

How Could We Improve the Federal Tax System?

RETURN-FREE TAX FILING

What are the benefits of return-free filing?

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A. It eases the burden of tax compliance on individuals, and could make the tax code simpler and tax collection and enforcement more efficient.

The primary benefit of a return-free system is a reduced tax compliance burden. Depending on the changes made to the current US income tax structure and administration to accommodate return-free filing, the requirement to file a final tax return could be eliminated for somewhere between 8 million and 60 million households. Secondary benefits include simplification of the tax code, and perhaps a lower administrative burden on the Internal Revenue Service and lower federal expenditure for tax collection.

Filing tax returns can be a drain on taxpayers' time, emotions, and, for those who hire a tax preparer, wallets. Thus, even if most taxpayers can complete their returns with little effort, a return-free system could still provide them significant benefits. There is one important catch: state income tax systems piggyback on the federal system. If the states failed to shift to a return-free system, the reduction in costs would be modest.

Although taxpayers participating in the return-free system would be spared filing paperwork, the net administrative savings might not be great. Of the 62 million or so taxpayers potentially eligible, over two-thirds filed the simpler 1040A and 1040EZ returns prior to 2018, before the 2017 Tax Cuts and Jobs Act eliminated the option to file those returns. Even under a return-free system, these taxpayers would still have to provide some of the same information (such as filing status and dependents' identification) that they do now. Further, some administrative costs would merely be shifted from the taxpayers to their employers, other payers, and the IRS.

In 1996, the US General Accounting Office estimated that a tax agency reconciliation system could reduce the time spent preparing tax returns by as much as 155 million hours a year for 51 million taxpayers and reduce the IRS's annual costs by up to \$37 million. These estimates, however, do not take into account the ways in which such a system might increase the administrative burden on taxpayers and the IRS. For example, 1 billion information reports would have to be filed earlier and processed much sooner by the IRS in order to complete returns by April 15 (with refunds to follow later). State income tax authorities would also incur additional costs or delays.

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Further Reading

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Goolsbee, Austan. 2006. [“The Simple Return: Reducing America’s Tax Burden through Return-Free Filing.”](#) Washington, DC: Hamilton Project.

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