

Direct File Is a Step in the Right Direction that Still Leaves Out Some Taxpayers

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In May 2024, the [Internal Revenue Service \(IRS\) announced](#) that it would make Direct File a permanent option for taxpayers to e-file their income tax returns following the success of the 2024 Direct File pilot program. Though it started as a pilot program with limited scope, the permanent adoption of Direct File represents a step towards more accessible filing, which will likely be hailed as good news for the many people frustrated when completing their own tax return and who often resort to paying for the assistance of filing software. However, the pilot program excluded gig workers, for whom tax returns continue to be complicated and burdensome.

Enacted as part of the [Inflation Reduction Act of 2022](#),¹ Direct File started as a [pilot program](#) that set up a free direct e-file option for taxpayers in twelve states.² The IRS first tested the program during the 2024 [filing season](#), during which 140,803 taxpayers successfully filed accepted returns. [The IRS plans](#) to invite all 50 states and the District of Columbia to join Direct File starting with the 2025 filing season.

The need for a free e-file system has been apparent to the IRS and taxpayers for years. [The vast majority](#) of individual taxpayers e-file their returns, rather than file on paper.³ Though Direct File is new, the IRS has offered Free File since 2002. [Free File](#) is a partnership with

¹ See Inflation Reduction Act § 10301(1)(B) (2022).

² The participating states were Arizona, California, Florida, Massachusetts, Nevada, New Hampshire, New York, South Dakota, Tennessee, Texas, Washington, and Wyoming.

³ 97% of individual tax returns in 2022 were e-filed.

private tax filing software companies that provides free access to e-filing software for taxpayers whose incomes fall below a certain adjusted gross income (AGI) threshold.⁴ However, Free File is rife with issues and vastly underutilized. [In 2020](#), only 4% of eligible taxpayers used Free File to file their tax returns. [In 2019](#), only 2.4% of eligible taxpayers used Free File. That same year, according to a [study conducted by the Treasury Inspector General for Tax Administration](#), 43% of eligible taxpayers were charged a fee to e-file their returns. The [study](#) concluded that many eligible taxpayers either didn't know Free File was an option or didn't know how to properly access the free return software. [As part of the Free File program agreement](#), the IRS was prevented from creating its own direct e-file product. However, the [prohibition](#) has since been removed, paving the way for Direct File.

Nationwide, tax compliance is complicated and expensive. The [tax preparation industry](#) generated \$10.5 billion in revenue in 2019 alone. [Further, the IRS estimates](#) that individuals spent 9 hours and paid \$150 to complete their tax return in 2023.

The [pilot program](#) received much positive feedback from its users, which is a positive sign for those taxpayers eligible to use Direct File. [The program aimed](#) to address the filing needs of “a significant portion of low- to middle-income” taxpayers with wage income. However, because Direct File was only available to taxpayers with relatively straightforward tax returns, the program excluded gig workers, who make up an increasingly large portion of the American economy.

There is no generally agreed-upon [definition of gig work](#), but the [term](#) generally applies to app-based work such as driving for ride-sharing apps or food-delivery apps or other discreet, on-demand service work. [Gig work](#) is an increasingly important source of income for Americans:

⁴ In tax year 2023, the maximum AGI to use free file was \$79,000.

there was a more than three-fold increase in people earning income from gig work from 2017 to 2021. Many gig workers earn relatively small incomes from their gig work. One [survey](#) found that 14% of gig workers make less than the federal minimum wage of \$7.25 per hour. The same survey found 29% of gig workers earned below the state minimum wage in their states. A 2021 [Pew Research Center study](#) found that 16% of Americans have ever earned money through gig work. Gig workers have various reasons for engaging in the work. The Pew study found that gig work was the main job for only 31% of respondents, and 41% of respondents reporting spending less than 10 hours on gig work in a typical week. While [proponents of gig work cite](#) the flexibility of gig work as a benefit, it also means the work and income can be unpredictable and inconsistent.

One common and often overlooked challenge faced by gig workers is the increased complexity of their tax returns. [Gig workers](#) are often classified as independent contractors, which means that they are exempt from many labor protections, such as minimum wage and workers compensation.⁵ It also means that they have more complicated tax returns. Because gig workers are classified as independent contractors, they don't receive a W2 from the companying paying them, nor is their income subject to the ordinary tax withholding. As a result, this work falls to the individual gig worker and the burden of compliance is greater than it is for ordinary W2 employees.

For instance, [the IRS requires](#) a taxpayer to file a return if they earn \$400 or more from gig work during the year. That [means](#) that a driver who earns \$1,000 during the year can have to

⁵ See Maia Spoto et al., *California Gig Workers to Remain Contractors, Prop 22 Upheld (2)*, BLOOMBERG LAW, https://www.bloomberglaw.com/product/tax/bloombergtaxnews/litigation/X4L6JFPSooooo0?bna_news_filter=litigation#jcite (2024) (describing the court case that upheld California's law classifying gig workers as independent contractors).

fill out the same tax forms as a self-employed business owner earning far more than that. And [filing a tax return](#) as a gig worker is not nearly as simple as for a taxpayer whose income is reported on a W2. To begin, [gig workers](#) do not generally have any of their income withheld throughout the year and must pay a quarterly estimated tax. [Taxpayers](#) who fail to pay or simply don't know about the requirement to pay quarterly taxes throughout the year may be subject to a penalty. In addition, gig workers have to pay the [self-employment tax](#) (in addition to their income taxes). And gig workers have to keep detailed records of deductible business expenses in case of an audit, as well as determining what expenses are deductible and what expenses are not. [The IRS has said](#) that its goal is to expand the scope of Direct File to cover “most common tax situations,” but it has not indicated that Direct File will be available to gig workers in the near future.

It can be onerous for gig workers to keep up with the requirements to fill out their tax returns, leading to more errors and potential overpayment or underpayment, neither of which are in the interest of the IRS because correcting errors requires extensive administrative time and money. The Direct File program is a response to the frustration many feel around the time, expense, and stress of filing their tax return every year. However, as gig work becomes an increasingly important source of income for many Americans, the particular difficulties of tax compliance that gig workers face become increasingly common, as well. Direct File will likely make filing easier for many taxpayers but will not yet address the additional filing needs of gig workers.