April 1, 2024 / Making taxes less taxing

[HALF SECOND OF SILENCE]

[BILLBOARD]

SCORING IN Joseph Haydn, Symphony No. 92 in G major “Oxford”

SEAN RAMESWARAM (host): It was 1789 when American statesman Benjamin Franklin wrote in a letter to French physicist, Jean-Baptiste Le Roy:

*MICHAEL CHAMBERLIN (doctor of music, husband of Today, Explained producer Victoria): Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes.*

SEAN: Two-hundred and thirty five years later, we’ve still got that Constitution and we’ve still got taxes. And we’ve got a forthcoming limited series on Apple TV+ about Benjamin Franklin (called Franklin) in which he’ll be played by legendary screen actor Michael Douglas. But that is very much beside the point.

The point is taxes! You hate them. You can’t avoid them. But Uncle Sam has a new tool to make doing them easier this year. Unfortunately not everyone’s excited about it.

All the details forthcoming on Today, Explained.

[THEME]

SEAN: Dylan Matthews, senior correspondent, Vox, also with the Future Perfect outfit, this is not people's favorite time of year – tax time – but I hear that filing your taxes might actually be easier this year.

DYLAN: Yes, so if you are in one of 12 pilot states, you have access to a new program called IRS Direct File.

*<CLIP> IRS COMMISSIONER DANNY WERFEL: With Direct File, you have a direct pipeline to the IRS for your tax return. There are no extra fees. You can't beat the price. It's free.*

DYLAN: It is meant to be useful. It is not meant to be sexy or have a sexy name.

*WERFEL: For the first time ever, 19 million taxpayers in 12 states can now file their tax returns online, and for free, directly to the IRS.*

DYLAN: Right now, well over 90% of Americans who file their taxes do so through either a paid preparer who's like a person or more commonly, through software sold by places like TurboTax and H&R Block.

*<CLIP> TURBOTAX COMMERCIAL: <<singing>> We make it easy for you // We can do your taxes virtually… [audio disintegrates]*

DYLAN: And so as part of the Inflation Reduction Act, which passed in 2022, one thing Congress did was ask the IRS to look into if it could make software so that people can can file their taxes directly without using a private company. And for the last year or so, the IRS has been working on an early version of what that would look like, and they've been rolling it out this spring, on a test basis, to see how it works.

SEAN: Have you seen this software? Does it work?

DYLAN: So I, in, in January got a very early look at this with a few other reporters. We went into the Treasury Department and some of the software engineers who built it showed us around. It looks pretty good. It looks a little like you would, you would expect it to look. It looks a little like when you use TurboTax in a browser. It's mostly a bunch of questions, it's asking you things about your life:

*<TAPE> AMANDA LEWELLYN (producer): Hmmm… let’s see here…*

*Marital status? … single… Kids?… NOPE…*

*Types of income…. Ooof where do I start….*

DYLAN: But it does it in a very sort of clean, professional looking way. And it's also meant to look a little more polished and professional than than something like TurboTax. TurboTax will have like a counter telling you how big your refund is getting. And they very consciously didn't want to sort of gamify, Direct File that way. And so it doesn't tell you that until, till the end. So it's not like getting your hopes up and encouraging you to try to sort of maybe cut corners to get a bigger refund.

SEAN: Go figure. So they took the fun out of it.

DYLAN: They took some of the fun out of taxes. I don't know if taxes. …I love taxes, but I don't know if the taxes will ever be truly fun for most people …

*<CLIP> SCHITTS CREEK:*

*JOHNNY ROSE: Do you even know what a write off is?*

*DAVID: Yea.. it’s when you buy something for your business and the government pays you back for it*

*JOHNNY: Oh, and who pays for it?*

*DAVID: Nobody, you write it off.*

*JOHNNY: WHO WRITES IT OFF*

*DAVID: I don’t know.. The gov…the write off people! Why are we having this conversation?*

DYLAN: … It seems like software that makes it fairly simple for people who have simple tax situations.

SEAN: Now, I think people in our listening audience might be old enough to remember the Obamacare rollout. The ACA rollout, it was famously disastrous. Were there shortcomings in this software, or did it all seem to pretty much function?

DYLAN: Yeah. So, so healthcare.gov, which was the website for, for signing up for the Obamacare exchanges, is this famous disaster.

SCORING IN – Science Class VHS 4, BMC

*<CLIP> REP. ANNA ESHOO, R- CA: Amazon and ebay don’t crash the week before Christmas, and ProFlowers doesn't crash on Valentines Day…*

*<CLIP> FORMER PRESIDENT BARACK OBAMA: There's no sugar coating it. The website has been too slow, people have been getting stuck in the application process…*

DYLAN: The first day it was available. I think six people in the entire country successfully signed up for health care.

*<CLIP> PRES.OBAMA: Nobody's madder than me about the fact that the website isn't working as well as it should, which means it's going to get fixed.*

DYLAN: And so that's become sort of a byword for what not to do. And I think their understanding of what went wrong there was they rolled it out to the whole country all at once. Instead of testing it with smaller groups. They tried to do everything all at once. They didn't try to make sort of smaller versions with fewer features that could do a couple of things well, as opposed to trying to do everything poorly.

*<CLIP> IRS COMMISSIONER DANNY WERFEL: We’ve been fortunate that we haven’t thus far seen any major issues. The Direct File service is working very effectively and during the testing phase like all good product development, we would stand down the product for a while to do some more testing and then put it back up online. Now we are ready to keep it going 24/7 during the filing season.*

DYLAN: Direct File is developed with a philosophy meant to avoid those problems. They focus mainly on states that are really, really big, like California, New York, or that don't have a state income tax. And it's also, a very cut down feature set. It's meant for people who don't itemize their deductions, who just take the standard deduction. It's meant for people who have, wage income, maybe a little bit of interest income, but not people who are self-employed, who are getting a lot of sort of contracting work, who have more complex tax situations. So they're trying to do sort of a slimmed down version for a few situations in a few states and trying to get that right first.

SCORING OUT

SEAN: Do we have any idea how many Americans they'd like to see using this within the next several years?

DYLAN: So for this first year, it's in 12 states. They're populous states, but they still represent, like, at most half of the overall U.S. population. The IRS told me that about a third of people in those states have tax situations that are simple enough that this can handle it. So their sort of maximum audience this year is quite small. I think they're hoping in the future to, to, scale out, to handle more different tax situations to, to roll out in more states. But I think they've been clear that their goal is not to compete per se with something like TurboTax. Um their goal is a little narrower and is just you should not have to go to a private company to file your taxes. And I think realistically, they're going to be people who have complicated enough tax situations that it will be a long time before the software can handle them. Like, if you are a sole proprietor who runs their own business and has a bunch of different payments coming in and a bunch of different expenses, that's just really complicated. And, the … you need software that's almost more accounting software than the tax software to, to handle that. And I don't think that's coming anytime soon.

SEAN: How did other tax services like TurboTax or Cash App, or whatever it might be, become so popular in the first place? Was it the absence of an option like this from the IRS?

DYLAN: So it's hard to, to say what would have happened if there had been an option, because, these competitors worked really hard to make sure there wasn't an option. In the early 2000s at the very beginning of the George W. Bush administration, the IRS announced that they were developing software of their own for, for people to file their taxes online. And H&R Block and TurboTax and other, sort of industry lobbied very hard against that and got them to, to back down and instead support a system where these private companies would, would let a certain segment of people file for free if they're below a certain income threshold.

*<CLIP> TURBOTAX COMMERCIAL:*

*British soldier: Yes, we hear you on the tax there, but what if it was free to file your taxes?*

*American revolutionary: Like free free?*

*British soldier: Yes, yes. You would pay nothing.*

*American revolutionary: Well, all right then. <music>*

DYLAN: And that program kind of became a joke. These companies were having Google hide search results that went to the free version to try to direct customers to pay them more money rather than work on this free program that they promised the federal government they would set up.

SEAN: But that was then and this is now. And now we have Direct File. Well, I guess not all of us have it. When will all of us have it? Will all of us ever have it?

DYLAN: I would guess if there continues to be funding for this program, it would probably reach most of Americans the next few years. And I think the other thing to keep in mind is Republicans have made it very clear that the killing this and rescinding funding for the IRS that was included in the Inflation Reduction Act is a big priority for them.

SCORING IN, Three Forks, BMC

DYLAN: And so if, Donald Trump wins the election in November and Republicans retain control of the House and retake the Senate, I would expect this all to get shut down very quickly.

SCORING BUMP

SEAN: Dylan Matthews. Vox dot com.

Why anyone would ever want to take away our shiny new Direct File, when we’re back on Today, Explained.

[BREAK]

[BUMPER]

*<CLIP> THE BEATLES’ “TAXMAN”*

*GEORGE HARRISON: That’s one for you, nineteen for –*

SEAN: Today, Explained. Our buddy Dylan had to go but we got Richard Rubin here. He reports on U.S. tax policy for the Wall Street Journal. We asked him to help us understand the political threats to Direct File in Warshington, D.C. He said to understand what’s up with the IRS, you gotta understand what’s up with the IRA – Joe Biden’s Inflation Reduction Act.

RICHARD: So the IRA represented a sort of seachange for the IRS, a transformational moment where the agency that had been struggling with flat or declining funding for about a decade, all of a sudden was flush.

*<CLIP> PRESIDENT JOE BIDEN: Today, the American people won. And the special interests lost, finally…*

RICHARD: It had initially, almost $80 billion to try to put in place a big set of changes for the tax collector.

*<CLIP> PRESIDENT JOE BIDEN: And big corporations are finally going to start to pay their fair share. Those that are paying zero dollars in federal income tax will now have to pay a minimum tax.*

RICHARD: And some of that was about taxpayer service. Some of that was about technology. And a big chunk of that was also about enforcement of the tax laws.

SEAN: And tell me what, what was the sort of influx of funding supposed to do, exactly?

RICHARD: So the influx was supposed to let the IRS catch up. So the IRS had been flat funded for a while. And the idea was that the IRS could make some technological advances, could could update its systems, which had been aging and struggling for many years, to kind of fully enter the digital age. And then I think on the enforcement side, the idea was really to go after high income taxpayers and corporations to look for tax avoidance, tax evasion, tax dodging, noncompliance among people who could afford to pay and go devote resources, devote people, hire experts to go get some of that money.

SEAN: How's it going?

RICHARD: The IRS basically has said, look, we're outgunned.

SCORING IN - Gentle Push 4

RICHARD: The IRS is at a disadvantage when it's going up against sophisticated taxpayers who can hire, you know, lawyers and accountants, whatever. And you think of that as weird because maybe the IRS is like very large and very powerful, but, you know, it's spread thin. And so part of what they're trying to do is hire experts, so it's experts in partnership tax law with experts in international transactions, by pharmaceutical companies, its experts in manufacturing processes, rigorous needs, a whole range of subject matter experts. And it takes time to hire them. They bring them on and teach them how to IRS, right? Which, you know, being a, being a knowledgeable expert about partnership tax law or manufacturing, or agriculture or whatever doesn't necessarily make you even if you know the finance of it doesn't make you good at auditing it. And it requires they're taking some of their more senior agents offline to teach those new people how to do it. And then on top of that, these cases go on for for many, many years. So a large corporate taxpayer might file its 2023 return in late 2024. IRS may start an audit sometime in 2026. And so you're talking and these big billion dollar plus cases, a ten year runway before you're really seeing the tangible dollar results. You know couple the biggest cases out there, the IRS is fighting right now. You know, their big fight with Facebook, the big fight with Coca-Cola. Both of those are like 2005 to 2012 time frame of of tax years that they're fighting about:

*<CLIP> BLOOMBERG: This is like the tax bill from hell right, the IRS is saying you owe us 3.3 billion dollars, didn’t pay your taxes, Coke disputes this, they say no way, we’ve been doing this for 30 years, nothing has changed, they plan to appeal, so Coke not expecting to pay this money.*

RICHARD: This, this big dollar enforcement stuff has a long, a long runway.

SCORING OUT

SEAN: Are they going to be given the runway to like, build up to that to that point?

RICHARD: Maybe? So, so far that initial nearly 80 billion Congress has already pulled back about 21 billion of that.

SEAN: So wait, the IRA just happened in recent memory, but Congress is already pulling money away from it?

*<CLIP> FORMER SPEAKER KEVIN MCCARTHY R-CA: Our proposal also repeals Biden’s army of 87,000 IRS agents*.

RICHARD: Yeah. So what happened right after the IRA in August of 2022 was the election of November 2022.

SEAN: Mmmmmmmm!

RICHARD: And in that election, Republicans won control of the House of Representatives, in part on a campaign that said that the IRS was going to be getting too big and too intrusive and that they would pare it back.

*<CLIP> NRCC:*

*<<whispering>> If you pass it, they will come..*

*Narrator: Cindy Axne and Joe Biden are doubling the size of the IRS… just listen..*

*Axne: And we’re investing in the IRS because we don’t have enough IRS auditors…*

*Narrator: Enough for 87,000 new IRS agents and higher taxes on those making less than 75 grand…*

*<<whispering>> If you pass it, they will come… AFTER YOU!*

RICHARD: And so they've had some success in negotiations with President Biden and Democrats in achieving that goal. And what that means for enforcement is if you listen to the IRS, they say, look, we're not going to slow down what we're doing. We're going to keep marching ahead. It just means that without that 21 billion, the money will run out sooner. And Congress will face a decision again about whether to pump more money into the IRS or let that enforcement funding peter out.

SEAN: Why is it that congressional Republicans so desperately want to cut funding from the IRS?

RICHARD: So they see the IRA, the additional funding, particularly for enforcement, as too much too fast for an agency that doesn't have a good track record.

*<CLIP> SENATOR JOHN THUNE, R-SD: We need to put safeguards in place to ensure that the tens of billions of dollars Democrats have funneled to the IRS are being used responsibly and efficiently and that the IRS is not mismanaging its tax collection powers.*

RICHARD: Their view is that the IRS doesn't always respect taxpayers rights, would be too intrusive and too burdensome as it goes about those, those audits. And so their stated concern is that they, you know, they think that these additional audits, this additional scrutiny would provide too much of a burden on compliant taxpayers who just get caught up in the IRS dragnet. And so that's, that's basically why they've pushed to pare back that funding.

SEAN: And is there a truth to that? Is that what happens in, in audits in this country?

RICHARD: Sometimes. Sometimes there are, and it varies by the type of taxpayer, there are what they call ‘no change audits’, where the IRS, you know, puts the patient on the operating table, opens it up, looks and says, ‘Oh, no, actually, like nothing to see here. It's fine.’ And, and those can be useful because it helps the IRS see, you know what things on a return are indicators of no change audits, and so that helps it to decide how to use its audit resources in the future. But those no change audits are burdensome for taxpayers. And so when the CBO and others say that IRS funding for enforcement increases federal revenue, that's totally true. It does. But there's other considerations in federal revenue and burden on taxpayers is one of them. That's not to say that, like, they've made the right decision here, but just to say that that's part of what goes into that calculus.

SEAN: What about something as seemingly benign as Direct File, this new IRS initiative to provide a easy and online and accessible way to file your taxes directly with the federal government? Is that controversial in Congress?

RICHARD: It is, you know, you've seen the large tax prep companies pushing against it. And Republicans are, you know, have opposed Direct File.

*<CLIP> REP. JASON SMITH, MO-8: We have serious questions about numerous other issues such as an IRS Direct File scheme that the American people didn’t ask for…*

RICHARD: No laws have passed to curtail the IRS’ ability to, to do Direct File. But it's not something that has been met with universal acclaim in Congress.

SEAN: Why is that controversial? I mean, I understand why the big tax companies might not want you to have this free government alternative, but, but why are politicians against it? The federal government provides all sorts of services online to people.

RICHARD: Yeah. So there's a few reasons that they cite. One would be, a sort of conflict of interest argument that the IRS, you know, does the IRS really have your interests at heart when they're providing this service for you?

*<CLIP> REP. CLAUDIA TENNEY, R-NY: I have serious concerns about the Direct File program and my constituents fear, and I think rightly so… the IRS being the judge, jury, and executioner of their personal finances..*

RICHARD: Are they trying to maximize your tax payments, or are they trying to help you minimize your tax payments or are they helping you trying to get it right? The IRS says they want to help taxpayers pay what they owe, get what they deserve, and nothing more, nothing less.

SEAN: You know, we've been talking about how Republicans feel about the IRS versus obviously, how Democrats feel about it, because Biden's sort of behind this Direct File initiative and funding the IRS further. Does that political divide reflect amongst the American people? Is this sort of a left-right partisan thing? Or do most Americans just want a fair deal from the IRS?

RICHARD: One thing to remember is that a significant percentage of people get net benefits from the IRS. We deliver a child tax credit, the earned income tax credit, and other benefits through the tax system. So for a significant number of Americans, the tax refund is the largest financial event of the year and it's something that they get from the IRS. And so that was true during the, with the stimulus payments during the pandemic, too. So I think people's experiences and thoughts about the IRS may be shaped by how what their interactions were like.

SEAN: Mm.

RICHARD: Are they, are they receiving or are they sending money in? Have they been audited or are they worried about being audited? Those can break left, right. But they're not always breaking left, right. They're, they're, they can be very experience based.

SEAN: But do most Americans just want a fair tax code at the end of the day?

RICHARD: Fair is in the eye of the beholder.

SCORING IN – Neutral Richard

RICHARD: Fair is a political decision. Fair is, you know, something that we have long debates about in, in Congress that we have long debates about on the campaign trail. And there's not an agreed upon definition of it that everyone's like, ‘Oh, yeah, okay. I know, I think I agree. That's fair.’ There's some general concepts that you want people in similar situations to be treated similarly, but that's not, you know, any sort of law. And, and I think the IRS too remember is, is the administrator. The IRS is not does not write the tax code. So when the tax code has weird definitions and conflicting provisions and complicated incentives and all of it, like that's Congress. That is Congress and the president writing laws, writing the tax code. The IRS takes what it's given and tries to make it work. And by no means do they do a perfect job with that. But, you know, it's just – it's important for people to think about the IRS, not as the people who write the tax system or design the tax system, they’re the people who implement it.

SCORING BUMP

SEAN: Richard Rubin. WSJ dot com. THE IRS. IRS dot gov.

Victoria Chamberlin prepared our show today. She was audited by Amina Al-Sadi and Laura Bullard. Rob Byers and his dependent, Daisy, were in the mix along with Patrick Boyd.

I’m Sean Rameswaram. This is Today, Explained. Good luck filing this year. It’s April!

[10 SECONDS OF SILENCE]