

The Tax Filing Simplification Act of 2019

Senators Elizabeth Warren and Jeanne Shaheen and Congressman Brad Sherman

The Problem: This tax season, American taxpayers will spend an average of 11 hours preparing their tax returns and will pay about \$200 for tax preparation services – a cost equal to almost 10 percent of the average federal tax refund.

In 1998, a Republican Congress passed – and President Clinton signed – an IRS reform bill mandating that the IRS develop procedures to implement a “return-free” tax system to dramatically simplify the filing process for individuals with simple tax situations. Yet these procedures remain undeveloped nearly a decade after the law’s 2008 implementation deadline. Instead, the IRS has turned over control of the tax filing process to private companies.

The IRS’s Free File program – a partnership between the IRS and private tax software companies – claims to provide free tax preparation services to 70 percent of taxpayers. In reality, only 3 percent of eligible taxpayers use Free File. Each software company is allowed to set up its own eligibility criteria, creating a “maze of offerings” that confuses taxpayers into purchasing unnecessary products. Taxpayers wishing to e-file their taxes have no choice but to share sensitive financial information with a private third party – even though a recent audit found that nearly half of Free File companies fail to adequately protect taxpayer data from cybercriminals.

The National Taxpayer Advocate has consistently called for dismantling Free File. Instead, the IRS has repeatedly signed binding Free File agreements with the tax preparation industry, pledging that the federal government will “not enter the tax preparation software and e-filing services marketplace.” These agreements block the IRS from offering a free portal that would allow taxpayers to choose to file directly with the federal government.

The Tax Filing Simplification Act of 2019

The Tax Filing Simplification Act of 2019 makes several commonsense changes to simplify the tax filing process for millions of American taxpayers and lower their costs. The Act:

- Prohibits the IRS from entering into agreements that restrict its ability to provide free online tax preparation or filing services.
- Directs the IRS to develop a free, online tax preparation and filing service that would allow all taxpayers to prepare and file their taxes directly with the federal government instead of being forced to share private information with third parties.
- Enhances taxpayer data access by allowing all taxpayers to download third-party-provided tax information that the IRS already has into a software program of their choice.
- Allows eligible taxpayers with simple tax situations to choose a new return-free option, which provides a pre-prepared tax return with income tax liability or refund amount already calculated.
- Mandates that these data and filing options be made available through a secure online function and requires any participating individual to verify his or her identity before accessing tax data.
- Reduces tax fraud by getting third-party income information to the IRS earlier in the tax season, allowing the agency to cross-check this information before issuing refunds.
- This approach to tax filing has been praised in the media and endorsed by tax scholars and a bipartisan set of policymakers.