



## Treasury Inspector General for Tax Administration

### ADDITIONAL ACTION IS NEEDED TO EXPAND THE USE AND IMPROVE THE ADMINISTRATION OF THE FREE FILE PROGRAM

Issued on June 28, 2007

## Highlights

Highlights of Report Number: 2007-40-105 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

The Free File Program accounted for only 3 percent of the individual income tax returns filed in 2006. The Internal Revenue Service (IRS) has made some improvements to the Program, and most taxpayers who used it to prepare and file their tax returns were satisfied with it. While the IRS has taken steps to effectively administer the Program, additional actions are needed to improve its usability and marketing.

### WHY TIGTA DID THE AUDIT

This audit was initiated to address concerns raised by Congress and the IRS National Taxpayer Advocate. The objective of the audit was to determine how effectively the IRS is administering the Free File Program.

The Free File Program allows taxpayers meeting certain income requirements to electronically prepare and file their individual income tax returns free of charge. The IRS administers the Program as a partnership with a consortium of tax software companies called the Free File Alliance, which provides free electronic tax return preparation and filing services for the Program.

### WHAT TIGTA FOUND

The IRS can do more to evaluate and promote the use of the Free File Program. While it has taken steps to evaluate the experience of Program users, it has not collected data about taxpayers who attempted to use the Program but did not or could not complete and file their tax returns or eligible taxpayers who did not use the Program. Of the 93 million taxpayers eligible for the Program in Calendar Year 2006, only 4.2 percent (3.9 million) used it.

The IRS can also improve its administration of the Program. The IRS' oversight reviews of the Alliance members were not fully documented. Alliance members also incorrectly included the Free File Indicator on approximately 37,000 returns from taxpayers who actually paid to prepare and file their returns. The Program software also did not always accurately compute taxes due, and the *Guide Me To A Company* feature that helps taxpayers select a Program vendor was not always complete or accurate.

### WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Electronic Tax Administration, (1) develop a comprehensive plan to evaluate and promote the Free File Program; (2) expand IRS marketing efforts by directing promotional materials to taxpayers who are eligible for the Program but have filed their returns on paper; (3) establish a process to assess the accuracy of the Free File Indicator early in the filing season; (4) establish a process to test the software used in the Program before the filing season to ensure common tax scenarios are handled accurately; and (5) work with the Alliance to expand the *Guide Me To A Company* feature to include a description of special tax situations supported by each Alliance member.

The IRS stated it would develop a comprehensive plan to evaluate and promote the Free File Program, expand marketing efforts by directing promotional materials to taxpayers who are eligible for the Program but have filed their returns on paper, and establish a process to assess the accuracy of the Free File Indicator early in the filing season. The IRS did not agree with our recommendation to establish a process to test the software used in the Program before the filing season. It indicated doing so would create a monumental challenge for the IRS and indicated it already shares information with the tax preparation industry on trends and problems identified before and during the filing season.

TIGTA agrees that performing a quality review of all commercial tax preparation software would not be feasible. However, some quality review is warranted. The Free File Program is an IRS-sponsored program, and taxpayers may assume the software is endorsed by the IRS. The IRS could review the products used as part of the Program for limited tax applications common to Program users. In addition, while the IRS communicates with the tax preparation industry on trends and problems it has identified, the Free File Agreement does not require members to correct those problems.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200740105fr.pdf>.

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