

How to achieve a simple and free tax filing system in Oregon

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Oregonians can have a tax filing system that is simple, free, and easily connects people to tax benefits for which they are eligible. This may seem far-fetched, given that, at present, filing taxes often involves spending many hours and several hundred dollars to prepare and submit the tax forms. Tax filing is complex and costly because corporations have fought to keep it that way. This paper examines the complexities and costs involved in tax filing and outlines the steps that would be required for Oregon to achieve a simple and free tax filing system.

Tax filing today is complex and costly

Filing an income tax return takes time and money. Oregon's income tax filing starts from a line on the federal tax return, requiring the completion of the federal return before the state return can be started. The Internal Revenue Service (IRS) notes that the average federal return takes 13 hours to complete and costs about \$270.¹ While the state return is often simpler than the federal one, completing it adds to the time and money involved. To put it in perspective, it takes more than one-and-a-half working days and a few hundred dollars to prepare the average federal and state tax returns.

The individual costs add up to huge systemic costs. In the 2020 tax year, Oregonians filed more than 2 million federal income tax returns, and more than 1.9 million state income tax returns. That year, Oregonians spent an estimated \$563 million and 27 million hours of labor on filing federal income tax returns.² Undoubtedly, the state income tax filing adds millions more in expenses and lost time.

Tax filing weighs more heavily on low- and middle-income tax filers. This may seem counterintuitive at first, given that higher-income taxpayers are more likely to have complicated tax returns and are more likely to pay accountants or other professionals to prepare and file their tax returns.³ Yet, tax filing is so complex that many low- and middle-income tax filers also spend money on paid tax preparers to meet their tax filing obligations. As a share of their income, low- and middle-income tax filers spend more to meet those obligations, making the overall burden of tax filing regressive.⁴



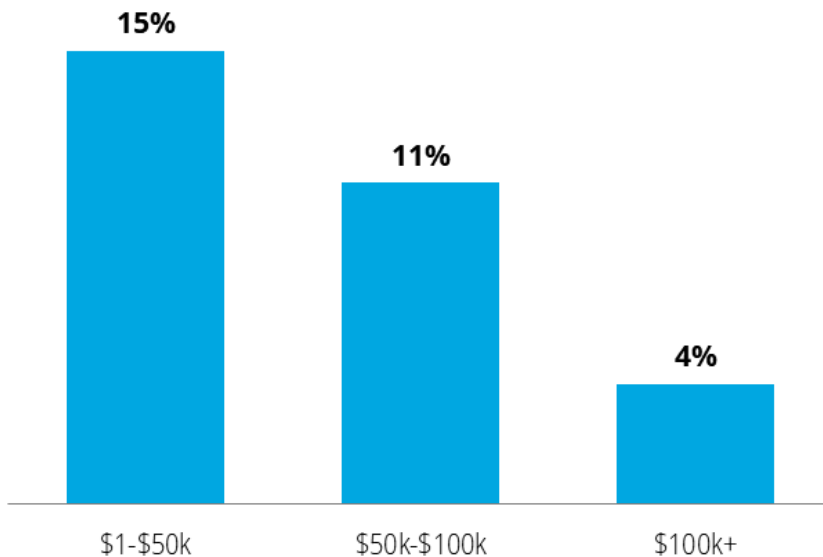
The financial hit to low-income tax filers can go well beyond the costs of paying someone to prepare and file the return, as the complexity of the tax system makes cash-strapped filers vulnerable to exploitation. Oregonians who are struggling financially may be enticed by offers by for-profit tax preparers of a quick tax refund. This product sold by tax preparers is known as a Refund Anticipation Check (RAC). It functions as a short-term loan for the filer that defers the payment of tax filing costs until the refund is received. While this sounds helpful, the tax service charges fees that can add up to a significant portion of the total tax return. Consider a taxpayer who owes a \$200 tax preparation fee and pays a \$30 fee to use a RAC to defer the payment of \$200 for three weeks. On that transaction, the taxpayer is paying the equivalent of a 260 percent annual percentage rate (APR) — an exorbitant charge.⁵

Recognizing the opportunity, tax services have routinely prioritized people with larger refunds and people who are claiming Earned Income Tax Credits (EITC), a tax credit for low-income workers, and Child Tax Credits.⁶ It is estimated that, nationally, RACs take more than \$800 million per year out of tax refunds.⁷ In the case of California, an estimated one-quarter of California's version of an EITC flows in fees to tax prep companies instead of going to low-income households.⁸ And in Oregon, about 245,000 Oregonians used RAC services in tax year 2020. That is about 12 percent of all Oregon tax filers that year. Of those who used a RAC, 86 percent of them made under \$75,000.⁹



Refund Anticipation Checks more common among low-income families

Share of Oregon tax filers using Refund Anticipation Checks in 2020



Source: Internal Revenue Service data for the 2020 tax year.

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Tax filing remains complex and costly because corporations have fought to keep it that way

Corporations in the tax preparation business profit from the current tax filing system which is complex and costly.

Over the past couple of decades, Intuit and other for-profit tax preparation companies have spent millions of dollars to defeat efforts to create a free, public online tax filing system. In 2002, the George W. Bush administration proposed having the IRS create “an easy, no-cost option for taxpayers to file their tax return online.”¹⁰ Seeing this as a threat to their bottom line, Intuit and other companies lobbied to derail the proposal. Ultimately, the IRS agreed to not develop competing tax filing software in exchange for private companies offering free tax preparation to most Americans. Out of this agreement came the Free File Alliance, an arrangement touted as making free filing an option for 60 percent of taxpayers. But



the industry found ways to undermine the agreement: hiding the free option, tacking on additional fees for state filing or other services, and manipulating as many filers as possible into paid filing options.¹¹

Deception has been a central part of the corporate playbook to keep taxpayers paying for tax preparation services. In one example, the Federal Trade Commission (FTC) reviewed Intuit campaigns proclaiming “Absolute Zero” costs and “Free, Free, Free, Free” services, but which in reality steered customers to services that came with a cost. The FTC found that Intuit’s “deceptive ad campaign has been sufficiently broad, enduring, and willful to support the need for a cease-and-desist order.”¹² In a settlement with all 50 states and the District of Columbia, Intuit was required to pay \$141 million to tax filers who they steered into paid services even though they were eligible for free filing.¹³ New York Attorney General Letitia James put it succinctly, “For years, Intuit misled the most vulnerable among us to make a profit.”¹⁴ In another example, TurboTax was found to have exploited military service members eligible for free filing, by holding up a military discount while steering them to filing options costing as much as \$150.¹⁵

H&R Block, the second largest company in the tax preparation industry, has also leaned into deceptive strategies to milk tax filers, according to federal authorities. The FTC recently filed a complaint against H&R Block for “deceptively marketing their products as ‘free’ when they were not free for many consumers.” The agency also claimed that the company pushed more expensive products to customers who had already spent time inputting their tax information, and required customers who refused the more expensive option to obtain approval from a customer representative and to re-enter the information. As Samuel Levine, Director of the FTC’s Bureau of Consumer Protection, put it, “H&R Block designed its online products to present an obstacle course of tedious challenges to consumers, pressuring them into overpaying for its products.”¹⁶

In short, the at-home tax preparation software industry — concentrated in few corporations — has used its lobbying muscle and resorted to deceptive tactics in its efforts to deny tax filers a free, simple tax filing option.¹⁷





A simple and free tax filing system is doable

It's tax time in Oregon. You receive a text message from the Oregon Department of Revenue asking you to review your taxes. You click on a link and are brought to a mobile-friendly tax return that is filled out for you, with data they already had. Your two young children are correctly noted as earning you an Oregon Kids' Credit as well as the Earned Income Tax Credit, and all of your wages are already included. The only thing left for you to do is verify your identity, press "Sign," and a \$5,000 check is directly deposited into your checking account. It takes five minutes.

It is not only possible to imagine a better tax filing system in Oregon, but also to realize it. Getting there requires the federal and state governments to each take decisive steps in that direction, including the following:

Establish an integrated, direct file system

The first step toward a simple and free tax filing system is for the Internal Revenue Service and the Oregon Department of Revenue to provide a direct filing option, one that does not require paying a private corporation. This process is already underway.

At the federal level, the IRS launched a Direct File pilot for eligible families in 12 states in 2024.¹⁸ This program is expected to continue gradually growing and reaching more states, including Oregon, in the next filing season. Since filing Oregon state taxes relies on information in the federal tax return, ensuring Oregon is part of this program is central to achieving a simple and free tax system at the state level.

Simultaneously, in 2024, the Oregon Department of Revenue launched Direct File Oregon.¹⁹ Just like other tax software and the federal program, Direct File Oregon asks tax filers a series of questions to help them fill out their state income tax return. It will take some time to know just how well the first year of Direct File Oregon went, but early reports indicate thousands of Oregonians were able to file their taxes using it, and feedback was positive. One filer noted, "Very simple and straightforward. Actually much easier for simpler returns [than] tax prep software I've used in the past."²⁰





The next step is to link the federal Direct File pilot with Direct File Oregon. With state and federal integration, a taxpayer would only need to enter the vast majority of their data once, when filling out the federal return. That information would be automatically loaded into the state return, as is common with paid tax preparation software. This would make the process easier, more efficient, and reduce the risk of errors. Without an integrated state-federal Direct File system in place, other goals will be difficult to achieve.

Provide tax filers with pre-filled tax forms

An integrated Direct File system would allow for the creation of pre-filled tax forms — a step that would remove all or most of the time and effort involved in tax filing. Using information from past tax returns, pre-filled tax forms would come with the tax filer’s address, filing status, number of and age of children, and similar routine information already filled in. It would also contain information already in the possession of the IRS and DOR, including income and tax withholdings by employers, unemployment compensation, capital gains, income from partnerships, dividends, and more.

Pre-populating forms with the information the tax agencies already have would make filing taxes far more efficient and accurate. It would target one of the easiest ways to improve the tax filing experience, since tracking and reporting income accounts for more than half of the time spent on tax compliance.²¹ It would also avoid clerical errors that occur when tax filers input their information on tax forms, reducing one of the most significant barriers to filing for low-income Oregonians – the fear of getting it wrong and the possible consequences.

Pre-filled tax returns would eliminate much of the work of tax filing for many people, and reduce it significantly for many others. One study found that the IRS already has the data to pre-populated accurate federal tax returns for between 42 and 48 percent of filers, with rates nearing 80 percent for low-income tax filers.²² The simpler the tax return, the higher the accuracy. For most other tax filers, pre-filled forms would still produce significant advantages. The study estimated that among tax filers for whom tax forms could not be filled with complete accuracy, most would need to make only one change – sometimes as simple as a change of address – or complete one additional schedule.²³





Thus, it appears feasible for the IRS to produce accurate or nearly accurate pre-filled tax returns for most tax filers, even if the agency would still need to solve some practical hurdles.²⁴ Ultimately, pre-populated federal tax forms would save tax filers billions of dollars and hundreds of millions of hours each year spent on tax preparation and filing.²⁵

With a system of pre-populated federal tax forms in place, the Oregon Department of Revenue would be well-positioned to generate similarly pre-filled state tax forms. Because the Oregon tax forms piggyback from federal tax forms, DOR would likely be able to generate accurate forms for a significant share of Oregon tax filers and nearly accurate for many others.

Provide robust tax support

While the majority of tax filers would benefit from the creation of pre-filled tax forms, some filers would still need assistance in filing their returns. Many well-off tax filers could continue employing the services of accountants to prepare and file their tax returns, which tend to be more complicated. However, other tax filers without the resources to hire an accountant but with complicated circumstances, such as language barriers, changes in immigration or marital status, or unique deductions, will still need help even with a system of pre-filled forms. This is why there will be a continued need for the federal and state governments to provide free, culturally appropriate tax assistance.

The foundations of this system already exist. For certain tax filers, the IRS already supports services that provide free in-person tax assistance by a certified tax professional.²⁶ People making under \$64,000, with a disability, or limited with English proficiency can access the Volunteer Income Tax Assistance (VITA) program.²⁷ Additionally, the Tax Counseling for the Elderly (TCE) program is available to people 60 years and older. Both VITA and TCE depend on the availability of trained volunteers.

The state has stepped up to support tax assistance programs. In 2022, the Oregon legislature created the Tax Infrastructure Grant program, a \$4 million per year investment in tax assistance provided by community-based organizations, including Metropolitan Family Services, CASH Oregon, Latino Community Association, Oregon State University, and the Confederated Tribes of the Umatilla Indian Reservation.²⁸ By investing in trusted community-based organizations, the program has been able





to reach communities that face barriers to tax filing. Since its inception, the program has been able to reach people in 23 different languages.²⁹

But the need to strengthen tax filing assistance is clear. In 2020, VITA and TCE together helped about 18,500 people file taxes in Oregon.³⁰ While significant, the number amounted to only 1.3 percent of filers making under \$50,000 who are likely eligible for VITA. National estimates point to only about 4 percent of eligible families using VITA or free file, leaving many who would benefit from them unable to access them.³¹ The key limitations for these programs are insufficient volunteers, inadequate funding, and cultural appropriateness.³²

Thus, achieving a simple and free tax filing system will require additional federal and state investments in free, culturally appropriate tax support. With a robust state-federal Direct File program providing pre-filled tax forms, fewer people will need to use the services of a VITA clinic, freeing tax support volunteers to focus their efforts on tax filers who need the extra assistance.³³ There will always be a need for expert tax assistance, even after implementing a robust Direct File program in Oregon. As said best by Prosperity NOW and Code for America, organizations supporting VITA and TCE providers, "Direct File will free up VITA and TCE capacity to focus on the taxpayers who need extra assistance. In this way, Direct File is a complement to — not a substitute for — VITA and TCE."³⁴

A simple and free tax system would yield a range of benefits

Implementing the federal and state reforms outlined above would provide many benefits to Oregonians. These reforms could deliver nearly \$250 million each year in value to Oregon taxpayers, between filing fees, the value of time saved, and additional federal credits claimed.³⁵ These benefits include the following:

- Make tax filing completely free. Except for tax filers wishing to hire an accountant to prepare their tax returns, who typically tend to be well-off tax filers, the simple and free tax filing system would relieve tax filers of the cost of filing. There would no longer be the need to pay corporations or tax preparers to fulfill the civic duty that is tax filing. These reforms are estimated to save Oregonians more than \$100 million each year in filing fees.³⁶



- Eliminate or shrink the time spent on tax filing. For a large share of tax filers, a system of pre-filled tax forms would eliminate much of the time spent on preparing tax returns. And for most of the remaining tax filers, pre-filled forms would cut down substantially the amount of time needed to file taxes. Pricing Oregonians' time at \$15 per hour, the reduced time spent on tax filing would amount to \$38 million per year in labor savings.³⁷
- Increase the use of tax credits for working families. Refundable tax credits like the Earned Income Tax Credit, the federal Child Tax Credit, and the Oregon Kids' Credit are highly effective programs designed to help families make ends meet. But the need to file a tax return is an obstacle for many eligible families, due to the complexity involved in claiming them. Pre-filled tax forms would make it easy for tax filers to claim the tax credits they are due because the IRS and DOR could notify eligible families who may not claim the credits. An estimated \$104 million each year could flow into the pockets of Oregon working families due to claiming federal credits they are already eligible for.³⁸ These funds would help all Oregonians since much of it would be spent in the local economy.³⁹
- Reduce errors that lead to audits and penalties. The complexity of tax forms can cause tax filers to commit errors when filling out their tax forms, creating the risk of penalties if the IRS or DOR were to conduct an audit. Audit rates have historically been highest for low-income filers who claim the EITC.⁴⁰ Audit rates also disproportionately target filers of color, with audit rates for Black tax filers three to five times higher than non-Black tax filers.⁴¹ A system of pre-filled tax returns bolstered by a robust system of free, culturally appropriate tax filing services, would cut down on errors in tax returns and reduce the risk of tax filers facing audits and penalties.

Conclusion

The dream of simple, free, and easy tax filing can be made real for most Oregonians. The steps to get there are clear: establish an integrated state-federal direct file program, provide pre-filled tax returns, and offer well-funded tax support. This system would create a framework for free, less time-consuming tax returns with fewer errors and higher claiming rates for tax credits benefitting working families.



Endnotes

- ¹ United States Internal Revenue Service, [Tax Year 2023 Form 1040](#), page 108.
- ² Oregon Center for Public Policy analysis based on Internal Revenue Service Tax Year 2020 [Statistics of Income](#) data.
- ³ For example, 83 percent of Oregonians making between \$500,000 and \$1 million in annual income used a paid preparer, and 92 percent of Oregonians making more than \$1 million used one. Oregon Center for Public Policy analysis based on Internal Revenue Service Tax Year 2020 [Statistics of Income](#) data.
- ⁴ Rosemary Marcuss, et al., [Income Taxes and Compliance Costs: How Are They Related?](#), National Tax Journal, December 2013.
- ⁵ Maggie R. Jones, [Tax Preparers, Refund-Anticipation Products, and EITC Noncompliance](#), U.S. Census Bureau, December 2017. Example taken directly from page 2.
- ⁶ Maggie R. Jones, [Tax Preparers, Refund-Anticipation Products, and EITC Noncompliance](#), U.S. Census Bureau, December 2017.
- ⁷ Chi Chi Wu and Michael Best, [Taxpayer Beware: Unregulated Tax Preparers and Tax-Time Financial Products Put Taxpayers at Risk](#), National Consumer Law Center, Consumer Federation of America, March 2015.
- ⁸ Alissa Anderson, [Expanding Access to Free Tax Preparation Services Is Essential to Making the CalEITC a Success](#), California Budget & Policy Center, May 2018.
- ⁹ Oregon Center for Public Policy analysis based on Internal Revenue Service Tax Year 2020 [Statistics of Income](#) data.
- ¹⁰ Justin Elliott and Paul Kiel, [Inside TurboTax's 20-Year Fight to Stop Americans From Filing Their Taxes for Free](#), ProPublica, October 2019.
- ¹¹ Justin Elliott and Paul Kiel, [Inside TurboTax's 20-Year Fight to Stop Americans From Filing Their Taxes for Free](#), ProPublica, October 2019.
- ¹² Justin Elliott and Paul Kiel, [FTC Orders Maker of TurboTax to Cease "Deceptive" Advertising](#), ProPublica, January 2023; and [United States Federal Trade Commission In the Matter of Intuit Inc., Opinion of the Commission](#).
- ¹³ Justin Elliot, [Intuit Will Pay Millions to Customers Tricked Into Paying for TurboTax](#), ProPublica, May 2022.
- ¹⁴ [Attorney General James Secures \\$141 Million for Millions of Americans Deceived by TurboTax](#), May 2022.
- ¹⁵ Justin Elliot and Kengo Tsutsumi, [TurboTax Uses A "Military Discount" to Trick Troops Into Paying to File Their Taxes](#), ProPublica, May 2019.
- ¹⁶ Federal Trade Commission, [FTC Takes Action Against Tax Prep Company H&R Block For Wiping Consumers' Data, Deceptively Marketing 'Free' Online Filing](#), February 2024.
- ¹⁷ Anna Massoglia, [TurboTax maker Intuit spent millions in record lobbying blitz amid threats to tax prep industry](#), OpenSecrets.org, February 2024.
- ¹⁸ Internal Revenue Service, [IRS Direct File Pilot](#), accessed in April 2024.
- ¹⁹ Oregon Department of Revenue, [Direct File Oregon](#), accessed in April 2024.
- ²⁰ Quote and estimate of users provided by the Oregon Department of Revenue in April 2024.
- ²¹ Rosemary Marcuss, et al. [Income Taxes and Compliance Costs: How Are They Related?](#) National Tax Journal, December 2013.
- ²² Tax Policy Center, [Briefing Book: What is return-free filing and how would it work?](#), January 2024; and Lucas Goodman et al., [Automatic Tax Filing: Simulating a Pre-Populated Form 1040](#), National Bureau of Economic Research, June 2023.
- ²³ Tax Policy Center, [Briefing Book: What is return-free filing and how would it work?](#), January 2024; and Lucas Goodman et al., [Automatic Tax Filing: Simulating a Pre-Populated Form 1040](#), National Bureau of Economic Research, June 2023.

²⁴ For instance, staff at the ODHS Tax infrastructure Grant point out that, at present, the IRS might not be in a position to provide pre-filled tax returns by the start of tax filing season, usually late January. If investments in technology were insufficient to overcome that obstacle, then it might simply be solved by moving back tax filing season. After all, the deadline for filing taxes, April 15 is an arbitrary date that has changed in the past. See [Income Tax Day](#), Library of Congress Research Guides.

²⁵ Lucas Goodman et al., [Automatic Tax Filing: Simulating a Pre-Populated Form 1040](#), National Bureau of Economic Research, June 2023; and Austan Goolsbee, [The Simple Return: Reducing America's Tax Burden Through Return-Free Filing](#), Brookings Institution, July 2006.

²⁶ MilTax is the final public offering and only available to military personnel, so it was not emphasized here. [Military One Source](#) has more information.

²⁷ Internal Revenue Service, [Free tax return preparation for qualifying taxpayers](#), accessed in April 2024.

²⁸ [House Bill 4117](#), Oregon 2022 regular legislative session. Additional information by Meg Reinhold, Tax Infrastructure program manager at the Oregon Department of Human Services.

²⁹ Information provided by Meg Reinhold, Tax Infrastructure program manager at the Oregon Department of Human Services.

³⁰ Oregon Center for Public Policy analysis based on Internal Revenue Service Tax Year 2020 [Statistics of Income](#) data.

³¹ Javaid et al., [Tax Season 2019 Outreach Experiment on Paper Filers and Nonfilers](#), IRS Research Conference, slide 133, June 2020.

³² Kristine de Leon, [File your taxed for free: Here's how eligible Oregonians can get help](#), Oregonian/OregonLive, March 2024.

³³ Prosperity Now and Code for America, [Letter to VITA and TCE partners](#), August 2023.

³⁴ Prosperity Now and Code for America, [Letter to VITA and TCE partners](#), August 2023.

³⁵ Gabriel Zucker and Bharat Ramamurti, [The Impact of Direct File – by the Numbers](#), Economic Security Project.

³⁶ Gabriel Zucker and Bharat Ramamurti, [The Impact of Direct File – by the Numbers](#), Economic Security Project.

³⁷ Gabriel Zucker and Bharat Ramamurti, [The Impact of Direct File – by the Numbers](#), Economic Security Project.

³⁸ Gabriel Zucker and Bharat Ramamurti, [The Impact of Direct File – by the Numbers](#), Economic Security Project.

³⁹ Janet Bauer, [Oregon Remains Near Bottom in Use of EITC](#), Oregon Center for Public Policy, January 2022.

⁴⁰ Brendan McDermott, [Distribution of IRS Audits by Income and Race](#), Congressional Research Service, November 2023.

⁴¹ Hadi Elzayn et al., [Measuring and Mitigating racial Disparities in Tax Audits](#), Stanford Institute for Economic Policy Research, January 2023.