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Contents

1. Introduction and Executive Summary

The Internal Revenue Service ("IRS") estimates that taxpayers spent approximately 1.88 billion hours to complete and file their individual income tax returns in 2020.[1] The total opportunity cost of compliance could be more than $73 billion per year.[2] In addition, taxpayers are expected to incur out-of-pocket costs of about $36 billion, or $230 per taxpayer on average.[3] These estimates likely understate the total costs because they do not include costs to comply with audit activities or costs borne by third-parties.

Various efforts have been proposed over the years to reduce taxpayer compliance burdens ranging from simplification of the tax system generally to specific changes to the way tax returns are prepared, filed, and processed.[4] Among the proposals that policymakers have considered are ways for taxpayers to satisfy their tax obligations without having to file a tax return: a return-free filing system.

Center Forward engaged PwC to prepare a report to assist in assessing the benefits and costs of a return-free tax filing system for the United States. Major points of consideration drawing from tax systems that have implemented return-free filing and studies of those systems include:

- More than 30 countries use some form of return-free filing system. California experimented with a return-free filing system called ReadyReturn, but participation in the program failed to meet expectations. The program was discontinued in 2015. Adoption in the United States would require confronting and overcoming significant procedural and cultural obstacles.[5]
- The effect of return-free filing on tax compliance is theoretically ambiguous and depends on the accuracy of the prefilled amounts.
- An assessment of the benefits of return-free filing on compliance is confounded by the effects of third-party reporting generally. Compliance for amounts that are subject to third-party reporting is significantly higher than for amounts that are not. As implementation of return-free filing is often accompanied by an expansion of third-party reporting, benefits of third-party reporting may be misattributed to return-free filing, and the independent effect of return-free filing may be difficult to assess.
- Because some compliance costs are eliminated, some increase, and some are shifted to other parties, a return-free system may reduce, not change, or even increase total compliance and administrative costs. If taxpayers most likely to participate in a return-free system have the lowest compliance burdens while the taxpayers with the most complex circumstances, for whom a return-free system is not likely to be an option, bear the largest compliance burdens, then reductions in compliance costs are likely to be limited.
- Prevalence of self-employment income, above-the-line deductions, itemized deductions, and complexity generally limit eligibility for a return-free filing system. A desire to treat the household – rather than the individual – as the appropriate unit of taxation also presents challenges for a return-free filing system.
- Concerns about privacy and delays in receiving refunds are expected to cause many otherwise eligible taxpayers to decline to participate in a return-free filing system.

As will be discussed in more detail in subsequent sections of the report, implementation of a return-free filing system makes sense only if the benefits exceed the costs. The most likely benefits from return-free filing relate to the possibility of reduced compliance costs for individual taxpayers. The tax administrator could also benefit to the extent processing costs would be lower and compliance and revenue would be higher. The extent of benefits would depend on the magnitude of current burdens, the extent of eligibility for a return-free filing system, elective participation, and any additional burdens the new system would impose.

<u>Compliance burdens.</u> Compliance burdens of the individual income tax have declined about 40 percent since 2005. The scope for reducing compliance burdens therefore is likely much smaller than it was in the recent past when

some of the estimates of the benefits were made. There are other limits to the benefits of return-free filing. Because a significant portion of the population has self-employment income and a greater number use above-the-line deductions, the pool of taxpayers eligible to use a return-free system may be limited without a substantial expansion of information reporting. Such an expansion would include significant new costs, not only in terms of administrative burden on taxpayers, tax administrators, and third parties, but also burdens with respect to taxpayer privacy. As the Taxpayer Advocate Service has noted, there are significant procedural and cultural barriers to adoption of a return-free system in the United States.

Complexity. Complexity also shapes the benefits and costs of a return-free filing system. Most countries that have a return-free filing system have far simpler tax systems than the United States has. The Treasury Department concluded that simplification is a prerequisite for adoption. Simplification independently may provide benefits to taxpayers similar to those that would be provided by return-free filing and at the same time reduces the scope for any incremental benefit from implementation of a return-free filing system. Furthermore, if taxpayers with the simplest tax circumstances are most likely to participate, then the scale of benefits is likely to be relatively small. As one researcher has stated, "the taxpayers with the most complex circumstances bear the largest share of the overall burden of tax compliance and prefilled returns often are not an option for them."[6] Alternatively, a system that seeks to accommodate the complexity of our current tax code would require much more extensive information reporting at a greater cost.

Information reporting. Information reporting seems key to the success of a return-free filing system. Substantial changes to the timing of delivering reports to the IRS would be necessary to allow for proper processing of taxpayer information. Even under relatively optimistic assumptions about when information could be made available, many taxpayers would have to wait longer than under the present system to satisfy their obligations and receive any refunds due. These costs may lead some eligible taxpayers to elect not to participate. The costs borne by taxpayers who do elect to participate in the system, for example, in terms of delayed refunds reduce any net benefits. The IRS and third parties would incur costs to effectuate an acceleration in timing of information reporting. The magnitude of these costs may be independent of the number of taxpayers who ultimately elect to participate and would further offset any potential benefits of the subset who do. Privacy costs of expanded information reporting would also be incurred by a large number of taxpayers without regard to whether they participate in the system.

Tax compliance. Another area of potential benefits is increased tax compliance. However, here the evidence is mixed. Return-free filing could reduce the number of mathematical and transcription errors, but these have been falling under the current system. Broader compliance gains depend on the accuracy of prepopulated information. Taxpayers are more likely to correct unfavorable errors than favorable ones, which could reduce compliance. Also, increases in compliance do not necessarily translate into increases in revenue. Policymakers need to account for these effects properly.

Net benefits or costs. Proponents of return-free filing system in the United States have estimated billions of dollars of annual *gross* benefits (i.e., before consideration of any offsetting costs), measured as the reduction in compliance costs to participating taxpayers and lower costs of processing prepopulated returns relative to the cost of processing current tax returns for the tax administrator. However, research suggests the benefits to taxpayers and tax administrators likely have been overstated due to reductions in the underlying compliance burden and failure to account for reasonable participation rates. Costs would certainly be redistributed under such a system from some taxpayer activities (such as filing of tax returns) to other taxpayer activities (such as filing of information reports with employers); from some tax administrator activities (such as processing tax returns) to other tax administrator activities (such as preparing tax returns); and from taxpayers and tax administrators to third parties as reporters and withholding agents. It is less clear that overall costs would decline or that the *net* benefits of such a system are positive. There are also certain to be new additional costs with such a system. Previous studies of the issue have concluded that net benefits of such a system could be negative. A review of the more recent literature and assessment of the above considerations suggest there is little evidence that the benefits of a return-free filing system would exceed the costs.

The remainder of the report is structured as follows. Section 2 provides an overview of return-free filing systems, including a discussion of the ReadyReturn experience in California. Section 3 reviews the academic literature on the effects of a return-free filing system on compliance and compliance costs. Section 4 discusses potential eligibility for a return-free filing system in the United States and potential issues with implementation. Section 5 considers some of the factors that may influence a taxpayer's willingness to participate in return-free filing. Section 6 provides an appendix with detailed data on the current US year-end reconciliation system, OECD data on exact withholding systems around the world, and data on itemization and above-the-line deductions in the United States.

2. Overview of Return-Free Filing

2.1 Types of tax filing systems

In 1998, Congress passed legislation that directed the Secretary of the Treasury to develop procedures for the implementation of a return-free tax system under which appropriate individuals would be able to comply with their obligations under the Internal Revenue Code without having to file a tax return for taxable years beginning after 2007.[7] The provision also required the Secretary to report to Congress on what additional resources the Internal Revenue Service ("IRS") would need to implement such a system, the changes to the Internal Revenue Code that could enhance the use of such a system, the procedures to implement such a system, and the number and classes of taxpayers that would be permitted to use such procedures. Treasury issued a report in 2003 concluding that simplification of the tax system was a prerequisite for adoption of any type of return-free filing system.[8] In 2019, Congress repealed the requirement to pursue a return-free tax system and the associated reporting requirement by voice vote in the House and Senate.[9]

Pay-as-you-earn ("PAYE") systems are designed to collect tax throughout the year. The United States operates a simple pay-as-you-earn system that consists primarily of withholding on wage income followed by required year-end reconciliation. In contrast, more than 30 countries use some form of return-free filing system. Return-free filing systems are classified into two main types: exact withholding systems and tax agency reconciliation systems.

2.1.1 Year-end reconciliation systems

Tax law requires a US citizen or resident alien to file a Federal income tax return depending on the gross income, filing status, age, and dependency status of the taxpayer. For example, a taxpayer who is a single individual under age 65 at the end of 2020 must file a return if the taxpayer had gross income of at least $12,400.[10] If any of seven other conditions apply,[11] a taxpayer must file a return even if the taxpayer has gross income below the filing threshold. Even if not required to file a return, some taxpayers may find it advantageous to file a return if they are likely to receive money back due to over-withholding, made estimated tax payments, or qualify for certain refundable tax credits (e.g., earned income credit, additional child tax credit, American opportunity tax credit, health coverage tax credit, fuels credits). This system is sometimes called a year-end reconciliation system.

2.1.2 Exact withholding systems

Most countries that have a return-free filing system have an exact withholding system. Under an exact withholding system, taxpayers must provide the tax authority sufficient information to permit employers to withhold from paychecks and other payors to withhold from other income the exact amount of tax due during the course of the year. Cumulative withholding systems, such as those in the United Kingdom, attempt to withhold the exact amount of tax at regular intervals throughout the year. Final withholding systems make any necessary adjustments by adjusting withholding on the final paycheck of the year. If successfully implemented, taxpayers neither owe any additional tax liability at the end of the year nor have an overpayment that would require the tax authority to issue a refund.

Exact withholding systems require taxpayers to report all relevant information to payors that would withhold tax payments. Such information would include personal information (such as taxpayer identification number for the taxpayer and any spouse or dependents and filing status) as well as changes in personal status. In the United States, examples of changes in personal status that would affect exact withholding under present law include (but are not limited to) holding more than one job,[12] marriage and divorce, birth or adoption of a child, death of a spouse or dependent, separation, change in custody or support of children, aging of children, or change in educational enrollment of adult children.

In addition to personal status information, an exact withholding system must also provide a means of dealing with nonwage income. In some systems, interest and dividend income may be taxed at the source at a flat rate (rather than the progressive rates that apply to wage income) so that exact withholding is more feasible, or such income is exempt from taxation. Even in countries with exact withholding systems, a taxpayer with self-employment or capital gain income is typically required to file an income tax return.

2.1.3 Tax agency reconciliation systems

Strictly speaking, a tax agency reconciliation system is not return free, but the burden of initial preparation of the return shifts from the taxpayer to the tax administrator. Under a tax agency reconciliation system, the tax administrator prepares a provisional return based on information provided by the taxpayer and received from third-party reporting. The taxpayer reviews and corrects, if necessary, any calculations based on information not available to the tax administrator. The more expansive is information reporting, the more likely the government is to prepare a return that accurately reflects the taxpayer's true tax liability and the less likely the taxpayer needs to supplement the return with additional information. In contrast to an exact withholding system, a tax agency reconciliation system leaves open the possibility for a taxpayer to make a payment or a receive a refund at the end of the tax year. Variations of this system include prepopulated returns, which are used in Denmark, Portugal, Spain, and Sweden.[13]

While creating the possibility for simplification in preparation of a return for the taxpayer, there are increased compliance burdens for the government and likely increased burdens on third-party reporters. There may also be a risk to government receipts from asymmetric information. In preparing a return, the tax administrator discloses to the taxpayer the information it has and (implicitly) the information it does not have about the taxpayer's tax profile.[14] While a taxpayer may be likely to offer information to support a claim that the government overestimated its true tax liability, the taxpayer may be less likely to report information that would increase its tax liability.

2.2 California ReadyReturn

In 2005, the California Franchise Tax Board ("CFTB") piloted a tax agency reconciliation system known as ReadyReturn for the 2004 tax year. The CFTB mailed 51,850 California taxpayers an invitation to participate in the program along with a prepopulated tax return based on wage and tax withholding information provided to the CFTB by employers. Eligible taxpayers for the pilot program were single, nonitemizing, resident State taxpayers with no dependents and income solely from wages from one employer based on their 2003 tax return. Eligible taxpayers could submit the return if correct and complete or modify the return and submit it electronically or by mail. Of the eligible taxpayers, 11,620 (22.4 percent) participated. Of those who participated, the vast majority (96 percent) filed their returns without modification, while three percent modified their returns to report more income and 0.5 percent modified their returns to report less income.[15]

Of the 11,620 2004 tax year participants, more than half (5,971) no longer met the eligibility criteria for tax year 2005, 2,782 were randomly invited to participate for 2005, and 2,770 met the criteria but were not invited to participate in the second year.[16] The CFTB expected participation to increase in 2005 as more than 98 percent of pilot program participants indicated they would participate again. However, only 55 percent of the 2,782 prior-year participants that were invited to participate again did so.[17] The take-up rate was 20.8 percent among all randomly invited participants, lower than the 22.4 percent in 2004.

Compared to the control group, second year participants had a 2-percentage-point higher electronic filing rate (43 percent vs. 41 percent) and a decline in the "fall-out" rate for manual processing (due to, for example, a discrepancy between information reported on the return and information available to the CFTB) of 5.2 percentage points (from 14.0 percent to 8.8 percent) or 37 percent. These represent expected benefits in terms of lower processing costs from the tax agency reconciliation system. Because ReadyReturn begins with information provided by the CFTB, a decline in the fall-out rate is one of the expected benefits of the program.

However, the return correction rate, the percentage of returns to which the CFTB makes changes after filing by the taxpayers and during processing, increased by more than 80 percent (from 4.0 percent to 7.3 percent). Additional correction notices represent an increase in processing costs and in taxpayer compliance burden, as the CFTB sends a taxpayer a correction notice when it makes a change.[18] About 30 percent of the difference is attributable to a higher percentage of ReadyReturn filers that filed a duplicate tax return.

California did not offer ReadyReturn for tax year 2006 after the legislature failed either affirmatively to extend the pilot program or repeal it.[19]For the 2007 tax year, the CFTB implemented ReadyReturn state-wide administratively. Eligible taxpayers were required to be single residents with income only from wages earned from one employer and to have no dependents, no itemized deductions, and no special credits. Participation was on an opt-in basis. The CFTB estimated one million taxpayers would be eligible and expected 30,000 to elect to participate. This estimate was later revised downward to 730,000 eligible taxpayers.[20] Ultimately 11,253 tax returns were filed or about 1.5 percent of estimated eligible taxpayers. ReadyReturn was expanded for tax year 2008 such that as many as 1.9 million taxpayers were eligible to participate; however, 61,753 returns were filed, or about 3 percent of eligible taxpayers and one half of one percent of all California personal income tax returns for that year.

Accounting for other costs and benefits related to processing of returns, the CFTB concluded that program costs exceeded benefits and projected that while net costs were expected to decline if the number of participants increased, net costs would be positive for several years.[21] Whether the program would have net benefits would depend on the estimates of the reduction in compliance burden costs on program participants. In 2009, the CFTB projected that ongoing maintenance costs of the ReadyReturn system would be under $150,000 per year, processing cost savings would be about $2.25 per return, and that 160,000 taxpayers would participate by 2010.[22] However, by 2014 only approximately 75,000 returns were filed using ReadyReturn.[23] In 2015, California discontinued ReadyReturn as a separate program and announced it would incorporate the ability for taxpayers to import taxpayer information it already has on record into CalFile, its platform to e-file tax returns directly with the CFTB.

3. Return-free Filing and Compliance

3.1 Compliance costs

The effect of return-free filing on compliance costs is theoretically ambiguous. Taxpayers would be relieved of the burden of filing tax returns, but they would have other information return filing obligations. Compliance costs could also decline for tax administrators if the cost of processing return-free filing information is lower than processing a taxpayer-filed income tax return. Enforcement costs could decline if increased reliance on third-party withholding and reporting reduced errors or noncompliance.[24] Other parties, such as third-party reporters and withholding agents would face increased compliance costs. The net effect of these changing burdens would determine whether the system as a whole reduces compliance costs. Compliance costs could also decline if the tax system were simplified to facilitate return-free filing. However, this suggests that at least some of the benefits attributed to return-free filing could be obtained by undertaking the simplification of the tax system in the absence of a change to how return information is processed.

Proponents of a return-free filing system list the possibility of reducing the compliance burden on taxpayers who would be relieved of the obligation to file a tax return as one of the primary benefits of such a system. One study estimated that a return-free filing system with full participation among every eligible taxpayer, in which an eligible taxpayer 1) had income from only wages (i.e., taxpayers with no other sources of income), 2) claimed the standard deduction, and 3) claimed no credits other than the child tax credit, would reduce compliance costs for those individuals by about $2 billion per year.[25] At the time those compliance costs savings estimates were made, it took an average of 12.9 hours for nonbusiness filers to complete and file Form 1040, its schedules, and accompanying forms (**Table 3-1**).[26] As of October 2020, the IRS estimates that nonbusiness filers are expected to have an average burden of about 8 hours, a decline of nearly 40 percent, without any implementation of a return-free filing system.[27] This decline is not attributable to reduction in compliance costs due to fewer numbers of taxpayers claiming itemized deductions. Data for tax year 2017, before the 2017 tax legislative changes altering itemization behavior were effective, also report an average burden of 8 hours for nonbusiness filers.[28] Without adjusting for the decline in compliance costs, the benefits of return-free filing could be overstated by more than 60 percent.[29]

Table 3-1 Estimates of Taxpayer Compliance Burden
Average Time in Hours

Type of Taxpayer	Tax Year	Total Time	Record-keeping	Tax Planning	Form Completion and Submission	All Other Activities
Nonbusiness Filers	2005	12.9	5.7	2.5	2.9	1.9
Business Filers	2005	51.4	36.5	5.1	4.4	5.5
Nonbusiness Filers	2017	8.0	3.0	1.0	3.0	1.0
Business Filers	2017	21.0	11.0	3.0	5.0	1.0
All Taxpayers[1]	2017	12.0	5.0	2.0	4.0	1.0
Nonbusiness Filers	2020	8.0	3.0	1.0	3.0	1.0
Business Filers	2020	21.0	11.0	3.0	5.0	2.0
All Taxpayers[1]	2020	12.0	5.0	2.0	4.0	1.0

Note: Detail may not add to total due to rounding.
[1] A comparable estimate for all taxpayers is not available for tax year 2005.
Source: Internal Revenue Service

Further, any analysis of the change in compliance costs from adopting a return-free tax system must also consider newly created compliance costs that arise under a return-free system. Treasury Department analysis "suggests that a return-free tax system will shift burdens from taxpayers to, among others, their employers, financial institutions, state and federal governments[, and] ... a return-free system may reduce, not change, or even increase total compliance and administrative costs."[30] For example, a study of the British system concluded that a return-free system redistributes costs of operating the tax system from taxpayers to employers and from some activities of the tax authority to other activities.[31] As a result, any direct savings in compliance costs to taxpayers would be offset at least in part by increased reporting and filing requirements between taxpayers and withholding agents. The burden of completing returns and calculating tax liability would shift to the tax administrator. If the government provides social benefits through spending programs rather than through the tax system for the purpose of expanding the eligibility for return-free filing, the cost of administering those spending programs and compliance costs of participating in those programs should also be taken into account in assessing the overall changes in compliance costs from a return-free system.[32]

Any estimates of a reduction in compliance costs should take into account differential compliance burdens across the tax filing population. **Table 3-1** reports that compliance burdens for business taxpayers are more than 2.5 times that of nonbusiness taxpayers. Participants in a return-free filing system by design would have relatively simple tax returns. These relatively simple tax returns are likely to have relatively low compliance costs for both taxpayers and the IRS. An estimate of a reduction in compliance costs that relies on average compliance burdens would likely overstate the benefits of a return-free filing system. The average taxpayer has a compliance burden that is 50 percent higher than for nonbusiness filers (**Table 3-1**). Taxpayers most likely to be eligible to participate in a return-free filing system are likely to be those with the least complicated tax profiles.[33] Therefore, the benefits may be relatively small for this population, leading one set of researchers to conclude that "the net administrative savings from return-free filing might not be particularly large in the US context."[34]

Another aspect of compliance costs is interaction with States and localities. While nine States have no individual income tax,[35] most of the other 41 States and the District of Columbia rely to at least some degree on Federal income tax return information to determine State income tax liability. If States do not conform to the Federal system by implementing a return-free filing system, a taxpayer may still bear a substantially similar compliance burden to prepare a State income tax return.[36] Thus, without coordination, the compliance benefits for individuals of a Federal return-free filing system may be limited. In addition, the Federal government in some respects serves as an agent for the States to collect income tax information. If the Federal government's role were to change, State revenue departments may face an increase in compliance costs.[37]

3.2 Compliance in general

The effect of return-free filing on compliance, paying the right amount of tax voluntarily and timely, is also theoretically ambiguous. By reducing the cost of complying with tax obligations, return-free filing could increase compliance. Prepopulated returns may also reduce the incidence of noncompliance due to transcription or computational errors, provided that the information on third party reports is correct. On the other hand, incorrect prepopulated data that understates tax liability could reduce compliance if taxpayers are less likely to correct taxpayer favorable errors. Return-free filing systems may continue to suffer from compliance problems due to activity that is not subject to third-party reporting.[38] Compliance could decline if taxpayers believe that the tax administrator only knows about the prepopulated items on a return, leading to lower levels of compliance with respect to items the taxpayer must voluntarily disclose.

Tools to combat noncompliance in a year-end reconciliation system are also used in return-free filing systems. For example, failure to correct inaccurate information on a return-free report may carry substantial penalties. Denmark has stated that "deemed acceptance of an incorrect tax return is considered positive tax fraud. The penalty is a fine or up to two years imprisonment if fraud is identified."[39] Sweden imposes a tax surcharge of up to 40 percent if it discovers a taxpayer has omitted income not shown on a prepopulated return.[40]

3.3 Literature on return-free filing and compliance

The effect of a return-free filing system on compliance may depend on the extent to which it incorporates administrative assessment or self-assessment features. In 2004, the OECD reported that member countries generally were moving away from systems of administrative assessment (which typically require examination of tax information by officials prior to issuing assessments of tax to taxpayers) and towards systems of self-assessment on efficiency and effectiveness grounds.[41] Countries were found to favor a more targeted approach to verify tax return information and had initiated changes to improve overall compliance through 1) earlier collection of tax revenue; 2) an expanded and better-targeted program of audit inquiries; and 3) reducing the incidence of disputed assessments. The OECD reported that the data are consistent with this observation. Countries with self-assessment generally require tax returns to be filed earlier and demand payment of any residual tax when filed compared to later filing and payment obligations in countries with administrative assessment.

The effect on compliance of prefilling returns depends on the accuracy of the prefilled amounts. In an experimental setting, a study in the UK observed that correctly prepopulating a field on the tax form led to higher compliance for that field, but not higher compliance overall. It further observed that prepopulating a field incorrectly led to a decrease in compliance, whether the prepopulated amount resulted in an under- or overestimate of true tax liability.[42] A controlled experiment found differential effects of prepopulating returns based on the accuracy of the information.[43] Compliance increased when the tax return was prefilled correctly compared to when the tax return was blank; however, compliance was significantly lower when income items were incorrectly prefilled with income below the true amount. Incorrect amounts that overstated income had a positive effect on compliance. Higher prefilled income items are nearly always adjusted downwards while adjustments of low prefilled income depend on how much the true amount deviates from the prefilled amount. Individuals make no adjustments for small deviations, but they do adjust for larger deviations. On average, these adjustments do not compensate for initial lower prefilling.

Other researchers find that taxpayers are more likely to confirm favorably inaccurate information. This suggests that while compliance may increase as a result of tax agency reconciliation systems for taxpayers that underreport income subject to third-party reporting requirements, compliance may decrease for taxpayers who report income not subject to third-party reporting requirements.[44]

As noted above most participants (96 percent) in the California ReadyReturn program did not revise their prepopulated returns.[45] However, California found that 11 percent of participants reported less adjusted gross income on their California return than on their Federal income tax return.[46] Even while differences between California and Federal law may account for some of the differences in reported income, this discrepancy raised concerns that taxpayers were not correcting their returns.

A lab experiment found increased underreporting when a prepopulated tax form specified an underassessed tax liability.[47] Underreporting of amounts subject to third-party reporting was low whether those amounts were prepopulated on returns or not, but underreporting of unmatched income amounts increased when matched items were prepopulated on returns. This confirms the conventional wisdom with respect to information reporting of income items that it combats willful underreporting, reducing evasion and raising revenue. The effect may be offset by increased underreporting of items not subject to third-party reporting.

The net effect of prepopulating returns depends on the amount of income reported and not reported by third parties. This suggests some of the compliance benefits proponents may attribute to prepopulated returns may be attributable to expansion of information reporting, a necessary component of a tax agency reconciliation system. According to the Internal Revenue Service, misreporting of income amounts subject to substantial information reporting and withholding is 1 percent versus 55 percent for income amounts subject to little or no information reporting.[48]

Another avenue for improved compliance from a return-free filing system could be reductions in errors. To the extent the tax administrator uses information from third-party reporting and performs calculations necessary for the computation of tax, the scope of mathematical errors could be significantly reduced.[49] The IRS has authority to correct these types of mathematical or clerical errors in certain circumstances.[50] Even in the absence of return-free filing the number of errors has been falling because taxpayers made fewer correctable errors.[51] In fiscal year 2020 the IRS sent 1.2 million math error notices correcting 1.4 million errors out of 157.2 million individual income tax returns filed,[52] down from 2.0 million notices and 2.8 million errors out of 147.4 million returns filed[53] in 2014.[54] However, it is also possible that errors could increase under a return-free filing system.[55] The risk of propagation of errors on a large scale may be greater in a prepopulated return system. An error by the British government in 2010 led to income taxes being incorrectly calculated on about 15 percent of returns.[56] In France, nearly 25 percent of prepopulated returns had an error in the first year of implementation, and 12 years later 500,000 returns had undervalued the amount of tax to be paid.[57]

Increases in compliance due to third-party reporting and prepopulated returns may not always translate into increases in revenue. When considering deductions, the effect on compliance and revenue from reductions in previously overstated deductions may be offset by increases in previously underreported deductions. A study of charitable contributions in Denmark revealed a doubling of the number of deductions claimed and a 15 percent increase in the total value of deductions claimed when information reporting and prepopulation for charitable contributions were introduced.[58] The increase was almost entirely attributable to legitimate deductions that had previously been unreported.

In Finland, an experiment by the Finnish tax authority in prepopulating some returns found that receiving a partially filled return increased taxpayers' tendency to report deduction items that were prefilled and reduced the tendency to report both income and deduction items that are not prefilled, with no significant change in overall taxable income and taxes paid.[59]

A study of the Spanish system suggests that the effect of prepopulated returns on compliance may depend on taxpayer beliefs about whether making changes to prefilled amounts affects the probability of facing an audit.[60] For taxpayers who believe that the probability of audit is unrelated to whether they change prefilled amounts, prepopulated returns increase their willingness to pay taxes and therefore compliance. However, for taxpayers who believe that the probability of audit increases if changes are made on the prepopulated return, willingness to pay taxes decreases.

4. *Potential Eligibility and Implementation*

4.1 Free File eligibility

The IRS Free File program is a public-private partnership between the IRS and members of the Free File Alliance, who provide their brand-name tax preparation and filing software products for free. The agreement is periodically renewed, most recently in October 2018.[61] As part of its agreement, the government had pledged not to enter the tax return software and e-file services marketplace.[62]

The program allows two ways for taxpayers to prepare and file their federal income tax online for free: 1) traditional IRS Free File and 2) Free File Fillable Forms. Traditional IRS Free File provides free online tax preparation and filing options on IRS partner sites for the lowest 70 percent of taxpayers by adjusted gross income ("AGI"), those with AGI of $72,000 or less for the 2020 tax filing season. Free File Fillable Forms are electronic federal tax forms taxpayers can fill out and file online for free and are the only IRS Free File option available for taxpayers whose AGI is greater than $72,000. The Free File Alliance included nine members for the 2020 tax year. One major participant left the Alliance prior to the 2020 tax year and another announced it would leave the program after filing for the 2020 tax year is complete.

In Fiscal Year 2020, the most recent year for which complete data are available, taxpayers filed more than 4.2 million returns using the IRS Free File program.[63] This represents 2.7 percent of the 157.2 million individual income tax returns filed that year. That compares to 83.5 million returns (53.1 percent) filed online by tax practitioners and 64.6 million returns (41.1 percent) filed online by another means including through purchased software. The remaining 9.0 million returns (5.7 percent) were filed on paper, which may include returns prepared using software but that were printed rather than filed online.

4.2 Estimates of potential eligibility for return-free filing

4.2.1 Taxpayer Advocate Service estimates

A taxpayer is a good candidate for return-free filing if all of his or her relevant tax attributes are known to the tax authority and to any agent, such as an employer, that will collect and remit tax on the taxpayer's behalf. The broader the set of tax attributes that are subject to third-party reporting the broader will be the pool of taxpayers that are eligible for return-free filing. The Taxpayer Advocate Service ("TAS") research division analyzed tax returns for tax year 2016 to determine the potential eligibility for a more comprehensive pay-as-you-earn exact withholding return-free filing system.[64]

For tax year 2016, 59.3 million returns, representing about 40 percent of all tax returns for that year, reported only wage income.[65] However, because of other features of the income tax system, not all of these taxpayers would be eligible for a return-free filing system. Previous estimates by the Department of the Treasury indicated that only about 6.3 percent of returns had wage income only and no deductions or credits other than the child credit.[66] Expansion of withholding to other types of income could expand the pool of eligible participants in a return-free filing system. The Taxpayer Advocate estimates that taxpayers that had only wage, interest, pension, and dividend income numbered 73.4 million returns in 2016, or about 50 percent of all tax returns. However, even a limited pay-as-you-earn system that withheld on these four items of income at the source and allowed for the standard deduction would provide return-free filing coverage for at most 26 percent of returns.[67] A more expansive system that covered wage, interest, pension, dividend, capital gain, individual retirement arrangement ("IRA"), and unemployment income and the standard deduction, earned income credit, child tax credit, student loan interest deduction, child and dependent care credit, IRA deduction, and health savings account deduction would cover just over half of all returns.[68] However, there Taxpayer Advocate notes that there are significant technical and cultural challenges that would need to be overcome to make such an expansive system possible. For example, incorporating refundable credits "would require a willingness to prepay benefits based on a reasonable expectation of qualification and then recapture those benefits post-year-end to the extent that the anticipated qualification did not occur….a significant and perhaps controversial policy change with respect to the way these tax benefit programs are viewed and administered."[69]

The TAS estimates that over half of all returns could be eligible for participation in a return-free system in the United States may be compared to international experience. The United Kingdom has one of the longest running and extensive exact withholding schemes yet nearly 40 percent of UK taxpayers must still file a self assessment tax return. A taxpayer must send a self assessment tax return if the taxpayer is self-employed as a sole-trader and earned more than £1000 pounds or is a partner in a business partnership. A taxpayer may have to file a self assessment return if the taxpayer 1) has untaxed income (such as money from renting out property, tips and commissions, income from savings, investments, and dividends, or foreign income), 2) chooses to claim certain income tax relief (e.g., for charitable contributions), or 3) has income over £50,000 and claimed a child benefit. For tax year 2019/20, out of an estimated total of 31.4 million UK taxpayers, 12.1 million (38.5 percent) are expected to be required to file a self assessment return.

4.2.2 Self-employment income and eligibility

The prevalence of self-employment income among individual taxpayers presents a significant challenge to an exact withholding return-free filing system. Self-employment income is not subject to withholding at the source the way that wage income is. Some elements of self-employment income are subject to third-party reporting. Since 2011 credit card payments and third-party network transactions are reported to the IRS on Form 1099-K, and beginning in 2022, reporting on these transactions will be required if total transactions for a taxpayer are more than $600 regardless of the number of transactions (down from $20,000 and 200 transactions under prior law). However, the coverage of self-employment income by third-party reporting is not as extensive as it is for wage income. Furthermore, wages reported on Form W-2 generally may not be further reduced by unreimbursed employee expenses,[70] while gross receipts from self-employment may generally be reduced by cost of goods sold and ordinary and necessary business expenses. Without accounting for these expenses, withholding on business income could result in overwithholding and imposing tax on gross income. For example, more than 25 percent of Schedule C returns filed for 2019 had a net loss after deducting cost of goods sold and business expenses.[71]

Self-employment income also presents a challenge for a tax agency reconciliation system. If significant portions of business income are not subject to third-party reporting, then taxpayers may be less likely to report such information if it would increase their tax liability. In 2019, the most recent year for which complete data are available, 27.3 million returns (17.3 percent) reported business income from a nonfarm sole proprietorship, 16.9 million returns (10.7 percent) reported rental, royalty, partnership, or S corporation income, and 1.7 million returns (1.1 percent) reported farm income.[72]

Some returns report multiple types of business income, such that a simple addition of the returns with each type of income would overstate the number of taxpayers ineligible for return-free filing. For 2019, the Joint Committee on Taxation projected that 39.2 million returns would include in income at least one type of business income reported on either Schedule C (nonfarm sole proprietorships), Schedule E (rental real estate, royalty, partnership, or S corporation income), or Schedule F (farms).[73] This suggests that approximately 25 percent of returns are ineligible for return-free filing based on the presence of passthrough business income.[74] The vast majority of these returns are returns that do not itemize deductions and might otherwise be candidates for return-free filing. For example, in 2019, itemized deductions were claimed by only 3.7 million out of 27.3 million returns with Schedule C; more than 86.3 percent of sole proprietors claimed the standard deduction.[75]

Recently, Denmark has taken steps to expand the scope of its prefilled tax return system to include rental income. As of 2021, it requires all persons renting out property to use an agency, and the agency must report rental income to the tax administrator. Owners of rental property may elect a standard deduction, which is prefilled, or elect to deduct actual expenses, which are not.[76]

4.2.3 Above-the-line deductions and eligibility

Taxpayers that use the standard deduction may be able to avail themselves more readily of a return-free filing system as compared to taxpayers that itemize their deductions. Those taking the standard deduction may pose fewer information requirements on the IRS for preparation and verification of taxpayer attributes. Employers would not need to solicit information from employees regarding any deductible mortgage interest payments or charitable contributions, for example, to adjust withholding. Following tax changes that limited certain itemized deductions effective in 2018, the number of taxpayers taking the standard deduction increased by more than 30 million to 134.3 million in 2018 and 138.3 million in 2019 while the number of itemized returns fell from 46.9 million in 2017 to 17.5 million in 2018 and 17.3 million in 2019.

However, 39.1 million returns in 2019 claimed above-the-line deductions, or statutory adjustments to income, more than 2.25 times the number that claimed itemized deductions.[77] Given the number of taxpayers with above-the-line deductions exceeds those with itemized deductions, these statutory adjustments may present a greater challenge to eligibility to participate in a return-free filing system than do itemized deductions.

4.3 Simplicity and eligibility

Advocates of return-free filing have noted that the tax systems in most of the return-free countries are much simpler than the US tax system.[78] Simpler tax systems may impose lower costs on third parties to facilitate a return-free system.[79] Many European countries with return-free filing systems implement social policy through spending rather than tax programs.[80] This facilitates their ability to have tax systems that depend on a smaller set of taxpayer attributes. However, the US tax system serves as a delivery channel for a wide range of social program benefits, eligibility for which complicate tax administration. Credits exist for children (e.g., child tax credit), childcare (e.g., child and dependent care tax credit), antipoverty (e.g., earned income tax credit), education (e.g., American opportunity tax credit), health insurance (e.g., premium tax credit), housing (e.g., mortgage interest credit), and energy efficiency (e.g., residential energy efficient property credit). A number of deductions are designed to advance nontax policy objectives exist as well. To the extent that a return-free filing system seeks to remain simple, it may need to exclude the millions of taxpayers who avail themselves of these provisions. To the extent a return-free filing system seeks to include such taxpayers, it will require more disclosure to the tax administrator and withholding agents to be effective.

The information requirements are not a one-time cost of the system. A more complex tax system also places a greater burden on taxpayers to disclose on an ongoing basis every time there is a material change in any of the attributes that may affect tax liability. Though these disclosures would not require the filing of a tax return, they would create an obligation to file some sort of information return with the tax administrator and the withholding agent. There would also be additional compliance costs for the tax administrator and the withholding agent to process these information returns to ensure an accurate withholding system.

Alternatively, the United States may attempt to transition to a system that provides social benefits through the spending side of the budget rather than through the tax system, though such a transition may prove challenging in the United States. Such a shift would involve an increase in spending financed by an increase in taxes on taxpayers that currently avail themselves of the social-policy-oriented tax provisions. As nearly all of these tax provisions are progressive in nature by design, their repeal would look like a tax increase that was borne disproportionately by lower-income taxpayers. While distributional analysis of tax programs is frequently part of the policy debate, similar analysis of spending programs is less common. Proponents of such a switch may find it difficult to persuade policymakers and beneficiaries that they would be held harmless. Furthermore, it may not be possible to target new spending programs precisely to those who benefit from current tax provisions. To the extent the policymakers seek to ameliorate such concerns by making new programs more generous than existing programs or by expanding eligibility, there could be additional fiscal costs to such a switch. Such a switch could simplify the tax system, but it could also complicate lives for beneficiaries if they had to apply separately for each program.[81]

4.4 Family status

The US tax system treats the household as the appropriate unit of taxation and permits married couples to file a joint return. Some have suggested that a tax agency reconciliation system could accommodate joint filing.[82] However, tax systems that rely on exact withholding often treat the individual rather than the household as the unit of taxation.[83] In contrast to household taxation, some countries with exact withholding systems tax married individuals on the basis of each spouse's individual income, so that any employee's tax liability is independent of the income of his or her spouse. While independent taxation of spouses may simplify the operation of an exact withholding system, it is possible to retain joint filing (for which tax is determined based on the total income of the couple) under an exact withholding system. The United Kingdom had a system of joint filing under its exact withholding system prior to 1990, but that feature was subsequently repealed.[84] However, it is not possible to have a tax system that has a progressive rate structure, taxes married couples with equal income equally, and is neutral with respect to marriage.[85] Some advocates of return-free filing also advocate a system of independent taxation of spouses.[86] In such a system, the total tax paid by a married couple will depend on how the income is divided between the spouses. Thus, it requires an abandonment of the principle that total household income is the best measure of ability to pay.

5. Participation

Making estimates of the number of taxpayers who would be eligible to participate in a return-free filing system is only one step in the process of evaluating the costs and benefits of such a system. It is necessary also to estimate the number of eligible taxpayers who would elect to participate. Differences in assumed take-up rates can lead to very different estimates of the costs and benefits of a system.[87] While the IRS report assumed 45 percent of eligible taxpayers would participate,[88] only 22 percent of those invited to participate in the ReadyReturn pilot program elected to do so.[89] The two-year participation rate among those who remained eligible and were invited to participate in both years was only 12.3 percent.[90] This section of the report discusses some of the factors that may influence taxpayer's willingness to participate in return-free filing.

5.1 Privacy

An expanded return-free filing system would involve a larger role for withholding agents, particularly employers. To match withholding more exactly with tax liability requires taxpayers to disclose to employers all the relevant taxpayer attributes necessary to determine tax liability. The provision of third-party data must be balanced against privacy considerations.[91] These privacy issues would arise for all taxpayers who would be required to disclose information whether or not they would be eligible to participate, or ultimately participated, in a return-free filing system. To the extent privacy costs are incurred by a large number of taxpayers relative to those who participate in return-free filing, these costs may weigh heavily in the cost-benefit analysis of such a system.

The number of third-party information reports per taxpayer can be substantial, with Denmark having on average 20 reports and Spain 29 reports per taxpayer.[92] To the extent the tax system is dependent on family characteristics, employees would have to disclose to their employers personal information about marital status, changes in marital status, dependents, adoption, and age of the taxpayer and the taxpayer's dependents.

In certain cases, employees may need to provide personally identifying information about other individuals. For example, to claim the child and dependent care tax credit, the taxpayer must provide the social security number of the care provider.[93] Privacy concerns on the part of care providers could result in a reduction in their willingness to provide the information, which may jeopardize the benefits available to taxpayers.

In addition to privacy concerns related to personal demographic information, employees may be reluctant to provide information about outside employment.[94] Changes to Form W-4, Employee's Withholding Certificate, following enactment of tax legislation in 2017 serve as an example of the potential privacy concerns. The new Form W-4 prompted the American Institute of Certified Public Accountants to note that "[m]any employees are likely apprehensive that providing employers with spousal and family income information on the Form W-4 can lead to unfair and discriminatory employment practices. For example, employees may have concerns that an employer will forego a wage increase if the employer has knowledge of other family income."[95] The letter also notes that disclosure to an employer involves disclosure to other employees such as personnel in the human resources department who must have access to the information to process the withholding. The taxpayer may mitigate these privacy concerns by electing to request a specific dollar amount of additional tax be withheld each pay period. However, the determination of the correct additional amount to minimize any under- or overwithholding is complicated and would represent additional costs to the taxpayer that would factor into the decision to participate. The scope and magnitude of such privacy considerations would increase if additional information were required to implement an effective return-free filing system.

5.2 Timeliness of information returns

For taxpayers to participate in a return-free filing regime, they require timely information with respect to their tax obligations. The efficacy of any prepopulated return system depends on timely access to tax information by the tax administrator so that it can then be provided to the taxpayer.[96] Taxpayers generally need an opportunity to review information from the tax administrator and to make any necessary corrections. If the current filing and payment deadline of April 15th is maintained and taxpayers are permitted two weeks[97] to make any adjustments, taxpayers should receive their returns no later than April 1. The due dates for taxpayers to file information returns may make this date difficult to meet. The challenges are even greater if more time is permitted for taxpayers to review and adjust their information and the April 15th filing deadline is maintained.

Wage statements generally must be filed by January 31 following the year to which they relate. These returns may be matched to return information to increase compliance. For example, since the 2017 filing season, the Internal Revenue Service may make no credit or refund for an overpayment for a taxable year before February 15 if the taxpayer claimed the earned income tax credit or additional child tax credit on the return. This allows additional time for the IRS to use the wage statement information to help prevent revenue loss due to identity theft and refund fraud related to fabricated wages and withholdings.[98] However, other information returns are not generally available to the IRS on such a timely basis. See **Table 5-1**.

Table 5-1 Due Dates for Filing Selected Information Returns

Income or Deduction Item	Information Return	Due to IRS	Due to Recipient
Wages	W-2	January 31	January 31
Interest	1099-INT	March 31	January 31
Pension or IRA Distributions	1099-R	March 31	January 31
Dividends	1099-DIV	March 31	January 31
Gross Proceeds (Capital Gain)	1099-B	March 31	January 31
Unemployment Compensation	1099-G	March 31	January 31
Student Loan Interest	1098-E	March 31	January 31
IRA Contributions	5498	May 31	May 31
HSA Contributions	5498-SA	May 31	May 31

Note: Due dates assume electronic filing with the IRS.
Source: Internal Revenue Service

As noted above, the TAS estimated that a modest PAYE system that collected tax on only wage, interest, pension, and dividend income at source and reflected the standard deduction would provide coverage for about 26 percent of all returns. However, information returns for even these limited income items would be almost impossible to process in a timely manner and still allow adequate time for review and adjustment by the taxpayer. Form 1099-INT, on which financial institutions report interest income, is due to taxpayers by January 31, but it is not due to the IRS until March 31 if filed electronically.[99] The same deadline applies under present law for filing of Form 1099-R, on which pension distributions are reported, and Form 1099-DIV, on which distributions such as dividends and capital gain distributions are reported. If the IRS receives data on March 31, there are only 15 days before the tax return filing deadline for taxpayers to receive a statement from the IRS, make any necessary adjustments, and make a payment for any amount due (as a result of insufficient withholding under the PAYE system, for example) before interest[100] and failure-to-pay[101] penalties would accrue under present law. If the taxpayer were not deemed to have satisfied the filing requirement, an additional failure-to-file penalty also would accrue.[102]

TAS estimated that a PAYE system that covered half of all returns would require tax collection at the source on capital gains, IRA distributions, and unemployment compensation in addition to the four income sources noted above. This comprehensive PAYE system considered by TAS would also need to take into account the student loan interest deduction, IRA deduction, and health savings account deduction. IRA distributions are reported on Form 1099-R, which as noted above is due to the IRS by March 31. Form 1099-B, on which brokers report gross proceeds and basis information necessary to calculate capital gains, Form 1099-G, on which governments report unemployment compensation, and Form 1098-E, on which student loan interest is reported, are also due by that deadline.

The need to accommodate the IRA deduction and the HSA deduction presents further challenges to the timeliness of processing tax information. Under present law, contributions to an IRA or HSA may be made until the due date for filing a tax return (without regard to extensions). IRA contributions are reported on Form 5498, and HSA contributions are reported on Form 5498-SA, which are not due to the IRS until May 31.

To implement a return-free filing regime, the timetables for reporting and payment would likely need to be revised. For a tax agency reconciliation system, timely provision of information reports may be a sufficient condition to enable implementation. However, for an exact withholding system, additional modifications would be required. The Federal government would have to require many of the institutions with reporting obligations also to be withholding agents. This would require extending the system of withholding and remittance, along with penalties for failure to fulfill those obligations, from employers to other payors.

5.3 Timeliness of information reports to withholding agents

To ensure accurate calculation of tax liability and minimize the need to file a return outside of the return-free filing regime, taxpayers need to provide timely reports of their information to withholding agents. To the extent that changes in taxpayer attributes materially affect tax liability, taxpayers would need to communicate these changes as quickly as possible. If a taxpayer fails to communicate information that results in higher tax liability, a withholding agent may not collect and remit sufficient tax. A return-free filing regime would have to establish clear rules for the responsibility of withholding agents under such a circumstance, including any safe harbor or liability with respect to underwithholding.

5.4 Timeliness and size of refunds

One element of timeliness relates to when taxpayers that are due refunds would receive them. According to an OECD survey it takes approximately six to 12 weeks to make prepopulated returns available to taxpayers.[103] If taxpayers receive substantial refunds, there is a strong incentive to file early outside of a return-free filing system. In the United States, nearly 75 percent of individual income taxpayers receive a refund. Of the 153.8 million returns filed for tax year 2018, the IRS issued 113.5 million individual income tax refunds for 2018 totaling $331.9 billion.[104] The average refund was more than $2,924 or nearly 5 percent of median household income in the United States that year of $61,937.[105]

Table 5-2 reports data on individual income tax returns filed during the 2019 tax filing season (for tax year 2018) by week. Approximately two-thirds of taxpayers who received a refund filed their returns before the March 31 deadline for the IRS to receive information reports electronically for the various nonwage income sources. Even if the IRS sent return-free filing reports to taxpayers for validation by the middle of March, assuming a two week turn around time for processing would mean that nearly two-thirds of taxpayers would experience some delay in receipt of their refunds relative to present law.

If all information returns were due by January 31 (when Form W-2 wage reports are due) and the IRS took six to 12 weeks to deliver prepared returns to taxpayers, a large percentage of taxpayers with refunds would be affected. In 2019, 47 percent of returns with a refund were filed within six weeks of the opening of filing season (as of the week ending 3/8/2019), while 84 percent were filed within 12 weeks of the opening of filing season (as of the week ending 4/19/2019).

Taxpayers with the largest average refunds tend to file their refund claims relatively early in the tax filing season. The size of the average refund to date peaked for the week ending February 22, 2019 at $3,143. By this time, approximately one-third of all tax returns that would ultimately be processed by the IRS for tax year 2018 had been received, including one-third of all returns that ultimately were issued a refund. The size of refunds on tax returns filed during that week was $3,926, or about $1,000 more than the eventual average refund for the tax year of

$2,924. Taxpayers with large refunds have an incentive to opt out of a return-free filing system to accelerate receipt of their refunds.

Table 5-2 2019 Tax Filing Season Statistics

As of the week ending:	All Returns Received	% of Returns Received	Returns with a Refund	% of Returns with a Refund	Amount of Refunds ($Millions)	% of Refund Dollars	Average Refund to Date ($)	Average Refund for the Period ($)
2/1/2019	16,035,000	10%	4,672,000	4%	$8,713	3%	$1,865	$1,865
2/8/2019	28,764,000	19%	11,381,000	10%	$22,180	7%	$1,949	$2,007
2/15/2019	39,747,000	26%	23,485,000	21%	$61,993	19%	$2,640	$3,289
2/22/2019	49,923,000	32%	38,566,000	34%	$121,203	37%	$3,143	$3,926
3/1/2019	59,223,000	39%	46,416,000	41%	$142,395	43%	$3,068	$2,700
3/8/2019	67,721,000	44%	53,487,000	47%	$160,874	48%	$3,008	$2,613
3/15/2019	75,881,000	49%	59,916,000	53%	$177,191	53%	$2,957	$2,538
3/22/2019	84,075,000	55%	65,836,000	58%	$191,894	58%	$2,915	$2,484
3/29/2019	92,861,000	60%	71,755,000	63%	$206,149	62%	$2,873	$2,408
4/5/2019	103,460,000	67%	77,925,000	69%	$220,762	67%	$2,833	$2,368
4/12/2019	119,427,000	78%	84,435,000	74%	$235,975	71%	$2,795	$2,337
4/19/2019	137,233,000	89%	95,737,000	84%	$260,919	79%	$2,725	$2,207
4/26/2019	139,364,000	91%	98,952,000	87%	$270,001	81%	$2,729	$2,825
5/3/2019	141,001,000	92%	100,430,000	88%	$274,327	83%	$2,732	$2,927
5/10/2019	141,567,000	92%	101,590,000	89%	$277,258	84%	$2,729	$2,527
10/18/2019	154,297,000	100%	110,582,000	97%	$307,563	93%	$2,781	$3,370
11/22/2019	155,402,000	101%	111,596,000	98%	$319,218	96%	$2,860	$11,494
12/27/2019	155,798,000	101%	111,811,000	99%	$320,805	97%	$2,869	$7,381
Final Report	**153,774,296**	**100%**	**113,510,190**	**100%**	**$331,948**	**100%**	**$2,924**	**$2,924**

Source: Internal Revenue Service, 2019 Filing Season Statistics, and Individual 2018 Complete Report

California surveyed eligible taxpayers who did not participate in the ReadyReturn program and found that one of the most common reasons given for not participating was timeliness. For the 2004 tax year, 22 percent of respondents indicated they had already filed a return. Because of concerns about incomplete wage information used to prepopulate returns, the California legislature delayed sending returns for the 2005 tax year pilot program until mid-March. Delay could further reduce participation.[106]

Under a return-free filing system, the number and amount of refunds would be expected to decrease as withholding agents would adjust the amount withheld from income to align more closely with actual liability. The OECD surveyed countries with and without prefilled tax returns (a feature that often accompanies return-free filing systems) to study differences in refund outcomes. The survey found that indeed the median percentage of taxpayers with a refund was 61 percent for countries with prefilled tax returns versus 66 percent for countries without this feature. The median refund in countries with prefilled returns was about half the size of those with no prefilled returns ($1,518 vs. $3,089).[107]

Taxpayers otherwise receiving larger refunds instead would receive more take-home pay throughout the year. This change in the pattern of receipt of after-tax income may have consequences for economic activity. A comparison of the 2008 economic stimulus payments, which were delivered as one-time payments, and the 2009 Making Work Pay tax credit, which was implemented for most recipients as a reduction in withholding, provides some insight into the nature of these consequences. A study of the two measures found that the reduction in withholding in 2009 increased spending at roughly half the rate (13 percent) of one-time payments (25 percent) in 2008.[108] This suggests that taxpayers may reduce their spending if the tax system were to move to one that reduced the size of one-time tax refunds. Other research that makes a conceptually similar comparison between lump-sum stimulus payments and payroll tax cuts suggests there may not be strong evidence to conclude that one tax rebate is more likely to be spent than another.[109]

6. Appendix

6.1 Data on current US year-end reconciliation system

Withholding of tax on wages is the primary means by which the year-end reconciliation system in the United States collects tax throughout the year. In 2018, the most recent year for which detailed data are available, of the 144.6 million wage earners who received a Form W-2 and filed a tax return,[110] 138.3 million (95.6 percent) had Federal income tax withheld, 138.7 million (95.9 percent) had social security tax withheld, and 142.3 million (98.4 percent) had Medicare tax withheld.[111] These figures are only for taxpayers who filed income tax returns.

Nonfilers earn nontrivial amounts of wage income and pay taxes through withholding. Regular data are not published on the nonfiling population; however, it has been the subject of academic inquiry.[112] For 2011, 7.2 million nonfilers received wages reported on a Form W-2 and earned wages of $102.4 billion. That year 138.6 million wage earners who received a Form W-2 filed a tax return.[113] Approximately 5 percent of all wage earners, accounting for 1.7 percent of all wages reported on Form W-2, did not file a tax return for 2011.

In total, 274.6 million Forms W-2 were filed with the IRS for tax year 2018, 232.6 million (84.7 percent) of which reported Federal income tax withheld. W-2 wages totaled $8.9 trillion[114] of which $7.9 trillion (88.8 percent) was reported on Forms 1040.[115] Forms W-2 represented 181.9 million wage earners, suggesting 37.3 million wage earners, or 20.5 percent, accounting for 11.2 percent of all wages reported on Form W-2, did not file a tax return for 2018.

6.2 OECD data on exact withholding systems

The Organization for Economic Cooperation and Development ("OECD") has described exact withholding systems as "compliance-by-design" approaches.[116] While initially designed for employees, the OECD notes that increased availability of data may make compliance-by-design approaches available in more complex situations; however, these approaches "are inherently more difficult for business taxpayers given the existence of multiple sources of income and the complexities of calculating taxable profits."[117] While 53 of 58 surveyed countries have some form of withholding for wage and salary payments to residents, only 20 had withholding for specified business income.[118]

Table 6-1 reports the percentage of total personal income tax collected that was withheld at the source by the type of withholding system for employees' personal income tax. Countries that were able to provide such data report that on average 71.3 percent of the total personal income tax collected was withheld at the source, but this varied between a low of 2.0 percent in Costa Rica and a high of 121.1 percent in Brazil.[119] Countries with a cumulative withholding system for wages reported an average of 74.0 percent, 2.5 percentage points higher than those with noncumulative withholding systems, which reported an average of 71.5 percent.

Table 6-1. Percentage of Personal Income Tax Withheld at Source by Withholding System for Employee's Personal Income Tax, 2017

Cumulative Employee Withholding		Noncumulative Employee Withholding		No Employee Withholding[1]	
Jurisdiction	**Percentage**	**Jurisdiction**	**Percentage**	**Jurisdiction**	**Percentage**
Argentina	N/A	Brazil	121.1%	France	N/A
Australia	N/A	Canada	N/A	Hong Kong (China)	N/A
Austria	87.7%	Chile	N/A	Singapore	20.0%
Belgium	100.0%	China (People's Republic of)	82.5%	Switzerland	N/A
Bulgaria	89.0%	Cyprus	N/A		
Colombia	N/A	Estonia	20.0%		
Costa Rica	2.0%	Georgia	27.8%		
Croatia	24.0%	Iceland	N/A		
Czech Republic	96.5%	India	52.0%		
Denmark	94.9%	Indonesia	91.9%		
Finland	96.0%	Kenya	10.6%		
Germany	N/A	Korea	N/A		
Greece	N/A	Latvia	89.0%		
Hungary	92.5%	Lithuania	82.0%		
Ireland	94.4%	Mexico	35.0%		
Israel	87.0%	New Zealand	N/A		
Italy	80.0%	Norway	92.6%		
Japan	83.4%	Portugal	87.0%		
Luxembourg	45.0%	Romania	N/A		
Malaysia	89.1%	Russia	94.8%		
Malta	N/A	Slovenia	N/A		
Morocco	63.4%	South Africa	96.5%		
Netherlands	100.0%	Spain	N/A		
Peru	N/A	Sweden	N/A		
Poland	N/A	Thailand	90.0%		
Slovak Republic	7.1%	United States	N/A		
Turkey	N/A				
United Kingdom	N/A				
Average	**74.0%**	**Average**	**71.5%**	**Average**	**20.0%**

[1] Countries without employee withholding may withhold on other sources of income, such as interest.
Source: OECD Tax Administration (2019), Table A.75

6.3 Data on itemization and above-the-line deductions

Following tax changes that limited certain itemized deductions effective in 2018, the number of taxpayers taking the standard deduction increased by more than 30 million to 134.3 million in 2018 and 138.3 million in 2019 (**Table 6-2**), while the number of itemized returns fell from 46.9 million in 2017 to 17.5 million in 2018 and 17.3 million in 2019.

Table 6-3 reports that 39.1 million returns in 2019 claimed above-the-line deductions, or statutory adjustments to income. The most common statutory adjustments include deductions for part of self-employment tax, student loan interest, self-employed health insurance, educator expenses, and IRA contributions.[120] More than 33.8 million returns without itemized deductions, or nearly 25 percent of taxpayers that claim the standard deduction, had statutory adjustments.

Table 6-2 Returns by Itemization Status, 2017-2019

	2017	% of Total	2018	% of Total	2019	% of Total
Itemized Returns	46,852,675	30.6%	17,532,592	11.4%	17,348,989	11.0%
Standard Deduction	104,013,115	68.0%	134,271,137	87.3%	138,307,604	87.6%
Other Returns	2,037,441	1.3%	1,970,567	1.3%	2,140,214	1.3%
All Returns	**152,903,231**	**100.0%**	**153,774,296**	**100.0%**	**157,796,807**	**100.0%**

Source: Internal Revenue Service, Statistics of Income

Table 6-3 Selected Statutory Adjustments by Itemization Status, 2019

	Returns with Itemized Deductions	Returns without Itemized Deductions	Total Returns with Statutory Adjustments
Deductible part of self-employment tax	2,825,334	17,635,521	20,460,855
Student loan interest	995,997	11,723,151	12,719,148
Self-employed health insurance	1,133,905	2,655,181	3,789,086
Educator expenses	733,709	2,895,268	3,628,977
IRA contribution	424,548	2,012,138	2,436,686
Total[1]	**5,336,014**	**33,804,123**	**39,140,137**

[1] Total includes statutory adjustments not separately listed.
Source: Internal Revenue Service, Statistics of Income

[1] Taxpayers filed 156,580,123 Forms 1040, 1040-SR, 1040-A, and 1040-EZ tax returns in fiscal year 2020. Internal Revenue Service, *Internal Revenue Service Data Book, 2020,* Publication 55-B, Washington, DC, June 2021, available at https://www.irs.gov/pub/irs-prior/p55b--2021.pdf, p. 4. As of October 2020, the IRS estimates that

taxpayers are expected to have an average compliance burden of about 12 hours to complete and file Forms 1040 and 1040-SR. Internal Revenue Service, *1040 and 1040-SR Instructions, 2020*, Rev. 4-2021, available at https://www.irs.gov/pub/irs-pdf/i1040gi.pdf, p. 108-109.

[2] Calculated using the average employer cost for employee compensation for civilian workers of $38.91 per hour in June 2021. Department of Labor, Bureau of Labor Statistics, Employer Cost for Employee Compensation—June 2021, September 16, 2021, available at https://www.bls.gov/news.release/pdf/ecec.pdf.

[3] Out-of-pocket costs include any expenses incurred by taxpayers to prepare and submit their returns such as tax return preparation and submission fees, postage and photocopying costs, and tax return preparation software costs.

[4] For example, see various proposals included in the annual report by the Taxpayer Advocate Service. National Taxpayer Advocate, *2021 Purple Book: Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration*, December 31, 2020, available at https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_PurpleBook.pdf.

[5] Taxpayer Advocate Service, "A Conceptual Analysis of Pay-As-You-Earn (PAYE) Withholding Systems as a Mechanism for Simplifying and Improving US Tax Administration," in *National Taxpayer Advocate Annual Report to Congress 2018, Volume 2, TAS Research and Related Studies & Literature Reviews*, Publication 2104-C (Rev. 2-2019), February 12, 2019, p. 5.

[6] François Vaillancourt, "Prefilled Personal Income Tax Returns: A Comparative Analysis of Australia, Belgium, California, Québec, and Spain," Frasier Institute Studies in Budget and Tax Policy, June 2011, available at https://www.fraserinstitute.org/sites/default/files/prefilled-personal-income-tax-returns.pdf, p. xii.

[7] Internal Revenue Service Restructuring and Reform Act of 1998 (P.L. 105-206), section 2004, July 22, 1998.

[8] Department of the Treasury, *Return-Free Tax Systems: Tax Simplification Is a Prerequisite*, December 23, 2003.

[9] Taxpayer First Act (P.L. 116-25), section 2401, July 1, 2019.

[10] Internal Revenue Service, Department of the Treasury, *Dependents, Standard Deduction, and Filing Information*, Publication 501 (2020), January 26, 2021, Table 1, p. 2.

[11] These conditions include: 1) owing any special taxes (such as alternative minimum tax); 2) receiving distributions from an Archer MSA, Medicare Advantage MSA, or health savings account; 3) having net earnings from self-employment of at least $400; 4) having wages of $108.28 or more from a church that is exempt from employer social security and Medicare taxes; 5) having advance payments of the premium tax credit made on the taxpayer's behalf for enrollment in coverage through the Health Insurance Marketplace; 6) having advance payments of the health coverage tax credit made on the taxpayer's behalf; 7) including amounts in income under section 965 (related to deferred foreign income). A taxpayer receiving advance child tax credit payments in 2021 may also be required to file a return to reconcile advance payments with the amount of child tax credit the taxpayer can properly claim on a 2021 tax return.

[12] Department of the Treasury, *Return-Free Tax Systems: Tax Simplification Is a Prerequisite*, December 23, 2003.

[13] Taxpayer Advocate Service, "A Conceptual Analysis of Pay-As-You-Earn (PAYE) Withholding Systems as a Mechanism for Simplifying and Improving US Tax Administration," in *National Taxpayer Advocate Annual Report to Congress 2018, Volume 2, TAS Research and Related Studies & Literature Reviews*, Publication 2104-C (Rev. 2-2019), February 12, 2019, p. 13.

[14] See, Gillian Petit, Lindsay M. Tedds, David Green, and Jonathan Rhys Kesselman, "Policy Forum: Re-Envisaging the Canada Revenue Agency—From Tax Collector to Benefit Delivery Agent," *Canadian Tax Journal*, vol. 69, no. 1, April 2021, pp. 99-114.

[15] Brian Erard, "Pre-Completed Income Tax Returns: Evidence from the California ReadyReturn Program," National Tax Association Proceedings of the 103rd Annual Conference on Taxation, November 2010, pp. 163-170.

[16] The status of the remaining 97 participants is unknown.

[17] Brian Erard, "Pre-Completed Income Tax Returns: Evidence from the California ReadyReturn Program," National Tax Association Proceedings of the 103rd Annual Conference on Taxation, November 2010, p. 164.

[18] Ibid, p. 166.

[19] California Assembly Bill 1046, as amended, would have made the ReadyReturn program permanent. California Senate Bill 1355 would have directed the CFTB to discontinue the ReadyReturn pilot program and not continue or commence any similar program. Neither bill passed the legislature.

[20] Brian Erard, "Pre-Completed Income Tax Returns: Evidence from the California ReadyReturn Program," National Tax Association Proceedings of the 103rd Annual Conference on Taxation, November 2010,, p. 167.

[21] François Vaillancourt, "Prefilled Personal Income Tax Returns: A Comparative Analysis of Australia, Belgium, California, Québec, and Spain," Frasier Institute Studies in Budget and Tax Policy, June 2011, available at https://www.fraserinstitute.org/sites/default/files/prefilled-personal-income-tax-returns.pdf, p. 58.

[22] California Franchise Tax Board, *Report to the Legislature on the ReadyReturn Program*, April 2009, p. 4.
[23] California Franchise Tax Board, "Pivoting Away from Paper," Internal Revenue Service Oversight Board Public Forum, May 13, 2014, available at https://www.treasury.gov/IRSOB/meetings/Documents/2014/CA_FTB.pdf, p. 3.
[24] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, pp. 327-349.
[25] Austan Goolsbee, "The Simple Return: Reducing America's Tax Burden through Return-Free Filing," The Hamilton Project Discussion Paper 2006-04, July 2006, p. 15.
[26] Internal Revenue Service, *1040 Instructions, 2005*, available at https://www.irs.gov/pub/irs-prior/i1040gi--2005.pdf, p. 79. Nonbusiness filers tend to have simpler returns of the type most likely to be included in a return-free filing system. For this purpose nonbusiness filers are taxpayers who do not file Schedule C, E, or F, or Form 2106.
[27] Internal Revenue Service, *1040 and 1040-SR Instructions, 2020*, Rev. 4-2021, available at https://www.irs.gov/pub/irs-pdf/i1040gi.pdf, p. 108-109.
[28] Internal Revenue Service, *1040 Instructions, 2017*, February 22, 2018, available at https://www.irs.gov/pub/irs-prior/i1040gi--2017.pdf, p. 101.
[29] The Hamilton Project study assumed compliance times could be reduced by 80 percent as a result of return-free filing, or 10.32 hours (0.8*12.9). With the reduction in taxpayer compliance burden since then, assuming the same 80 percent reduction would save only 6.4 hours (0.8*8). The prior estimates could be overstated by 61.25 percent ((10.32-6.4)/6.4). It is possible the 80-percent figure is too high if, for example, changes in the tax system (such as increases in electronic filing) that have already taken place have reduced the scope of burden reduction from return-free filing. If so, the estimated reduction in compliance burden attributable to return-free filing may be overstated by more than 60 percent.
[30] Department of the Treasury, *Return-Free Tax Systems: Tax Simplification Is a Prerequisite*, December 23, 2003, p. 41.
[31] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, p. 332.
[32] Ibid, p. 328.
[33] Chris Evans and Binh Tran-Nam, "Pre-Filled Personal Income Tax Returns: Evidence from Australia," *Proceedings Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association*, vol. 103, November 18-20, 2010, p. 175.
[34] Jason J. Fichtner, William G. Gale, and Jeff Trinca, "Tax Administration: Compliance, Complexity, and Capacity," Bipartisan Policy Center, April 2019, p. 32.
[35] Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming do not have an individual income tax.
[36] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, p. 345.
[37] To the extent Federal tax legislation authorizing a return-free tax system imposes an unfunded intergovernmental mandate that exceeds a dollar threshold, provisions of the Unfunded Mandates Reform Act of 1995 (P.L. 104-4) require the Congressional Budget Office and Joint Committee on Taxation staff to assess the costs of the mandates that would apply and provide the information to Congress during the legislative process.
[38] Jennifer Robson and Saul Schwartz, "Who Doesn't File a Tax Return? A Portrait of Nonfilers," *Canadian Public Policy*, September 2020, p. 333.
[39] Organization for Economic Cooperation and Development, *Using Third Party Information Reports to Assist Taxpayers in Meeting Their Return Filing Obligations: Country Experiences with the Use of Prepopulated Personal Tax Returns*, Forum on Tax Administration, March 2006, p. 14.
[40] Ibid.
[41] Organization for Economic Cooperation and Development, *Tax Administration in OECD Countries: Comparative Information Series*, Forum on Tax Administration Compliance, October 2004, p. 18.
[42] Miguel A. Fonseca and Shaun B. Grimshaw, "Do Behavioral Nudges in Prepopulated Tax Forms Affect Compliance? Experimental Evidence with Real Taxpayers," *Journal of Public Policy and Marketing*, vol. 36, no. 2, September 2017, pp. 213-226.
[43] Martin Fochmann, Nadja Müller, and Michael Overesch, "Less Cheating? The Effect of Prefilled Forms on Compliance Behavior," *Journal of Economic Psychology*, vol. 83, Article 102365, March 2021.
[44] Denvil Duncan and Danyang Li, "Liar Liar: Experimental Evidence of the Effect of Confirmation-Reports on Dishonesty," *Southern Economic Journal*, vol. 84, no. 3, January 2018, pp. 742-770.

[45] Brian Erard, "Pre-Completed Income Tax Returns: Evidence from the California ReadyReturn Program," National Tax Association Proceedings of the 103rd Annual Conference on Taxation, November 2010, pp. 163-170.
[46] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, p. 335.
[47] David Bruner, Michael Jones, Michael McKee, and Christian Vossler, "Tax Reporting Behavior: Underreported Opportunities and Prepopulated Tax Returns," Appalachian State University Department of Economics Working Paper Number 15-11, October 2015.
[48] Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013*, Publication 1415 (Rev. 9-2019), p. 3.
[49] Austan Goolsbee, "The Simple Return: Reducing America's Tax Burden through Return-Free Filing," The Hamilton Project Discussion Paper 2006-04, July 2006, p. 11.
[50] Internal Revenue Code Section 6213(g)(2) contains a definition of what constitutes a mathematical or clerical error for which special assessment and abatement procedures exist.
[51] Congressional Budget Office, *Trends in the Internal Revenue Service's Funding and Enforcement*, July 2020, available at https://www.cbo.gov/system/files/2020-07/56422-CBO-IRS-enforcement.pdf.
[52] Internal Revenue Service, *Internal Revenue Service Data Book, 2020*, Publication 55-B, Rev. 6-2021, Table 23, available at https://www.irs.gov/pub/irs-prior/p55b--2021.pdf, p. 55.
[53] Internal Revenue Service, *Internal Revenue Service Data Book, 2014*, Publication 55-B, Rev. 3-2015, Table 15, available at https://www.irs.gov/pub/irs-prior/p55b--2015.pdf, p. 39.
[54] Starting in 2014 allows the analysis to exclude the effects of the 2009 Making Work Pay Credit and 2008 Recovery Rebate Credit, for which math authority was expanded in 2009 and which were particularly prone to error. The Taxpayer Advocate has indicated that the 2020 Recovery Rebate Credit also resulted in a large increase in math errors and notices. Specifically, from January 1, 2020, through July 15, 2020, there were 628,997 math error corrections made on individual income tax returns. For the similar period in 2021, the IRS made about 9 million math error corrections. https://www.taxpayeradvocate.irs.gov/news/nta-blog-math-error-part-i/
[55] Gillian Petit, Lindsay M. Tedds, David Green, and Jonathan Rhys Kesselman, "Policy Forum: Re-Envisaging the Canada Revenue Agency—From Tax Collector to Benefit Delivery Agent," *Canadian Tax Journal*, vol. 69, no. 1, April 2021, p. 108.
[56] Kevin Brookes, "Should the Government Pre-Fill Your Tax Return?" Montreal Economic Institute, Economic Notes, August 2018, p. 3.
[57] Ibid.
[58] Christian Gillitzer and Peer Ebbesen Skov, "The Use of Third-Party Reporting for Tax Deductions: Evidence and Implications from Charitable Deductions in Denmark," *Oxford Economic Papers*, vol. 70, no. 3, July 2018, pp. 892-916.
[59] Kaisa Kotakorpi and Jani-Petri Laamanen, "Prefilled Income Tax Returns and Tax Compliance: Evidence from a Natural Experiment," Tampere Economic Working Paper No. 104, May 2016.
[60] Jorge Martinez-Vazquez and Eduardo Sanz-Arcega, "Can Prepopulated Tax Returns Enhance Tax Compliance? The Effects of the Spanish *Renta Web* Initiative from a Sociology of Taxation Perspective," Georgia State University Andrew Young School of Policy Studies International Center for Public Policy Working Paper 20-09, June 2020.
[61] Free File (Eighth) Memorandum of Understanding (2018), available at https://www.irs.gov/pub/irs-utl/Eight%20Free%20File%20MOU.pdf.
[62] Ibid. The Memorandum of Understanding was amended in December 2019. Among other changes, this commitment was stricken from the agreement. Addendum to the Free File (Eighth) Memorandum of Understanding (2019), available at https://www.irs.gov/pub/irs-utl/FFI%20Signed%20MOU%20Addendum%2012-26-19.pdf
[63] Internal Revenue Service, *Internal Revenue Service Data Book, 2020,* Publication 55-B, Washington, DC, June 2021, available at https://www.irs.gov/pub/irs-prior/p55b--2021.pdf. That figure includes returns filed through both traditional IRS Free File and Free File Fillable Forms.
[64] The Taxpayer Advocate analysis is based on tax year 2016 data but recalculated certain filing characteristics to reflect changes due to tax reform legislation enacted in 2017, including the increased standard deduction, elimination of personal exemptions, and limitations to itemized deductions.
[65] Taxpayer Advocate Service, "A Conceptual Analysis of Pay-As-You-Earn (PAYE) Withholding Systems as a Mechanism for Simplifying and Improving US Tax Administration," in *National Taxpayer Advocate Annual Report to Congress 2018, Volume 2, TAS Research and Related Studies & Literature Reviews*, Publication 2104-C (Rev. 2-2019), February 12, 2019, p. 27.

[66] Department of the Treasury, *Return-Free Tax Systems: Tax Simplification Is a Prerequisite*, December 23, 2003, Appendix E, Tables E-1 and E-2, p. 60-61.
[67] Taxpayer Advocate Service, "A Conceptual Analysis of Pay-As-You-Earn (PAYE) Withholding Systems as a Mechanism for Simplifying and Improving US Tax Administration," in *National Taxpayer Advocate Annual Report to Congress 2018, Volume 2, TAS Research and Related Studies & Literature Reviews*, Publication 2104-C (Rev. 2-2019), February 12, 2019, p. 29.
[68] Ibid.
[69] Ibid, p. 21.
[70] Taxable wages in Box 1 of Form W-2 are reduced for items not includible in gross income, including elective deferrals (such as employee contributions to a section 401(k) or 403(b) plan) and pretax employee contributions for employer-sponsored health insurance. Employee business expenses can be deducted as an adjustment to income only for qualified employees and eligible educators. Qualified employees include Armed Forces reservists, qualified performing artists, certain State or local government officials, and employees with impairment-related work expenses. Prior to 2018, taxpayers could claim unreimbursed employee expenses as a miscellaneous itemized deduction to the extent they exceeded 2 percent of adjusted gross income. However, miscellaneous itemized deductions are suspended for taxable years beginning after December 31, 2017, and before January 1, 2026.
[71] Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns Complete Report: 2019*, Publication 1304, Rev. 12-2021, Table 1.3, p. 53.
[72] Ibid, Table A, p. 6.
[73] Joint Committee on Taxation, *Overview of Deduction for Qualified Business Income: Section 199A*, March 13, 2019, available at https://www.jct.gov/CMSPages/GetFile.aspx?guid=003219d0-ecba-46ae-a7ea-e1c36bc6fc20, p. 27.
[74] The Internal Revenue Service reported that 157.8 million returns were filed for tax year 2019. Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns Complete Report: 2019*, Publication 1304, Rev. 12-2021, Table 1.3, p. 53.
[75] Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns Complete Report: 2019*, Publication 1304, Rev. 12-2021, Table 2.1, p. 140.
[76] Gillian Petit, Lindsay M. Tedds, David Green, and Jonathan Rhys Kesselman, "Policy Forum: Re-Envisaging the Canada Revenue Agency—From Tax Collector to Benefit Delivery Agent," *Canadian Tax Journal*, vol. 69, no. 1, April 2021, p. 108.
[77] Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns Complete Report: 2019*, Publication 1304, Rev. 12-2021, Table A, pp. 6ff.
[78] Jeffrey Liebman and Daniel Ramsey, "Independent Taxation, Horizontal Equity, and Return-Free Filing," *Tax Policy and the Economy*, vol. 33, June 2019, pp. 109-130.
[79] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, p. 328.
[80] Jason J. Fichtner, William G. Gale, and Jeff Trinca, "Tax Administration: Compliance, Complexity, and Capacity," Bipartisan Policy Center, April 2019, p. 33.
[81] William G. Gale, "Remove the Return," *Tax Analysts*, September 9, 2009, p. 40-41.
[82] Jason J. Fichtner, William G. Gale, and Jeff Trinca, "Tax Administration: Compliance, Complexity, and Capacity," Bipartisan Policy Center, April 2019, p. 31.
[83] Department of the Treasury, *Return-Free Tax Systems: Tax Simplification Is a Prerequisite*, December 23, 2003, p. 7.
[84] William G. Gale and Janet Holtzblatt, "On the Possibility of a No-Return Tax System," *National Tax Journal*, vol. 50, no. 3, September 1997, pp. 475-485.
[85] For a discussion of the horizontal and vertical equity issues concerning filing status, see Joint Committee on Taxation, *Fairness and Tax Policy* (JCX-48-15), February 27, 2015, pp. 4ff.
[86] Jeffrey Liebman and Daniel Ramsey, "Independent Taxation, Horizontal Equity, and Return-Free Filing," *Tax Policy and the Economy*, vol. 33, June 2019, p. 109.
[87] The Treasury Department noted that differences in assumptions about take-up rates along with differences in estimates of the cost of infrastructure investments necessary to facilitate the transition to a return-free filing system led to a divergence between IRS and GAO estimates "as to whether a return-free system would result in savings or costs to the Federal government." Department of the Treasury, *Return-Free Tax Systems: Tax Simplification Is a Prerequisite*, December 23, 2003, p. 40.
[88] Ibid, p. 37.

[89] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, p. 335.
[90] Brian Erard, "Pre-Completed Income Tax Returns: Evidence from the California ReadyReturn Program," National Tax Association Proceedings of the 103rd Annual Conference on Taxation, November 2010, p. 164. Participation was 22.4 percent the first year and 55 percent among returning participants (22.4%*55%=12.3%).
[91] Organization for Economic Cooperation and Development, *Tax Repayments: Maintaining Balance between Refund Service Delivery, Compliance, and Integrity,* Forum on Tax Administration, May 2011, p. 56.
[92] Organization for Economic Cooperation and Development, *Using Third Party Information Reports to Assist Taxpayers in Meeting Their Return Filing Obligations: Country Experiences with the Use of Prepopulated Personal Tax Returns*, Forum on Tax Administration, March 2006, p. 22.
[93] Internal Revenue Service, *Instructions for Form 2441: Child and Dependent Care Expenses 2020*, available at https://www.irs.gov/pub/irs-pdf/i2441.pdf, p. 3.
[94] Taxpayer Advocate Service, "A Conceptual Analysis of Pay-As-You-Earn (PAYE) Withholding Systems as a Mechanism for Simplifying and Improving US Tax Administration," in *National Taxpayer Advocate Annual Report to Congress 2018, Volume 2, TAS Research and Related Studies & Literature Reviews*, Publication 2104-C (Rev. 2-2019), February 12, 2019, p. 35.
[95] American Institute of Certified Public Accountants, Letter to the Internal Revenue Service and Department of the Treasury re: 2019 Draft Form W-4 and Instructions, July 12, 2018, available at https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/20180712-aicpa-comment-letter-on-draft-2019-form-w-4.pdf.
[96] Organization for Economic Cooperation and Development, *Tax Repayments: Maintaining Balance between Refund Service Delivery, Compliance, and Integrity,* Forum on Tax Administration, May 2011, p. 55.
[97] Countries generally provide taxpayers a relatively short period of two to six weeks to respond to prepopulated returns. Organization for Economic Cooperation and Development, *Using Third Party Information Reports to Assist Taxpayers in Meeting Their Return Filing Obligations: Country Experiences with the Use of Prepopulated Personal Tax Returns*, Forum on Tax Administration, March 2006, p. 11.
[98] https://www.irs.gov/tax-professionals/new-federal-tax-law-may-affect-some-refunds-filed-in-early-2017
[99] https://www.irs.gov/businesses/small-businesses-self-employed/a-guide-to-information-returns
[100] Internal Revenue Code Section 6601.
[101] Internal Revenue Code Section 6651(a)(2).
[102] Internal Revenue Code Section 6651(a)(1).
[103] Organization for Economic Cooperation and Development, *Using Third Party Information Reports to Assist Taxpayers in Meeting Their Return Filing Obligations: Country Experiences with the Use of Prepopulated Personal Tax Returns*, Forum on Tax Administration, March 2006, p. 8.
[104] Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns Complete Report: 2018*, Publication 1304, Rev. 09-2020, Table A, p. 10. While refund information is available for tax year 2019, the pandemic caused disruptions in the timing of refunds paid in calendar year 2020. As a result this section reports data for tax year 2018 and the 2019 filing season.
[105] United States Census Bureau, Gloria Guzman, "Household Income: 2018," American Community Survey Briefs, ACSBR/18-01, September 2019.
[106] Janet Holtzblatt, "Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax," *FinanzArchiv / Public Finance Analysis*, vol. 63, no. 3, September 2007, p. 335.
[107] Organization for Economic Cooperation and Development, *Tax Repayments: Maintaining Balance between Refund Service Delivery, Compliance, and Integrity,* Forum on Tax Administration, May 2011, p. 101.
[108] Claudia R. Sahm, Matthew D. Shapiro, and Joel Slemrod, "Check in the Mail or More in the Paycheck: Does the Effectiveness of Fiscal Stimulus Depend on How It Is Delivered?," *American Economic Journal: Economic Policy*, vol. 4, no. 3, August 2012, pp. 216-250.
[109] Jake Schild and Thesia Garner, "Consumer Response to Economic Impact Payments during the COVID-19 Pandemic and the Role of Subjective Assessments of Well-Being: A View from the US Using a Rapid Response Survey," Bureau of Labor Statistics Working Paper No. 540, May 4, 2021, available at https://www.bls.gov/osmr/research-papers/2021/pdf/ec210060.pdf, p. 16.
[110] An individual wage earner may have wage income from more than one Form W-2. The tax return of a married couple filing jointly may include zero, one, or two wage earners. For purposes of these counts, each spouse that receives at least one Form W-2 is considered a wage earner. Due to multiple wage earners on a joint return, the total number of tax returns that were filed was 120.3 million.
[111] Internal Revenue Service, Statistics of Income Division, Form W-2 Study, July 2021.

[112] See James Cilke, "The Case of the Missing Strangers: What We Know and Don't Know about Nonfilers," National Tax Association Proceedings of the 107th Annual Conference on Taxation, 2014, pp. 1-20.
[113] Internal Revenue Service, Statistics of Income Division, Form W-2 Study, June 2019. Due to multiple wage earners on a joint return, the total number of tax returns that were filed was 114.1 million.
[114] Internal Revenue Service, Statistics of Income Division, *Individual Information Returns Line Item Estimates 2018*, Publication 5385, Rev. 10-2021, pp. 8-10.
[115] Internal Revenue Service, Statistics of Income Division, *Individual Income Tax Returns Complete Report: 2019*, Publication 1304, Rev. 12-2021, Table A. Reasons why wages reported on Form W-2 may not be reported on Form 1040 include: 1) the wage earner may not be required to file an income tax return; 2) notwithstanding the lack of an obligation to file a return, the wage earner may elect not to file if no income tax was withheld; 3) notwithstanding an obligation to file, the wage earner may fail to file a return. Information reporting may result in IRS correspondence to nonfilers to determine whether a return should have been filed and if any tax is due.
[116] OECD, *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies*, OECD Publishing, Paris, 2019, https://doi.org/10.1787/74d162b6-en, pp. 59ff.
[117] Ibid, p. 60.
[118] Ibid, Table 2.2, p. 71.
[119] The amount withheld in the aggregate may exceed 100 percent of total personal income tax liability in the aggregate. For an individual taxpayer, excess withholding typically results in a refund.
[120] Other statutory adjustments in 2019 include, among others, the deductions for health savings accounts; self-employed retirement plans; alimony paid; penalty on early withdrawal of savings; business expenses of reservists, performing artists, and fee-based government officials; and moving expenses for members of the Armed Forces.