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Money > Taxes

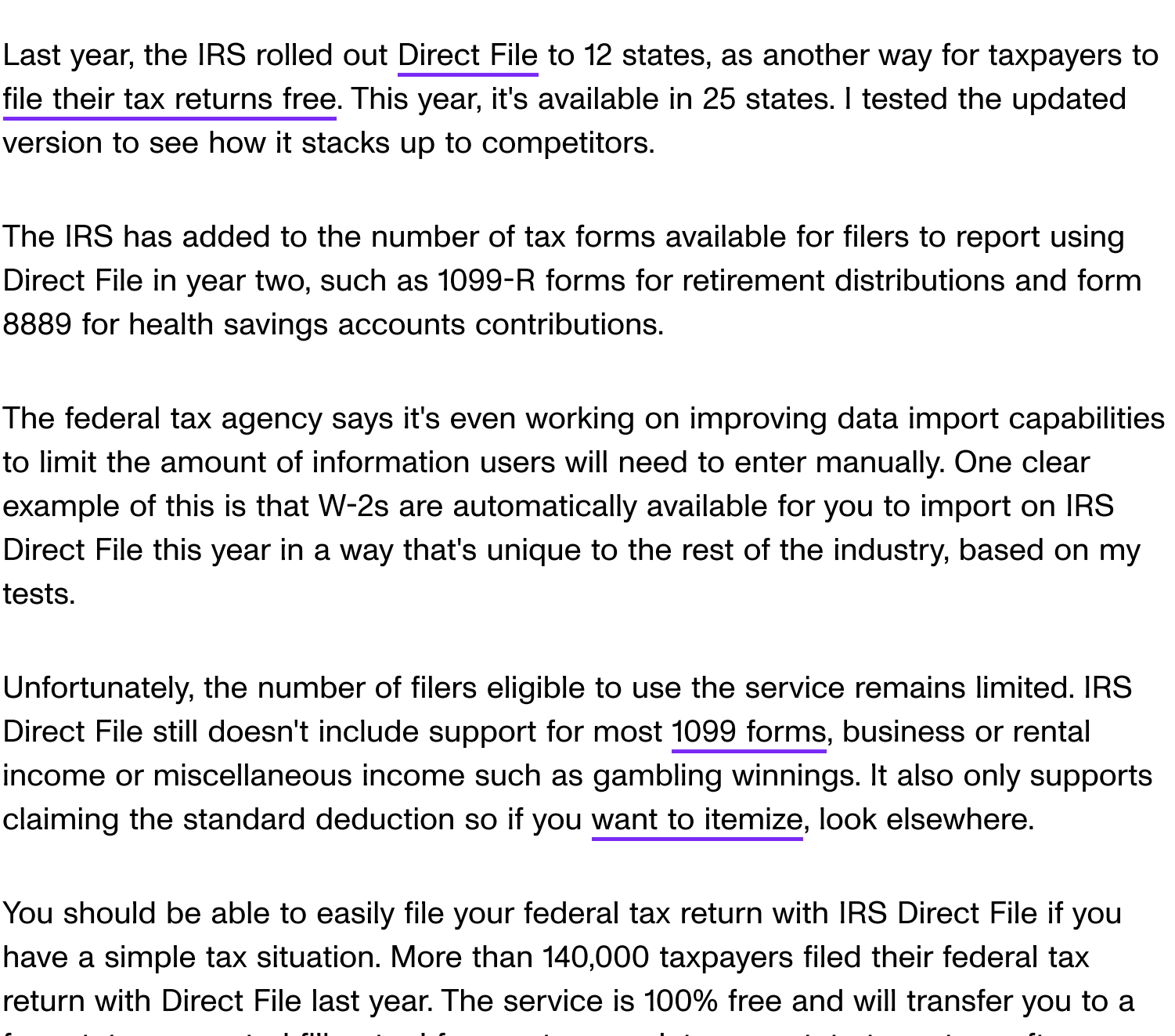
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# IRS Direct File Has One Feature Other Tax Software Lacks, but It Still Has Major Gaps



Free filing system has some limitations in year two but number of tax forms has increased and automated data input has improved.

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IRS/CNET

Last year, the IRS rolled out Direct File to 12 states, as another way for taxpayers to file their tax returns free. This year, it's available in 25 states. I tested the updated version to see how it stacks up to competitors.

The IRS has added to the number of tax forms available for filers to report using Direct File in year two, such as 1099-R forms for retirement distributions and form 8889 for health savings accounts contributions.

The federal tax agency says it's even working on improving data import capabilities to limit the amount of information users will need to enter manually. One clear example of this is that W-2s are automatically available for you to import on IRS Direct File this year in a way that's unique to the rest of the industry, based on my tests.

Unfortunately, the number of filers eligible to use the service remains limited. IRS Direct File still doesn't include support for most 1099 forms, business or rental income or miscellaneous income such as gambling winnings. It also only supports claiming the standard deduction so if you want to itemize, look elsewhere.

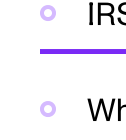
You should be able to easily file your federal tax return with IRS Direct File if you have a simple tax situation. More than 140,000 taxpayers filed their federal tax return with Direct File last year. The service is 100% free and will transfer you to a free state-supported filing tool for you to complete your state tax return after you file.

Source: Internal Revenue Service

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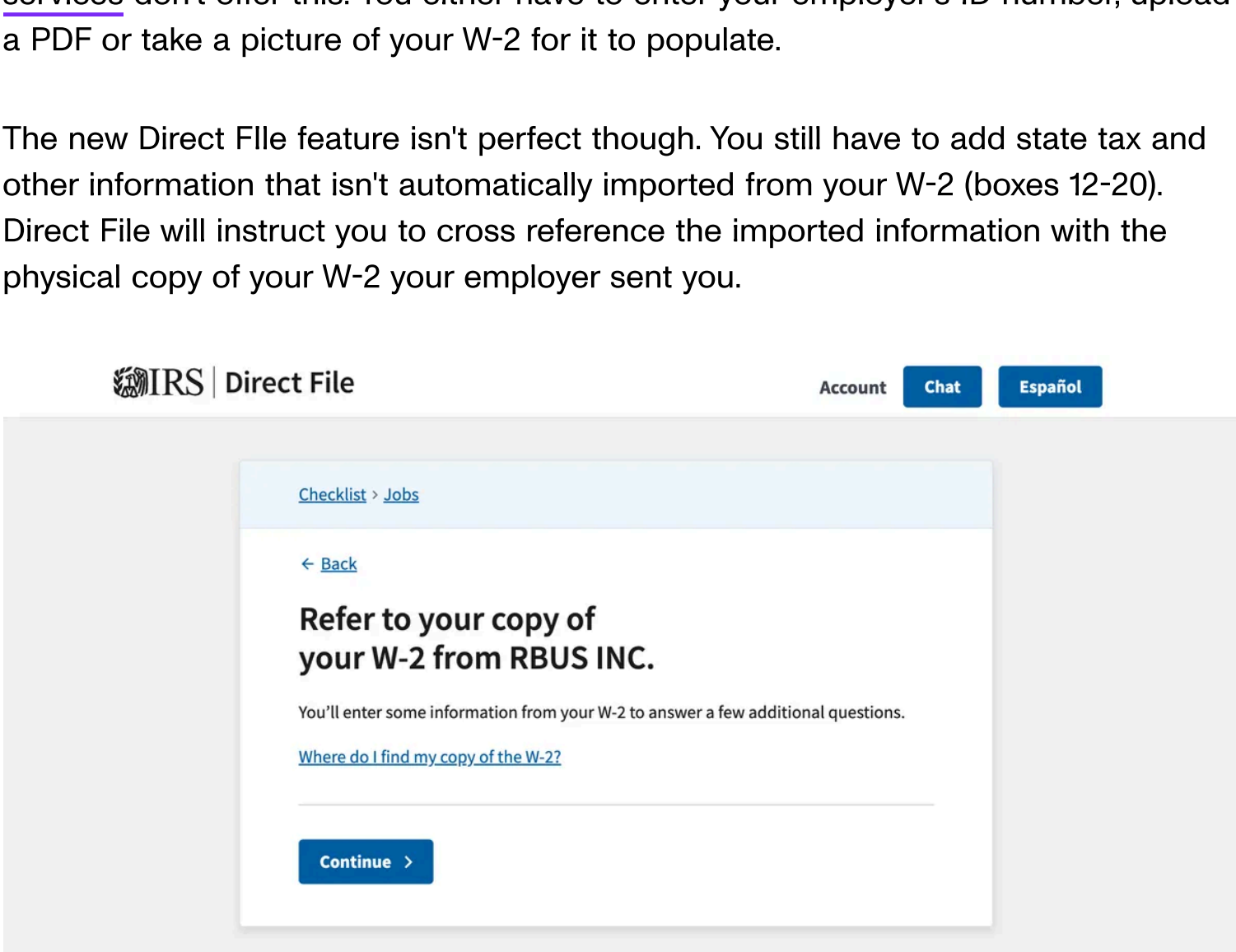
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## What's it like to use IRS Direct File?

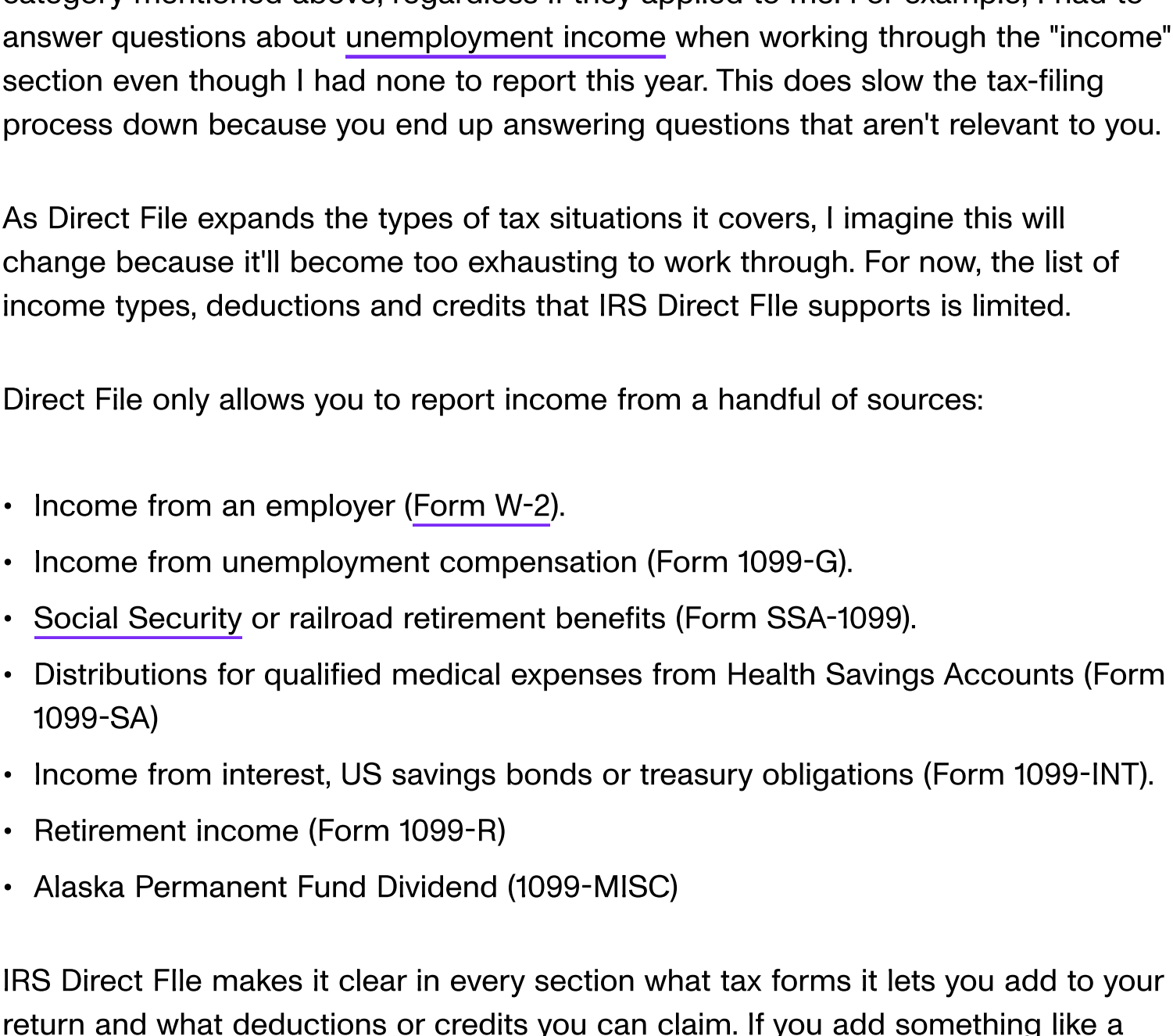
If you're eligible for IRS Direct File this year, you'll find the free filing software is easy enough to use. I can see myself and others using Direct File in the future as the program expands the types of tax situations it covers. I wasn't eligible to file my income tax return using Direct File in 2024 or 2025.

Before using Direct File, you'll have to set up an ID.ME account to verify your identity. Logging on to Direct File with ID.ME after requires standard two-factor authentication using your phone number. Your personal information will then be imported into Direct File to pre-fill your profile on the tax service.



IRS/Screenshots by CNET

Once you're on your dashboard, you'll be greeted by a five-step tax-filing checklist: "You and Your Family," "Income," "Deductions and Credits," "Your Taxes 2025" and "Complete." Each time you start a section, Direct File will preview the information it asks you for. You'll also find hyperlinks that launch pop-up windows with contextual help as you go along. At the end of each section or form you add, Direct File will show you a recap of what you entered to check your work.

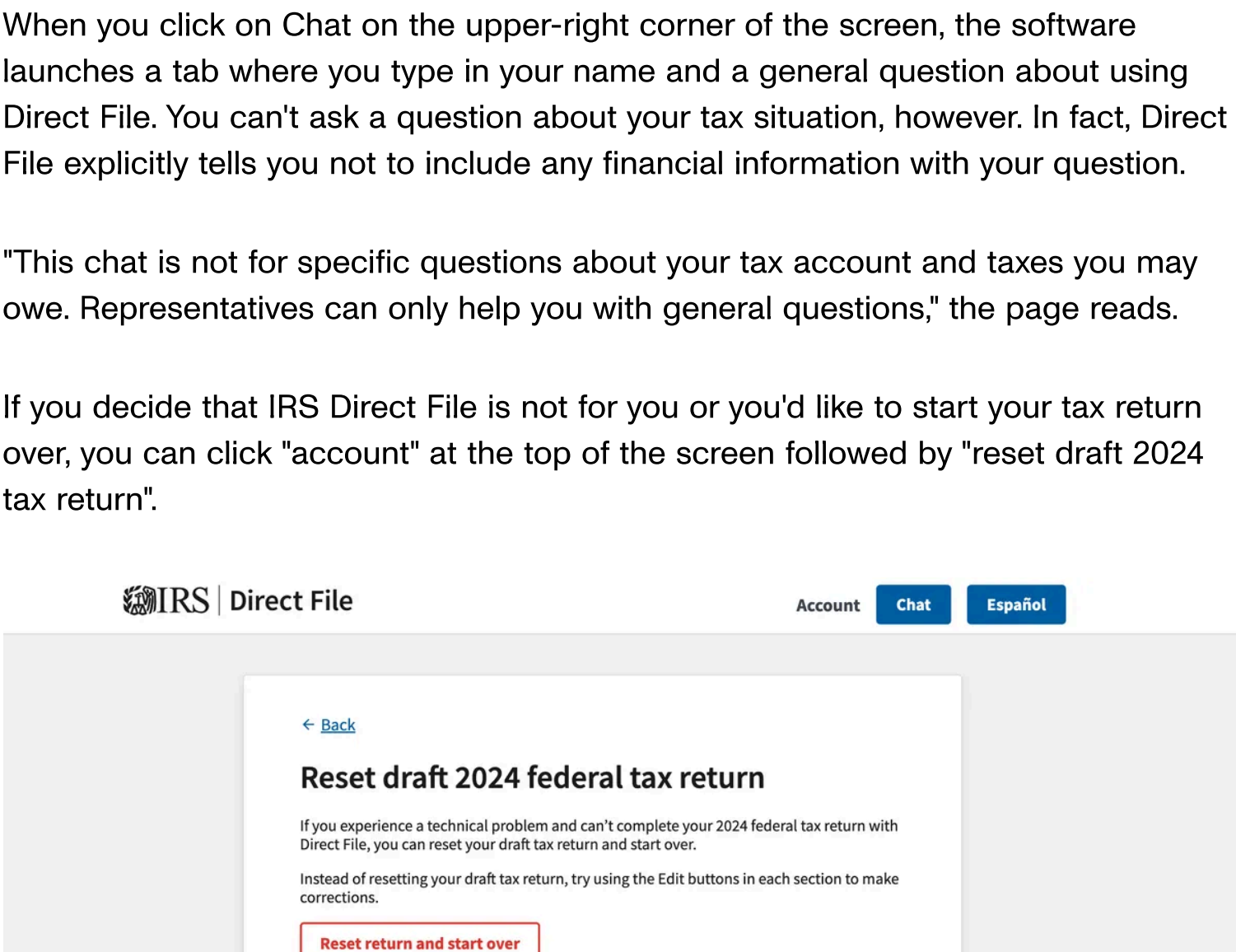


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My favorite part of Direct File this year is its W-2 imports. When I first tested the service last year, I hoped the IRS would eventually add the option to automatically import your W-2 to your tax return -- and it did.

When I was working on my income, my W-2s were already there waiting for me to add to my tax return. This is likely because your employer sends a copy of your W-2 to the IRS each year, so the agency already had them on file. Other tax filing services don't offer this. You either have to enter your employer's ID number, upload a PDF or take a picture of your W-2 for it to populate.

The new Direct File feature isn't perfect though. You still have to add state tax and other information that isn't automatically imported from your W-2 (boxes 12-20). Direct File will instruct you to cross reference the imported information with the physical copy of your W-2 your employer sent you.



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Direct File saves your progress as you complete your tax return and you can go back to any part of your return at any time. But you can't jump ahead. Filers who like to complete deductions and credits on their tax return first because it's more time consuming probably won't like that.

Unlike most other tax services, Direct File doesn't offer you the chance to just tell the software what income and deductions you have to report. It instead asks you if each type of income it supports is applicable to you. The same holds true when you reach deductions and credits.

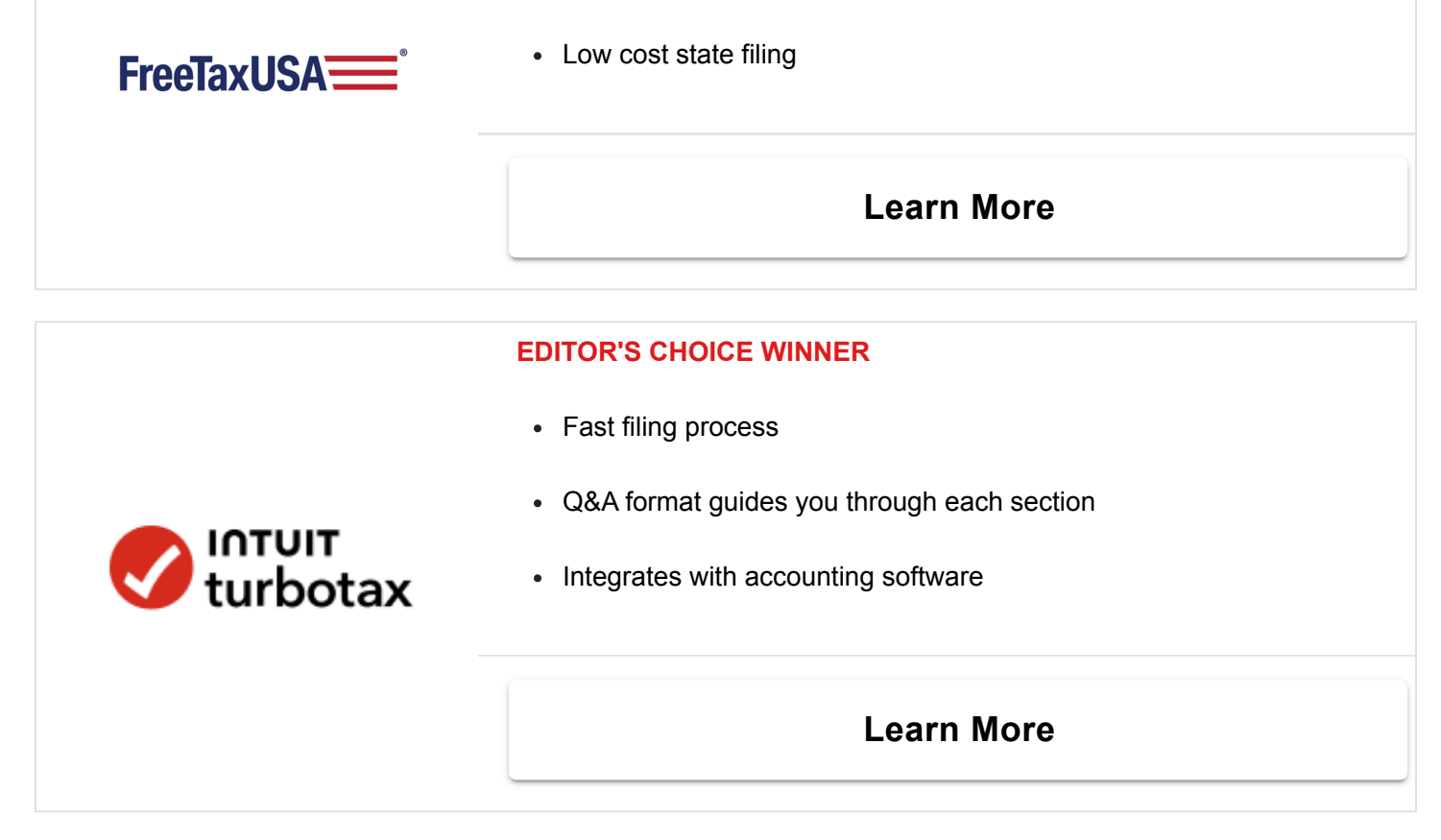
Because of this, I found myself having to click through all of the subsections in each category mentioned above, regardless if they applied to me. For example, I had to answer questions about unemployment income when working through the "income" section even though I had none to report this year. This does slow the tax-filing process down because you end up answering questions that aren't relevant to you.

As Direct File expands the types of tax situations it covers, I imagine this will change because it'll become too exhausting to work through. For now, the list of income types, deductions and credits that IRS Direct File supports is limited.

Direct File only allows you to report income from a handful of sources:

- Income from an employer (Form W-2).
- Income from unemployment compensation (Form 1099-G).
- Social Security or railroad retirement benefits (Form SSA-1099).
- Distributions for qualified medical expenses from Health Savings Accounts (Form 1099-SA)
- Income from interest, US savings bonds or treasury obligations (Form 1099-INT).
- Retirement income (Form 1099-R)
- Alaska Permanent Fund Dividend (1099-MISC)

IRS Direct File makes it clear in every section what tax forms it lets you add to your return and what deductions or credits you can claim. If you add something like a 1099-DIV form or want to itemize expenses, the service will prompt you to exit and link you to filing options you can use instead.



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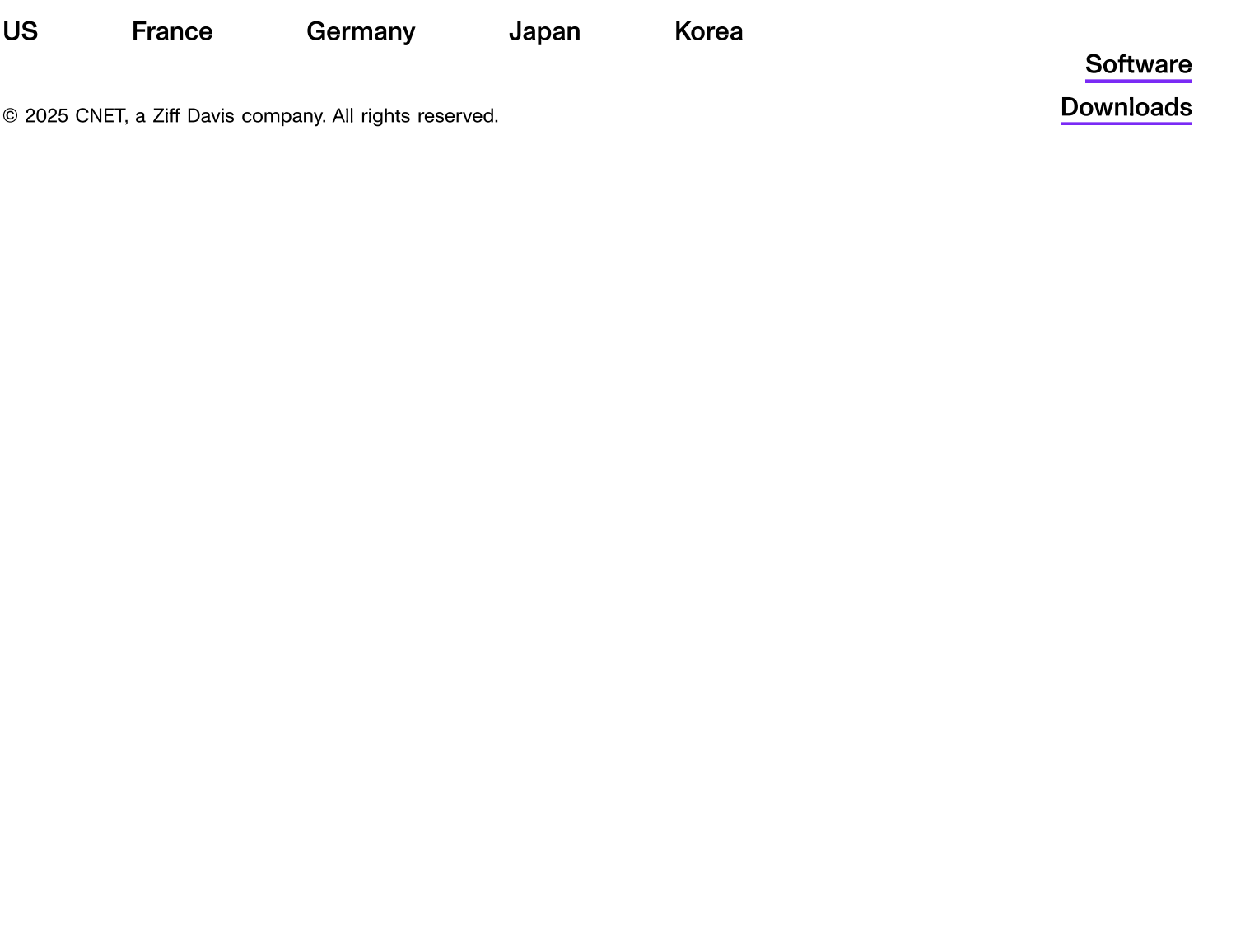
## IRS Direct File's other notable features

IRS Direct File's contextual help is on par with most online tax preparation software. But its chat function is very limited.

When you click on Chat on the upper-right corner of the screen, the software launches a tab where you type in your name and a general question about using Direct File. You can't ask a question about your tax situation, however. In fact, Direct File explicitly tells you not to include any financial information with your question.

"This chat is not for specific questions about your tax account and taxes you may owe. Representatives can only help you with general questions," the page reads.

If you decide that IRS Direct File is not for you or you'd like to start your tax return over, you can click "account" at the top of the screen followed by "reset draft 2024 tax return".



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IRS Direct File is available in English and Spanish. If you're getting a refund, Direct File lets you receive your refund through direct deposit or mail. You can also pay the IRS directly by April 15 if you have a tax bill.

## What's missing from IRS Direct File?

I came away impressed with how smooth IRS Direct File is to use. The software offers clear direction and gives you a good sense of the progress you've made in completing your tax return.

But there are still some missing components that I hope to see next year. For starters, it should have a window at the top of the screen that updates the size of your return or the amount you owe as you enter your tax information. It seems like every online tax filing software program has this. Direct File should too.

Direct File forces you to fill out your tax return in a specific order. While you can go back to any part of your return you've completed via the checklist, you can't skip ahead to deductions and credits, for example. Not every online tax filing software allows you to skip forward but I'm a big fan of the ones that do.

Finally, IRS Direct File doesn't integrate the IRS's full library of tax resources. I was fully expecting to see a designated "Help" tab for me to reference as I tested this year.

The contextual help built into the tax software through hyperlinks that generate pop-up windows is solid, but in our opinion IRS Direct File should be the online tax software with the best contextual help and resources. It still can be in the future. Currently, that designation goes to TurboTax, H&R Block and FreeTaxUSA.

## Is IRS Direct File right for me?

IRS Direct File could be a good fit for more people in year two, but it has a long way to go before being considered a top online tax service. That's not because of how the tax software performs but rather because of the limitations of the IRS' proprietary service, such as the fact that only eligible taxpayers in 25 states are eligible for the program this year.

But if you live in one of those states, have a simple tax situation and will claim the standard deduction, there's a great chance that you do qualify. Be sure to compare your tax situation to the forms and schedules IRS Direct File accepts this year.



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