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## Five Fallacies About Return-Free Tax Filing

By Arlen Holen
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In the midst of juggling paperwork and forms during tax season it's tempting to imagine a world where your income tax forms spontaneously appear in your mailbox or inbox, filled out by the good graces of the IRS, ready for signature, free of charge. Return-free filing is touted in a recent piece by ProPublica and NPR, which makes the case that Americans could be spared needless frustration, anxiety and paperwork were it not for the lobbying efforts of Intuit, maker of TurboTax, and the pernicious influence of anti-tax activists. Unfortunately, the facts tell a different story and return-free filing advocates rest their case on a number of fallacies:

*1) Return-free systems in European countries such as Denmark, Sweden and Spain are a model for the US.* Studies of tax administration in other countries show that their return-free systems operate under far simpler tax codes than we have in the US. The highly complex US tax code has special rules for retirement accounts, charitable deductions, capital gains, itemized deductions, and work expenses. Social and economic policies are implemented in the US code by numerous tax incentives that would make a return-free system difficult, if not impossible, to administer.

*2) The government already has the information it needs to prepare your returns from your employer and your bank.* Government preparation of returns would require payers of income—employers, financial institutions, even governments writing benefits checks—to incur costs by significantly moving up reporting deadlines for the IRS to get the information in enough time so that tax refunds are not delayed. Advocates of return-free filing conveniently ignore these third-party costs. A study I did for the Technology Policy Institute with Joseph Cordes of the George Washington University calculated that third-party costs would range from $500 million to $5 billion annually and would fall disproportionally on small businesses. Higher employment costs are not what we need when jobs are scarce.

*3) Preparation of returns would be easy for the IRS; it would be doing essentially the same work it does now.* The IRS is a hard-pressed agency, facing a budget crunch even as its workload is rapidly expanding under the Affordable Care Act. Its computer systems have long been plagued with problems and cost overruns, as pointed out by the Government Accountability Office and others. A 2003 Treasury report found that under the current complex tax code, providing taxpayers with pre-filled returns would add to the workload of the IRS. Clearly, additional investment in staff, equipment and facilities would be required.

*4) Signing an IRS-prepared form would be voluntary; if you don't trust the government you don't have to.* Under a return-free system, advocates argue that taxpayers would have the option of accepting a pre-filled return, making changes, or preparing their own return. However, taxpayers signing the form would nevertheless retain responsibility and liability for errors—even those due

to the IRS. It is plausible that many would be unwilling to challenge an official IRS document even if it is erroneous, a problem particularly for low-income filers and those with English as a second language. Whose heart doesn't race a bit when opening a letter with the dreaded IRS return address?

5) *California's ReadyReturn program has been popular with filers*. People who use California's return-free system report that they are happy with it, but the vast majority have declined to use it. In the first year it was widely available, only 1.5% of those eligible (only those with the simplest returns are eligible) used ReadyReturn and in the second year only 3.2%. Last year, fewer than 90,000 taxpayers used the system out of roughly one million who were eligible. Advocates blame a lack of marketing budget for the program but a more likely reason so few Californians use it is that checking a government-prepared return for completeness and accuracy requires much of the same work as preparing a return from scratch. California's experience is consistent with a survey of potentially eligible federal taxpayers, conducted as part of the 2003 Treasury study. Most respondents said that they were not interested in participating in a return-free program.

California's tax agency says that ReadyReturns are cheaper to process than regular paper returns, but the study I did with Joseph Cordes found that such savings likely result from electronic filing rather than the government-prepared return itself. The IRS encourages electronic filing and the proportion of filers doing so is now close to 75%.

The estimated cost of the federal tax system to individuals and the government is roughly 10% of personal income taxes collected, not counting third-party costs. Reducing those costs is a worthy goal. However, this would be best accomplished by simplifying the complex US tax code. That is also the best way to minimize the aggravation of tax day.

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