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IN FOCUS

The IRS Free File Program: An Overview

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The Internal Revenue Service's (IRS's) Free File Program (FFP) is a public-private partnership between the IRS and Free File, Inc. (FFI), a group of tax software companies. The FFP allows certain taxpayers to electronically file (e-file) their federal income tax return free of charge using guided software provided by participating tax preparation companies. According to a 2023 FFP memorandum of understanding (MOU), the objective of the program is to increase e-filing of tax returns, especially for economically disadvantaged populations, through collaboration between the IRS and member companies.

In general, expanding e-filing options was originally intended to save taxpayers and the government time and money. According to a 2002 press release from the Department of the Treasury (Treasury), e-filing benefits include quicker refunds, lower taxpayer filing errors, and lower government processing costs.

This In Focus summarizes the FFP's origin and evolution, taxpayer participation and experience, and policy issues.

Origin of the FFP

The IRS developed the FFP to comply with provisions in law. The IRS Restructuring and Reform Act of 1998 (RRA; P.L. 105-206) directed the IRS to increase the share of e-filed individual returns from 23% in 1998 to 80% by 2007, with input from the private sector. This goal was prioritized by President George W. Bush's E-Government Initiative. A 2001 directive from the Office of Management and Budget's Quicksilver Task Force identified the EZ Tax Filing Initiative as one of 24 projects to achieve the E-Government Initiative's main objectives. The EZ Tax Filing Initiative was intended to help the IRS reach the individual e-filing goal established in the RRA. The IRS first achieved the 2007 e-filing goal in 2012, when 83% of federal individual income tax returns were e-filed. In FY2025, e-filing was the most predominant filing method, with over 93% of federal individual income tax returns filed online.

Initially, the IRS tried to accomplish the aims of the EZ Tax Filing Initiative by developing free digitized versions of Form 1040 and related instructions; however, in January 2002, the Treasury asked the IRS to establish a partnership with tax software companies to develop a free online filing system that would be managed by the IRS for low-income taxpayers, who were most likely to file paper returns. The Treasury asserted that a public-private partnership was the best way to encourage growth in e-filing because it allowed the IRS to leverage the expertise of established companies in the field rather than requiring the IRS to develop its own software.

The FFP originated later that year, in October 2002, when the IRS signed an agreement with the 17 original FFI member companies.

Evolution and Structure of the FFP

The October 2002 agreement provided a division of authority and responsibility between the IRS and the member companies. It required the companies to provide their tax preparation and filing services through IRS.gov at no cost to the bottom 60% of individual taxpayers, ranked by adjusted gross income (AGI).

The companies, not the IRS, set the eligibility requirements for free filing based on a taxpayer's age, income, and state of residence. To participate in the FFP, a company had to prove that it could serve at least 10% of individual filers.

A controversial element of the agreement was a commitment by the IRS to not compete in the market for tax filing and preparation. Preventing the IRS from becoming a competitor was a major incentive for tax software companies to participate in the FFP. Other incentives for member companies included marketing benefits or the potential for retaining FFP participants as paid customers if they later became ineligible for the FFP.

The IRS and FFI have extended and revised the original agreement several times. The second (2005) agreement reduced the free services a member company could offer to eligible taxpayers, barred member companies from providing free filing to more than 50% of eligible taxpayers, and increased the share of taxpayers eligible for the FFP to the bottom 70% of individuals ranked by AGI. The third (2009) agreement expanded the FFP—by making free fillable individual income tax forms available to any taxpayer, regardless of income—and required FFI companies to embed a link to IRS.gov in their FFP online pages.

These subsequent agreements are linked to various MOUs intended to implement the revised agreements. The first MOU was signed in 2006. The current MOU was signed in 2023 and has been extended to October 31, 2029. It includes provisions intended to raise taxpayer awareness of the FFP, encourage eligible taxpayers to regularly use it, and prevent participating companies from excluding their Free File pages from internet searches. In a departure from previous rules, the MOU contains no commitment from the IRS to not develop its own free direct e-filing system.

The number of companies participating in the FFP has decreased from the 17 original members in 2002 to 8 members in 2026. According to the Government Accountability Office (GAO), two of the largest companies—H&R Block and Intuit—left the program at the end of the 2020 and 2021 tax filing seasons, respectively. These two companies combined had served approximately 70% of FFP participants.

Taxpayer Participation and Experience

The FFP provides eligible taxpayers with access to member companies' free online guided tax preparation and filing

software tools. These tools use a self-directed tax preparation method, in which taxpayers input information about their tax situations that member companies use to complete and e-file the tax returns. The FFP is focused on covering taxpayers that are least able to afford e-filing, and it is currently available to taxpayers with an AGI of $89,000 or less.

Since the FFP's inception, participation among eligible taxpayers has averaged 3% each year. Participation peaked at roughly 6% (5.1 million taxpayers) in 2004, while the lowest participation rates were 2% each year from 2016 through 2018 (2.5 million to 2.6 million taxpayers). In FY2025, roughly 3% of taxpayers eligible for the FFP (3.2 million taxpayers) used the FFP, including both free fillable forms and guided tax preparation software. In tax year 2019, 44% of taxpayers who used the FFP had an AGI of $17,000 or less. Most users were single filers, under the age of 35, and did not claim dependents.

Most FFP-eligible taxpayers used other options for filing their tax return that likely would have required a fee. While a lack of awareness of the FFP may explain some of the low take-up for the program, there is also evidence that many first-time FFP users do not maintain usage in future years, even if they are still eligible for the program. A 2020 Treasury Inspector General for Tax Administration (TIGTA) evaluation found that reasons contributing to low program participation were "complexity, confusion, and lack of taxpayer awareness about the operation and requirements of the [FFP]." GAO estimated that roughly 40% of FFP users opted to use other filing options for the following year's tax return.

GAO reported that despite efforts to improve the taxpayer experience, opportunities remained to better align taxpayer experiences with existing guidelines for federal digital services. These opportunities could include optimizing the FFP for mobile devices, increasing access for taxpayers with disabilities, and providing the software in more languages.

Policy Considerations

Some concerns about the FFP's performance surfaced in 2019 during congressional consideration of a bill to reform certain aspects of IRS's taxpayer service. In April of that year, the House passed a bill (the Taxpayer First Act) that supporters intended to strengthen and codify taxpayer rights and further transform the IRS into a customer-friendly agency. One provision would have codified the existing FFP and permanently banned the IRS from providing its own direct e-file service.

The prospect of a statutory ban on an IRS direct-file tool triggered debate over the potential advantages and disadvantages of the FFP. The enacted bill (P.L. 116-25) did not include a provision to codify the FFP. The amended Free File MOU adopted in 2019 removed the provision banning the IRS from developing its own direct-file tool.

Direct File

The IRS developed its own free tax preparation tool in a pilot program called Direct File (DF). The law commonly known as the Inflation Reduction Act of 2022 (P.L. 117-169) provided the IRS with $15 million to create a DF task force to explore the feasibility of an IRS-run DF program; the IRS launched DF for use by eligible taxpayers in 2024.

Similar to software provided in the FFP, DF provided taxpayers with a free guided tax preparation and filing tool. Although DF was available to taxpayers regardless of income, the tool was only able to support taxpayers with relatively simple tax returns in a limited number of participating states.

DF was offered in the 2024 and 2025 filing seasons but was suspended for the 2026 filing season. In October 2025, the Treasury announced that it was suspending the DF program "due to the program's high costs, limited participation, and the [IRS's] need to focus resources on other priorities."

Potential Advantages and Disadvantages of the FFP

FFP proponents, including FFI companies, argue that the program should be retained because of its significant cost savings. According to one estimate, FFP filing saved taxpayers $1.5 billion in tax preparation and filing fees and saved the IRS millions of dollars in processing costs from 2003 to 2018.

Another potential advantage of the FFP cited by proponents is that it has the current technology to support a broad population. Although most tax returns filed through the FFP were simple returns, the tax preparation software available to taxpayers can support complex tax returns. Some participating members also offer free state tax returns for certain taxpayers, even though the FFP MOU does not require free state tax filing.

FFP critics say the FFP should be replaced by an IRS DF tool open to all taxpayers, regardless of income. Among the problems cited by critics are the following: (1) member company web pages for FFP filing are confusing and, in some cases, misleading; (2) the participation rate remains low; and (3) there are concerns relating to taxpayer privacy and security.

Critics also say that the program allows FFI companies to divert FFP-eligible taxpayers to using their paid filing services. In its 2020 report, TIGTA found that over 34.5 million FFP-eligible taxpayers e-filed their returns using member company paid services in FY2019. Other reporting found that FFI companies consistently discouraged interest in FFP alternatives.

Another potential policy option could include retaining the FFP, with additional investments in promoting the FFP among eligible taxpayers and in monitoring MOU compliance.

Recent Developments

There is continued congressional interest in assessing free e-file options available to taxpayers, particularly the DF program and its potential impact on the FFP. In the 119th Congress, bills have been introduced to restore the DF program (S. 3948/H.R. 7806), while other bills have been introduced to prohibit the IRS from preparing tax returns through the DF program (S. 96/H.R. 451).

In a 2025 report, the Treasury highlighted various planned efforts to improve the FFP including enhancing awareness of the program, evaluating user experience, and strengthening program oversight. Additional evaluations of the FFP by GAO are also planned and may be helpful in assessing FFP performance.

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