recommendation.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

March 20, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Danny Verneuille
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Inflation Reduction Act: Results of the
Direct File Pilot (Audit No.: 2024408031)

This report presents the results of our review to assess the Internal Revenue Service's Direct File Pilot that was available to taxpayers during the 2024 Filing Season. This review was part of our Fiscal Year 2024 discretionary audit coverage and addresses the major management and performance challenge of *Managing IRA [Inflation Reduction Act of 2022] Transformation Efforts*.

Management's complete response to the draft report is included as Appendix IV. If you have any questions, please contact me or Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

<u>Background</u>	Page 1
<u>Results of Review</u>	Page 5
<u>Cost of Direct File</u>	
The IRS Did Not Account for All Costs of the Direct File Pilot	Page 5
Recommendation 1:	Page 7
<u>Processing of Direct File Tax Returns</u>	
Returns Submitted Through Direct File During the Pilot	Page 8
Accuracy of Tax Return Processing and Identity Theft Detection Controls	Page 10
Recommendations 2 and 3:	Page 10
Recommendations 4 and 5:	Page 12
<u>Providing Customer Service</u>	
Opportunities Exist to Improve Direct File Customer Support	Page 13
Recommendations 6 through 8:	Page 15
<u>Concerns With the Future of Direct File</u>	
Additional States Have Joined Direct File; However, Challenges to Further Increase State Participation Remain	Page 15
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 17
Appendix II – Outcome Measures	Page 19
Appendix III – Information About Direct File Pilot Users	Page 21
Appendix IV – Management’s Response to the Draft Report	Page 24
Appendix V – Glossary of Terms	Page 31
Appendix VI – Abbreviations	Page 32

Background

The Inflation Reduction Act (IRA) was signed into law in August 2022.¹ Section 10301(1)(B) of the IRA provided the Internal Revenue Service (IRS) with \$15 million to establish a task force to design an IRS-run, free direct electronic filing (e-file) system, commonly referred to as “Direct File,” and prepare a report for Congress by May 2023, containing the following information:²

- Cost of developing and running a free direct electronic file tax return system with a focus on multilingual and mobile friendly features and safeguards for taxpayer data.
- Taxpayer opinions, expectations, and level of trust, based on surveys, for such a free direct electronic file system.
- The opinions of an independent third party of the overall feasibility, approach, schedule, cost, organizational design, and IRS capacity to deliver such a direct electronic file tax return system.

In May 2023, the IRS provided its required report to Congress.³ On this same day, the Deputy Secretary of the Treasury issued a letter to the IRS requesting that it pilot a Direct File option for the 2024 Filing Season. The Deputy Secretary’s letter acknowledged that the best way to be successful is to “begin with a limited scope pilot that allows the IRS to test functionality for some taxpayers, evaluate success, and use lessons learned to inform the growth of the tool.” Further, the letter noted there are certain principles that the IRS needs to consider, such as taxpayer feedback and earning taxpayer trust, when carrying out the pilot.

Overview of Direct File

Direct File is a new, free federal tax preparation tool offered by the IRS as a pilot for the 2024 Filing Season. Taxpayers walk through seven basic steps to determine eligibility for the pilot, referred to as the eligibility checker.

Taxpayers must create an online account to use Direct File, which requires the taxpayer to authenticate themselves using the IRS’s Credential Service Provider (CSP). Taxpayers are given two options to authenticate themselves:

- **Self-Service** – taxpayers must set up multifactor authentication, enter their Social Security Number, and upload their original U.S. driver’s license, state photo identification, U.S. passport, or U.S. passport card. Taxpayers then must take and submit a video selfie to confirm their selfie matches their government identification. According to the CSP, this takes 5-10 minutes to complete. However, if unsuccessful, taxpayers are presented with an option to verify via a video call.
- **Video Call** – taxpayers must follow the same general steps as in self-service except they do not upload a video selfie and instead connect with a live agent to verify their identity. The CSP does not publish information about the time it takes to complete a video call.

¹ Pub. L. No. 117-169, 136 Stat. 1818.

² See Appendix V for a glossary of terms.

³ Publication 5788, *Inflation Reduction Act §10301(1)(B) IRS-run Direct e-File Tax Return System* (May 2023).

Taxpayers can access Direct File via their smartphone, laptop, tablet, or desktop computer after they create an online account.

Once a taxpayer submits their federal tax return in Direct File, their return is transmitted and processed just like all other e-filed tax returns received by the IRS. Direct File does not allow for the preparation of an amended or prior year federal tax return.

Direct File also does not allow for the preparation or submission of state tax returns. Instead, the IRS partnered with participating states to systemically allow taxpayers to transfer their federal tax return information to the state's online tax tool.⁴

Figure 1 provides an overview of the Direct File Pilot's tax scope during Filing Season 2024.

Figure 1: Direct File Pilot Tax Scope

Basics	Income	Deductions, Adjustments, and Credits
<ul style="list-style-type: none"> • Must be a U.S resident 18 years or older. • Any filing status. • Dependents, except those claimed by a non-custodial parent. • Language and accessibility preferences supported. 	<ul style="list-style-type: none"> • Wages. • Interest of \$1,500 or less. • Unemployment compensation. • Social Security Benefits. 	<ul style="list-style-type: none"> • Child Tax Credit/ Additional Child Tax Credit. • Credit for Other Dependents. • Earned Income Tax Credit. • Standard deduction only. • Student loan interest deduction. • Educator expense deduction.

Source: TIGTA graphic created based upon IRS Direct File Pilot Program Filing Season 2024 After Action Report (May 3, 2024) – Table 1.

In addition, taxpayers must have lived and worked in 1 of 12 participating states for all of Calendar Year 2023, without income attributable to another state, to be eligible for the Direct File Pilot.⁵ Finally, taxpayers who would require additional tax forms because of earned income exceeding certain thresholds, or income from multiple employers that exceeded \$160,200, were not eligible due to the limited tax scope of Direct File.

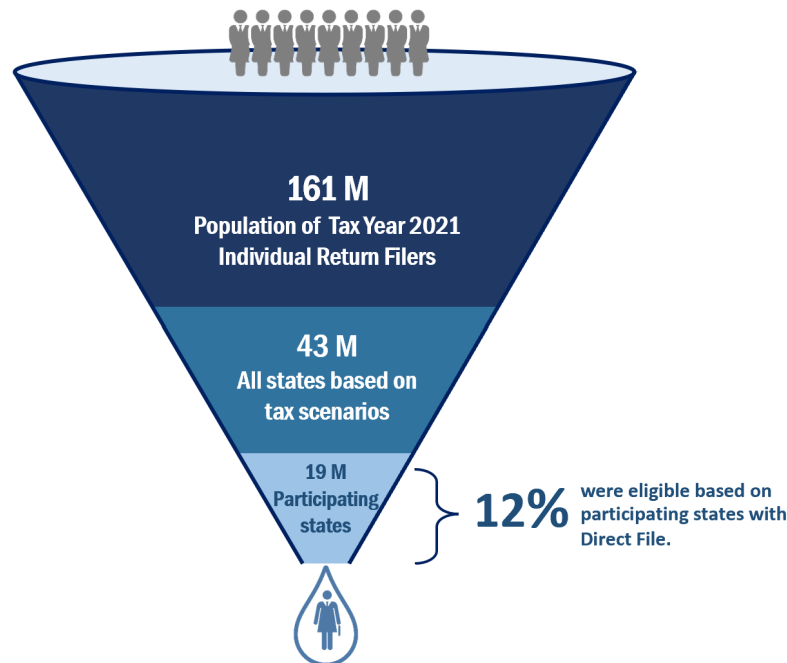
⁴ Direct File partnered with Arizona, Massachusetts, and New York to make it possible for taxpayers to transfer their federal tax information to their state's online tax tool. California taxpayers were directed to the CalFile tax application to file their applicable state tax return.

⁵ Pilot states included five states with an individual income tax or tax credit that participated in the pilot: Arizona, California, Massachusetts, New York, and Washington. The pilot also included seven states without an individual income tax that were eligible for the pilot: Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming.

Estimated number of taxpayers eligible for the pilot

Prior to the start of the pilot, using Tax Year 2021 return data, the IRS estimated that 19 million (12 percent) of the 161 million individual return filers would be potentially eligible for the pilot. Figure 2 shows the estimated total number of potentially eligible taxpayers for the pilot during the 2024 Filing Season based on the scope of the pilot and eligible population in participating states.

Figure 2: Individual Tax Return Filers Eligible for the Direct File Pilot



Source: TIGTA graphic based upon Publication 1304, *Statistics of Income Individual Income Tax Returns Complete Report (2021)*, Table A, and estimates provided by the IRS's Research, Applied Analytics, and Statistics on behalf of Direct File.⁶ M = millions.

Direct File is just one of many free tax filing options available to taxpayers. Therefore, not all 19 million potentially eligible taxpayers were expected to use Direct File. Some taxpayers may wish to continue obtaining assistance from a paid tax preparer or use the tax software products that they are familiar with and have previously used.

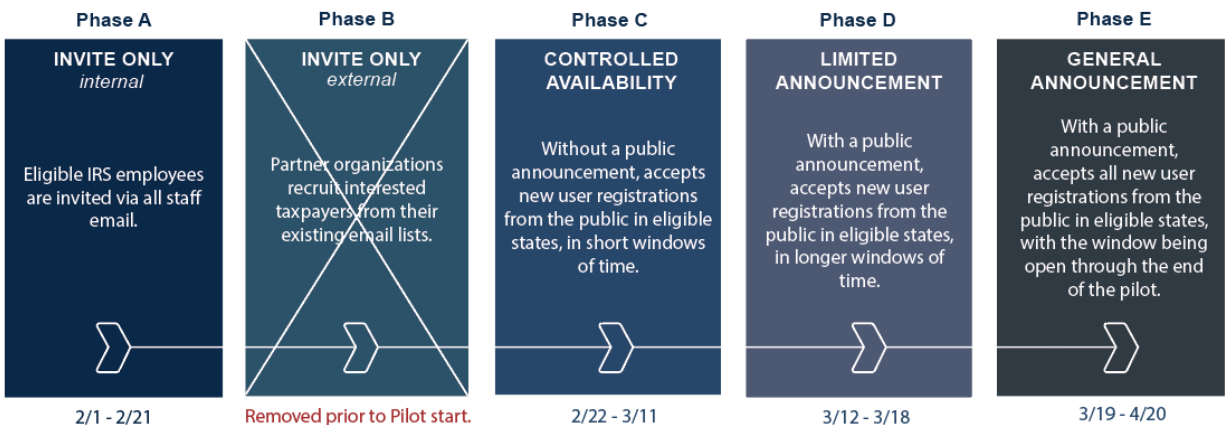
Pilot phases

The IRS developed a phased approach to the Direct File Pilot during the 2024 Filing Season to allow it to test Direct File in a limited and controlled environment prior to any potential large-scale launch. The pilot was designed to test the technology, customer support, state integration, fraud detection, and overall taxpayer experience.

Figure 3 provides a summary of the IRS's originally planned phases of the Direct File Pilot.

⁶ IRS Publication 1304, *Statistics of Income Individual Income Tax Returns Complete Report (2021)* (April 2024).

Figure 3: Summary of Direct File Pilot Phases



Source: TIGTA graphic based upon the IRS Direct File Pilot Program Filing Season 2024 After Action Report (May 3, 2024) – Table 2.

Customer service

Direct File is designed to allow taxpayers to answer questions about their tax situation to prepare their tax return accurately and confidently. When needed, taxpayers can click on available links for additional information that will explain tax concepts in more detail. If a taxpayer decides they need assistance, they can live chat with an IRS assistor. IRS assistants can provide technical support and answer basic tax law questions related to the pilot's tax scope, in both English and Spanish. IRS assistants do not have access to the taxpayer's IRS account data. Any questions or issues that fall outside of Direct File are routed to other IRS support channels.

Through April 20, 2024, Direct File assistants were available from 7:00 a.m. to 10:00 p.m. Eastern time Monday through Friday, except federal holidays. Beginning March 9, 2024 through April 20, 2024, the IRS also offered weekend hours, though the hours varied.

The Direct File Customer Support team also created training materials, knowledge bases, *etc.* prior to the launch of the pilot. Approximately 400 employees were identified to support Direct File, as needed, with approximately 200 employees in Caguas, Puerto Rico, serving as the primary site and approximately 200 employees from backup sites in Fresno, California; Jacksonville, Florida; and Brookhaven, New York. However, an average of 41 assistants per day were answering Direct File questions and issues from March 4, 2024 through April 20, 2024.

Results of Review

This report presents the results of our continued assessment of the IRS's efforts to deliver the Direct File Pilot.⁷ The results in this report are presented between Feb. 1, 2024 and April 20, 2024, with a focus on Direct File performance in Phases C through E. In May 2024, the IRS released its *Direct File Pilot Program Filing Season 2024 After Action Report* (the pilot evaluation report). Following the release of this report, the IRS announced that Direct File would be a permanent option beginning with the 2025 Filing Season. However, in January 2025, during his Senate confirmation hearing, the incoming Treasury Secretary committed that Direct File would be operative for the 2025 Filing Season but would subsequently "consult and study the program and understand it better and make sure it works to serve the IRS's three goals of collections, customer service, and privacy." The Secretary did not say if it would continue after the 2025 Filing Season.

We have some concerns with how Direct File will perform during the 2025 Filing Season given that the IRS is expanding the scope and the estimated growth of potential users. IRS management expressed confidence in their testing, preparation, and overall ability to deliver a successful Direct File experience for the 2025 Filing Season. We will continue to evaluate the IRS's efforts to expand Direct File, both from a security and operational standpoint, and plan to issue reports during Calendar Year 2025.⁸

Cost of Direct File

The IRS Did Not Account for All Costs of the Direct File Pilot

Our review of the costs reported by the IRS found that the total reported obligations did not include all costs incurred by the government. The IRS reported that it obligated \$24.6 million to develop and operate Direct File through April 20, 2024.

Figure 4 provides an overview of the amounts obligated by the IRS as of April 20, 2024.

⁷ TIGTA, Report No. 2024-408-002, [Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System](#) (October 2023), and TIGTA, Report No. 2024-408-031, [Inflation Reduction Act: Interim Results of the Direct File Pilot](#) (June 2024).

⁸ TIGTA, Audit No. 2025208011, *Development and Security of the Direct File System for the 2025 Filing Season – Follow-Up*, and TIGTA, Audit No. 2025408009, *Direct File System Expansion*.

Figure 4: IRS Reported Direct File Obligations as of April 20, 2024⁹

Appropriation	FY 2023 IRA	FY 2023 Non-IRA	FY 2024 IRA	FY 2024 Non-IRA	Totals
Direct File § 10301(1)(B)(III)	\$11.6M	-	-	-	\$11.6M
Business Systems Modernization	\$1.4M	-	\$4.8M	-	\$6.2M
Operations Support	-	-	\$4.7M	\$200K	\$4.9M
Taxpayer Services	-	-	\$1.1M	\$700k	\$1.8M
Enforcement	-	\$100K	\$100K	-	\$200K
	\$13M	\$100K	\$10.7M	\$900K	\$24.7M

Source: IRS Office of Chief Financial Officer. FY = Fiscal Year, K = Thousands and M = Millions.

However, the amounts obligated do not include all costs incurred by the government. As noted in its pilot evaluation report, the IRS did not include the cost of U.S. Digital Service employees or other shared corporate costs.¹⁰ Specifically, it did not include an estimated \$8.8 million:

- \$7.3 million incurred by the Office of Management and Budget for the services of approximately 29 employees from the U.S. Digital Service, who were detailed to the IRS to help develop and pilot Direct File. This represents an estimate of the 29 employees based on their annual salary and benefits. The actual costs, which we requested and did not receive from the Office of Management and Budget, could be higher or lower.
- \$1.5 million incurred for new Direct File users to create a CSP account or to leverage existing CSP credentials.¹¹ According to IRS management, these costs were absorbed just as they would for any other taxpayer creating an online account not using Direct File.

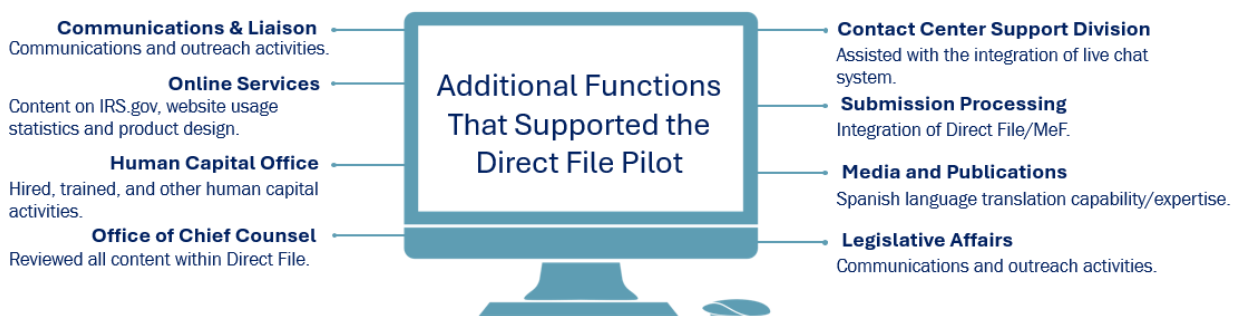
In addition to the \$8.8 million, the total costs of the Direct File Pilot did not include all the costs of other IRS function employees who collaborated to support Direct File. Figure 5 shows the other functions that supported the Direct File Pilot.

⁹ The numbers shown do not total \$24.6 million due to rounding.

¹⁰ The U.S. Digital Service was renamed the U.S. Department of Government Efficiency Service per Executive Order 14158, *Establishing and Implementing the President's Department of Government Efficiency*, issued January 2025.

¹¹ According to the IRS, the 2024 average cost for a new CSP account is \$3.64 and a returning user is \$1.35. We used the IRS's per new user cost of \$3.64 x 423,450 accounts created/signed in for both new accounts and returning users. The IRS did not differentiate how many of the Direct File users were new or were returning CSP users. Therefore, our estimate could be overstated for any returning users, as the IRS's annual costs for returning CSP users is less.

Figure 5: Additional Functions That Supported the Direct File Pilot



Source: TIGTA graphic based upon information provided by IRS management. MeF = Modernized E-file.

The IRS did not track all the costs from its support functions and include them in the total for the Direct File Pilot because according to management, IRS support functions help deliver any IRS program as needed. However, not including these costs is inconsistent with the Federal Accounting Standards Advisory Board’s *Managerial Cost Accounting Standards and Concepts* noted in the IRS’s internal guidance. These standards require the IRS to recognize the full costs, direct and indirect, of responsibility segments, products, services, and activities. Direct costs are expenses that can be directly traced to a program, product, or service (*e.g.*, equipment or travel). Whereas indirect costs are resources used by two or more business units or centralized processes and can consist of agency-sustained costs (*e.g.*, support provided by the Communications and Liaison function). Moreover, these standards require the IRS to recognize the full cost of services from other federal agencies even when the IRS is not required to reimburse the other agency.

The IRS has since updated its cost estimates for Direct File to include the actual cost of the services provided by the U.S. Digital Service employees; however, it still does not account for the costs of all the support functions.

Direct File cost estimates remain unsupported

In October 2023, we reported that we could not evaluate if the IRS’s estimated cost to develop Direct File was reasonable because the IRS could not provide documentation to substantiate how it arrived at its estimates.¹² In December 2024, the IRS provided an updated estimate that Direct File would cost \$61.1 million based upon at least 2.3 million taxpayers using Direct File.¹³ The IRS spent at least \$33.4 million to develop the Direct File Pilot, which was used by only 423,450 taxpayers. We remain concerned that the IRS’s estimates may not capture all the costs necessary to fully develop and deliver Direct File for the 2025 Filing Season.

Recommendation 1: The Chief, Direct File, should ensure that the total costs of Direct File include the costs from all support functions.

Management’s Response: IRS management partially agreed with the recommendation. The IRS has comprehensive cost allocation processes in place, and these are used as

¹² TIGTA, Report No. 2024-408-002, *Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System* p. 9 (October 2023).

¹³ Direct File users are defined as individuals who attempt to use Direct File. These users may or not result in the filing of a tax return through Direct File.

relevant for the activity. The IRS will review the current Direct File total cost calculations to ensure that all appropriate costs are included.

Office of Audit Comment: In their response, management noted that the supporting functions do not break out their time and associated labor costs to the degree of specificity sought by our recommendation. Instead, management focused on costs that were over and above the standard operating costs and stated they will consider these costs moving forward. As previously noted, not including all supporting function costs is inconsistent with the Federal Accounting Standards Advisory Board's *Managerial Cost Accounting Standards and Concepts* noted in the IRS's internal guidance.



Processing of Direct File Tax Returns

Returns Submitted Through Direct File During the Pilot

The Direct File Pilot opened on Feb. 1, 2024. The IRS initially limited participation in the pilot so it could incrementally test Direct File's capabilities. As a result, Direct File was not broadly publicized and offered to the public until March 12, 2024.

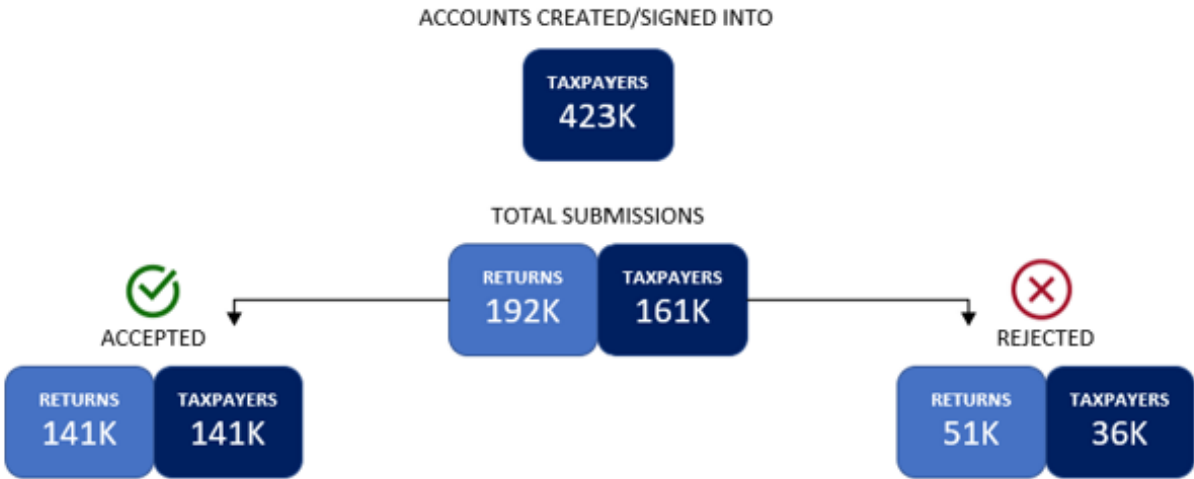
During the pilot, 423,450 taxpayers created or signed into a Direct File account. However, only about one-third of these taxpayers (140,803 taxpayers) submitted an accepted tax return through Direct File. We surveyed taxpayers who created a Direct File account that volunteered to use Direct File to determine why they did not use it to submit a tax return. Our limited survey identified the following common deterrents:

- Limited Direct File tax scope.
- Complexity establishing a Direct File account.
- Familiarity using prior tax preparation software to e-file.

Figure 6 provides an overview of Direct File use during the 2024 Filing Season.¹⁴

¹⁴ See Appendix III for additional demographic information about Direct File users.

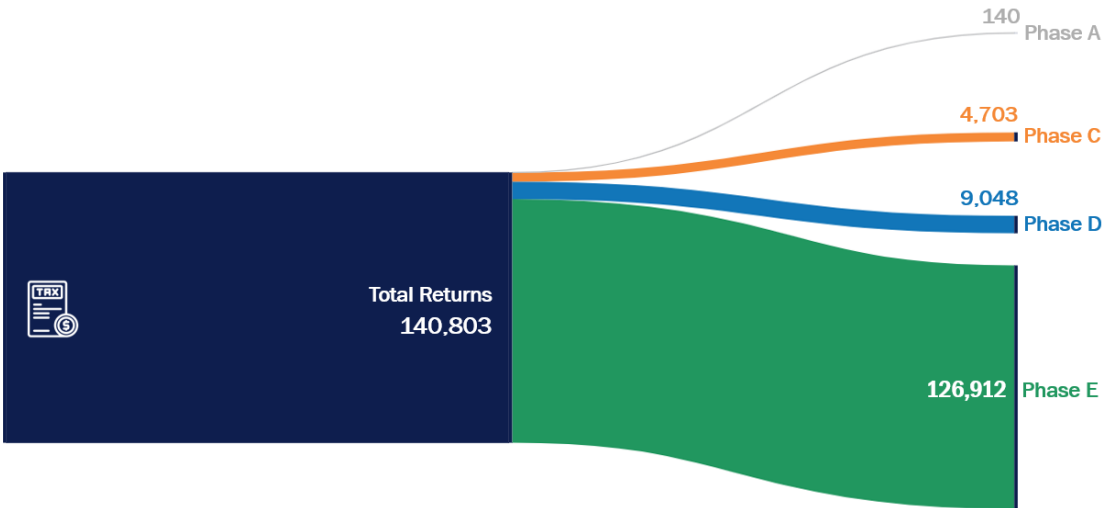
Figure 6: Accepted and Rejected Tax Returns Submitted Through Direct File



Source: TIGTA graphic based upon Direct File audit logs and Modernized Tax Return Database. Note: The number of taxpayers who submitted accepted and rejected returns are not the total unique taxpayers who submitted a Direct File return because a taxpayer can submit both an accepted and rejected return.
K = thousand.

Figure 7 shows the number of Direct File returns accepted by the IRS during each phase of the pilot.

Figure 7: Most Direct File Tax Returns Accepted After Phase D (Limited Announcement)



Source: TIGTA graphic based upon Direct File audit logs and Modernized Tax Return Database. Note: Phases A, C and D occurred from Feb. 1, 2024 to March 18, 2024. Phase E occurred from March 19, 2024 to April 20, 2024.

Accuracy of Tax Return Processing and Identity Theft Detection Controls

Similar to all tax returns, Direct File tax returns can be accepted with errors, rejected, or show signs of identity theft. Our review of accepted and rejected Direct File tax returns identified that the error conditions and identity theft rates for Direct File were similar to or lower than other software providers. Specifically, we determined that the IRS identified 514 Direct File tax returns with 12 different error conditions. An error condition occurs when the taxpayer reports something on their return that is not expected or allowed. Error conditions are corrected by employees during tax return processing. We also identified that the percentage of Direct File returns identified with error conditions was less than or equal to that of other software providers.

The IRS rejected e-filed tax returns submitted by 35,675 taxpayers during processing. The IRS rejects tax returns when it has the authority to do so, giving taxpayers an opportunity to address the issue and resubmit their tax return. For example, if the Social Security Number entered by the taxpayer does not match the information in the IRS's databases, the return rejects to the taxpayer to fix. This helps to avoid processing delays.

While the overall rejection rate for Direct File tax returns submitted for e-file was similar to or lower than other software providers, two reject reasons were significantly higher compared to other software providers. These 2 reasons accounted for 67 percent of all Direct File rejected tax returns. These two reject reasons included:

- **Mismatches between prior year Adjusted Gross Income (AGI).** The IRS requires taxpayers who e-file their tax return to verify their identity using either last year's AGI or a five-digit Personal Identification Number that is chosen when e-filing the prior year return, as well as their date of birth. When the prior year AGI amount entered by taxpayers does not match IRS records, the IRS will reject the return. During the pilot, 10,701 taxpayers had their returns rejected for this reason.

Recommendation 2: On March 13, 2024, we alerted the Chief, Direct File, to the large number of Direct File returns being rejected for this reason. We suggested that the IRS update Direct File so that taxpayers obtain their prior year AGI from their Individual Online Account, because the IRS uses the same authentication requirements for both Direct File and the Individual Online Account.

Management's Response: IRS management agreed with the recommendation and implemented programming in April 2024 to systemically provide Direct File users with their prior year AGI amount from their Individual Online Account.

Recommendation 3: The Chief, Direct File, should determine what caused taxpayers to not receive their prior year AGI from their Individual Online Account and update the computer programming accordingly.

Management's Response: IRS management agreed with the recommendation. Management performed a root cause investigation which determined the taxpayers who filed the returns identified by TIGTA did not attempt to import their AGI to Direct File from their Individual Online Account using the automatic import feature. For the 2025 Filing Season, Direct File will use Electronic Signature Storage and Retrieval Service electronic signatures instead of the prior year AGI for all filing statuses except Married

Filing Joint. This change will significantly reduce the opportunity for errors. Taxpayers filing as Married Filing Joint will continue to use their prior year AGI to sign their returns; however, the IRS has implemented mechanisms to monitor the usage of prior year AGI imports, increasing its ability to troubleshoot any issues that taxpayers may experience.

- **Inability to reconcile advance payments of the Premium Tax Credit (PTC).** The IRS did not include Form 8962, *Premium Tax Credit (PTC)*, as part of the tax scope for the Direct File Pilot. The Form 8962 is used to figure the amount of PTC the taxpayer is entitled to and to reconcile that amount with any advance payments of the PTC. The IRS receives marketplace data that it uses during tax return processing to determine if the taxpayer or someone claimed on the taxpayer's tax return received the benefit of advance payments. The IRS's programming will reject an e-filed tax return when the Form 8962 is missing, but the marketplace data indicate advance payments were made. We previously recommended that the IRS take steps to reduce taxpayer confusion by updating the eligibility checker to clarify criteria for taxpayers who may have purchased insurance through a marketplace anytime during Tax Year 2023. Although management agreed and updated the eligibility tracker, tax returns continued to be rejected for not including Form 8962. IRS management stated that they plan to make Form 8962 available to Direct File for the 2025 Filing Season; however, returns will continue to reject for this reason if taxpayers do not include a Form 8962 when required.

In addition, the IRS identified three errors that resulted in inaccurate Earned Income Tax Credit computations and overpayments by the taxpayer. These errors were not previously identified during testing of Direct File. The IRS reported in its pilot evaluation report that it identified 26 tax returns that were impacted by these errors. Our review of the 26 tax returns identified that all but 6 tax returns were corrected by the IRS. We notified the IRS of this on Aug. 13, 2024. As of Oct. 1, 2024, the 6 tax returns, which are due refunds totaling \$373, still have not been corrected by the Taxpayer Services organization.

Detection of tax returns involving identity theft

As of July 16, 2024, the IRS's identity theft filters identified 1,773 Direct File returns (1.3 percent of all Direct File returns) with requested refunds totaling \$3.3 million for review. As of this same date, the IRS confirmed with taxpayers that 16 tax returns were identity theft and prevented the issuance of refunds totaling \$151,603. The remaining 1,757 tax returns are either still being reviewed by the IRS (510) or have been confirmed to not be identity theft (1,247). The identity theft selection rate for Direct File returns was similar as returns filed by non-paid preparers using other tax software. However, IRS management acknowledged that this could change as Direct File's tax scope increases and additional refundable credits are offered. Thus, IRS management stated they will continue to monitor and mitigate the risk of identity thieves using Direct File.

Taxpayers may have unknowingly given up the ability to claim certain credits by using Direct File

As previously mentioned, the Direct File pilot's scope was limited and did not include all tax situations. For example, the pilot did not allow taxpayers to include Form 8863, *Education Credits (American Opportunity and Lifetime Learning Credits)*. As a result, taxpayers who were potentially eligible to claim education credits, may have unknowingly given up the ability to claim the credits because they chose to file for free using Direct File.

Our analysis of the 140,803 accepted returns filed during the Direct File Pilot identified 669 taxpayers for whom the IRS received a Form 1098-T, *Tuition Statement*, indicating they were potentially eligible to claim an education credit. We reviewed a statistically valid sample of 89 returns and computed the amount of education credits these taxpayers could be eligible to receive. Based on our results, we project that 271 of the 669 returns were eligible to receive education credits totaling \$220,184.¹⁵

In August 2024, we notified the Chief, Direct File, of our concern that taxpayers may have been eligible for education credits and did not claim them because Direct File did not allow for it. We recommended the IRS review and send notices to the 669 potentially eligible taxpayers. The IRS partially agreed stating it did not want to provide preferential treatment to taxpayers who used Direct File. Instead, the IRS plans to explore if something more broadly can be done for taxpayers who may have been eligible to claim the education credits and did not. Although this aligns with the IRS's strategic objective to dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible, we still believe that the IRS should notify the taxpayers we identified and make them aware that they may have been eligible to receive education credits.

Recommendation 4: The Chief, Taxpayer Services, should ensure that errors are corrected on the tax returns for the six taxpayers whose returns were not corrected and had inaccurate Earned Income Tax Credit computations and refund their overpayment.

Management's Response: IRS management agreed with the recommendation. On Feb. 3, 2025, management reviewed the six identified tax returns and took appropriate actions.

Recommendation 5: The Chief, Direct File, should notify the 669 taxpayers we identified of their potential eligibility to claim the education credits. The notice should inform them of their potential eligibility and steps for claiming the credits.

Management's Response: IRS management partially agreed with the recommendation. Management will explore the feasibility of creating a notice as part of a post-filing process to notify taxpayers whose records indicate they may have been potentially eligible to claim the American Opportunity Tax Credit or Lifetime Learning Credit but did

¹⁵ Our sample was selected using a 95 percent confidence interval, 50 percent expected error rate, and ± 10 percent precision factor. The education credit total is comprised of \$49,559 non-refundable Lifetime Learning Credit, \$84,813 non-refundable American Opportunity Tax Credit, and \$85,812 refundable American Opportunity Tax Credit. When projecting the results of our statistical sample, we are 95 percent confident that the actual total non-refundable Lifetime Learning Credit amount is between \$22,445 and \$103,236, the non-refundable American Opportunity Tax Credit amount is between \$42,301 and \$149,176, and the refundable American Opportunity Tax Credit amount is between \$49,138 and \$135,824.

not, and of the steps they can take to determine their eligibility and amend their tax return if applicable. If created, this process would be applied to all applicable taxpayers, regardless of their filing method, not just those filing with Direct File.

Office of Audit Comment: We agree with the IRS's planned action to explore the feasibility of a notice that will be sent to all applicable taxpayers.



Providing Customer Service

Opportunities Exist to Improve Direct File Customer Support

During the Direct File Pilot, the IRS received more than 38,000 live chats. Although chats were offered in both English and Spanish, the majority (98 percent) of the chats were in English. IRS assistors answered about 37,000 (96 percent) chats, while the taxpayer abandoned the remaining approximately 1,000 chats.

Additional statistics for the assistor-answered chats include the following:

- Average speed of answer of 2 minutes for 94 percent of chats.
- Average chat time of nine minutes.

The IRS also tracked the reasons why a taxpayer initiated a chat. Figure 8 provides a summary of the IRS-reported live chat reasons during the Direct File Pilot.

Figure 8: Summary of IRS-Reported Live Chat Reasons

The IRS had over **56,000 questions** regarding the Direct File Program.



Reason for Chat	Count	Percentage
Eligibility for Pilot	13,807	25%
Other	11,821	21%
About Direct File	10,404	19%
Personal Tax Account Information	6,886	12%
Rejections or Return Status	6,244	11%
Technology Troubleshooting	3,780	7%
Tax Law Clarification	2,330	4%
CSP and Account Creation	830	1%

Source: Phase E Dashboard as of April 18, 2024. Note: Some chats could have multiple reasons.

Taxpayers could initiate Direct File-related chats at two different points:

- **Within Direct File** – These accounted for 77 percent of Direct File chats. This method is for taxpayers who already verified their identity through the CSP and logged into Direct File. Taxpayers could ask questions about the status of their tax return or how to resolve a rejected tax return. Although these taxpayers were authenticated through the CSP, Direct File assistors did not receive any taxpayer account information.
- **Outside of Direct File** – These accounted for 23 percent of Direct File chats. This method is for taxpayers who accessed the chat feature from the IRS Direct File landing page and were not authenticated through the CSP. Taxpayers could ask questions about their eligibility for or basic questions about Direct File.

Management could reduce the number of additional assistors needed during the 2025 Filing Season

IRS management estimates that 180 assistors are needed during the 2025 Filing Season to support Direct File. According to IRS management, this estimate is based on up to 5 million potential users and each assistor handling 1 chat at a time. However, IRS management did not provide sufficient documentation to substantiate the estimate of 180 assistors needed. Through our discussions with IRS management, surveys with IRS Direct File assistors, and evaluation of Direct File customer service reports, we identified opportunities for improvements that would allow the IRS to more efficiently use its assistor resources. For example, we found that Direct File could:

- **Use chat bots to respond to some chats.** Two of the largest reasons for Direct File chats are for questions about eligibility for the pilot and about Direct File (*i.e.*, outside of Direct File). Using chat bots to respond to taxpayer questions in real time without using live IRS assistor resources could reduce the customer support resources needed for Direct File by 23 percent, by eliminating live chats initiated outside of Direct File. According to IRS management, they plan to implement chat bots to address these chats during the 2025 Filing Season.
- **Enhance taxpayers' experience by improving the authentication process.** According to IRS management, they also plan to allow for authenticated chats during the 2025 Filing Season (*e.g.*, assistors can view taxpayer account information and a history of prior chats). However, due to system limitations that prevent the live chat software from being able to accept the prior authentication information from the CSP, taxpayers must re-authenticate when accessing the live chat feature. Requiring taxpayers to authenticate twice adds time and burden, which negatively affects the overall taxpayer experience.
- **Better monitor chat demand in real time.** Direct File assistors were scheduled a week in advance to respond to live chats in scheduled blocks of time (*e.g.*, four hours or eight hours, based upon expected demand). To try and ensure that all employees who were trained got to work Direct File, many employees worked Direct File only sporadically. Based upon our discussions with employees, these schedules generally did not change once they were set, regardless of whether the demand materialized or not. As such, some assistors reported that they often sat idle while waiting for chats.
- **Improve technology to systemically queue chats for assistors based upon their experience.** Many assistors we spoke with stated that they were mostly limited to one

chat at a time and that they had to manually monitor chat queues to select a new chat, as opposed to new chats systemically being added to the individual assistor's queue. However, industry practice suggests that assistors should be able to handle at least two chats at one time, with experienced assistors handling more. In addition, other areas of the IRS provide for the systemic distribution of inventory versus the current manual monitoring and assessment of chats.

The Chief, Direct File, should:

Recommendation 6: Implement a solution that will allow a taxpayer's authentication from the CSP to be used for Direct File chats. This solution should follow all relevant security standards.

Management's Response: IRS management agreed with the recommendation. Midpoint authentication of a taxpayer on an as needed basis has been added to Direct File chats for the 2025 Filing Season.

Recommendation 7: Improve the scheduling and monitoring of Direct File employees to ensure the efficient use of these resources.

Management's Response: IRS management agreed with the recommendation. A staffing analysis was conducted throughout and at the end of the Direct File Pilot to project actual staffing needs based on program expansion. Additional system analysts were hired for the 2025 Filing Season whose responsibilities include monitoring staffing and facilitating improved communication between management and front-level employees to ensure the efficient use of resources.

Recommendation 8: Improve the Direct File chat technology to systemically queue up chats for assistors, based upon the assistor's experience.

Management's Response: IRS management agreed with the recommendation. The Direct File chat technology for the 2025 Filing Season has been updated to automatically queue chats to assistors based on their experience level and scheduled availability. While not mandatory, experienced assistors also have the ability to take more than one chat at a time.

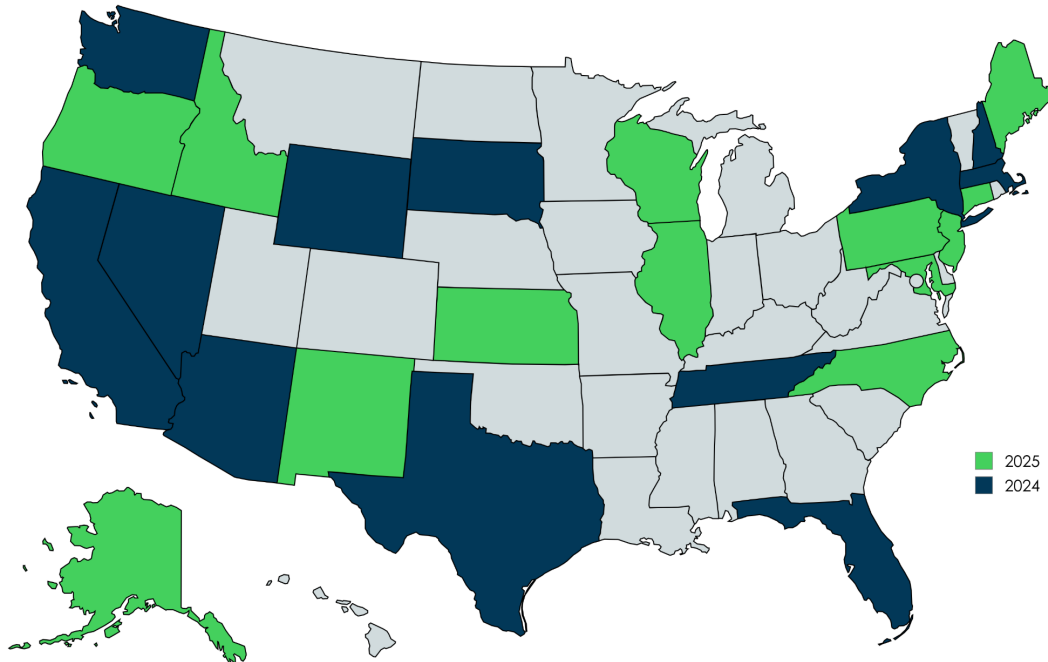


Concerns With the Future of Direct File

Additional States Have Joined Direct File; However, Challenges to Further Increase State Participation Remain

During the 2024 Filing Season, 12 states participated in the pilot. As of January 2025, the IRS reported that 13 additional states have committed to participate, for a total of 25 participating states during the 2025 Filing Season. Figure 9 illustrates state participation in Direct File for the 2025 Filing Season.

Figure 9: 25 States are Participating in Direct File for the 2025 Filing Season



Source: TIGTA graphic created based upon News Release IR-2025-01 (January 2025). The 12 states that participated in 2024 will continue to participate in 2025.

During our review, we visited with representatives of several states to understand why they did not elect to participate in Direct File. Some of the reasons for not participating included:

- **Budget** – States were unable to secure funding to update their systems to integrate with Direct File. States estimated funding needs ranged from \$500,000 to more than \$2 million. States reported that they would have to secure this funding from their state’s legislature.
- **Timing** – States were unable to secure contract support, or request funding from the legislature, within the time needed to participate in Direct File.
- **Other priorities** – States had other technology priorities in process that prevented them from participating in Direct File.

The IRS’s May 2023 report to Congress noted that the ability for Direct File users to also prepare their state tax return at the same time would likely influence participation. In addition, as we reported in October 2023, 60 percent of simple tax return filers would choose their current software when state tax returns are excluded from an IRS Direct File tool.¹⁶ Therefore, a state’s participation in Direct File is influenced by factors that the IRS cannot control.

¹⁶ TIGTA, Report No. 2024-408-002, [Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System](#) p. 5 (October 2023).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the IRS's Direct File Pilot that was available to taxpayers during the 2024 Filing Season. To accomplish our objective, we:

- Determined the IRS's reported cost of the Direct File Pilot and if all costs were reported by the IRS.
- Completed analysis of Direct File Pilot users to determine additional information about users, their previous filing methods, *etc.*
- Reviewed identity theft reports provided by the IRS and Direct File returns with error conditions to determine if potential identity theft and error conditions on Direct File returns occurred more frequently than other electronic software providers.
- Reviewed Direct File rejected returns to determine whether the reasons for rejection and rejection rates were in line with other electronic software providers. We also determined whether the IRS's corrective actions, such as the new prior year AGI import feature, were providing accurate results to taxpayers.
- Reviewed Direct File returns to determine if any taxpayers were potentially eligible for education credits that they were unable to claim by using Direct File. Working with our contract statistician, we developed a sampling plan and performed a statistically valid sample of potentially eligible returns, and the statistician projected the amount of non-refundable and refundable education credits taxpayers did not claim.¹
- Evaluated the number of Direct File live chats, the reasons for the chats, and identified opportunities for improving Direct File Customer Support.
- Identified opportunities for additional surveying to better understand taxpayer interest in Direct File and to potentially improve the Direct File experience.
- Reviewed the IRS's approach to working with states as part of the Direct File Pilot and held meetings with officials from states that chose not to participate in Direct File to identify barriers in participation.

¹ Our sample was selected using a 95 percent confidence interval, 50 percent expected error rate, and ± 10 percent precision factor. The education credit total of \$220,184 is comprised of \$49,559 non-refundable Lifetime Learning Credit, \$84,813 non-refundable American Opportunity Tax Credit, and \$85,812 refundable American Opportunity Tax Credit. When projecting the results of our statistical sample, we are 95 percent confident that the actual total non-refundable Lifetime Learning Credit amount is between \$22,445 and \$103,236, the non-refundable American Opportunity Tax Credit amount is between \$42,301 and \$149,176, and the refundable American Opportunity Tax Credit amount is between \$49,138 and \$135,824.

Performance of This Review

This review was performed with information obtained from the Office of the Chief, Direct File, located in Washington, D.C., during the period October 2023 through September 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

We performed tests to assess the reliability of data from the Modernized Tax Return Database, the Error Resolution file, the Individual Return Transaction File, Information Return Master File, the National Account Profile file, Direct File audit logs, and Direct File Customer Support chat logs. We evaluated the data by (1) performing electronic testing of required data elements and (2) reviewing existing information about the data and the system that produced them. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: planning documents identifying the IRS's plans for implementing, monitoring, and reviewing the Direct File Pilot. We evaluated these controls by reviewing the planning documents for reasonableness and discussing with IRS management, as applicable. We also reviewed returns processed by Direct File and Direct File live chats.

Appendix II

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 10,701 taxpayers whose Direct File tax return rejected for an incorrect prior year AGI for the primary and/or secondary taxpayer that must match IRS records (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

We analyzed the rejected Direct File tax returns for the reason(s) of rejection. We identified that an incorrect prior year Personal Identification Number or AGI for the primary and/or secondary taxpayer that did not match IRS records was one of the leading causes for rejected Direct File tax returns. We initially identified that 17,921 unique taxpayers had their Direct File tax return rejected for either an incorrect Personal Identification Number or AGI. Based upon our analysis, we identified that there were 10,701 unique taxpayers who had their Direct File tax return rejected for an incorrect prior year AGI for the primary and/or secondary taxpayer that did not match IRS records.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; \$373 in Earned Income Tax Credit that 6 taxpayers should have been eligible for on their original Direct File tax return (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

We analyzed the 26 tax returns with known accuracy issues related to Direct File. We found that 6 of the 26 tax returns were not corrected and not issued a refund for the correct amount of the Earned Income Tax Credit. We computed the Earned Income Tax Credit for these tax returns based upon the tax return submitted in Direct File and determined that the 6 taxpayers were eligible for \$373 in Earned Income Tax Credit that was not originally claimed on their tax returns.

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; 271 taxpayers entitled to receive \$220,184 in education credits who did not due to Direct File's limited scope (see Recommendation 5).

Methodology Used to Measure the Reported Benefit:

We analyzed the 140,803 accepted returns during the Direct File Pilot and matched all the Taxpayer Identification Numbers from those returns to Form 1098-T data to identify any tuition statements. We identified 669 taxpayers for whom the IRS received a Form 1098-T. We

consulted with our contract statistician to determine an appropriate statistically valid sample size of 89 of the 669 returns. We reviewed all 89 returns and recomputed the amount of education credits these taxpayers were potentially eligible for based upon tax software provided by the IRS's Stakeholder Partnerships, Education, and Communication office.

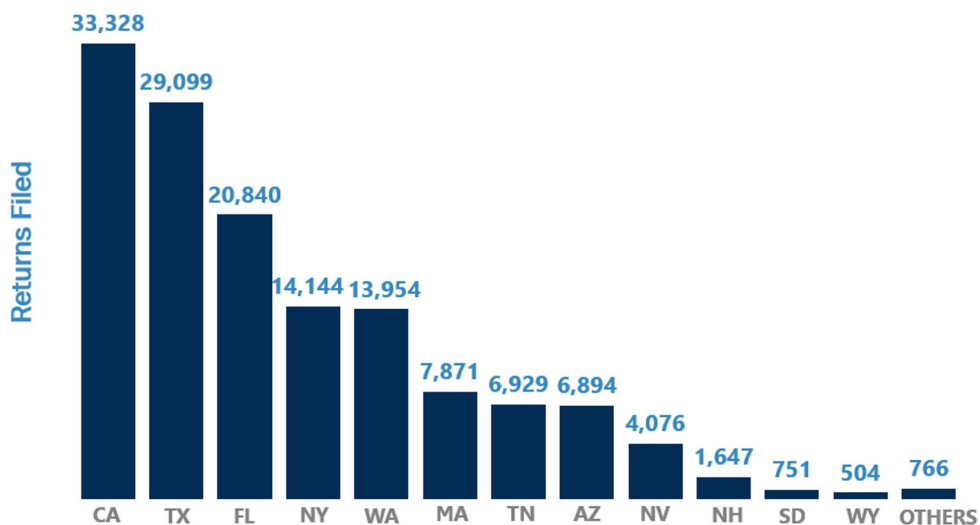
Based upon the results of our sampling, we worked with our contract statistician to project that 271 of the 669 returns were eligible for \$134,372 in non-refundable and \$85,812 in refundable education credits that were not claimed by the taxpayer due to the limited scope of the Direct File Pilot.¹ These 271 taxpayers were entitled to receive \$220,184 (\$134,372 + \$85,812).

¹ Our sample was selected using a 95 percent confidence interval, 50 percent expected error rate, and ± 10 percent precision factor. The education credit total is comprised of \$49,559 non-refundable Lifetime Learning Credit, \$84,813 non-refundable American Opportunity Tax Credit, and \$85,812 refundable American Opportunity Tax Credit. When projecting the results of our statistical sample, we are 95 percent confident that the actual total non-refundable Lifetime Learning Credit amount is between \$22,445 and \$103,236, the non-refundable American Opportunity Tax Credit amount is between \$42,301 and \$149,176, and the refundable American Opportunity Tax Credit amount is between \$49,138 and \$135,824.

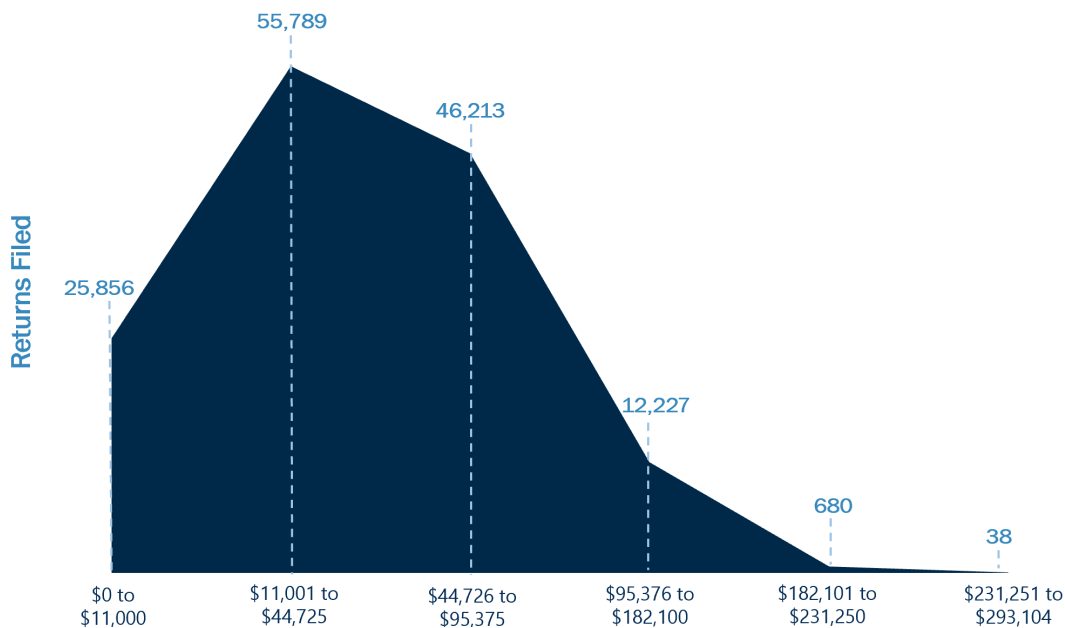
Appendix III

Information About Direct File Pilot Users

This appendix provides additional information for the 140,803 accepted returns filed during the Direct File Pilot.

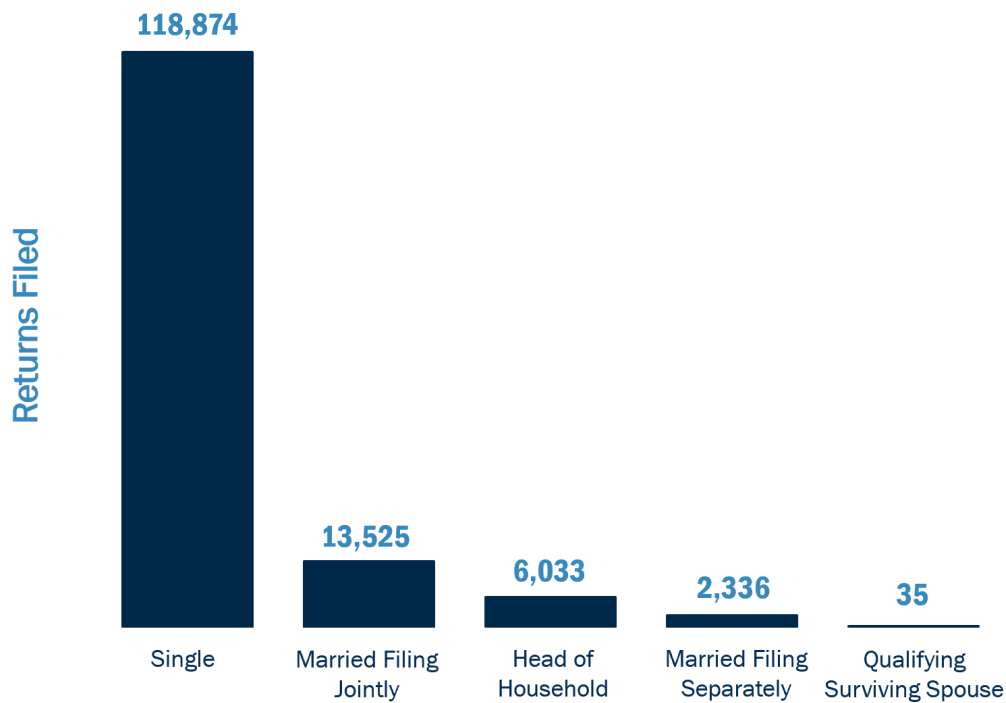
Figure 1: Returns Filed by State

Source: TIGTA graphic created based upon analysis of the Modernized Tax Return Database for Processing Year 2024 through April 22, 2024.

Figure 2: Returns Filed by AGI Range

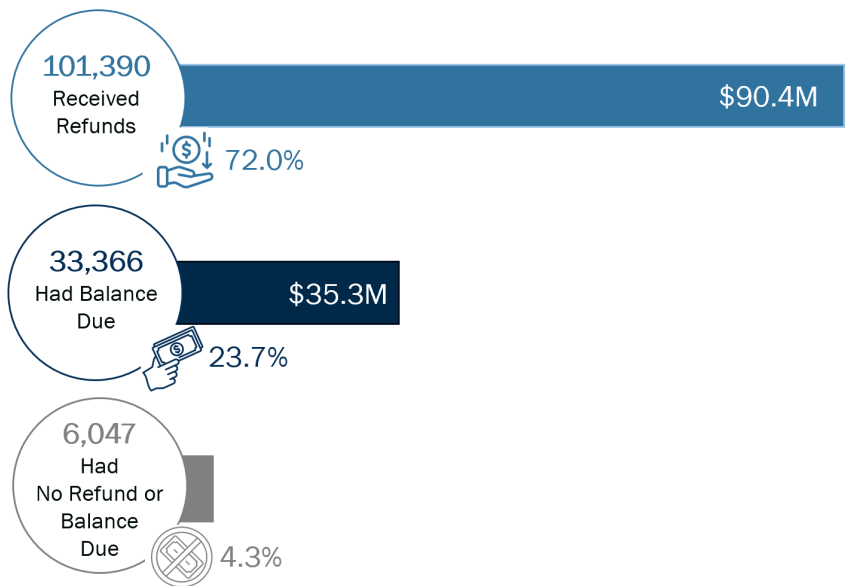
Source: TIGTA graphic created based upon analysis of the Modernized Tax Return Database for Processing Year 2024 through April 22, 2024.

Figure 3: Returns Filed by Filing Status



Source: TIGTA graphic created based upon analysis of the Modernized Tax Return Database for Processing Year 2024 through April 22, 2024.

Figure 4: Returns Filed by Refund or Balance Due



Source: TIGTA graphic created based upon analysis of the Modernized Tax Return Database for Processing Year 2024 through April 22, 2024.
M = millions.

Figure 5: Direct File Pilot Users Prior Year Filing Method



Source: TIGTA graphic created based upon analysis of the Individual Return Transaction File for Processing Year 2023.

Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

2/20/25

MEMORANDUM FOR: DANNY R. VERNEUILLE
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT
Douglas W. O'Donnell
FROM: Douglas W. O'Donnell Odonnell
Acting Commissioner, Internal Revenue Service

Digitally signed by
Douglas W. Odonnell
Date: 2025.02.20
15:37:44 -05'00'

SUBJECT: Draft Audit Report – Inflation Reduction Act: Results of the
Direct File Pilot (Audit No.: 2024408031)

Thank you for the opportunity to review and provide comments on the subject draft audit report. We appreciate the Treasury Inspector General for Tax Administration's (TIGTA) input, analysis, and collaborative efforts on the Direct File Pilot.

Direct File is a first-of-its-kind project for both the IRS and the federal government more broadly. Unlike other government technology projects, Direct File is one of several options available to taxpayers in fulfilling their legal requirement to file their federal income tax return. The IRS was tasked with implementing the Direct File pilot without the benefit of established data or models on which to base our pilot. Largely for this reason, the Direct File pilot was intentionally built with a limited scope. It was designed to confront the three core operational challenges identified in the May 2023 Report to Congress¹:

1. Developing an accessible, accurate, and secure technology product that would meet taxpayer expectations.
2. Providing robust and integrated customer support.
3. Facilitating the filing of state taxes.

Addressing these challenges required significant collaboration among stakeholders across both federal and state government as well as with our private sector partners. Within the span of less than one year, the IRS was able to successfully create an electronic filing option for taxpayers to file their federal tax return for free, directly with the IRS. During the 2024 filing season limited Direct File pilot:

¹ IRS Report to Congress: Inflation Reduction Act §10301(1)(B) IRS-run Direct e-File Tax Return System.
<https://www.irs.gov/pub/irs-pdf/p5788.pdf>

- More than 3.3 million taxpayers accessed the Eligibility Checker to see if they could use Direct File.
- More than 423,000 taxpayers logged into Direct File.
- More than 140,000 taxpayers submitted accepted returns.
- Approximately \$90 million in tax refunds were issued.
- Approximately \$35 million in tax balances due was collected.

Additionally, the results of the Taxpayer Experience Survey (TES) 2024 National Report demonstrate a positive response to Direct File from taxpayers. The 2024 TES included questions that measured taxpayers' awareness of Direct File and rated their impressions of the program. Sixty-three percent of taxpayers who had heard of Direct File reported having a positive impression, compared with just four percent who indicated having a negative impression. Even among those who had not heard about Direct File before, 61 percent felt positively about the IRS offering a free online tool like the Direct File program for preparing and e-filing federal tax returns (with only six percent feeling negatively). During the 2025 filing season, we will continue working to ensure Direct File meets taxpayers' expectations.

We thank TIGTA for their review and analysis of the cost of the Direct File pilot. We acknowledge the costs associated with the Direct File work done by the Office of Chief Counsel should have been included in our cost totals and will consider these costs moving forward. However, we disagree with TIGTA's assertion that Direct File should also include costs associated with all other IRS support functions. The supporting functions identified by TIGTA work on behalf of the IRS to support all IRS programs and projects. They do not break their time and associated labor costs down by program and function to the degree of specificity necessary to achieve the level of cost accounting TIGTA is suggesting. The work employees of these functions did for Direct File was performed as a part of their standard job description. There were no additional costs associated with their support of Direct File, nor would there be any cost savings if the employees did not support the program. We focused on costs over and above the standard operating costs of the IRS, as these better represent the actual realized costs to the IRS.

We appreciate TIGTA's efforts to identify taxpayers who may have been eligible to claim education credits even though Direct File did not support that during the pilot. When taxpayers arrive at the Direct File homepage, they are advised to review the Direct File eligibility screener to determine if Direct File is the right option for their individual tax filing situation. In reviewing the screener, taxpayers eligible for an education credit are advised Direct File does not currently support those credits. The IRS does not want to provide preferential treatment to taxpayers who opted to use Direct File. Sending notices solely to taxpayers who use Direct File would violate taxpayers' rights for those using another tax filing option and would treat Direct File returns differently than other returns. Our objective is to help taxpayers meet their obligations and receive the tax incentives for which they are eligible, and we are exploring possible ways to expand our credit awareness outreach to all taxpayers, regardless of their chosen filing method.

3

Our responses to your specific recommendations are attached. If you have any questions, please contact me, or a member of your staff may contact Chief, Direct File Bridget Roberts at 202-317-4212.

Attachment

Attachment

Recommendations

RECOMMENDATION 1:

The Chief, Direct File, should ensure that the total costs of Direct File include the costs from all support functions.

CORRECTIVE ACTION:

We partially agree with this recommendation. The IRS has comprehensive cost allocation processes in place, and these are used as relevant for the activity. We will review the current Direct File total cost calculations to ensure all appropriate costs are included.

IMPLEMENTATION DATE:

February 15, 2026

RESPONSIBLE OFFICIAL:

Chief, Direct File

CORRECTIVE ACTION MONITORING PLAN:

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2 (Email Alert):

On March 13, 2024, we alerted the Chief, Direct File, of our concern with the large number of Direct File returns being rejected for this reason. We suggested that the IRS update Direct File so that taxpayers obtain their prior year AGI amount from their Individual Online Account, because the IRS uses the same authentication requirements for both Direct File and the Individual Online Account.

CORRECTIVE ACTION:

We agree with this recommendation. Programming was implemented in April 2024 to systemically provide Direct File users with their prior year Adjusted Gross Income (AGI) amount from their Individual Online Account.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Chief, Direct File

CORRECTIVE ACTION MONITORING PLAN:

NA

RECOMMENDATION 3:

The Chief, Direct File, should determine what caused taxpayers to not receive their prior year AGI from their Individual Online Account and update the computer programming accordingly.

CORRECTIVE ACTION:

We agree with this recommendation. We performed a root cause investigation which determined the taxpayers who filed the returns identified by TIGTA did not attempt to import their AGI to Direct File from their Individual Online Account using the automatic import feature. For the 2025 filing season, Direct File will use Electronic Signature Storage & Retrieval Service (ESSAR) electronic signatures instead of the prior year AGI for all filing statuses except Married Filing Joint. This change will significantly reduce the opportunity for errors. Taxpayers filing as Married Filing Joint will continue to use their prior year AGI to sign their returns; however, we have implemented mechanisms to monitor the usage of prior year AGI imports, increasing our ability to troubleshoot any issues that taxpayers may experience.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

ACIO, Applications Development

CORRECTIVE ACTION MONITORING PLAN:

NA

RECOMMENDATION 4:

The Chief, Taxpayer Services, should ensure that errors are corrected on the tax returns for the six taxpayers whose returns were not corrected and had inaccurate Earned Income Tax Credit computations and refund their overpayment.

CORRECTIVE ACTION:

We agree with this recommendation. On February 3, 2025, we reviewed the six identified tax returns and took appropriate actions.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Chief, Direct File

CORRECTIVE ACTION MONITORING PLAN:

NA

RECOMMENDATION 5:

The Chief, Direct File, should notify the 669 taxpayers we identified of their potential eligibility to claim the education credits. The notice should inform them of their potential eligibility and steps for claiming the credits.

CORRECTIVE ACTION:

We partially agree with this recommendation. We will explore the feasibility of creating a notice as part of a post-filing process to notify taxpayers who our records indicate may have been potentially eligible to claim the American Opportunity Tax Credit or Lifetime Learning Credit but did not, of the steps they can take to determine their eligibility and amend their tax return if applicable. If created, this process would be applied to all applicable taxpayers, regardless of their filing method, not just those filing with Direct File.

IMPLEMENTATION DATE:

October 15, 2025

RESPONSIBLE OFFICIAL:

Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services

CORRECTIVE ACTION MONITORING PLAN:

We will monitor this corrective action as part of our internal management control system.

The Chief, Direct File, should:

RECOMMENDATION 6:

Implement a solution that will allow a taxpayer's authentication from the CSP to be used for Direct File chats. This solution should follow all relevant security standards.

CORRECTIVE ACTION:

We agree with this recommendation. Midpoint authentication of a taxpayer on an as needed basis has been added to Direct File chats for the 2025 filing season.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Chief, Direct File

CORRECTIVE ACTION MONITORING PLAN:

NA

RECOMMENDATION 7:

Improve the scheduling and monitoring of Direct File employees to ensure the efficient use of these resources.

CORRECTIVE ACTION:

We agree with this recommendation. A staffing analysis was conducted throughout and at the end of the Direct File Pilot to project actual staffing needs based on Program expansion. Additional system analysts were hired for the 2025 filing season whose responsibilities include monitoring staffing and facilitating improved communication between management and front level employees to ensure the efficient use of resources.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Chief, Direct File

CORRECTIVE ACTION MONITORING PLAN:

NA

RECOMMENDATION 8:

Improve the Direct File chat technology to systemically queue up chats for assistors, based upon the assistor's experience.

CORRECTIVE ACTION:

We agree with this recommendation. The Direct File chat technology for the 2025 filing season has been updated to automatically queue chats to assistors based on their experience level and scheduled availability. While not mandatory, experienced assistors also have the ability to take more than one chat at a time.

IMPLEMENTATION DATE:

Implemented

RESPONSIBLE OFFICIAL:

Chief, Direct File

CORRECTIVE ACTION MONITORING PLAN:

NA

Appendix V

Glossary of Terms

Term	Definition
Credential Service Provider	A trusted entity that issues or registers subscriber authenticators and issues electronic credentials to subscribers. A CSP may be an independent third party or may issue credentials for its own use.
Electronic Filing	The transmission of tax information directly to the IRS using mobile devices or computers. E-filing options include (1) online self-prepared using a mobile device or personal computer and tax preparation software or (2) using a tax professional.
Error Resolution	An online computer application used by tax examiners to correct errors identified on individual or business tax returns during processing.
Filing Season	The period from Jan. 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on Oct. 1 and ends on Sept. 30.
Individual Return Transaction File	A database maintained by the IRS that contains information on the individual tax returns it receives.
Information Returns Master File	A database that maintains information returns submitted to the IRS by payers.
Marketplace	The place for people without health insurance to find information about health insurance options and to purchase health insurance. It is also known as the Health Insurance Marketplace or Health Insurance Exchange.
Modernized Tax Return Database	The official repository of all electronic returns processed through the Modernized e-File system.
National Account Profile	A compilation of selected entity data from various IRS Master Files and the Social Security Administration.
Obligation	A definite commitment that creates a legal liability for the payment of goods or services ordered or received. Obligations reduce the amount of funds available for other programs to obligate.
Premium Tax Credit	Refundable tax credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Health Insurance Marketplace.

Appendix VI

Abbreviations

AGI	Adjusted Gross Income
CSP	Credential Service Provider
e-file; e-file(d)	Electronic Filing; Electronically File(d)
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
PTC	Premium Tax Credit
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web
at <https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.