

Issue Brief

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Independent Study Finds that Free File Is an Effective Public-Private Partnership

A new, independent assessment of a longstanding public-private partnership to provide free federal preparation for millions of taxpayers finds that the program is working well and suggests reforms to further improve the program and expand its reach.

The Free File program is the result of an agreement between the Internal Revenue Service (IRS) and the Free File Alliance (FFA), a nonprofit [coalition of tax software companies](#). The program offers free online federal tax preparation and electronic filing for taxpayers with earnings of \$66,000 or less. Fifty-three million free returns have been filed through the program since its establishment in 2002. This has resulted in an estimated savings to taxpayers of \$1.6 billion, a figure based on a conservative cost estimate of \$30 per form (by comparison, the IRS estimated that the 1040EZ form, a simplified income tax form which was eliminated for the 2019 filing season, had imposed an [out-of-pocket cost of \\$40 per filer](#)). There are also administrative savings to the IRS resulting from the efficiency of processing fewer paper returns.

Key Facts:



The Free File program, a public-private partnership providing free online tax preparation and filing, has saved taxpayers at least \$1.6 billion since 2002 and also reduced administrative costs of the IRS.



An independent review of Free File finds that it provides substantial benefits and suggests ways to improve its ease of use and outreach to additional taxpayers who would stand to benefit from the program.



Sensible steps can be taken to improve and clarify the program's rules which are regularly renewed by the IRS and the partner organizations. This would be preferable to creating a government-run program with the IRS serving as both tax preparer and tax collector.

The program is operated under a Memorandum of Understanding (MOU) negotiated between the IRS and the FFA laying out its objectives and guiding rules for its implementation and administration. The MOU is frequently revised to improve the program as technology changes and the tax code is revised. The most recent agreement strengthens consumer protections by requiring members to remove any links on their Free File landing pages that would take taxpayers to non-Free File programs. It also improves outreach to previous Free File users encouraging them to use the free service again.

Upon the announcement of the most recent agreement between the partners, IRS Commissioner Chuck Rettig [commented](#), “The IRS is committed to improving the Free File program and continuing to make this a great option for taxpayers to consider when they are preparing their taxes.”

Earlier this year, Congress was working on the Taxpayer First Act to provide much-needed reforms to the IRS and to bolster taxpayer rights. As passed by the House, it also included language that would prevent the IRS from creating its own tax preparation software. This was added in order to head off attempts by some to turn the IRS into tax preparer, in addition to its role as tax collector. This would set up obvious conflicts of interest, with taxpayers suffering higher burdens as a result.

But controversy over this provision and a series of media articles that raised questions about the effectiveness of Free File temporarily stalled the legislation. Eventually, the Taxpayer First Act was enacted without the reformed Free File language, and the IRS contracted the MITRE Corporation to conduct an [independent assessment](#) of the program and to make recommendations for improving it.

MITRE’s report found that the public-private program is operating as intended, that it saves the IRS money, and that these benefits “appear to be substantial.” The primary complaint about Free File is that the participation rate is low. In the 2018 filing season, 104 million taxpayers met the income eligibility requirements to use the program but only 3 million filers did so. MITRE’s report identifies why this is so, thus pointing for ways for the IRS to better identify taxpayers who would stand to benefit from the program:

- Half of those who were eligible used a paid-preparer to file their taxes;
- Nearly 10 million filers self-prepared and received refund anticipation checks or loans;
- Nearly 9 million taxpayers filed on paper;
- Three million filers used the IRS’s free Volunteer Income Tax Assistance service; and,
- Eighteen million already receive free filing through commercial services.

Another concern raised about Free File was that the IRS is not supervising the program properly. MITRE found that “the IRS’s current compliance processes [are] adequate and effective to support the integrity of the program.” They did, however, make suggestions for the IRS to improve metrics it uses to track Free File’s objectives, to bolster the program’s ease of use, and to take steps to increase public awareness of its availability.

Another criticism leveled by opponents of Free File is that participating companies deliberately excluded the IRS Free File landing page from organic search results conducted by their customers. When MITRE questioned the five of 12 firms that did so in some fashion, its report noted that “most members contended this keeps them in compliance with the MOU (language in the MOU preamble) and in alignment with IRS marketing that states Free File is ‘accessible only through IRS.gov.’” Sensibly, the report concluded that the ball is in the IRS’s court, for the tax agency “to take a position on the practice and incorporate new language into the MOU.”

Unfortunately, MITRE’s 134-page report does not seem to satisfy detractors such as Senator (and presidential candidate) Elizabeth Warren, who has made no secret of her desire to end Free File and get the government into the business of tax return preparation with a “Return Free” system, a scheme that NTU and others have [long warned](#) to be costly, impractical, and unbalanced.

Given this context, it is important to remember that the Free File program was not created on a whim. It was a specific response to the tax agency’s own shortcomings. As the IRS National Taxpayer Advocate—which has not spared criticism of specific aspects of Free File—noted in its annual report last year of problems and challenges in the tax system:

Initially, the [George W. Bush] Administration wanted the IRS to develop its own digital Form 1040, U.S. Individual Income Tax Return, accessed through WhiteHouse.gov, but IRS leadership determined the IRS did not have the capacity or resources to develop that product. Instead, the IRS partnered with a consortium of private tax preparation software companies, then known as the Free File Alliance, after the Office of Chief Counsel determined this consortium did not violate anti-trust provisions.

Here again, as the Taxpayer Advocate pointed out, the key to addressing any issues with Free File is for the IRS to provide greater clarity and to update the MOU—ironically, the very iterative and prudent process which Warren not-so-subtly subverts to argue for a government-run Return Free system. The bottom line is that the current Free File program is providing significant benefits to taxpayers and the IRS. Moving forward, sensible steps can be taken to improve outreach to the target audience for the service and to continue the evolution of the MOU with the goal of improving the overall program.

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