

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System

October 2, 2023

Report Number: 2024-408-002

HIGHLIGHTS: Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System

Final Audit Report issued on October 2, 2023

Report Number 2024-408-002

Why TIGTA Did This Audit

This audit was initiated to assess the IRS's compliance with § 10301(1)(B) of the Inflation Reduction Act of 2022 (IRA), which was enacted on August 16, 2022.

The IRA required the IRS to establish a task force to design and report to Congress on an IRS-run free, direct electronic filing (e-filing) tax return system. The report to Congress was due by May 16, 2023.

Impact on Tax Administration

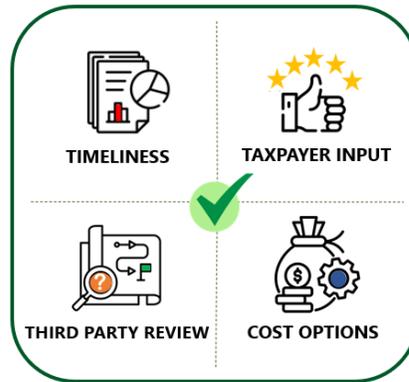
The funding included with the IRA was intended to give the IRS a historic opportunity to transform tax administration and services provided to taxpayers and tax professionals. Specifically, this funding was intended to improve how the IRS serves the public and tax professionals. The long-term funding would enable the IRS to update technology capabilities and invest in its employees with new tools, skills, and capabilities, and to address the tax gap.

The IRA specifically provided the IRS with an appropriation of \$15 million, to remain available until September 30, 2023, to establish the task force and deliver the report to Congress.

A Direct File tool may benefit taxpayers by making tax filing a simpler and less expensive process. In addition, a Direct File tool may increase e-filing and thus reduce resources used to process paper tax returns.

What TIGTA Found

As shown in the graphic, the IRS was compliant with § 10301(1)(B) of the IRA.



As of July 10, 2023, the IRS has obligated \$11.1 million (74 percent) of the \$15 million allocated by § 10301(1)(B) of the IRA. According to IRS management, they plan to spend \$966,000 in salaries and benefits and \$26,000 for equipment from the \$3.9 million unobligated funds. However, IRS management did

not have any planned spending for \$2.9 million of the \$3.9 million unobligated funds.

The IRS obtained taxpayer opinions on a Direct File system. However, taxpayer interest in a Direct File tool may be overstated due to the design of the surveys conducted. For example, the Taxpayer Experience Survey did not provide a "neutral" option for participants. Research shows that developing a survey with a five-point scale, to include a neutral option, rather than a four-point scale as used by the Taxpayer Experience Survey, is preferable because it does not put taxpayers into a "forced choice" response scenario. In addition, the survey prompt may have led taxpayers to believe that the tool would have more options than it will immediately have available, such as the ability to file State tax returns. An independent study by a Federally Funded Research and Development Center found that 60 percent of taxpayers would choose their current software when State tax returns are excluded from an IRS Direct File tool.

The decision was made to proceed with a Direct File pilot based upon a 72 percent interest in a Direct File tool, per the Taxpayer Experience Survey. However, only 28 percent were "very interested" compared to 45 percent who were "somewhat interested."

Finally, the IRS could not provide TIGTA with any supporting documentation to support its cost estimates or how it determined there would be at least 5 million users. As a result, TIGTA had no way to identify the reasonableness of the IRS's cost estimates.

What TIGTA Recommended

TIGTA recommended that the IRS allocate salaries and benefits for IRS employees assigned to the Direct File Task Force to the \$15 million IRA appropriation.

The IRS agreed and created separate tracking codes to account for time spent on the Direct File Report and to ensure that salaries and benefits were appropriately charged moving forward.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

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

October 2, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill
FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System (Audit #202340808)

This report represents the results of our review to assess the Internal Revenue Service's (IRS) compliance with Section 10301(1)(B) of the Inflation Reduction Act of 2022, which required the development of a task force to design a free, IRS-run, direct electronic tax return filing system.¹ This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Administering Tax Law Changes*.

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

¹ Pub. L. No. 117-169, H.R. 5376-15 (B).

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Background

The Inflation Reduction Act of 2022 (IRA) was signed into law on August 16, 2022.¹ The funding included with the IRA was intended to give the Internal Revenue Service (IRS) a historic opportunity to transform tax administration and services provided to taxpayers and tax professionals. Specifically, this funding was intended to improve how the IRS serves the public and tax professionals. The long-term funding would enable the IRS to update technology capabilities and invest in its employees with new tools, skills, and capabilities, and to address the tax gap.

Section (§)10301(1)(B) of the IRA included an appropriation of \$15 million, to remain available until September 30, 2023, to establish a task force to design an IRS-run, free direct electronic filing (e-file) tax return system, referred to as “Direct File.”² In addition, §10301(1)(B) of the IRA required the task force to deliver a report to Congress within nine months following the date of enactment, *i.e.*, May 16, 2023, with the following information:

- The cost (including options for differential coverage based on taxpayer adjusted gross income and return complexity) of developing and running a free direct e-file tax return system, including costs to build and administer each release, 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 e-file system.
- The opinions of an independent third party on the overall feasibility, approach, schedule, cost, organizational design, and IRS capacity to deliver such a direct e-file tax return system.

Direct File may benefit taxpayers by making tax filing a simpler and less expensive process. In addition, it may increase e-filing and thus reduce resources used to process paper tax returns.

Direct File pilot requested by the Department of the Treasury

On May 16, 2023, the same day that the IRS delivered its report to the Treasury Secretary, 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 letter cited strong taxpayer desire and interest, referring to the results of the Taxpayer Experience Survey (TES), which showed that 72 percent of taxpayers are interested in an IRS-provided tool. The Deputy Secretary’s letter also acknowledged that the best way to be successful is to “begin with a limited scope pilot that allows the IRS to test the 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.

¹ Pub. L. No. 117–169, H.R. 5376-15 (B).

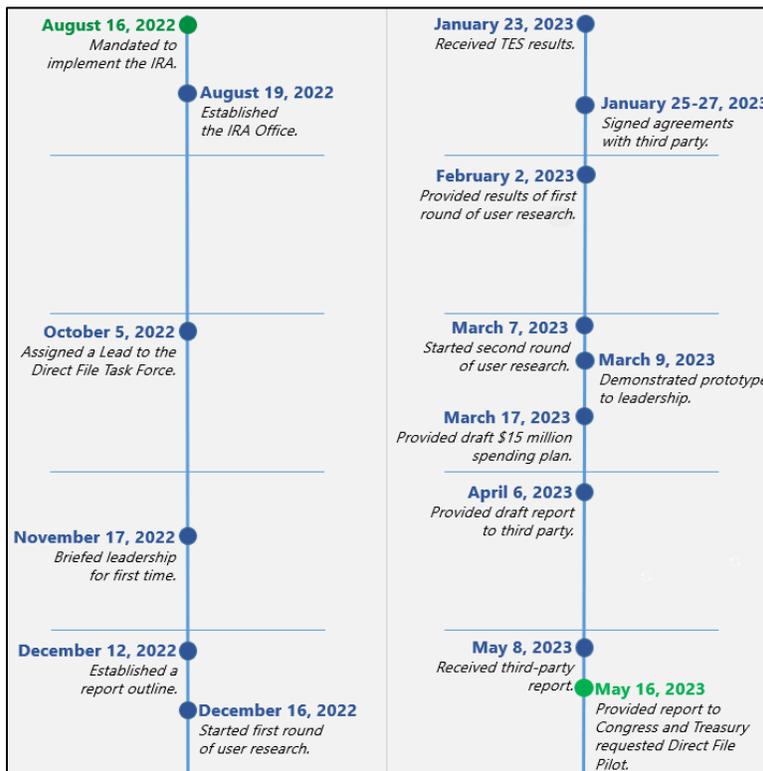
² See Appendix III for glossary of terms.

Results of Review

The Report to Congress Met Legislative Requirements

As required by the IRA, the IRS established a Direct File Task Force to design an IRS-run, free direct e-file tax return system and deliver a report to Congress (hereafter referred to as the Direct File Report). Although other IRS employees supported the Direct File Task Force as needed, between four to 13 employees were assigned to the Direct File Task Force from various IRS functions, such as the Office of Online Services, the Information Technology organization, and the Wage and Investment Division. In addition, the task force was supplemented with 22 full-time employees from the Office of Management and Budget’s United States Digital Service (USDS) team.³ The Office of Management and Budget provides funding for the USDS, thus there were no costs to the IRS for these employees. USDS employees developed an internal Direct File tool prototype for user research and usability testing. The prototype was a working model of a computer software product with limited functionality. However, it allowed taxpayers to evaluate a real, functioning product from the IRS rather than a description of a product. Figure 1 provides a timeline of events in delivering the Direct File Report.

Figure 1: Timeline of Events to Deliver Direct File Report

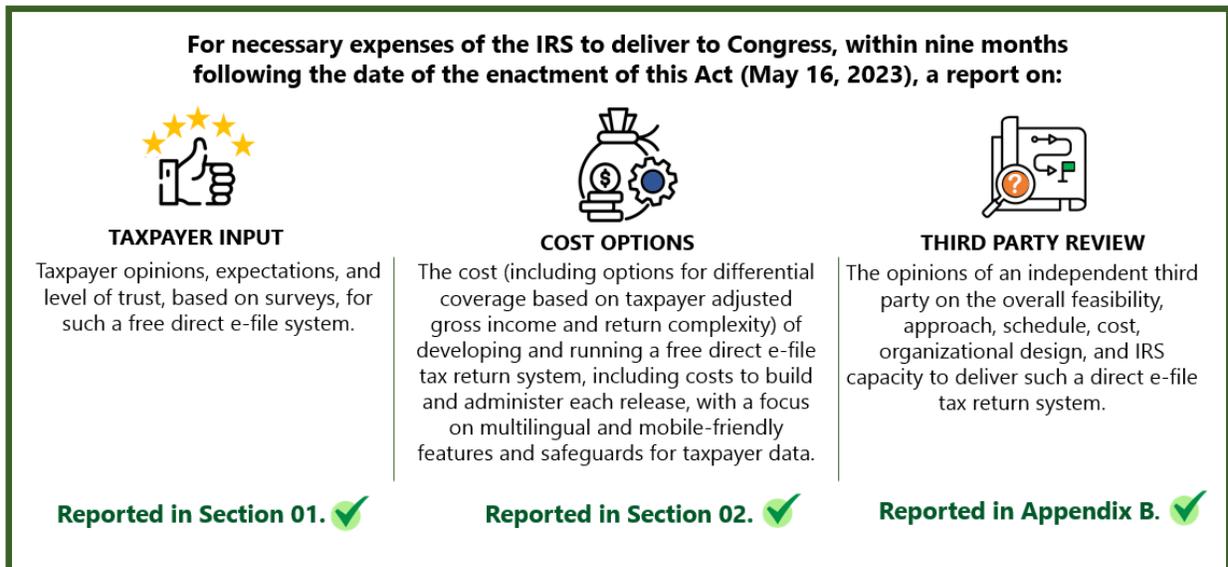


Source: Treasury Inspector General for Tax Administration (TIGTA) graphic created with information from IRS management.

³ The USDS was founded in August 2014; its mission is to collaborate with public servants through the Government to help solve complex challenges and deliver a better Government experience to people, particularly in accessing Government services.

Figure 2 shows that our review identified that the IRS complied with the requirements outlined in §10301(1)(B) of the IRA.⁴

Figure 2: The IRS’s Compliance With Legislative Requirements of §10301(1)(B)



Source: TIGTA’s evaluation of the IRS’s compliance with IRA §10301(1)(B).

Management addressed concerns to expense salaries and benefits against \$15 million IRA funding

Throughout the course of our audit, we regularly met with the Direct File Task Force members to discuss their spending plan, progress with the Direct File Report, and present them with our concerns. In our discussions, we identified that the Direct File Task Force was not using any of the \$15 million allocated by §10301(1)(B) of the IRA and had not developed plans for future spending. Specifically, the IRS was not accounting for the salaries and benefits of the Direct File Task Force employees who were directly working on the Direct File Report.

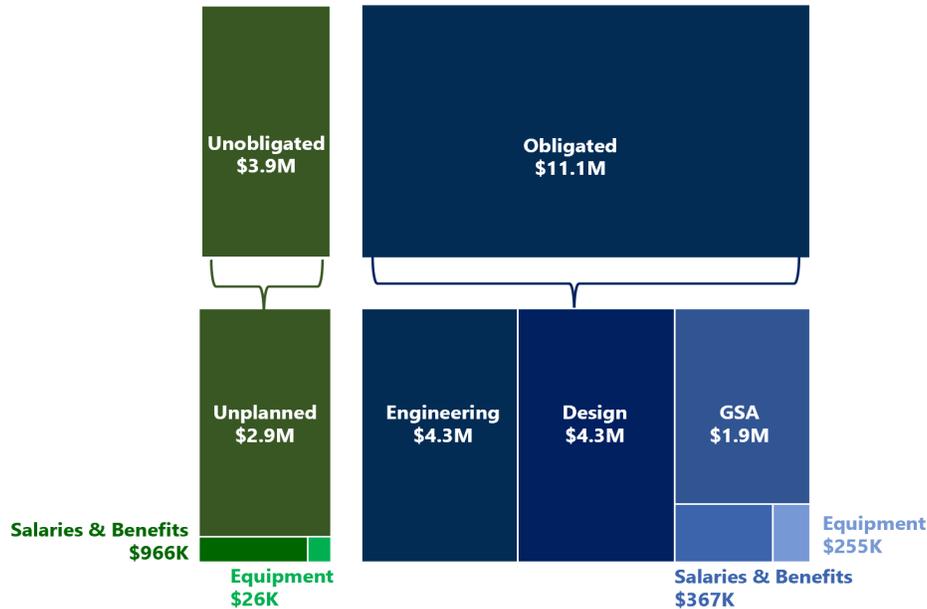
Recommendation 1 (Conversation): On February 1, 2023, we notified the Acting Chief Transformation Officer of our concern that the salaries and benefits of IRS employees who were participating in the Direct File Task Force were not being expensed against the \$15 million IRA allocation.

Management’s Response: Management agreed and created separate tracking codes to account for time spent on the Direct File Report and to ensure that salaries and benefits were appropriately charged moving forward. As of July 10, 2023, the IRS has obligated or budgeted more than \$1.3 million for salaries and benefits through the remainder of Fiscal Year 2023.

⁴ Publication 5788, *Inflation Reduction Act §10301(1)(B) IRS-run Direct e-File Tax Return System* (May 2023).

Figure 3 shows that as of July 10, 2023, the IRS has obligated more than \$11.1 million (74 percent) of the \$15 million allocated by the IRA, with the primary expenses being an interagency agreement with the General Services Administration and two contracts for design and engineering support.⁵

Figure 3: Summary of Obligated and Unobligated § 10301(1)(B) Funds as of July 10, 2023



Source: TIGTA graphic created from Integrated Financial System reports provided by the IRS.

IRS management stated that the plans for the \$3.9 million unobligated funds as of July 10, 2023, included \$966,000 in salaries and benefits and \$26,000 for equipment. IRS management did not have any planned spending for \$2.9 million of the \$3.9 million unobligated funds.

Overall Survey Design Led to Potentially Overstated Taxpayer Interest in Direct File

The IRA required the IRS’s Direct File Report to include information relating to taxpayer opinions, expectations, and level of trust about an IRS-based Direct File system. To ensure that it met these requirements, the IRS conducted the following activities:

⁵ The General Services Administration contract provided additional Government employees to assess the feasibility, cost, technical requirements, and user needs related to the development of a Direct File tool, and help the IRS determine the best path forward. These services began on April 17, 2023. According to the IRS, these services did not inform the Direct File Report. Two other contracts were to supplement the Direct File Task Force and provide non-government staff to assist with user research, design, content, and plain language for a Direct File tool, as well as security, infrastructure, and engineering of a Direct File tool. As of May 23, 2023, these two contracts have not been executed.

- The TES. The IRS conducts the TES each calendar year with the primary objective of getting taxpayer opinions about their pre-filing, filing, and post-filing needs and preferences. The TES had more than 4,200 individual taxpayer participants who filed a Tax Year 2021 tax return in Calendar Year 2022. Taxpayers responded to six general questions about an IRS-run Direct File tool. The IRS proactively included these questions in its survey before the IRA was passed to ensure that the responses could be used in its Direct File Report.
- User Research. The USDS conducted user research with 14 taxpayers beginning in December 2022. This consisted of unstructured one-on-one conversations with nine taxpayers and usability testing with five taxpayers who interacted with the USDS-developed prototype. Participants self-attested that they had recent experience filing taxes, were from a mix of demographics, and had a maximum income of \$75,000.
- Survey completed by a Federally Funded Research and Development Center (FFRDC). The FFRDC independently surveyed adult taxpayers in the United States who used tax preparation software or an online website to prepare and file their Tax Year 2021 tax return. The FFRDC conducted an independent survey of 1,000 taxpayers who filed simple tax returns and 1,000 taxpayers that filed complex tax returns.⁶

Our review determined that referring to the terms “commercial and IRS-provided tax preparation software” in the prompt taxpayers read prior to answering questions about Direct File may have led them to believe certain features, *e.g.*, State tax return preparation, would be included as a feature in Direct File. In addition, taxpayers were only given four, not five, response options to show their level of interest in Direct File. As a result, the level of taxpayer interest in a Direct File program may be overstated.

The survey prompt led taxpayers to believe that filing State returns would be an included feature of Direct File

Taxpayers were provided the following prompt before answering the six TES questions:

The following questions are about your expectations for and your level of interest and trust in an IRS-provided online tool used to prepare and electronically file your tax returns directly to the IRS, free of charge. The online preparation and filing tool would include features such as safeguards to protect taxpayer data, ease of accessibility, and “interview style” preparation (meaning the tool will ask tax-related questions to fill in the return), in multiple languages, with access from mobile devices. This tool would be an alternative to commercial and IRS-provided tax preparation software currently available to taxpayers (e.g., TurboTax, FreeTaxUSA, etc.).

If respondents were provided the specifics of what the tool may or not may not include, *e.g.*, State tax return preparation, the taxpayer responses to the TES may have been different. This is further supported by information presented by the FFRDC in its study. Specifically, the FFRDC study found that 60 percent of simple tax return filers would choose their current software when State tax returns are excluded from an IRS Direct File tool. The IRS also noted in

⁶ Simple tax return was defined as job-related income and standard deduction only. Complex tax return was defined as income from wages or interest along with additional forms or schedules, such as business income, tax credits or itemized deductions.

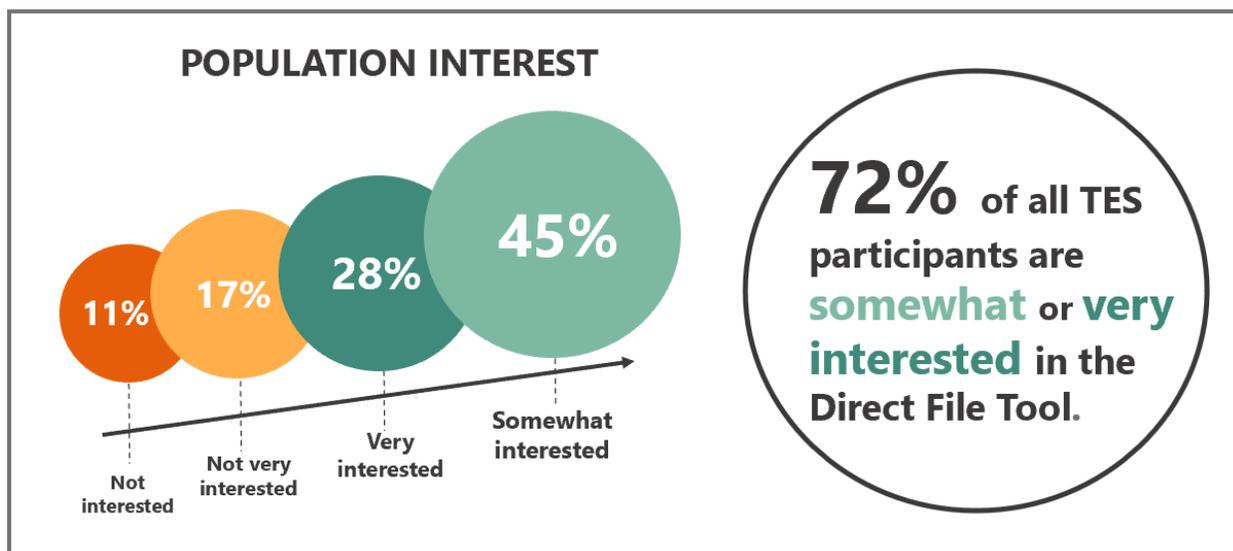
its Direct File Report that State tax return filing would be a challenge and that State tax preparation would likely impact taxpayer interest stating, “TES responses might have changed if taxpayers were presented with scenarios where a tool might only file a federal return, without support for filing a state or local return.”

According to our discussions with IRS management, State tax return filing, *i.e.*, preparing and submitting a tax return, will not be an option for the Direct File pilot. However, according to IRS management, the Direct File Task Force has been working with states and other stakeholders to include limited State income tax filing information sharing to help facilitate State tax return filing for the taxpayer.

Survey did not include neutral/no opinion response option

We are concerned that taxpayers were not provided with a neutral option when providing responses to the TES. Without being provided with this option, the degree by which respondents indicate they “agree” with something will likely be overstated. As noted in the Direct File Report, 72 percent of taxpayers responded that they would be either “very interested” or “somewhat interested” in a Direct File tool. Yet, this percentage would likely be reduced had the TES used a five-point scale that offered taxpayers a neutral response option. Figure 4 provides a breakdown of the options/responses to taxpayers’ level of interest in a Direct File tool by TES participants.

Figure 4: Level of Interest in Direct File Tool by TES Participants



Source: IRS Publication 5788 (May 2023). Note: The total percentages exceed 100 percent due to rounding. Also, due to rounding, the very interested and somewhat interested amounts total 73 percent. However, the Direct File Report reports the exact combined amounts of 72 percent.

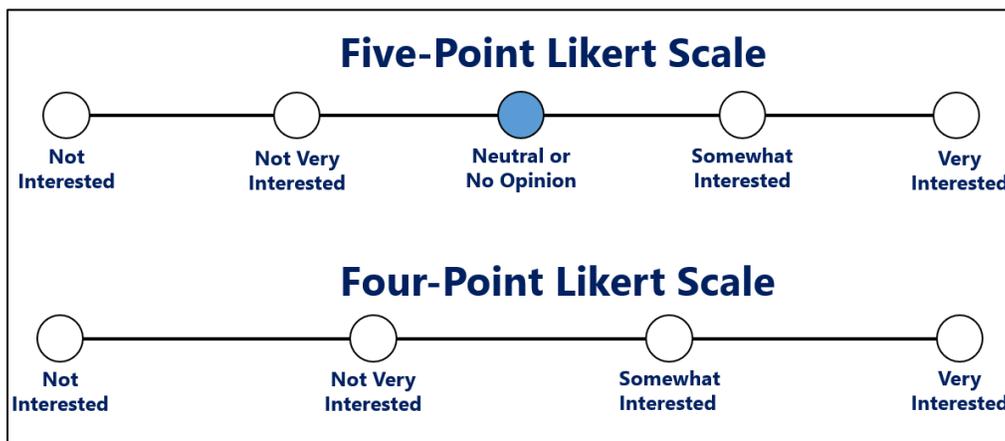
The Likert scale is one of the most popular response scales used in survey design. Response scales can be odd or even numbered and are often used to measure respondents' attitudes by asking the extent to which they agree or disagree with a particular question or statement.

The TES used a four-point Likert scale, also known as “forced choice,” for determining the level of interest in an IRS-run Direct File tool. According to the Evaluation and Program Effectiveness team at the Centers for Disease Control and Prevention, using an even-numbered scale, like the

four-point Likert scale, forces people to choose an option and it may not collect accurate responses.⁷ Whereas, the five-point Likert scale provides a neutral/no opinion response option. The Office of Management and Budget's Circular A-11 *Preparation, Submission, and Execution of the Budget*, issued August 2022, notes a five-point Likert-scale question is preferred when Government agencies are seeking customer feedback from surveys. Moreover, the IRS's own standard operating procedures for conducting employee engagement surveys recommends a five-point Likert scale.⁸

Figure 5 compares the four-point scale the IRS used to what a five-point scale could have looked like.

Figure 5: Comparison of Four-Point vs. Five-Point Likert Scale



Source: TIGTA-created graphic.

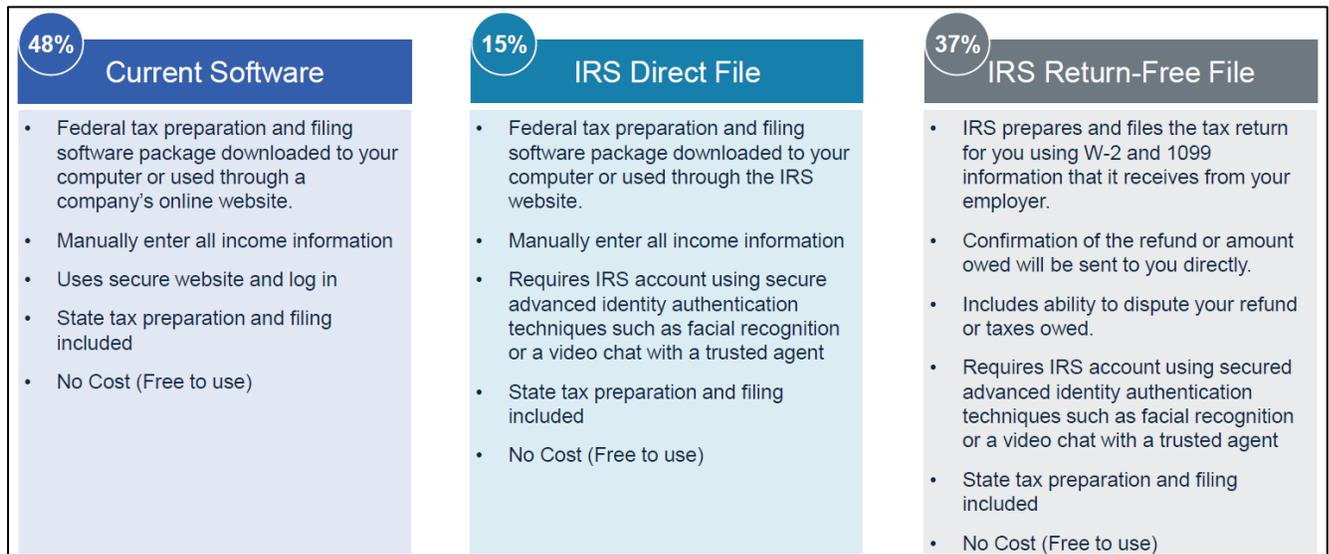
Report to Congress overstated interest in Direct File presented in the FFRDC survey

The Direct File Report noted that the FFRDC survey reported that 52 percent of respondents would prefer to use one of the two IRS-provided options. The FFRDC survey presented two IRS provided options (Direct File and Return-Free File), but according to our discussions with the IRS, the IRS has no immediate plans to offer Return-Free filing. Thus, the results of the survey presented in the Direct File Report might be overstated. Figure 6 shows the three options provided to the FFRDC survey respondents filing a simple tax return and the results, which include that 37 percent of respondents selected the IRS Return-Free option.

⁷ Centers for Disease Control and Prevention, *CDC Coffee Break: Using Likert Scales in Evaluation Survey Work*, February 2012.

⁸ IRS, *Standard Operating Procedure Desk Guide: Pulse Surveys*.

Figure 6: FFRDC Survey Results for Simple Tax Return



Source: FFRDC Survey, Taxpayer Filing Preference Surveys (Feb. 2023).

We do not know how many of these respondents would have selected either their current software or Direct File if only those two options were presented. However, the IRS stated in its Direct File Report that taxpayer interest in a Direct File tool is likely to be greater if it includes the capability to prepopulate returns with tax information.

The IRS Strategic Operating Plan includes Initiative 1.6, with a milestone of Fiscal Year 2025, that would allow taxpayers to use their information to start their tax return.⁹

Direct File Cost Estimates Could Not Be Substantiated

The IRA also required the IRS to include “the cost (including options for differential coverage based on taxpayer adjusted gross income and return complexity) of developing and running a free direct e-file tax return system, including costs to build and administer each release [...].” The Direct File Report included the IRS’s estimates, both for a narrow and broad scope of the project and was based upon 5 million taxpayers using the tool. The IRS included the following disclaimer in its Direct File Report:

The cost estimates presented here are subject to uncertainty due to the nature of providing a new taxpayer-facing service. In addition, there is substantial uncertainty about how many taxpayers would choose to use an IRS-provided option. To account for this uncertainty, a range of assumptions regarding the number of users were considered in formulating cost estimates, ranging between 5 and 25 million.

⁹ Internal Revenue Service Inflation Reduction Act Strategic Operating Plan, Fiscal Years 2023 through 2031, page 30 of 146.

When we asked IRS management to explain how they arrived at the lower range of 5 million taxpayers, management stated that they anticipated the scope would be like the Volunteer Income Tax Assistance Program. Yet the IRS's own data show there were only 2.2 million tax returns prepared by the Volunteer Income Tax Assistance Program during Fiscal Year 2022. Also, as noted by the FFRDC survey, many simple tax return filers would opt to stay with their current software thinking "if it's not broke, why fix it." In addition, the TES found that 32 percent of taxpayers are somewhat or very unlikely to switch filing methods. Taxpayers cited already filing for free as a reason they would be reluctant to change their tax return filing methods.

Finally, the IRS's estimate included costs associated with providing customer support, product development, *i.e.*, labor costs, and technology, *i.e.*, hosting fees, software licensing fees, *etc.* Yet when we asked the IRS for documentation supporting how it arrived at these various cost estimates, it could not provide us with any. As such, we could not evaluate if the IRS's cost estimates were reasonable. We plan to continue our audit coverage of the Direct File tool, including the pilot, and will issue reports next calendar year.¹⁰

¹⁰ Assessment of the IRS's Direct File Pilot Program and Direct File System Security.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the IRS's compliance with § 10301(1)(B) of the IRA, which required the development of a task force to design a free, IRS-run, direct electronic tax return filing system. To accomplish our objective, we:

- Determined if the IRS met the deadline to deliver the required Direct File Report to Congress by May 16, 2023.
- Determined if the IRS was in compliance with § 10301(1)(B)(I) of the IRA, which required the IRS to estimate the cost (including options for differential coverage based on taxpayer adjusted gross income and return complexity) of developing and running a free direct e-file tax return system, including costs to build and administer each release, with a focus on multilingual and mobile-friendly features and safeguards for taxpayer data.
- Determined if the IRS was in compliance with § 10301(1)(B)(II) of the IRA, which required the IRS to survey taxpayers for their opinions, expectations, and level of trust for a free direct electronic tax return filing system.
- Determined if the IRS was in compliance with § 10301(1)(B)(III) of the IRA, which required the IRS to obtain the opinion of a third party on the overall feasibility, approach, schedule, cost, organizational design, and IRS capacity to deliver a free direct electronic tax return filing system to taxpayers.
- Determined the IRS's use of the \$15 million allocated under § 10301(1)(B) of the IRA.

Performance of This Review

This review was performed with information obtained from the Transformation and Implementation Office and the Office of the Chief Financial Officer located in Washington D.C., during the period September 2022 through May 2023. 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.

Major contributors to the report were Diana Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services); Linna Hung, Director; Jeffrey Cullum, Audit Manager; Mark Willoughby, Lead Auditor; Dylan Altobelli, Auditor; and Carina Schusterman, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We did not use data from computer-based systems for this audit.

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: the legislative requirements of § 10301(1)(B) of the IRA. We tested these controls by reviewing and analyzing relevant documents and holding discussions with IRS management and other stakeholders involved in implementing § 10301(1)(B) of the IRA.

Appendix II

Outcome Measure

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

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$1,333,392 in salaries and benefits that the IRS obligated or budgeted that was not being expensed against the \$15 million appropriation provided by § 10301(1)(B)(II) of the IRA (see Recommendation 1).

Methodology Used to Measure the Reported Benefit:

On February 1, 2023, we notified the IRS of our concern that the salaries and benefits of IRS employees who were participating in the Direct File Task Force were not being expensed against the \$15 million IRA allocation. As of July 10, 2023, the IRS reports it has obligated \$367,065 for salaries and benefits and has budgeted \$966,327 for salaries and benefits through the remainder of Fiscal Year 2023. This totals \$1,333,392 (\$367,065 + \$966,327) in salaries and benefits.

Appendix III

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

September 15, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Bridget Roberts **Bridget T. Roberts** Digitally signed by
Chief, Direct File **Roberts** Bridget T. Roberts
Date: 2023.09.14
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SUBJECT: Draft Audit Report – Inflation Reduction Act: Assessment of a
Free and Electronic Direct Filing Tax Return System (Audit #
202340808)

Thank you for the opportunity to review and comment on the subject draft audit report. We appreciate TIGTA's recognition that the Report to Congress (RTC) met the legislative requirements as outlined in the Inflation Reduction Act (IRA). IRS acted expeditiously to establish the Direct File Task Force and fully meet the requirements outlined in Section (§)10301(1)(B). These requirements included considering taxpayer input, cost options, and an independent third-party review which discussed overall feasibility, schedule, cost and IRS capacity to deliver a direct file system.

We appreciate the concerns shared by TIGTA early in the audit that we should be capturing and expensing salaries and benefits of IRS staff assigned to the Direct File Task force against the \$15 million allocation provided in the IRA. We took immediate action, creating codes so that employees can report their time appropriately, allowing us to capture and expense these salaries and benefits moving forward.

As TIGTA acknowledges, the IRA required the IRS's Direct File report to include information relating to taxpayer opinions, expectations, and level of trust about an IRS-based Direct File system. While TIGTA concluded our overall survey design led to potentially overstated taxpayer interest in direct file, we want to emphasize that we specifically flagged the potential for interest in Direct File to be overstated and influenced by a number of issues. We noted on page 7 of the RTC that "Taxpayers' understanding of the options may have been influenced by their preconceived notions of what an IRS-provided filing tool would look like and the capabilities it would provide (see *"Factors that May Affect Interest in Direct File"* later in this report). When considering a real IRS-provided tool, taxpayer interest could shift based on design, functionality, and other product choices." We included similar observations in other parts of the RTC.

Additionally, we noted on page 4 of the RTC that one of the reasons to conduct user research using the functioning internal prototype was to provide the Task Force with “a deeper understanding about the type of support that taxpayers want and expect from the IRS” which “allowed taxpayers participating in the user research sessions to evaluate an interactive product with fillable fields and clickable buttons, rather than an abstract description of a hypothetical product.”

As to the design of the survey itself, given the time the IRS had to complete the required survey and deliver the Report to Congress, we were limited to using existing survey options in order to deliver the report timely. The Direct File questions used in the Taxpayer Experience Survey used similar response options as the larger survey.

TIGTA also states that “the decision was made to proceed with a Direct File pilot based upon a 72 percent interest in a Direct File tool, per the Taxpayer Experience Survey. However, only 28 percent were “very interested” compared to 45 percent who were “somewhat interested.” It is important to point out, as noted later in the TIGTA report, that the Direct File pilot was requested by the Treasury Department. As written, the TIGTA report makes it appear as though the IRS made a decision to move forward with a pilot and does not acknowledge that the IRS has shared repeatedly that we recognize the limitation of the data in the report and want to use the pilot to learn about a number of things, including taxpayer interest in using Direct File.

Finally, the draft report notes that the IRS could not provide TIGTA with supporting documentation to support its cost estimates. The IRS did provide TIGTA with documentation and explanations of how we arrived at our cost estimates. We understand that TIGTA did not feel that was sufficient information, but as you noted, the IRS did state in the RTC that the estimates were subject to uncertainty given the new nature of Direct File and the lack of comparable projects.

Again, we appreciate the collaboration with the TIGTA team throughout the audit and development of this report. If you have any questions, please contact me at Bridget.Roberts@irs.gov.

Attachment

Attachment

RECOMMENDATION

The Acting Chief Transformation Officer should expense the salaries and benefits of IRS employees participating in the Direct File Task Force against the \$15 million IRA allocation.

PLANNED CORRECTIVE ACTION

IRS agreed and while the TIGTA audit was in fieldwork created separate tracking codes to account for time spent on the Direct File Report and to ensure that salaries and benefits were appropriately charged moving forward.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Chief Transformation and Strategy Officer

CORRECTIVE ACTION MONITORING PLAN

N/A

Appendix IV

Glossary of Terms

Term	Definition
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.
Federally Funded Research and Development Center	A special type of government-owned, contractor-operated research center that conducts research and development and related activities in support of a Federal agency's mission.
Free File	A free Federal tax preparation and e-filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance LLC. The Alliance is a group of private sector tax software companies.
Obligated	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.
Tax Gap	The estimated difference between the amount of tax the taxpayers should pay and the amount that is paid voluntarily and on time.
Unobligated	Amounts that have not been obligated.
Volunteer Income Tax Assistance	Specially trained volunteers who offer free assistance with tax return preparation and tax counseling to individuals with low-to-moderate incomes, those with disabilities, and those for whom English is a second language.

Appendix V

Abbreviations

E-file; e-filing	Electronically File; Electronic Filing
FFRDC	Federally Funded Research and Development Center
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
TES	Taxpayer Experience Survey
TIGTA	Treasury Inspector General for Tax Administration
USDS	United States Digital Service



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