PRE-DECISIONAL | NOT FOR DISTRIBUTION

Direct File / Income: IRS General Counsel review

Prepared October 3, 2023

Introduction to Direct File

Mandated by the Congress in 2019 (Page 54 Internal Revenue Manual), the IRS conducted a feasibility study of a tax filing service called Direct File. The full report along with the independent third-party analysis was provided to Congress on May 16, 2023. With the release of the report, the U.S. Department of Treasury directed the IRS to plan Direct File in the 2024 filing season.

Direct File is an online service from the IRS that provides taxpayers with the option of electronically filing their individual income tax return for free. Already used by the IRS, Direct File is an interview-based self-prepared tax return service that guides users through questions to determine their eligibility for various credits and deductions, and to calculate their tax liability and any refund or balance due. These amounts underlie eligibility for various tax provisions, and allow the taxpayer to indicate their preferences (about income such as filing status or dependents) claiming. Direct File uses these answers to populate a tax return, and provides the taxpayer with a summary of their tax information before filing.

In the 2022 filing season, Direct File pilot supported the filing of Tier 1 IRS 1040 individual income tax returns for a limited subset of taxpayers. Eligibility to use Direct File is based on whether the taxpayer's situation allows for filing a complete and accurate return using only the supported tax provisions, and taxpayers who might benefit from non-supported tax provisions are encouraged to use other filing options. Taxpayers who qualify for Direct File are given the option to file electronically or print and mail their return.

Direct File does not replace existing forms and schedules; it is an option taxpayers can use to complete existing forms and schedules online, directly with the IRS. Taxpayers can continue to file both electronically and on paper through other means. Direct File sends taxpayers if preparing returns that include the following forms and schedules:

- Form 1040 (U.S. Individual Income Tax Return)
- Form 1040(SR) (Schedule 1 Additional Income and Adjustments to Income)
- Form 1040(SR) (Schedule 2 Tax Credits, Other Taxes, and Payments)
- Form 1040-SR (U.S. Tax Return for Seniors)
- Form 1040-SR (Schedule 1 Additional Income and Adjustments to Income)
- Form 1040-SR (Schedule 2 Tax Credits, Other Taxes, and Payments)
- Form 1040-SR (Form 8812 Schedule for the Child Tax Credit and Other Dependents)
- Form 1040-SR (Form 8962 Premium Tax Credit)
- Form 1040-SR (Form 8453 Request for Change in Language Preference)
- Form 1040-SR (Form 8888 Direct Deposit of Refund to Multiple Accounts)

Income

Direct File is divided into sections. Taxpayers start with the First section (and can only move on to subsequent sections when they're done).

Within each section of the return is "Pop and pop family" which includes it sections:

- Pop
- Pop and pop
- Family
- Family and household
- Pop family

Within each section, Direct File develops screening information about filer/spouse, their spouse, their family and household, and their filing status. Also, will collect the income sources. The is where they'll report the taxable income they made in 2022. Direct File supports wages reported on a standard W-2, interest income less than $1,500, Social Security and Railroad Retirement benefits, and unemployment compensation. Taxpayers with other income are not eligible to use Direct File.

PDF navigation tips

Screen names

There is an internal name above each screen for identification purposes. This name is not shown to taxpayers. However, it can be used to navigate directly to the screen.

Tips mark notes

To the right of each screen, you'll see a table containing notes about the tax math. This helps us keep track of why we're asking the question and how the numbers are used in the tax calculations.

"Who uses this" banner

Keep in mind that Direct File dynamically filters questions to only ask those questions that are potentially relevant to a given taxpayer. It does this based on previous answers and information from other sources. Some questions are only relevant to a small subset of users, but they are critical to a taxpayer's eligibility or ineligibility to use Direct File. For example, a family might be the only one in a portfolio with a dependent who is a student, but that dependent's status as a student is critical to determining whether Direct File can be used. Thus, we need to ask the question. Unfortunately, this means that some screens will have a lot of questions, and we will need to be careful about how we present them. We don't want to make users feel overwhelmed.

Purple colored stickies

We're looking for feedback from the IRS on all parts of the experience, but where we have targeted questions for tax SMEs, we're highlighting those questions using purple sticky notes.

PRE-DECISIONAL | NOT FOR DISTRIBUTION

3

Flow diagram

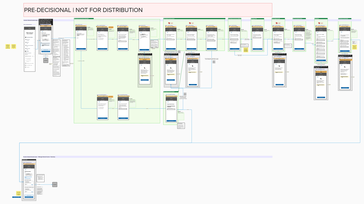
4

Screens

PRE-DECISIONAL | NOT FOR DISTRIBUTION

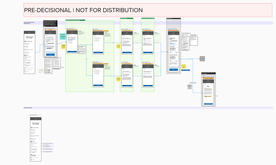
PRE-DECISIONAL | NOT FOR DISTRIBUTION

PRE-DECISIONAL | NOT FOR DISTRIBUTION



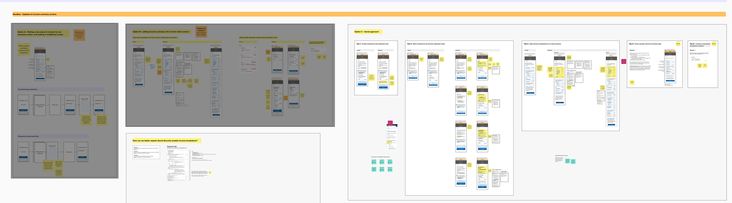
PRE-DECISIONAL | NOT FOR DISTRIBUTION

PRE-DECISIONAL | NOT FOR DISTRIBUTION



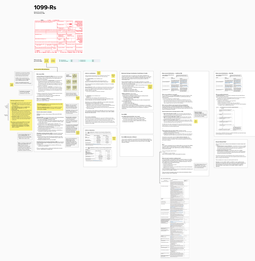
Reference Income-related screens not in Income section

Screen - Updates to Income sources screen



5

Lessons learned in TY 2023

6

Discovery for TY24