

What are the drawbacks?

Potential drawbacks include a heavier administrative burden for those charged with withholding income tax and for government collection agencies, as well as added limits on taxpayer independence.

Drawbacks to a return-free system include a potentially heavier administrative burden on employers and other businesses charged with withholding income tax, and on state and federal tax collection agencies. In addition, taxpayers and opponents of the plan have expressed concern that a return-free plan would allow the government to decide how much tax was owed, limiting taxpayer independence and constraining taxpayers' ability to appeal tax decisions by tax agencies.

Taxpayers appear to like overpaying tax through withholding, and then receiving refunds, perhaps viewing them as a form of forced saving. Moving to a cumulative exact-withholding system would eliminate refunds. In a tax agency reconciliation system, however, refunds would still be possible.

Some argue it is important to have a "visible" tax system (as we do now) on the principle that citizens who know what they pay can make better economic and political choices. In a return-free system, taxpayers would presumably be less informed about how they are being taxed and thus less aware of the tax consequences of their actions. However, the link between filing and understanding may be overblown. Payroll taxes in the United States already operate under a return-free system for almost all taxpayers, yet interest in Social Security and Medicare does not appear to have suffered as a result.

The IRS concluded in 1987 that "there are serious timing and accuracy problems" in developing a tax agency reconciliation system. Even after almost a decade of technological improvements, the US General Accounting Office in 1996 agreed that significant investments in IRS processing capabilities would likely be needed to implement such a system.

FURTHER READING

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Toder, Eric. 2005. "[Return-Free Tax Systems and Taxpayer Compliance Costs](#)." Testimony before the President's Advisory Committee on Federal Tax Reform, May 17.

US Department of the Treasury. 2003. [Return-Free Tax Systems: Tax Simplification Is a Prerequisite](#). Washington, DC: US Department of the Treasury.

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