



Rodney's Take

April 17, 2023

Why Do We Fill out Tax Returns?

The normal deadline for filing taxes in the U.S., April 15, was last Saturday. Because it fell on a weekend, the deadline normally would be pushed to the next business day, today. But Washington, D.C., declared today, April 17, to be Emancipation Day, and many government offices in the District of Columbia are closed. That's why the IRS moved the filing deadline to tomorrow, April 18. But there's a bigger question: Why are roughly 130 million taxpayers filing at all? I'm not suggesting that these people not file and pay their taxes, just that it could be done much more efficiently.

When Congress passed tax reform in 2017, it substantially increased personal deductions and lowered the number of taxpayers who benefit from itemizing. In 2018, the IRS reported that 87.3% of filers, or 134,500,000 returns, claimed standard deductions, while just 19,500,000 claimed itemized deductions. The IRS also estimates that in 2020 we spent 1.88 billion hours preparing our tax returns, lost \$73 billion in opportunity costs, and paid \$36 billion in real money for tax preparation. While the 19.5 million who itemize (like me and probably you) still will need to spend the money and the time on our taxes, most of the 134.5 million who claim standard deductions would greatly benefit from return-free filing, where the IRS sends taxpayers prefilled documents that taxpayers can scan for accuracy and then send in with either a payment or a refund request. The IRS can do this because it *already knows all the information!*

Why do we go through this charade every year? The IRS has the data but still must go through every return to make sure our information matches theirs. And if it doesn't, they will penalize us for doing it wrong! Thirty countries already use some form of return-free filing. The state of California ran a pilot program but shut it down in 2015 for lack of interest. If I'm already doing my federal taxes, I might as well do the state taxes while I'm at it.

We do have a system for assisting people with filing their federal taxes. It's called Free File, but it's available only to those with less than \$73,000 in annual income. That should make you go, "Hmm." Since when does the amount I make change the effort necessary for the IRS to send me pre-filled tax documents? It doesn't. Free File isn't return-free filing, it's the tax prep industry's response to legislators who have tried to pass return-free filing.

Intuit, the maker of TurboTax, has spent more than \$40 million lobbying Congress over the last 25 years to make sure that return-free filing never sees the light of day. Instead, Intuit and a few other firms offered to do simple tax returns for middle and low-income filers, although Intuit and H&R Block recently opted out of the program. The IRS boasts that more than 100 million people are eligible for Free File, but of course, nowhere near that many use it. The service reports that less than 3% of those who are eligible use the program. That might have something to do with the fact that the partner firms often hide the Free File option on their websites and instead steer customers into products that aren't free. Gee, who saw that coming?

So, we're still left with a system where the IRS knows what I owe (or what it owes me), and yet they require me to spend hours filling out forms. And if I get it wrong, they send me a lovely notice letting me know that I screwed it up and now owe a penalty. Return-free filing detractors say that it would be costly to build a system that could generate such documents. I'm not buying it. I'm pretty sure I could mock something up on Excel. Besides, we just gave the IRS \$80 billion. Couldn't they spend, say, half of one percent, or \$400 million, developing software that actually saves us time and money? Maybe it's just another way to save government jobs and, of course, the jobs of tax preparers.

Rodney

Got a question or comment? You can contact us at info@hsdent.com.