



March 22, 2023



Dear Members of Congress,

We the undersigned organizations write to urge you to oppose the creation of a government-run tax preparation service, sometimes referred to as a “direct file” tax return system.

Buried in the misnamed Inflation Reduction Act passed by Democrats last year is a provision that hands the Internal Revenue Service (IRS) \$15 million in taxpayer funding to lay the groundwork for the creation of a government-run tax preparation system. **Such a system would be an unprecedented expansion of the size and power of the IRS and should be opposed by Congress.**

Government-run tax preparation would create a significant conflict of interest in which the IRS would be responsible for calculating a filer’s tax liability and for managing contested tax returns. This would create an incentive for the IRS to overcharge taxpayers or withhold information from filers to maximize revenue. This concern is only bolstered by the IRS receiving \$80 billion in increased funding from the Inflation Reduction Act to ramp up audits of American taxpayers with a clear mandate to maximize the amount of tax revenue collected from filers.

Private tax preparation companies, in contrast, have a financial incentive to minimize the amount of taxes their clients owe, and are therefore more likely to provide taxpayers with impartial and accurate advice. **Congress should resist any effort that would empower the IRS to simultaneously act as tax preparer, collector, and auditor.**

The IRS’s conflict of interest is already playing out and on display in its use of taxpayer funds to conduct a study examining the impact of a “direct file” system. Despite the Inflation Reduction Act’s requirement for the IRS to seek the opinions of independent third parties, the IRS instead contracted the progressive-leaning New America Foundation to conduct a study.

The IRS disregarded its mandate for an impartial study, selecting New America Foundation to conduct the study despite the organization’s prior public advocacy supporting the creation of government-run tax preparation. The organization released an extensive report in March of 2021 that went so far as recommending a specific “portal” and roadmap for the IRS to follow to develop the tool needed for a government-run system – making New America Foundation a potential vendor or partner should the IRS develop a direct file system.

The logo for Digital Liberty, featuring the word "Digital" in blue and "Liberty" in red, with a red outline of the state of Ohio.The logo for FreedomWorks, featuring a blue and red star above the word "FreedomWorks" in blue.The logo for Frontiers of Freedom, featuring a torch icon and the text "FRONTIERS of FREEDOM" and "Securing the blessings of liberty".The logo for The Heartland Institute, featuring a green leaf icon and the text "THE HEARTLAND INSTITUTE".The logo for Heritage Action for America, featuring the text "HERITAGE ACTION FOR AMERICA" in blue.The logo for Independent Women's Forum, featuring the text "Independent Women's Forum" in red.The logo for Independent Women's Voice, featuring the text "Independent Women's Voice" in purple.The logo for JCN Job Creators Network, featuring the text "JCN Job Creators Network" in blue.The logo for Less Government, featuring a line drawing of a government building and the text "LESS GOVERNMENT".The logo for Ohioans for Tax Reform, featuring an outline of the state of Ohio and the text "OHIOANS for TAX REFORM".

According to reporting, New America Foundation receives funding from “a litany of left-leaning philanthropic organizations, including the Bill and Melinda Gates Foundation, Rockefeller Foundation, Ford Foundation, Bloomberg Philanthropies, Melinda Gates’ Pivotal Ventures LLC and the Soros-backed Open Society Foundations.”

The IRS’s selection of New America Foundation represents an obvious effort from the Biden Administration to select a politically allied group to conduct a study where the results are pre-baked and favorable to the cause of government-run tax preparation.

In addition to this conflict of interest, government-run tax prep should be opposed by lawmakers for a host of policy reasons.

The IRS lacks the information it needs to prepare tax returns and would put tax credits disproportionately claimed by low-and-moderate income filers at risk. Even the Progressive Policy Institute (PPI) stressed this concern in a report warning that a “return-free” system could create a “tax trap” jeopardizing Americans qualifying for the earned income tax credit (EITC).

PPI went on to state that “the IRS does not have the necessary information in its databases to accurately determine a low-income taxpayer’s eligibility for EITC and/or correctly calculate the amount of credit due to the taxpayer—indeed, far from it.”

Additionally, a recent study from PricewaterhouseCoopers found that compliance burdens on individual tax filers would likely increase under a government-run tax preparation system.

The report warned that “because a significant portion of the population has self-employment income and a greater number use above-the line deductions, the pool of taxpayers eligible to use a return-free system may be limited without a substantial expansion of information reporting. Such an expansion would include significant new costs, not only in terms of administrative burden on taxpayers, tax administrators, and third parties, but also burdens with respect to taxpayer privacy.”

The IRS cannot be trusted with such an expansion of taxpayer information reporting when it fails to protect the information it already collects. A Treasury Inspector General for Tax Administration (TIGTA) report from last May found the IRS management purposefully decided to “destroy an estimated 30 million paper-filed information return documents in March 2021.”



This was followed by the IRS leaking stolen private tax returns to a progressive media organization ProPublica that then published them. A 2016 TIGTA report concluded that the IRS lost 1,000 laptops containing sensitive taxpayer data that contract employees used. In 2015, hackers stole the personal data of 330,000 taxpayers using a tool on the IRS website to steal tax forms.



The IRS should not take on new responsibilities, including running tax preparation for the country, while it fails to complete the basic responsibilities Congress has already assigned to it.

Onwards,

Grover Norquist
President of Americans for Tax Reform

Paul S. Teller
Executive Director, Advancing American Freedom

Phil Kerpen,
President, American Commitment

Stephen Pociask
President and CEO, American Consumer Institute

Dee Stewart
President, Americans for a Balanced Budget

Ryan Ellis
President, Center for a Free Economy

Ginevra Joyce-Myers
Executive Director, Center for Innovation and Free Enterprise

Chuck Muth
President, Citizen Outreach

David McIntosh
President, Club for Growth

David Safavian
Senior Vice President and General Counsel, Conservative Political Action Coalition (CPAC)

Matthew Kandrach
President, Consumer Action for a Strong Economy



James Erwin
Executive Director, Digital Liberty

Adam Brandon
President, FreedomWorks

George Landrith
President, Frontiers of Freedom

James Taylor
President, Heartland Institute

Jessica Anderson
Executive Director, Heritage Action

Carrie Lukas
President, Independent Women's Forum

Heather R. Higgins
CEO, Independent Women's Voice

Alfredo Ortiz
President and CEO, Job Creators Network

Seton Motley
President, Less Government

Tim Jones
Fmr. Speaker, MO House
Chair, MO Center-Right Coalition

Doug Kellogg
Executive Director, Ohioans for Tax Reform

Tom Hebert
Executive Director, Open Competition Center

Lorenzo Montanari
Executive Director, Property Rights Alliance

Paul Gessing
Rio Grande Foundation

Bryan Bashur
Executive Director, Shareholder Advocacy Forum

Saulius “Saul” Anuzis
President, 60 Plus Association

James L. Martin
Founder/Chairman, 60 Plus Association

Karen Kerrigan
President & CEO, Small Business & Entrepreneurship Council

David Williams
President, Taxpayers Protection Alliance

Rusty Cannon
President, Utah Taxpayers Association