

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## Direct File Activity for the 2025 Filing Season

March 19, 2026

Report Number: 2026-408-006

## Why TIGTA Did This Audit

The Inflation Reduction Act of 2022 provided the IRS with \$15 million to establish a task force to design an IRS-run, free direct electronic filing (e-file) system. In May 2023, the IRS provided its report to Congress, as required by the legislation. The IRS piloted a Direct File option for the 2024 Filing Season.

In May 2024, the IRS announced that Direct File would be a permanent option for filing tax returns beginning with the 2025 Filing Season. In January 2025, the incoming Secretary of the Treasury also stated that Direct File would remain available for the 2025 Filing Season. However, in October 2025, the Department of the Treasury published a report announcing that the IRS would suspend Direct File.

This audit provides the results of our assessment of the IRS's expansion of Direct File during the 2025 Filing Season and offers insights from our prior work that may be valuable as the IRS considers strengthening Free File.

## Impact on Tax Administration

The IRS expanded Direct File for the 2025 Filing Season to include additional income, deductions, and credits. The IRS estimated that more than 32 million taxpayers, from 25 participating states, were potentially eligible to use it. This is an increase from the estimated 19 million potentially eligible taxpayers from 12 participating states for the 2024 Filing Season pilot.

## What TIGTA Found

The One Big Beautiful Bill Act, enacted in July 2025, appropriated \$15 million to the Department of the Treasury to deliver a report to Congress on the potential replacement of any direct e-file program run by the IRS. In October 2025, following the 2025 Filing Season, the Department of the Treasury reported to Congress that the IRS will suspend Direct File and recommended that the IRS refocus efforts on strengthening existing free filing programs, particularly Free File. The concerns discussed throughout this report should be considered as the IRS explores how to strengthen existing free filing programs.

During the 2025 Filing Season, the IRS estimated that 32 million taxpayers would be eligible for Direct File. However, only 751,000 taxpayers registered with Direct File. This was a 78 percent increase from 423,000 registered taxpayers during the 2024 Filing Season. Direct File management attributed the lower than expected usage to confusion in media coverage about availability and a lack of outreach. Additionally, 59 percent of the 751,000 Direct File users did not submit a tax return through the system during the 2025 Filing Season.

Improvements were made to significantly reduce the number of rejected tax returns filed through Direct File. However, there are opportunities to further reduce this number. Direct File was not identifying and alerting the taxpayer of errors before the submission of the tax return. Doing so would allow the taxpayer to correct the issue and submit a correct tax return.

Direct File also began importing some information returns during the 2025 Filing Season to reduce human error and improve the taxpayer's experience. We found that opportunities exist to expand the import of information returns, *e.g.*, tax forms for secondary filers, corrected tax forms, and additional tax forms available to taxpayers through their Individual Online Account.

While the IRS estimated that Direct File would cost \$61.2 million for Fiscal Year 2025, the IRS's actual cost for Fiscal Year 2025 totaled \$16.2 million as of May 2025. However, the IRS's reported cost for Fiscal Year 2025 continued to exclude the costs from all IRS support functions. For example, Direct File did not include costs for employees detailed to the IRS by another federal agency to help develop and pilot Direct File, costs for other IRS functions' employees who supported the program, and authentication costs.

## What TIGTA Recommended

In January 2025, we recommended the IRS implement programming to ensure that Direct File did not allow submission of tax returns with errors that it could alert the taxpayer to fix.

The IRS partially agreed and corrected programming for seven of the business rules as of April 20, 2025. However, Direct File will not be operational for a taxpayer to submit their 2025 tax return.



**TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION**

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

March 19, 2026

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

**FROM:** Diana M. Tengesdal  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Direct File Activity for the 2025 Filing Season  
(Audit No.: 2025408009)

This report presents the results of our review to assess the Internal Revenue Service's expansion of Direct File for the 2025 Filing Season. This review was included in our Fiscal Year 2025 Annual Audit Plan and addressed the major management and performance challenges of *Improving Taxpayer Service and Protecting Taxpayer Rights*.

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

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## **Background**

The Inflation Reduction Act of 2022 Section 10301(1)(B) 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”).<sup>1</sup> In May 2023, the IRS provided its report to Congress as required by the legislation, which summarized:<sup>2</sup>

- The cost of developing and running a free direct e-file tax return system with mobile friendly features and safeguards for taxpayer data.
- Taxpayers’ opinions, expectations, and level of trust, based on surveys, for such a free direct e-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 e-file tax return system.

On the same day the report was issued, 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, which it did. In May 2024, the IRS announced that Direct File would be a permanent tax filing option beginning with the 2025 Filing Season. In January 2025, the incoming Secretary of the Treasury also stated that Direct File would remain available for the 2025 Filing Season.

### **Additional filing criteria for Direct File**

The IRS expanded the tax scope for the 2025 Filing Season. Figure 1 shows the tax scope during the Direct File Pilot and the expansion for the 2025 Filing Season identified in blue text.

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<sup>1</sup> Pub. L. No. 117-169, 136 Stat. 1818. See Appendix IV for a glossary of terms.

<sup>2</sup> Publication 5788, IRS Report to Congress: *Inflation Reduction Act §10301(1)(B) IRS-run Direct e-File Tax Return System* (May 2023).

**Figure 1: Expansion of Direct File Tax Scope for 2025 Filing Season**

Basics	Income	Deductions, Adjustments, and Credits
<ul style="list-style-type: none"> <li>• Must Be a U.S. resident 18 years or older</li> <li>• Any filing status</li> <li>• Dependents, except those claimed by a non-custodial parent</li> <li>• Language and accessibility preference supported</li> </ul>	<ul style="list-style-type: none"> <li>• Wages</li> <li>• Interest (up to \$1,500)</li> <li>• Interest (over \$1,500)</li> <li>• Unemployment compensation</li> <li>• Social Security Benefits</li> <li>• Alaska Permanent Fund Dividend</li> </ul> <p><b>Starting March 5, 2025:</b></p> <ul style="list-style-type: none"> <li>• Retirement Income</li> <li>• Contributions to and most distributions from employer-sponsored retirement plans</li> <li>• Direct rollovers from one employer-sponsored retirement plan to another, or to an Individual Retirement Account</li> </ul>	<ul style="list-style-type: none"> <li>• Child Tax Credit/ Additional Child Tax Credit</li> <li>• Credit for other Dependents</li> <li>• Earned Income Tax Credit</li> <li>• Standard deduction only</li> <li>• Student loan interest deduction</li> <li>• Educator expense deduction</li> <li>• Child and Dependent Care Credit</li> <li>• Premium Tax Credit</li> <li>• Credit for the Elderly and Disabled</li> <li>• Retirement Saving Contribution Credit</li> <li>• Health Savings Account Deduction</li> </ul>

Source: Summary of IRS Direct File Pilot Program Filing Season 2024 After Action Report – Table 1 (May 2024), IRS News IR2024-13 (October 2024), and IRS News FS-2025-02 (March 2025).

Taxpayers must also live in a participating state for the entire calendar year, without income attributable to another state, to use Direct File. Taxpayers cannot use Direct File if they would otherwise be required to file additional tax forms because of earned income exceeding certain thresholds, or they received income from multiple employers that exceeded \$168,600.

### Estimated participation for Direct File

For the 2025 Filing Season, the IRS estimated that more than 32 million taxpayers from 25 participating states were potentially eligible to use Direct File. This increased from the estimated 19 million potentially eligible taxpayers from 12 participating states for the pilot during the 2024 Filing Season. The 12 states that participated in the 2024 Filing Season continued to participate in the 2025 Filing Season. Figure 2 is a map reflecting the states that participated in Direct File for the 2025 Filing Season.



- Conduct an updated taxpayer survey of preferences over different filing options.
- Convene a Free Filing Modernization Summit.
- Create a common understanding of a “free return” across all filing options.
- Collect more robust usage data from software providers.
- Develop a supplemental report to Congress that includes updates based on the actions listed above.

Per the Department of the Treasury, this approach aims to increase awareness of, and access to, free file services in a cost-effective way. According to the IRS’s Direct File web page, the tool is no longer available. Additionally, the web page states that users can access their prior Direct File tax return information by filing Form 4506, *Request for Copy of Tax Return*.

The information presented in this report is specific to our assessment of the IRS’s expansion of Direct File during the 2025 Filing Season and offers insight from our prior work that may be valuable as the IRS considers strengthening Free File.

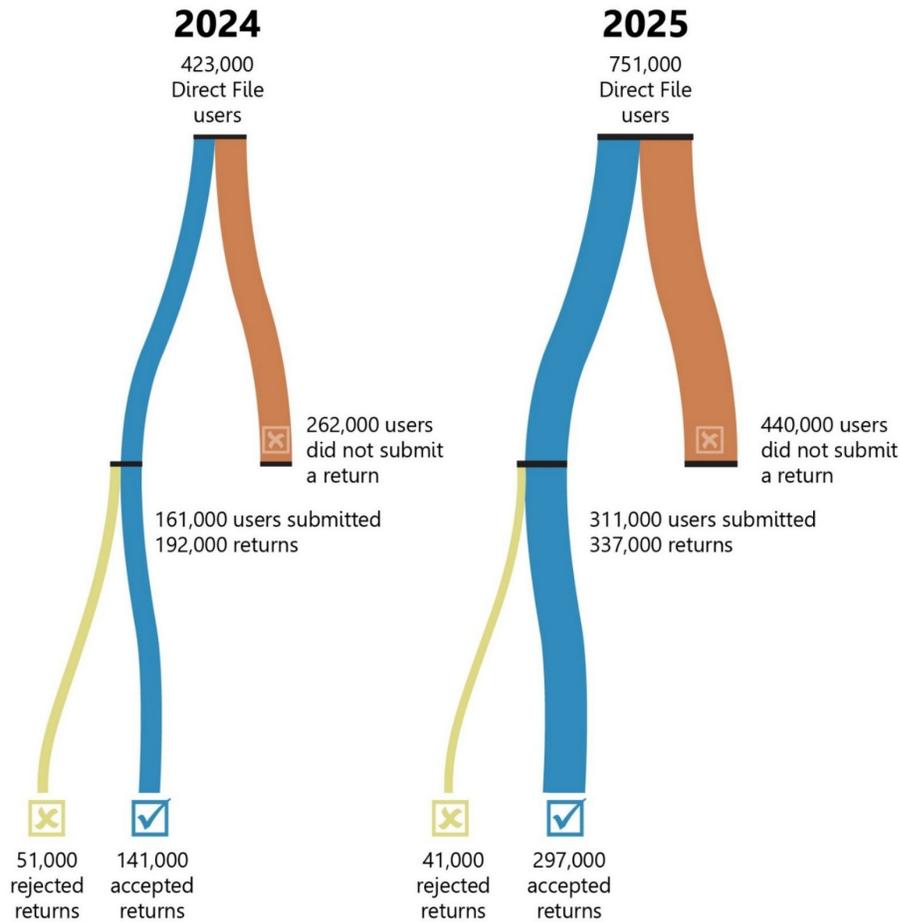
## **Results of Review**

### **A Limited Number of Taxpayers Created a Direct File Account, and Less Than Half of These Taxpayers Used it to Submit a Tax Return**

During the 2025 Filing Season, the IRS estimated that 32 million taxpayers would be eligible for Direct File but only 751,000 taxpayers registered with Direct File. This was a 78 percent increase from 423,000 registered taxpayers during the 2024 Filing Season. Direct File management attributed the lower than expected usage to confusion in media coverage about the availability of Direct File. For example, in February 2025, media outlets reported that Direct File had been eliminated. Management also stated that a lack of outreach affected usage.

For the second straight filing season less than half of those who registered submitted a tax return. Figure 3 shows that many taxpayers who created an account or signed into Direct File during the 2024 and 2025 Filing Seasons continue to not submit a tax return through Direct File. Specifically, 59 percent of the 751,000 Direct File users who accessed Direct File during the 2025 Filing Season did not submit a tax return through the system.

**Figure 3: Direct File Usage Increased for the 2025 Filing Season**



Source: Direct File reports and our analysis of Modernized Tax Return Database data as of April 22, 2024, and April 20, 2025. Figures are rounded to the nearest thousand and may not add up due to rounding.

There are multiple reasons why a taxpayer that created a Direct File account may not submit a tax return through it, including:

- **Eligibility:** Taxpayers may have logged into Direct File, only to later determine that they were ineligible to use it. For example, a taxpayer may have created an account but later found out that they lived in a state that did not participate in Direct File. In addition, taxpayers could only file tax returns with certain types of income, deductions, adjustments, and tax credits (see Figure 1).
- **Technical issues:** Direct File experienced limited technical issues that prevented taxpayers from submitting their tax return. In these instances, taxpayers were directed to use an alternative filing method.

According to Direct File management, the system allowed users to opt in to a survey at the start of creating their tax return. However, management stated that they did not send surveys to taxpayers who did not complete their tax return with Direct File, as only a limited number of those users opted in to the survey. Although Direct File has been suspended, the IRS could consider obtaining feedback from taxpayers that signed into but did not submit a tax return to

help inform their work on strengthening and modernizing existing free filing programs. This will help the IRS better understand the user experience and determine what additional system enhancements might be needed.

## **Improvements Were Made to Significantly Reduce the Number of Rejected Tax Returns, but Additional Actions Could Further Reduce This Number**

The IRS uses e-file business rules to identify specific criteria on tax returns and send the tax return back to the taxpayer, *e.g.*, the taxpayer does not report an expected tax form. When this occurs, the taxpayer fixes the error and resubmits their corrected tax return for processing. As of April 2025, the IRS rejected more than 41,000 tax return submissions (12 percent) filed through Direct File. This was an improvement from the pilot, where the IRS rejected 27 percent of Direct File submissions. However, additional opportunities existed to further reduce the number of rejected Direct File tax returns.

### **Improvements were made based upon our prior recommendation**

The IRS requires taxpayers who e-file their tax return to verify their identity using either last year's adjusted gross income (AGI) or a five-digit Personal Identification Number that is chosen when e-filing the prior year tax return, and their date of birth. We previously reported that a system error prevented some Direct File users from receiving their prior year AGI and recommended that the IRS determine the cause.<sup>5</sup>

For the 2025 Filing Season, Direct File made improvements to allow users with filing statuses other than Married Filing Jointly to forego reporting their prior year AGI and instead authenticate using an electronic signature process. Users with a filing status of Married Filing Jointly could still have their prior year AGI imported from their Individual Online Account. As of January 31, 2025, there were 3,735 Direct File tax returns with a filing status of Married Filing Jointly. We were able to systemically review 1,579 tax returns (42 percent) and determined that the prior year AGI amounts appeared to import correctly. For the remaining 2,156 tax returns (58 percent), we were unable to systemically analyze the tax returns due to IRS database issues. As a result, we reviewed a randomly selected judgmental sample of 20 tax returns and determined that the prior year AGI appeared to import correctly.<sup>6</sup> Overall, the IRS's improvements resulted in fewer rejections of Direct File tax returns during the 2025 Filing Season.

### **Additional actions could have further reduced the number of tax returns rejected**

Direct File management had not implemented programming to prevent taxpayers from submitting tax returns with errors that would be rejected by IRS e-file business rules. For example, the IRS has business rules that check values on a tax form to ensure that they do not exceed a certain amount. If the value exceeds that amount, then the tax return is rejected back to the taxpayer to correct their submission. However, Direct File allowed taxpayers to submit their tax return with the errors instead of alerting them to the error before they submitted it. This resulted in tax returns being rejected by the IRS, which burdens taxpayers. Taxpayers whose

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<sup>5</sup> TIGTA, Report No. 2025-408-015, *Inflation Reduction Act: Results of the Direct File Pilot*, p. 10 (March 2025).

<sup>6</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

tax return was rejected had to access Direct File through their online account to correct the errors and resubmit their tax return. Further, it delays the processing of their tax return and issuance of any refund due.

In January 2025, we alerted Direct File management of our concern and recommended that they immediately implement programming to prevent taxpayers from submitting tax returns with errors. At the end of the filing season, we identified all rejected Direct File tax returns and the applicable unique business rule conditions. We identified 41 business rules that Direct File could have implemented to alert taxpayers of potential errors to fix before their tax return was submitted for processing. We determined that 2,037 taxpayers filed 3,144 tax returns that were rejected for these 41 business rules.

**Recommendation 1:** In January 2025, we alerted the Chief, Direct File, to our concern that taxpayers were allowed to submit incorrect tax returns through Direct File. We recommended that Direct File immediately implement programming to ensure that it did not submit tax returns with errors that it could alert the taxpayer to fix, based upon information readily available.

**Management's Response:** IRS management partially agreed. As of April 20, 2025, Direct File has corrected programming for seven of the cited business rules. A decision has been reached that Direct File will not be operational for a taxpayer to submit their 2025 tax return.

### Direct File Began Importing Some Information Returns, but There Are Opportunities for Expansion

For the 2025 Filing Season, Direct File began importing certain information returns for the primary taxpayer only. The goal was to pilot the import of wage information from the Form W-2, *Wage and Tax Statement*, which would reduce human error and improve a taxpayer's experience. The IRS expanded Direct File's import option to include other information returns later in the filing season. For example, Direct File notified users with Health Insurance Marketplace coverage of the existence of the Form 1095-A, *Health Insurance Marketplace Statement*, and directed them to their Individual Online Account to view the tax form. Previously, many Direct File users had their tax returns rejected by the IRS for failure to reconcile their Health Insurance Marketplace coverage. By notifying users of their coverage, Direct File increased the chances of the taxpayer submitting an accurate tax return and reduced taxpayer burden by preventing a tax return from being rejected.

While the IRS expanded importing of information returns, there remains limitations to those features. For example, taxpayers have to manually enter information on their Form W-2 despite the majority of the form being populated systemically. Figure 4 shows the information returns that Direct File imported for the 2025 Filing Season and any limitations with the import of the data.

**Figure 4: Direct File’s Import of Information Returns**

Information Return	Date Started	Limitations of Import
Form W-2, <i>Wage and Tax Statement</i>	1/31/2025	Taxpayers had to manually enter Boxes 12-14 (Miscellaneous Codes) and Boxes 15-20 (State and Local Information).
Form 1099-INT, <i>Interest Income</i>	4/3/2025	Taxpayers with state withholdings were unable to use Direct File.
Form 1095-A, <i>Health Insurance Marketplace Statement</i>	4/3/2025	Taxpayers only obtained an indicator noting the presence of the tax form.

*Source: Summary of information provided by Direct File management.*

Our analysis of 31,742 Forms W-2 imported by Direct File through March 13, 2025, found that the federal wages and withholding amounts matched the Forms W-2 received by the IRS. However, we were unable to systemically analyze the import of an additional 18,169 Forms W-2 because the IRS’s audit trail database (not specific to Direct File) did not capture the imported Form W-2 information. According to Information Technology management, the audit trail database issue was resolved on April 7, 2025.

### Opportunities exist to import additional information returns

We identified additional opportunities to expand the importing of information returns. For example, Direct File could import:

- **Information returns for secondary filers.** Direct File does not import a secondary taxpayer’s information returns since the secondary taxpayer does not authenticate through the Credential Service Provider. IRS Chief Counsel stated that a secondary taxpayer’s information return is protected by Internal Revenue Code Section 6103 and therefore the IRS cannot import their information to the primary taxpayer’s account. As a result, there was too much complexity involved in implementing this for the 2025 Filing Season.
- **Corrected information returns.** Direct File does not import corrected information returns, *e.g.*, Forms W-2. While not common, we found examples where the IRS had corrected Form W-2 information on file at the time taxpayers submitted their tax return using Direct File. By not including the corrected Form W-2, taxpayers could potentially file an inaccurate tax return, *i.e.*, one that does not report all federal wages or withholdings. This could create a burden for the taxpayer by having to file an amended tax return and result in an inefficient use of IRS resources to manually process that tax return.
- **Additional information returns.** Direct File does not import, or provide a presence indicator, for all available information returns. During Calendar Year 2025, the IRS added numerous information returns to the Individual Online Account. Taxpayers with an online

account could view six additional information returns that Direct File does not import.<sup>7</sup> Importing these information returns or providing an indicator to notify Direct File users of their presence could increase the accuracy of Direct File tax returns. It could also result in potential cost savings because the IRS would need fewer resources to address post-filing compliance. For example, there could be fewer discrepancies identified by the Automated Underreporter Program because the taxpayer was alerted to an information return in their Individual Online Account. However, many of these forms are often not required to be filed with the IRS until after most taxpayers begin filing their tax return. To fully realize this feature, the IRS would need to work with Congress to adjust the due dates for submitting various information returns.

The IRS should consider the benefit to taxpayers of importing information returns, including the scenarios noted above, as it evaluates how to strengthen the existing Free File program.

### **Costs to Operate Direct File Were Significantly Less Than Estimated**

The IRS estimated Direct File costs of \$61.2 million for Fiscal Year (FY) 2025 but spent \$16 million. Actual costs were less than the estimate because:

- The IRS overestimated the number of Direct File users and IRS assistors needed to support them.
- The IRS did not use some of their engineering and design contracts. For example, the IRS expected it would need \$30 million for engineering and design contracts (see categories of information technology non-labor and other labor). However, Direct File management stated that this cost would not be realized since Direct File was told to halt development in mid-March 2025.

Figure 5 shows the IRS's FY 2025 cost estimates and its actual disbursements.

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<sup>7</sup> These six forms include Form 1099-NEC, *Nonemployee Compensation*; Form 1099-DIV, *Dividends and Distributions*; Form 1099-SA, *Distributions from an HSA, Archer MSA or Medicare Advantage MSA*; Form W-2 G, *Certain Gambling Winnings*; Form 1099-MISC, *Miscellaneous Information*; and Form 1099-R, *Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*

**Figure 5: Direct File’s Reported Disbursements Were Less Than Estimates**

	Estimate	Disbursements	Difference
<b>Customer Service</b>	<b>\$15.1M</b>	<b>\$3.5M</b>	<b>\$11.6M</b>
Labor	\$9.9M	\$3.5M	\$6.4M
Corporate Costs <sup>8</sup>	\$5.2M	\$0.0M	\$5.2M
<b>Technology and Product</b>	<b>\$40.4M</b>	<b>\$12.7M</b>	<b>\$27.7M</b>
Information Technology Labor	\$9.9M	\$3.8M	\$6.1M
Information Technology Non-Labor	\$23.0M	\$4.6M	\$18.4M
Other Labor	\$6.8M	\$4.3M	\$2.5M
Corporate Costs	\$0.7M	\$0.0M	\$0.7M
<b>Authentication/Credential Service Provider Costs</b>	<b>\$5.7M</b>	<b>\$0.0M</b>	<b>\$5.7M</b>
<b>Totals</b>	<b>\$61.2M</b>	<b>\$16.2M</b>	<b>\$45.0M</b>

Source: IRS Chief Financial Officer data as of May 31, 2025. M = millions.

### Certain expenses continued to be excluded from Direct File’s reported costs

We previously reported that the IRS’s Direct File costs for FYs 2023 and 2024 did not include an estimated \$8.8 million in costs incurred by the government.<sup>9</sup> For example, Direct File did not include costs for employees detailed to the IRS by another federal agency to help develop and pilot Direct File, costs for other IRS functions’ employees who supported the program, and authentication costs. The costs of detailed employees and other IRS employees are largely unknown since the IRS did not generally track the time associated with these employees, as we previously recommended. As a result, the IRS’s reported costs for FY 2025 continue to exclude the costs from all support functions.

According to the IRS, Direct File’s costs depend on the number of users. However, management did not report the cost for taxpayers to authenticate to use the Direct File system. To create a Direct File account, users had to authenticate through a Credential Service Provider if they had not previously authenticated to access another IRS system. Management stated that they are unable to determine how Direct File users first authenticated themselves *i.e.*, did they authenticate using Direct File or another IRS system. If all new Direct File users first authenticated using Direct File, we estimate that the IRS would have spent an estimated \$2.5 million on Direct File.<sup>10</sup>

<sup>8</sup> The estimated corporate costs includes support functions, *e.g.*, communications and Office of Chief Counsel services. However, there are no cost disbursements because the IRS does not track these costs specifically to a program, *i.e.*, Direct File.

<sup>9</sup> TIGTA, Report No. 2025-408-015, *Inflation Reduction Act: Results of the Direct File Pilot*, p. 6 (March 2025).

<sup>10</sup> According to the IRS, the average costs for a new Credential Service Provider account is \$3.64 and a returning user is \$1.35. Our analysis of Direct File users during the 2025 Filing Season found that 88 percent were new users and 12 percent were returning users. Therefore, based upon the 751,000 Direct File users, we estimate that the actual unreported costs were \$2.5 million.

## Management Improved Direct File Customer Support

The IRS received more than 47,000 live chats from taxpayers during the 2025 Filing Season with questions about Direct File. Nearly all these chats (96 percent) were answered within two minutes and the duration of the average chat time improved by one minute compared to the previous year. General questions about Direct File, eligibility questions, and other miscellaneous questions remained the top three reasons for a chat.

Figure 6 compares Direct File live chat statistics from the 2024 and 2025 Filing Seasons.

**Figure 6: Average Chat Time Improved Despite More Chats**

	2024 Filing Season	2025 Filing Season
Live Chats	38,506	47,499
Abandoned Chats	1,418	1,802
% Abandoned	4%	4%
Answered Chats	37,088	45,697
% Answered (Total)	96%	96%
% Answered (2 Minutes)	94%	96%
Average Chat Time	9 minutes	8 minutes

Source: Chat Volume by Queue reports as of April 22, 2024, and April 22, 2025.

During the 2025 Filing Season, Direct File management made improvements to Direct File customer support, including implementing our prior recommendations.<sup>11</sup> These improvements allowed the taxpayer’s authentication from the Credential Service Provider to be used for Direct File chats, improved the scheduling and monitoring of assistors to ensure that the efficient use of resources, and improved chat technology to systemically queue up chats for assistors.

Direct File also implemented a chatbot to respond to eligibility questions instead of having an IRS assistor provide a response. According to the IRS, as of April 2025, taxpayers interacted with the chatbot more than 16,000 times and the chatbot resolved 68 percent of the interactions without the need for a live chat. This demonstrates the effectiveness of the chatbot feature to resolve taxpayer questions and free up IRS assistors to respond to other, more complicated

<sup>11</sup> TIGTA, Report No. 2025-408-015, *Inflation Reduction Act: Results of the Direct File Pilot*, p. 15 (March 2025).

questions. We have an ongoing review of IRS's use of chatbots to improve customer service more broadly.

## Previous TIGTA Findings Could Help Inform Future Efforts to Improve the Existing Free File Program

As previously mentioned, the Department of the Treasury's report recommends that the IRS refocus efforts on modernizing, promoting, and strengthening existing free filing programs, particularly Free File. Previous reports we issued about Free File may help inform this effort by increasing awareness of key issues that limit Free File's reach and data security. We previously reported that:

- **Most taxpayers that are eligible for Free File do not use it.** For Tax Year 2024, the Department of the Treasury estimates that 2.8 percent of eligible tax units filed tax returns through Free File as of August 2025. We previously surveyed taxpayers that were eligible for Free File but instead paid to use a Free File member's commercial software.<sup>12</sup> We found that many taxpayers were unaware of the option or were unsure how to access it to obtain a guaranteed free filing. In addition, the process taxpayers must follow to participate in Free File was obscure and complex. Adding to the confusion was that some Free File members hid their Free File web page from internet search engines.
- **Improved oversight of Free File can help ensure that tax return data are protected from authorized disclosure.** We also previously reported that the IRS does not have sufficient oversight of Free File members to ensure that they are meeting all requirements to protect tax return data from unauthorized disclosure.<sup>13</sup> Several companies were sanctioned by the Federal Trade Commission for an unauthorized disclosure of taxpayer information while participating in the IRS Free File program. In addition, the IRS's oversight actions relating to privacy and security are limited. In response to our recommendation, the IRS committed to reviewing participating partners' privacy disclosures each filing season to determine if those disclosures comply with what is authorized by the Internal Revenue Code.

As the IRS looks for opportunities to strengthen and expand existing free filing programs, it should remain mindful of prior findings and incorporate lessons learned from Direct File to strengthen oversight and mitigate previously identified risks.

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<sup>12</sup> TIGTA, Report No. 2020-40-009, *Complexity and Insufficient Oversight of the Free File Program Result in Low Taxpayer Participation* (February 2020).

<sup>13</sup> TIGTA, Report No. 2024-400-067, *Improvements Are Needed to Ensure Oversight of and Increase Participation in the Free File Program* (September 2024).

## Appendix I

### **Detailed Objective, Scope, and Methodology**

The overall objective of this audit was to assess the IRS's expansion of Direct File for the 2025 Filing Season. To accomplish our objective, we:

- Monitored taxpayers' usage of Direct File for the 2025 Filing Season and compared to the 2024 Filing Season. We also determined the number of tax returns filed that were rejected or accepted.
- Monitored rejection reasons and determined whether improvements were made to reduce rejections during the 2025 Filing Season and whether additional actions could be taken to further reduce rejections. We also completed data analysis to determine the accuracy of the AGI import feature. We reviewed a judgmental sample of 20 of 2,156 tax returns we were unable to systemically analyze due to IRS audit trail database issues.<sup>1</sup> These e-filed tax returns were filed through Direct File during the 2025 Filing Season using the AGI import feature. We limited our sample to 20 tax returns based upon available IRS resources.
- Monitored Direct File's new importing of information returns, including determining whether additional importing would be helpful, and completed data analysis to determine whether Forms W-2 information was importing accurately.
- Compared Direct File's cost estimates for FY 2025 to actual costs reported. We also determined whether prior recommendations to include all costs were implemented or whether costs were still missing from what the IRS reported.
- Followed up on prior audit recommendations to improve customer service to determine if they were implemented. We also monitored customer support usage.

### **Performance of This Review**

This review was performed with information obtained from the Office of the Chief, Direct File, located in Washington, D.C., and the Cybersecurity function located in Chamblee, Georgia, during the period November 2024 through June 2025. 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 that we pulled from the following sources:

- Modernized Tax Return Database.
- Individual Return Transaction File.

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<sup>1</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

- Information Return Master File.
- Direct File and Online Account audit trail logs.

We evaluated the data by (1) performing electronic testing of required data elements, and/or (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.

We also performed applicable tests to assess the accuracy and completeness of the following data that was provided by the IRS:

- Estimates of the number of taxpayers potentially eligible for Direct File during the 2024 and 2025 Filing Seasons.
- Number of taxpayers who created/signed-in to Direct File during the 2024 and 2025 Filing Seasons.
- FY 2025 Direct File cost estimates and actual costs through April 30, 2025.
- Direct File live chat statistics for the 2024 and 2025 Filing Seasons.
- Direct File chat bot statistics for the 2025 Filing Season.

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 scope of Direct File for the 2025 Filing Season and the IRS's plans for implementing and monitoring the 2025 Filing Season. We evaluated these controls by reviewing the planning documents for reasonableness and discussing with IRS management, as applicable. We also reviewed returns filed through Direct File.

Additionally, we determined that the following internal controls were relevant to our audit objective: IRS's product development guidance and cloud computing security policies. We evaluated these controls by reviewing product development artifacts and continuous monitoring reports.

## 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:**

- Taxpayers Impacted – Potential; 2,037 taxpayers whose Direct File tax return rejected based upon errors that it could alert the taxpayer to fix (see Recommendation 1).

#### **Methodology Used to Measure the Reported Benefit:**

We identified tax returns that were rejected with errors that we believed Direct File could alert the taxpayer to fix based upon information readily available. In January 2025, we alerted Direct File management of our concerns and recommended that Direct File immediately implement programming to prevent this from happening on other tax returns. At the end of the filing season, we analyzed Modernized Tax Return Database data to identify all Direct File tax returns that were rejected and the business rules used. We reviewed all of the identified business rule conditions to assess whether the condition was something that Direct File could have alerted the taxpayer to fix before the return was submitted for processing. We identified 41 business rules. We determined that 2,037 taxpayers filed 3,144 tax returns that were rejected for these 41 business rules.

Appendix III

**Management's Response to the Draft Report**



CHIEF INFORMATION OFFICER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

February 3, 2026

MEMORANDUM FOR DIANA M. TENGESDAL  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kaschit Pandya                      Kaschit D. Pandya  
Chief Information Officer              Pandya

Digitally signed by Kaschit D. Pandya  
Date: 2026.02.03 10:14:16 -05'00'

SUBJECT: Draft Audit Report – Direct File Activity for the 2025 Filing Season (Audit #2025408009)

Thank you for the opportunity to review and provide comments on the draft audit report.

The IRS appreciates the Treasury Inspector General for Tax Administration's (TIGTA's) analysis and collaborative engagement regarding the Direct File activity for the 2025 Filing Season. The IRS's corrective action plan is attached.

If you have any questions, please contact me at (202) 317-5000, or a member of your staff may contact Jim Keith, Coordinating Director, Taxpayer Services and Online Accounts, at (240) 613-1307.

Attachment

Attachment

**Audit #2025408009**, *Direct File Activity for the 2025 Filing Season*

***Recommendation***

**RECOMMENDATION 1 (Email Alert):**

In January 2025, we alerted the Chief, Direct File, to our concern that taxpayers were allowed to submit incorrect tax returns through Direct File. We recommended that Direct File immediately implement programming to ensure that it did not submit tax returns with errors that it could alert the taxpayer to fix, based upon information readily available.

**CORRECTIVE ACTION:**

We agree in part with this recommendation. As of April 20, 2025, Direct File has corrected the programming for seven of the cited business rules. A decision has been reached that Direct File will not be operational for a taxpayer to submit their 2025 tax return.

**IMPLEMENTATION DATE:**

Implemented

**RESPONSIBLE OFFICIAL:**

Coordinating Director, Taxpayer Services and Online Accounts

**Appendix IV****Glossary of Terms**

<b>Term</b>	<b>Definition</b>
Automated Underreporter Program	Matches items reported on an individual's income tax return to information supplied to the IRS from outside sources, <i>e.g.</i> , employers, banks, credit unions, to determine if the taxpayer's tax return reflected the correct amounts, thereby ensuring that the tax amount is correct.
Business Rule	Business rules are used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.
Calendar Year	Twelve consecutive months ending December 31.
Credential Service Provider	A trusted entity that issues or registers subscriber authenticators and issues electronic credentials to subscribers. A Credential Service Provider 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.
Filing Season	The period from January 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 October 1 and ends on September 30.
Free File Program	A free Federal tax preparation and electronic 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.
Governance Board	Exists to ensure that the program goals are achieved and that the program and component projects are delivered within their defined scope, schedule, and budget. In addition, the governance board approves risk response plans and milestone exits and resolves escalated issues.
Individual Online Account	An online system that allows taxpayers to securely access their individual account information through IRS.gov/account.
Individual Return Transaction File	A database maintained by the IRS that contains information on the individual tax returns it receives.
Information Return Documents	Information return documents include Form 1099 series and Form W-2 documents.
Internal Revenue Code	The body of law that codifies all Federal tax laws. These laws constitute Title 26 of the United States Code, which is a consolidation and codification by subject matter of the general and permanent laws of the United States.

## Direct File Activity for the 2025 Filing Season

<b>Term</b>	<b>Definition</b>
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.
Personal Identification Number	A five-digit number the taxpayer chooses to enter as their electronic signature.
Tax Unit	A tax unit is the individual or group of people who filed an income tax return with the IRS together. It is comprised of the primary filer, the secondary filer (if Married Filing Jointly), and dependents claimed by the filer(s).

## Appendix V

### Abbreviations

AGI	Adjusted Gross Income
e-file	Electronic Filing
FY	Fiscal Year
IRS	Internal Revenue Service
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  
[TIGTACommunications@tigta.treas.gov](mailto:TIGTACommunications@tigta.treas.gov).**

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