

How Could We Improve the Federal Tax System?

What are the drawbacks of return-free filing?

RETURN-FREE TAX FILING

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Q. What are the drawbacks of return-free filing?

A. 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, as well as on state and federal tax collection agencies. In addition, taxpayers and opponents have expressed concern that a return-free plan would allow the government to decide how much tax was owed, limiting taxpayers' independence and constraining their ability to appeal tax agencies' decisions.

Taxpayers appear to like overpaying tax through withholding then receiving refunds, perhaps viewing this 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 a "visible" tax system (as we have now) is important, 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 the IRS would likely need significant investments in processing capability to implement such a system.

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Further Reading

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