

MAY 2024

IRS Direct File Will Save Kentucky Taxpayers Money, Time, and Headache

A small investment will make state and federal income tax filing free and easy, putting up to \$260 million back into the pockets of low- and middle-income Kentucky taxpayers

*For the first time in American history, the IRS has a free, simplified, public online tax filing tool: Direct File. In 2024, the pilot launched in 12 states and covered a small share of the taxpayers that will ultimately benefit. A free and simple tool with the benefit of IRS data, Direct File has the potential to make tax filing virtually automatic. As a public option for tax filing, Direct File can make the tax preparation market more equitable, inclusive, and competitive. **Kentucky should offer taxpayers free and easy filing by integrating its current state filing tool with IRS Direct File.***

IRS DIRECT FILE WILL REVOLUTIONIZE HOW AMERICANS FILE TAXES

Tax filing in America is expensive and complicated, locking many low-income people out of valuable tax credits. More than [one in five eligible families don't receive the federal EITC](#), and the gap is likely larger in most states. Those who do file pay for the privilege. It costs Americans an average of [\\$150 and 9 hours](#) to file taxes each year. The current system isn't built to meet the needs of taxpayers. Americans shouldn't have to pay to meet their legal obligation to file taxes – or to claim credits they qualify for.

Until now, the main option has been the 'Free File Alliance (FFA),' a concession made by the federal government in response to the paid tax prep industry's lobbying efforts against a government- developed tool. The FFA requires tax prep companies to offer free tax filing to low- and middle-income taxpayers, but among

other shortcomings, it doesn't always require free state filing. Not surprisingly, this arrangement has failed because the paid tax prep industry's first priority is profiting off the backs of taxpayers. Paid tax prep companies did [the bare minimum required](#) – and even still, [underhandedly steered taxpayers away from the free option](#). [Fewer than 3% of households eligible for the FFA actually get free tax filing](#) – while more than 30 million eligible households end up using the company's paid version.

Free tax filing through the Volunteer Income Tax Assistance (VITA) program is a critical resource for the lowest-income taxpayers. But it's only able to serve a very small number of taxpayers – as low as 2% of the population who claim low-income tax credits in some states. With limited capacity, we need VITA to continue concentrating on households needing significant help filing their taxes.

Free, public, simple filing through Direct File is the right solution for all kinds of taxpayers.

The IRS Direct File program is an entirely free, easy, secure, interview-style tool that filers can use on a computer, tablet, or smartphone. It saves time, eliminates filing fees, and takes the stress out of tax filing. This idea resonates with taxpayers. Even before the Direct File tool was launched, the idea was supported by [88% of voters](#) across the country, including majority support across party lines. **The results of Direct File's first year were overwhelmingly positive:**

Federal tool. [IRS Direct File user data](#) shows:

- 90% of users rated their experience as *above average* or *excellent*
- 86% said it increased their trust in the IRS

State integrations. [Code for America](#), which built the state filing tools and integrations in New York and Arizona, found:

- 96% of users were *satisfied* or *very satisfied* with the state tool
- 90% of those who filed with IRS Direct File went on to finish their state return
- 88% completed their state return within 15 minutes.

An ESP [survey of Direct File users](#) across all 12 pilot states found: 74% preferred Direct File to other filing methods, including 79% of users age 45+, and 80% of Trump voters; and 60% said it took less than an hour to file their federal and state taxes.

Making tax filing easy and free will help Kentuckians claim millions of dollars in untapped tax credits. Every year in Kentucky, hundreds of millions of dollars in federal tax credits like the EITC and CTC are left on the table, disproportionately by the lowest-income households and Black, Latinx, and Indigenous households. Those dollars could be helping families make ends meet and bringing federal dollars into the state to stimulate local

economies. By making tax filing free, easy, and ultimately automatic through Direct File, [Kentucky families could recoup \\$111 million per year](#) in currently unclaimed federal tax credits.

Direct File is a smart investment with an enormous return on investment. When Direct File is at scale in a few years, it will be able to deliver \$260 million in total value to Kentucky taxpayers, between filing fees (\$108M), time cost of filing (\$41M), and additional federal EITC and Child Tax Credits claimed (\$111M). That's \$260 million in local Kentucky economies that would have otherwise been siphoned off by tax prep companies or gone unclaimed from the federal government.

Direct File delivers [\\$106 in benefits](#) to American taxpayers for every dollar invested. The ROI for state governments is unbeatable given that the cost of Direct File has already been borne almost entirely by the IRS. And by creating an additional option for tax filing, it creates a more competitive and equitable market, which has been dominated by a paid tax preparation industry with a long history of [targeting Black and working-class families](#).

MULTIPLE OPTIONS EXIST TO INTEGRATE STATE FILING AND DIRECT FILE

Building an integrated state filing tool can be done in a matter of months with minimal and absorbable costs, often within current budgets. States that already have a tool simply have to build the integration. States without a tool can choose to partner with a civic tech organization like Code for America, which built the very successful New York and Arizona tools with no additional state funding; build their own tool, like California's CalFile; or contract with a software company like FAST Enterprises, which has built state filing tools (GenTax) for dozens of states and built the integration in Massachusetts this year.