

IRS to offer free tax filing in competition against much-criticized TurboTax



Enlarge / Advocates gather on April 17, 2023, in Washington, DC, to call out tax prep firms like TurboTax-maker Intuit and H&R Block, and to support the Internal Revenue Service's exploration of free tax filing.

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The Internal Revenue Service yesterday announced details for a pilot of its free filing program for the 2024 tax season. People in 13 states "may be eligible to participate in the 2024 Direct File pilot, a new service that will provide

taxpayers with the choice to electronically file their federal tax return directly with the IRS for free,” the IRS said.

The pilot “will allow the IRS to identify issues and make changes prior to any potential large-scale launch in the future,” the agency said. It will assess customer support and technology needs, and help “evaluate the costs, benefits and operational challenges associated with providing a voluntary Direct File option to taxpayers.” That includes testing fraud detection and integration with state systems.

Pilot eligibility is for those with “relatively simple returns” because it “is limited by the types of income, tax credits and deductions that the product can initially support.” The IRS said it invited all 50 states, but only some are participating at first:

Arizona, California, Massachusetts and New York have decided to work with the IRS to integrate their state taxes into the Direct File pilot for filing season 2024. Taxpayers in nine other states without an income tax—Alaska, Florida, New Hampshire, Nevada, South Dakota, Tennessee, Texas, Washington and Wyoming—may also be eligible to participate in the pilot. Washington has also chosen to join the integration effort for the state’s application of the Working Families Tax Credit. All states were invited to join the pilot, but not all states were in a position to join the pilot at this time.

To ensure that the program works effectively, Direct File will initially be available only “to a small group of eligible taxpayers in filing season 2024. As the filing season progresses, more and more eligible taxpayers will be able to access the service to file their 2023 tax returns,” the IRS said.

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The pilot will cover W-2 wage income, Social Security and railroad retirement income, unemployment compensation,

interest of \$1,500 or less, the Earned Income Tax Credit, the Child Tax Credit, and the Credit for Other Dependents. It will also cover the standard deduction and deductions for student loan interest and educator expenses.

The free Direct File pilot will be available in English and Spanish as “a mobile-friendly, interview-based service that will work as well on a mobile phone as it does on a laptop, tablet or desktop computer.”

TurboTax under fire for “free” promises

The IRS pilot is several years in the making. The agency dropped its longstanding promise not to compete against TurboTax-maker Intuit and other private companies in December 2019.

Under the previous Free File deal, the industry agreed to offer free tax services to people with low and moderate incomes. In exchange, the IRS promised not to compete against the private companies. Intuit left the Free File consortium in July 2021, while H&R Block left in 2020.

The Inflation Reduction Act of 2022 gave the IRS \$15 million to study the cost of “developing and running a free direct efile tax return system.” The IRS delivered its report to Congress in May 2023 and started working on the pilot project for the 2024 tax filing season.

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