

Research



Tax Day 2019: Little Impact on Compliance Costs from TCJA (So Far)

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EXECUTIVE SUMMARY

- The total projected cost of Internal Revenue Service paperwork is \$197.3 billion annually – a small increase over last year’s total, suggesting that changes from the Tax Cuts and Jobs Act have yet to affect the paperwork burden of taxes.
- Taxpayers this year spent an estimated 8 billion hours annually on tax paperwork – 52 hours per taxpayer, a slight decrease from last year – while the number of individual forms increased by 13 percent, the second straight year of a double-digit increase.
- A number of other researchers have estimated tax compliance burdens, and while these studies offer a range of estimates, they are remarkably similar in magnitude and direction.

INTRODUCTION

Many provisions of the Tax Cuts and Jobs Act (TCJA) took effect for tax year 2018, and as a result the paperwork burden of taxes could be expected to change, as well. Except for an uptick in the number of forms attributable to the Internal Revenue Service (IRS), however, other tax-paperwork compliance burdens remain similar to [Tax Day 2018](#).

According to data from the Office of Information and Regulatory Affairs (OIRA), the estimated aggregate time burden required to complete IRS forms, when rounded, decreased slightly from 2018 to an even 8 billion hours. This figure breaks down to 52 hours per taxpayer.

According to the IRS, the monetary cost of completing this paperwork is \$90.2 billion. This official number is an underestimate, however, because the IRS only provides monetary burden estimates on 15 of its more than 670 information collection reviews (ICRs) – how the IRS groups its tax forms, such that the individual tax return is a single ICR. While the IRS provides a time-burden estimate for every ICR, these 15 ICRs account for only 62 percent of the burden. Thus, a large percentage of total hours are unaccounted for.

This study estimates the cost of the missing hours to arrive at a final sum for the total cost of tax compliance this year: **\$197.3 billion**, a modest 1.54 percent increase over 2018. This projected cost is the highest since the American Action Forum (AAF) began its annual review in 2014, with the exception of the [anomaly of 2016](#).

METHODOLOGY

AAF researched every active IRS Office of Management and Budget Control Number (collections of information or recordkeeping requirements) on [reginfo.gov](#), the government website that houses all federal

paperwork information (as of April 2, 2019, for the purposes of this study). That search found 676 unique ICRs, all of which contained IRS estimates of expected responses and burden hours. The IRS estimates the costs for just 15 of these ICRs, however. To project costs for the rest, AAF applied the Bureau of Labor Statistics' estimated average hourly wage for compliance officers (\$34.86). The methodology is consistent with AAF's previous Tax Day research.

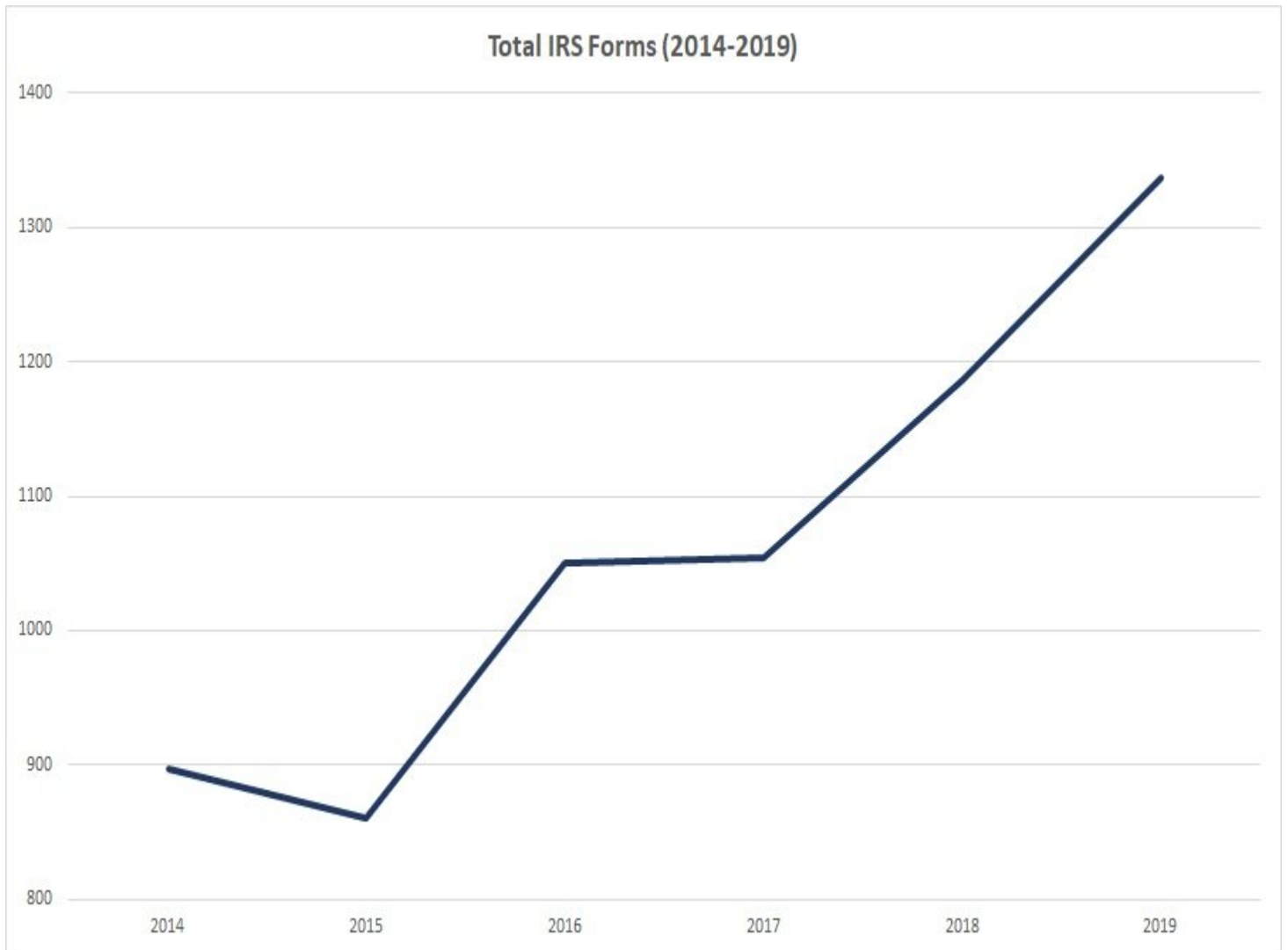
RESULTS

The most noteworthy change from 2018 was a 13 percent increase in the number of IRS forms – the second consecutive year with a double-digit increase. While the total projected cost and average hours per paperwork submission increased slightly, the total number of hours required to deal with all active tax forms dropped by about 40 million.

- Forms: 1,337
- Hours: 8 billion
- Average Hours Per Paperwork Submission: 11.9
- Total Projected Cost: \$197.3 billion

FORMS

The total number of forms issued by the IRS is at its highest amount in the six years AAF has researched tax paperwork burdens. The number of forms increased to 1,337 from 1,186 a year ago. Since 2014, only once did the number of forms decrease (2015). The chart below illustrates the overall increase in IRS forms since 2014.



Business and individual tax returns continue to generate the most forms, with 423 and 200, respectively. The number of forms associated with business tax returns increased more than 15 percent from 2018. The third-most forms are associated with tax-exempt organization returns (103), which increased almost 3.5 times from 2018 (23). Given the TCJA imposed substantial new tax regimes, particularly with respect to multinational firms, this development is hardly surprising.

Tax paperwork undergoes a burden review when an ICR is substantially revised or when a previous review expires (typically every three years). According to OIRA data, only about one-third of IRS paperwork has been substantially revised or expired – and therefore reviewed – since passage of the TCJA. Accordingly, the full effect of the changes of the TCJA are likely not reflected in these numbers.

INFORMATION COLLECTION REVIEWS

The IRS had 676 active ICRs as of April 3, 2019. This total is down nearly 4 percent from 2018 (704). Ten new reviews appeared this year, while 38 ICRs lapsed. Some of these 38 may return to active status once OIRA completes its review. Accordingly, AAF’s annual research is best interpreted as a snapshot of IRS paperwork

burden.

Six ICRs come with total burdens of more than \$10 billion annually. These collections represent nearly 78 percent of all burdens imposed by IRS paperwork. These six ICRs remain in the same order when it comes to total burden hours, and they are the only collections that consume more than 300 million hours of Americans' time annually.

| Collection | Cost (\$ Millions) |
|---|--------------------|
| U. S. Business Income Tax Return | 58,148 |
| U.S. Individual Income Tax Return* | 31,764 |
| Proceeds From Broker and Barter Exchange Transactions | 23,508 |
| Form 4562 – Depreciation and Amortization | 15,630 |
| Employer's Quarterly Federal Tax Return | 14,015 |
| U.S. Income Tax Return for Estates and Trusts | 10,731 |

* To remain consistent with previous years' research, AAF used the burden estimate included in OIRA's summary table. A review of the [supporting documentation](#) for this collection includes a new methodology, used without clear explanation, that shows a burden of more than \$60 billion.

The U.S. Business Income Tax Return remains the largest source of burden from IRS paperwork. According to IRS estimates, it takes 11.3 million filers an average of 279 hours to complete the return annually at a total cost of \$58.1 billion. By comparison, the IRS estimates that it takes the 157.8 million filers of the U.S. Individual Tax Return 11.3 hours per return, for a total cost of \$31.8 billion.

Five ICRs have an average hourly cost above \$50. The five collections are:

| Collection | Cost/Hour |
|---|-----------|
| Internal Claims and Appeals and External Review Disclosures (PPACA) | \$503 |
| Annual Return/Report of Employee Benefit Plan | \$391 |
| Suspension of Benefits Under the MPRA | \$189 |
| IFR for Grandfathered Health Plans under the PPACA | \$165 |
| Application for Certificate of Subordination of Federal Tax Lien | \$52 |

ALTERNATIVE MEASURES OF TAX COMPLIANCE COSTS

A number of studies have attempted to capture the cost to the taxpayer and the economy of administering the U.S. tax system. A 2019 study by the Bipartisan Policy Center provides an excellent survey of recent estimates. [1] The Taxpayer Advocate Service (TAS) has also reviewed recent attempts at capturing the cost of the U.S. tax code, noting that experts have embraced a range of methodologies for these calculations. [2] TAS, for example, estimated the 2015 cost of income-tax compliance at \$195 billion. The Tax Foundation estimated that compliance costs amounted to \$406 billion in 2016. [3] Subsequent estimates that include additional cost considerations and alternative approaches to monetizing the hours spent complying with the tax code alters these estimates considerably. Fichtner and Feldman completed a thorough assessment of the costs that the U.S.

tax code extracts from the economy through complexity and inefficiency, beyond TAS's estimate. According to the authors, in addition to time and money expended in compliance, foregone economic growth and lobbying expenditures amount to hidden costs estimated to range from \$215 billion to \$987 billion.[4]

These estimates provide valuable context and, despite some differences, are noteworthy for the relative similarity in magnitude and direction. These estimates do not reflect costs associated with the changes from the TCJA, which substantially reformed individual and business taxation. There will necessarily be a period of transition as taxpayers adjust to new tax regimes, with new information and reporting requirements, which have associated costs. For many taxpayers on the individual side, the TCJA likely made filing incrementally less onerous. According to a more recent study by the Tax Foundation, for individual filers the TCJA reduced the cost of compliance by \$3.1 billion to \$5.4 billion.[5]

Other measurements beyond mere time and pecuniary estimates reflect an increasingly burdensome tax code. TAS has reported that tax compliance is so onerous for individual taxpayers that over 90 percent used a preparer or tax software to submit their returns. TAS uses the IRS's ability to answer taxpayer telephone calls and its ability to respond to taxpayer correspondence as key metrics for taxpayer service. TAS reports the IRS received 77.7 million calls to its customer service lines in fiscal year 2018, which is up slightly from FY2017 with 3.3 million additional calls. These figures are down considerably from the over 104 million in FY2016, however, when over 47 percent of toll-free calls went unanswered. TAS reports that over 78 percent of calls from the toll-free number were answered in FY2018, with an average speed of an answer at just over 7.5 minutes, about half that of FY2016 and about a minute faster than in FY2017.[6]

CONCLUSION

The cost of tax paperwork continues to inch toward \$200 billion annually. Despite the implementation of the TCJA, little deviated from last year's top-line metrics aside from another substantial increase in the number of forms. It is too soon to determine the true impact of recent tax reform legislation, but early indicators appear to show little change in the burden and compliance cost that tax paperwork imposes.

[1] <https://bipartisanpolicy.org/wp-content/uploads/2019/04/Tax-Administration-Compliance-Complexity-Capacity-1.pdf>

[2] National Taxpayer Advocate. "Annual Report to Congress." Taxpayeradvocate.irs.gov. Internal Revenue Service Web. https://taxpayeradvocate.irs.gov/Media/Default/Documents/2016-ARC/ARC16_Volume1.pdf; See also Government Accountability Office (GAO), GAO-05-878, Tax Policy: Summary of Estimates of the Costs of the Federal Tax System (Aug. 2005), <http://www.gao.gov/new.items/d05878.pdf>.

[3] <https://taxfoundation.org/compliance-costs-irs-regulations/>

[4] Fichtner, Jason J. and Jacob M. Feldman, "The Hidden Costs Of Tax Compliance." Mercatus Center 2015 Web. <http://mercatus.org/sites/default/files/Fichtner-Hidden-Cost-ch1-web.pdf>

[5] https://taxfoundation.org/different-methods-calculating-tax-compliance-costs/#_ftn12

[6] https://taxpayeradvocate.irs.gov/Media/Default/Documents/2018-ARC/ARC18_Volume1.pdf