

# How Could We Improve the Federal Tax System?

RETURN-FREE TAX FILING

## What other countries use return-free filing?

**Q. What other countries use return-free filing?**

**A. At last count, 36 countries, including Germany, Japan, and the United Kingdom, permit return-free filing for some taxpayers.**

Nearly all countries that offer return-free systems have “exact-withholding” systems, of which there are two types: “cumulative” systems (used in the United Kingdom and Russia) and “final-withholding” systems (used in Germany and Japan). Some countries combine one of these approaches with other requirements. In Chile, for example, taxpayers are not eligible if they wish to file for refunds of excess withholdings.

### COUNTRIES WITH TAX AGENCY RECONCILIATION SYSTEMS

Denmark and Sweden, both small countries, operate tax agency reconciliation systems. About 87 percent of Denmark’s taxpayers and 74 percent of Sweden’s had their returns filled out by the tax authorities in 1999. Spain, Estonia, Finland, Norway, and Iceland have also implemented tax agency reconciliation systems.

### THE BRITISH EXPERIENCE

Britain’s Pay As You Earn system, which has incorporated exact withholding since the 1940s, has several features that facilitate return-free filing. One is that it treats the individual (rather than the family) as the unit of taxation. Another is that a large proportion of taxpayers (64 percent) are taxed at the same “basic” marginal rate. The system was reformed in April 2013 to require employers to report salary payments in real time, with the goal of decreasing withholding errors. The reform also linked revenue collection and benefit payments to the same database, increasing efficiency.

Despite the clear need for the changes, concern still exists as to whether real-time reporting places a disproportionate burden on small businesses. To minimize the problem, small employers have been temporarily allowed to file payments monthly. In 2014, about 90 percent of the United Kingdom’s income tax revenue was collected through Pay As You Earn.

### FILING RATES

The portion of taxpayers who still have to file returns varies widely by country. About 90 percent of taxpayers eligible for final withholding in the United Kingdom did not have to file in 2014. The figures for other countries are dated, but there’s no reason to believe that they are unrepresentative. In Germany in 1986 and in Japan in 1988–90, the corresponding figures were 46 percent and 63 percent, respectively.

# How Could We Improve the Federal Tax System?

RETURN-FREE TAX FILING

## What other countries use return-free filing?

Many countries, it should be noted, maintain a filing requirement for taxpayers with more than one job. At least one, Kenya, requires taxpayers to file a return if their personal circumstances change during the year.

*Updated May 2020*

---

### Further Reading

Gale, William G., and Janet Holtzblatt. 1997. [“On the Possibility of a No-Return Tax System.”](#) *National Tax Journal* 50 (3): 475–85.

Holtzblatt, Janet. 2007. [“Implications of Return-Free Tax Systems for the Structure of the Individual Income Tax.”](#) *Public Finance Analysis* 63 (3): 327–49.

Van der Heeden, Koenraad. 1994. [“The Pay-as-You-Earn Tax on Wages: Options for Developing Countries and Countries in Transition.”](#) Working Paper 94/105. Washington, DC: International Monetary Fund.

---

Copyright © 2020. Tax Policy Center. All rights reserved. Permission is granted for reproduction of this file, with attribution to the Urban-Brookings Tax Policy Center.