Insight

The IRS's New Year's Resolution

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With the new year comes new beginnings, including from federal regulators. For everyone's favorite government agency, the Internal Revenue Service (IRS), 2016 apparently ushers in a bit of administrative soul-searching that should be big news for the nation's businesses. The IRS recently revised its estimated paperwork burden for the Business Income Tax Return by … roughly 2.5 billion annual hours (from 360 million hours to 2.8 billion). On December 31, 2015, the nation's cumulative paperwork burden was slightly more than nine billion hours. Once the IRS paperwork imposition was processed, the nation's paperwork burden grew to more than 11.5 billion hours.

According to IRS's explanation, the increase comes from a combination of consolidating other forms into one "information collection requirement" and updating the estimation methodology from one used since "the mid-1980's." Nevertheless, this spike in reported hours now puts the government-wide paperwork total at more than 11.5 billion hours – the highest level on record. See the graph below for perspective.



*The final total of 2015 represents 2014-2015 due to the lack of an official "Information Collection Budget" for 2014 or 2015.

Although this updated estimate may simply be a matter of accounting in order to provide a more accurate assessment, it's helpful to look at the impact of this new, more accurate figure. According to the Bureau of Labor Statistics, the average hourly wage of an accountant is $35.42. Applying that to the more than 2.8 billion hours' worth in this estimate yields more than $100 billion in wage costs for tax preparation alone. The cost to the Federal Government to manage this collection? 48 dollars.

The opportunity costs for businesses diverting accounting resources away from actually

managing their books are also substantial. IRS estimates that it will take 10.3 million responses to complete that 2.8 billion hour-load. That means that it would take each respondent 275 hours, or nearly seven 40-hour work-weeks, to complete the relevant forms. For some large corporations, this might not be an issue, but for smaller firms this is a serious drain on their in-house resources or a hefty amount of hours they have to bill out to an accounting firm.

The start of the year marks the time when individuals and businesses begin to organize the relevant forms and documents ahead of April 15th. And politically, there is a burgeoning movement toward some sort of tax reform in the year ahead. This news should be a stark reminder of all of the burdens imposed by such an overly complicated and complex tax system. Happy New Year, indeed.