



I. Introduction

The Research Applied Analytics and Statistics (“RAAS”) division of the IRS provides annual taxpayer compliance burden estimate updates as part of IRS requirement to report paperwork burden imposed on the public. For FY21, RAAS substantially revised the burden estimate for business entity filers (OMB 1545-0123) based on new survey data. Taxpayer burden surveys are an integral part of the model utilized by RAAS to estimate taxpayer burden. After analysis of prior survey data, it was determined that the instrument used to collect data had questions that were asked in a way that likely introduced a substantial amount of duplicate burden reporting. The survey instrument was redesigned to clarify the questions that appeared to be causing confusion. Information about the survey redesign is provided in Part II below.

Based on the data collected from the redesigned survey instrument, it was clear that business taxpayer burden based on the prior data collections had been substantially overstated. RAAS issued a technical correction in FY21 to re-baseline the burden estimate for OMB 1545-0123 to ensure that business entity burden estimates properly reflect the compliance burden information provided to RAAS by business taxpayers.

In aggregate, the new survey data indicate that time burden was overstated by 2.144 billion hours, and that the money was overstated by \$16.615 billion. Because it is not possible to separate the impact of the survey instrument redesign and year-over year changes in burden, RAAS chose to implement the rebaselining in FY21 so that the impact on burden related to Tax Cuts and Jobs Act could be clearly represented in the FY19 and FY20 burden estimate updates. The new baseline level of burden applies to OMB 1545-0123 going forward.

The following tables provides an overview of the adjustment to monetized total burden and the technical adjustment included in the supporting statement for the FY21 OMB Information Collection Review request for OMB 1545-0123.¹ As shown in the following tables, the technical adjustments to the FY20 burden estimate reduced the FY21 estimate by nearly 50 percent. A substantial portion of the estimation differences shown is a direct result of incorporating the new survey data into the model. The remaining adjustments are in line with typical technical adjustments.

Estimates for Forms 1120 and 1065 Series of returns and supporting forms, schedules and regulations					
FY2021					
	FY20	Change due to Adjustments in Agency Estimates	Program Change due to New Legislation	Program Change due to Agency Discretion	FY21
Number of Taxpayers	12,000,000	(200,000)	-	-	11,800,000
Burden in Hours	3,344,000,000	(2,259,000,000)	-	-	1,085,000,000
Burden in Hours	61,558,000,000	(17,279,000,000)	-	-	44,279,000,000
Monetized Total Burden	190,981,000,000	(95,178,000,000)	-	-	95,803,000,000
Detail may not add to total due to rounding			Source: IRS:RAAS:KDA:TBL (11-15-20)		

Technical Adjustments	Change in Filers	Change in Hours	Change in Dollars	Change in Total Monetized Burden (\$)
Update FY20 Population Counts and Macro Estimates	-600,000	-146,500,000	-2,215,000,000	-7,071,000,000
New Survey Instrument & Data	0	-2,144,000,000	-16,615,000,000	-91,384,000,000
Updated FY21 Population Counts	400,000	32,500,000	1,310,000,000	2,782,000,000
Updated FY21 Macro Estimates	0	-1,000,000	241,000,000	495,000,000
Total Technical Adjustments	-200,000	-2,259,000,000	-17,279,000,000	-95,178,000,000

Source: IRS:RAAS:KDA:TBL (11-15-20)

II. About the Survey Instrument Revision

Taxpayer burden surveys are an integral part of the model utilized by RAAS to estimate taxpayer burden. The Business Taxpayer Burden (BTB) Survey is fielded every three years. The previous baseline estimates used data from the first BTB survey (Tax Year 2009). The 2009 instrument relied on a series of questions that asked the respondent to provide the total number of full-time and part-time employees involved in federal income tax activities and then asked for the percent of time those employees spent exclusively on federal income tax activities. Evaluation of the survey data revealed two forms of potential measurement error. First, in some cases the full-time and part-time employee question responses appeared to capture the number of all full-time and part-time employees instead of just those involved in federal tax related activities. Second, there appeared to be a significant amount of rounding in the response to the percentage question. Given the unique nature of the data collected on this survey, there is no alternative data or reliable method available to establish the magnitude of the measurement error. The direction of the measurement error, however, almost certainly biases time estimates higher.

¹The FY21 OMB 1545-0123 supporting statement is available at [PRA ICR Documents \(reginfo.gov\)](https://www.reginfo.gov)

The BTB survey data collection protocol was redesigned to include two survey instruments, one tailored to smaller businesses and the other tailored to larger businesses. The time questions in the revised survey instruments were redesigned to address the measurement issue. Specifically, the new smaller business survey directly asks for total hours spent, and the larger business survey provides the respondent the option to directly enter total hours or full-time equivalents spent. In addition, sample stratification has been improved to ensure more statistically representative responses across the population of business entities.

Review of 2012 survey data, which was first available in 2016, indicated that there was also a likely overstatement of reported burden on the 2009 survey, especially related to the time spent on federal income tax activities. The 2009 and 2012 BTB survey results, weighted to the population, are presented below. The weighted Individual Taxpayer Burden Survey results for taxpayers with sole proprietor self-employment income is shown for comparison.

While we expect business taxpayer burden to be higher than individual taxpayers, the 2012 BTB results are much more in line with the ITB survey results for that same time period. Subsequent BTB surveys have produced results similar to the 2012 results, affirming our belief that the 2009 burden was substantially overstated.

Business Taxpayer Burden Survey Results (weighted)		
Time (Hours)		
Turnover	2009	2012
Under 50k	314	50
50k to 100k	247	56
100k to 200k	311	67
200k to 300k	332	77
300k to 400k	356	90
400k to 500k	377	69
500k to 750k	509	121
750k to 1M	441	100
1M to 2M	566	185
Over 2M	1,247	295
Money (\$)		
Turnover	2009	2012
Under 50k	2,209	806
50k to 100k	1,751	1,269
100k to 200k	2,533	1,373
200k to 300k	3,283	1,971
300k to 400k	3,753	2,401
400k to 500k	3,674	2,230
500k to 750k	4,600	2,904
750k to 1M	6,047	3,989
1M to 2M	7,142	4,613
Over 2M	25,950	12,841

***Redacted

Individual Taxpayer Burden Survey Results (weighted)			
Time (Hours)			
Turnover	2010	2011	2012
Under 50k	22	27	28
50k to 100k	40	40	40
100k to 200k	46	57	65
200k to 300k	66	61	64
300k to 400k	43	78	163
400k to 500k	***	42	74
500k to 750k	***	53	78
750k to 1M	***	***	***
1M to 2M	***	***	***
Over 2M	***	***	***
Money (\$)			
Turnover	2010	2011	2012
Under 50k	258	262	231
50k to 100k	391	410	418
100k to 200k	610	731	517
200k to 300k	738	797	701
300k to 400k	918	959	1,215
400k to 500k	***	1,148	1,180
500k to 750k	***	1,558	1,242
750k to 1M	***	***	***
1M to 2M	***	***	***
Over 2M	***	***	***

Source: RAAAS:KDA Burden Survey Program (10/14/2021)

III. About Tax Compliance Burden

The Paperwork Reduction Act of 1980 (“PRA”)² was enacted to minimize the public’s paperwork burden from the growing information collection and reporting requirements imposed by the federal government. One of the provisions of the Act requires federal agencies to report to Congress the information collection burden they impose. The IRS collects information from taxpayers so that they can fulfill their income reporting requirements and provide sufficient information to claim allowed deductions and credits against their taxable income. The Wage & Investment (W&I) Media & Publications coordinates all reporting of official burden estimates through the Department of Treasury to the Office of Management and Budget (OMB). The Office of Chief Counsel considers the impact of compliance burden associated with implementation of new regulations. The Department of Treasury Office of Tax Analysis (OTA) oversees the methodology used by the IRS to provide burden estimates.

Tax compliance burden reporting is unique in the federal system because the Internal Revenue Service provides tax forms, instructions, publications, and other guidance for taxpayers to utilize in preparing their tax filings. Tax compliance burden would be much greater for the federal government and most of the public without tax forms to provide a framework for determining tax liability and claiming tax benefits. Nevertheless, the Federal tax system imposes an enormous burden on taxpayers. It is estimated that tax compliance burden is 71% of the annual federal paperwork burden.³ While the IRS strives limit the burden on taxpayers, it must balance any burden reduction efforts with the administrative costs that would otherwise be required to determine a taxpayer’s tax liability.

Tax compliance burden is generally defined as the time and money taxpayers spend to comply with their tax filing responsibilities. Time-related activities include recordkeeping, tax planning, gathering tax materials, learning about the law and what you need to do, and completing and submitting the return. Out-of-pocket costs include expenses such as paying a third-party preparer, purchasing tax software, and printing and postage. Tax compliance burden does not include a taxpayer’s tax liability, economic inefficiencies caused by sub-optimal choices related to tax deductions or credits, or psychological cost of meeting tax reporting, filing, and payment obligations.

Drivers of Tax Compliance Burden

The drivers of tax compliance can be generalized into four primary categories:

1) Volume of Activity

Volume of activity represents the different types of income and expenses as well as the associated dollar amounts and transactions. This activity is observed in a generalized format as the number of forms and statements included in a return, the lines that are completed on the forms, and the frequency with which the return must be filed. A key assumption for the relationship between burden and volume of activity is that if the volume of activity increases, burden is expected to increase but at a decreasing rate.

To provide context, a taxpayer must engage in an activity (e.g., keep records, report income, claim a deduction) to incur burden. A taxpayer with a straightforward tax situation (perhaps a single taxpayer who has no dependents and files Form 1040-EZ) incurs far less compliance burden than a taxpayer who files Form 1040 with many forms attached (such as Schedule A, Itemized Deductions, Form 8582 Passive Losses, and Form 6251, Alternative Minimum Tax). Employers who file quarterly returns incur more burden than employers who are only required to file an annual return.

²Paperwork Reduction Act of 1980, summary available at <https://www.congress.gov/bill/96th-congress/senate-bill/1411> (last accessed 10/23/2017)

³ROCIS report dated April 2, 2018 All Agency PRA Inventory report -Detail Inventory report for IRS paperwork burden total, 8,063,777,920hours in 707 information collections. ROCIS report dated April 2, 2018 All Agency PRA Inventory report -All Agency Summary report for annual federal paperwork burden total, 11,399,930,195 hours. 8,063,777,920/11,399,930,195=70.7%

2) Availability of Data Sources

Burden is impacted by the number and availability of data sources needed to complete a return. Generally, information that is readily available from other sources, such as third-party reporting documents, drive less burden than information that must be gathered by the taxpayer. For tax compliance burden purposes, record-keeping burden only includes the books and records that a taxpayer keeps solely for tax purposes. For example, a corporation may maintain records using Generally Accepted Accounting Principles (GAAP) for legal purposes. Certain adjustments are made to take into account differences between tax and GAAP rules. Only the time and money spent to create and maintain tax adjustments are considered part of tax compliance burden.

Third-party information returns, such as W-2s, significantly reduce the burden individual taxpayers face. Information returns provided by payers of income allow taxpayers to keep minimal records for the income and other associated information reported on the document. It is important to note that the creation of information returns shifts the compliance burden from individuals to the entities responsible for issuing them so the savings that individuals experience are partially offset by the costs issuing entities incur.

3) Taxpayer Characteristics

A taxpayer's compliance burden is related to several different attributes. Individual taxpayers will experience varying levels of burden based on their level of education, the structure of their household, their age, their assets, their income, and their decision to hire a preparer. Entities will experience varying levels of burden based on their industry, their size, their years in business, and their decision to hire a preparer. These variations in attributes can lead to different levels of complexity. Complexity also tends to increase as income increases. This makes sense because higher-income taxpayers are more likely to have many sources of income and claim numerous tax deductions and credits. Businesses may also face additional reporting requirements as they increase in size.

The amount of required recordkeeping is also a significant factor in the amount of burden faced by taxpayers. For example, an individual whose sole source of income is from wages typically has much less burden than a sole proprietor who must keep records of income and retain receipts for deductible expenses.

4) Technology Infrastructure

Technology plays a key role in tax compliance burden. Through the early 80's, tax returns were prepared by hand and submitted by mail. Today, 95% percent of returns are prepared using software and 89% percent of returns are electronically filed.⁴ Technology innovation over the last three decades has also introduced recordkeeping solutions for all filers that provide improved productivity at a significantly reduced price.

Returns prepared on paper generally take more time to prepare than if software were used. Assisted tax preparation (whether the taxpayer prepares the return themselves using software or seeks the services of a paid preparer) generally reduces the time to complete a tax return, but there is a trade off of incurring out of pocket costs (money burden) if the taxpayer purchases the software or uses a paid preparer. The use of software offers other important benefits, such as eliminating the need to spend time obtaining tax forms, automated math calculations, interview prompts, and error checking, to name a few. A variety of free and pay-for tax preparation software and tax preparation services are available to most taxpayers.

As with recordkeeping, the costs associated with computers, software, data storage, etc. that a taxpayer maintains for non-tax purposes are not included in tax compliance burden. Costs associated with new equipment and software that a taxpayer would not otherwise need is included in tax compliance burden. Initial startup costs to acquire and put in place technology to handle tax compliance tasks reduces the ongoing burden that would be otherwise incurred.

⁴Source: TY 2016 IRTF Table via CDW by W&I Strategies & Solutions, Research Group 2, extracted on January 31, 2018, from data through Cycle 52.

IV. History of Tax Compliance Burden Estimation

In 1998, the IRS recognized that changes in the economy, tax laws, and characteristics of the taxpayer population were making the survey data that underlie the estimates in the Arthur D. Little (ADL) model increasingly out-of-date. In addition, the model can simulate only a narrow range of policy changes because it does not adequately represent the characteristics of the tax law that generate burden.⁵ IRS Commissioner Charles Rossotti established a task force to study the issue and make recommendations regarding future research. The task force included representatives from the IRS, Department of Treasury (Office of Tax Analysis and Assistant Secretary for Management), Office of Management and Budget (OMB), and the General Accounting Office (GAO).

A 2000 GAO report⁶ summarizes the ideal capabilities of the new model. It states that the model would be able to:

- estimate the burden associated with all pre-filing, filing, and post-filing activities undertaken to comply with federal income, estate and gift, employment, and excise tax rules;
- disaggregate total compliance burden by type of tax, taxpayer, and activity;
- disaggregate burden by origin of compliance requirements (tax laws, regulations, and administrative procedures);
- estimate changes in burden associated with potential tax law changes;
- function in an integrated manner, allowing users to see how certain tax changes affect multiple taxpayer groups;
- disaggregate burden by IRS function (e.g., submission processing and customer service) for burdens associated with the requirements of, and taxpayer interactions with, those functions;
- estimate the impact on tax compliance burden of alternative enforcement programs and techniques providing customer service;
- provide different types of estimates for different purposes (e.g., the estimates required for the Information Collection Budget are different from those that IRS would use for performance measurement under Government Performance and Results Act (GPRA));
- estimate burden in terms of dollars as well as time; and
- incorporate new data with sufficient ease so that the model, itself, would not have to be replaced in the near future.

The improved burden methodology establishes econometric relationships between tax return characteristics from IRS administrative data and the time and out-of-pocket costs reported by those taxpayers via survey data. Most importantly, it takes a taxpayer-centric view of tax compliance burden, considering taxpayers' actual pre-filing and filing experience. It recognizes the need to survey taxpayers periodically to ensure that the model can be updated to properly represent the current tax compliance experience.

⁵Guyton, John L. & O'Hare, John F. & Stavrianos, Michael P. & Toder, Eric J., 2003. "Estimating the Compliance Cost of the U.S. Individual Income Tax," National Tax Journal, National Tax Association, vol. 56(3), pages 673-688, September.

⁶GAO Report (2000), TAX ADMINISTRATION: IRS Is Working to Improve Its Estimates of Compliance Burden, May 2000 available at <https://www.gao.gov/assets/ggd-00-11.pdf>. Last accessed 08/04/2021

V. About the Business Taxpayer Burden Survey

As a key step in estimating tax compliance costs, the IRS conducts taxpayer burden surveys. These surveys are designed to gather statistically representative data regarding the time and out-of-pocket costs incurred by taxpayers in response to their tax obligations.

Business Taxpayer Burden (BTB) surveys have been conducted for tax year 1984 (original Arthur D. Little survey), 2004, 2009, 2012, 2016, 2019, and are scheduled to be fielded every three or four years thereafter. The tax year 2004 survey only included small business taxpayers filing Form 1120, 1120-S, 1065, and 1120 Specials. The tax year 2009 survey updated the Small Business Taxpayer Burden Survey of 2004 and added a separate survey instrument for large businesses. This survey included all business taxpayers filing a Form 1120 series or Form 1065 series return. (Note: Previous studies of compliance burden for large businesses were conducted in 1993 by Slemrod and Blumenthal (1996)⁷ and in 2002 by Slemrod and Venkatesh.⁸ In addition, the 1986 Arthur D. Little study for Tax Year 1984 also covered business taxpayers, as discussed in Contos, et al. (2012).)⁹

The BTB survey is designed to gather statistically representative data on the time and out-of-pocket costs that taxpayers incur. As a result, after accounting for nonresponse and adjusting survey weights to match population control totals, the time and out-of-pocket cost amounts reported on the surveys can be used to estimate the average and aggregate time and out-of-pocket costs for their respective populations. It is important to note that these estimates are representative for the year in which the survey was collected. Any change that occurs before or after the survey fielding must be considered when calculating an estimate for a previous or ensuing year for which survey data are not available.

The BTB survey instrument consists of framing questions to improve recall for the key time and out-of-pocket cost questions. Time-related questions asked respondents to allocate their time burden across (1) tax compliance activities (such as recordkeeping, tax planning, calculating payroll taxes, and completing and submitting the federal income tax return) and (2) the type of employee (owners, executives, clerical, and other) performing those activities. Cost-related questions include fees paid to external service providers for tax and tax-related services, the cost of tax-related software, and the amount spent on other tax-related activities (copies of tax returns, postage, etc.).

To take into account likely pay rate differences within and across firms, the BTB Survey asks respondents to report the average hour weighted hourly cost for the Form W-2 employees spending their work hours completing the federal income tax requirements. This measure can be used to help determine the monetary costs of the time spent by firms complying with federal income tax requirements.

How Business Taxpayer Burden Survey is Conducted

The BTB survey is conducted every three years. To reduce recall bias, the survey sample is pulled in four or five waves throughout the data collection period so that respondents receive their survey as close to the time that they filed their tax return. Stratified random sampling is used to select the survey respondents for the BTB Survey. Business entities are grouped by entity type based on the tax return they filed (corporation, S corporation, or partnership) and size as shown in the Strata tables below.

⁷ Slemrod, Joel and Marsha Blumenthal, 1996. "The Income Tax Compliance Cost of Big Business." *Public Finance Quarterly*, vol. 24, 4: pp. 411-438.

⁸ Slemrod, Joel and Varsha Venkatesh. 2002. "The income tax compliance cost of large and mid-size businesses." Technical report, IRS, LMSB Division.

⁹ Contos, George, John Guyton, Patrick Langetieg, Allen Lerman, and Susan Nelson, 2012. "Taxpayer Compliance Costs for Corporations and Partnerships: A New Look" available at <https://www.irs.gov/pub/irs-soi/12rescontaxpaycompliance.pdf>

Strata		
	Industry	Business Size
Form 1120	ANY	No Business Activity
	ANY	Assets Under 50k and Turnover Under 20k
	ANY	Assets From 50k to 175k or Turnover From 20k to 70k
	ANY	Assets From 175k to 500k or Turnover From 70k to 200k
	ANY	Assets From 500k to 1.5M or Turnover From 200k to 600k
	ANY	Assets From 1.5M to 5M or Turnover From 600k to 2M
	ANY	Assets From 5M to 15M or Turnover From 2M to 6M
	ANY	Assets From 15M to 50M or Turnover From 6M to 20M
	ANY	Assets From 50M to 1000M or Turnover From 20M to 400M
	ANY	Assets Over 1B or Turnover Over 400M
Form 1120-S	ANY	No Business Activity
	ANY	Assets Under 50k and Turnover Under 20k
	ANY	Assets From 50k to 175k or Turnover From 20k to 70k
	ANY	Assets From 175k to 500k or Turnover From 70k to 200k
	ANY	Assets From 500k to 1.5M or Turnover From 200k to 600k
	ANY	Assets From 1.5M to 5M or Turnover From 600k to 2M
	ANY	Assets From 5M to 15M or Turnover From 2M to 6M
	ANY	Assets From 15M to 50M or Turnover From 6M to 20M
	ANY	Assets From 50M to 1000M or Turnover From 20M to 400M
	ANY	Assets Over 1B or Turnover Over 400M
Form 1120-L	ANY	ANY
Form 1120-REIT	ANY	ANY

Strata		
	Industry	Business Size
Form 1065	ANY	No Business Activity
	Not Real Estate	Assets Under 50k and Turnover Under 20k
	Not Real Estate	Assets From 50k to 175k or Turnover From 20k to 70k
	Not Real Estate	Assets From 175k to 500k or Turnover From 70k to 200k
	Not Real Estate	Assets From 500k to 1.5M or Turnover From 200k to 600k
	Not Real Estate	Assets From 1.5M to 5M or Turnover From 600k to 2M
	Not Real Estate	Assets From 5M to 15M or Turnover From 2M to 6M
	Not Real Estate	Assets From 15M to 50M or Turnover From 6M to 20M
	Not Real Estate	Assets From 50M to 1000M or Turnover From 20M to 400M
	Not Real Estate	Assets Over 1B or Turnover Over 400M
	Real Estate	Assets Under 50k and Turnover Under 20k
	Real Estate	Assets From 50k to 175k or Turnover From 20k to 70k
	Real Estate	Assets From 175k to 500k or Turnover From 70k to 200k
	Real Estate	Assets From 500k to 1.5M or Turnover From 200k to 600k
Real Estate	Assets From 1.5M to 5M or Turnover From 600k to 2M	
Real Estate	Assets From 5M to 15M or Turnover From 2M to 6M	
Real Estate	Assets From 15M to 50M or Turnover From 6M to 20M	
Real Estate	Assets From 50M to 1000M or Turnover From 20M to 400M	
Real Estate	Assets Over 1B or Turnover Over 400M	
Form 1120-PC	ANY	ANY
Form 1120-F	ANY	ANY

VII. Summary

Unlike other Federal information collection burden, tax compliance burden is imposed by legislation created and passed into law by Congress. The Internal Revenue Service is tasked with administering and enforcing these laws, taking into consideration the trade-off between burden imposition and revenue protection. Although the IRS is required to estimate and report tax compliance burden, the benefits of doing so go far beyond complying with the Paperwork Reduction Act.

Through tax compliance burden research conducted by the IRS Research, Applied Analytics, and Statistics department, with guidance from OMB, W&I's Tax Forms & Publications group, the Treasury Office of Tax Analysis, and input from other internal and external stakeholders, the IRS has a thorough understanding of the drivers of compliance burden as well as how changes in tax law and IRS administrative processes impact burden. Because of these efforts, RAAS was able to identify that the wording of some of the question on the Business Taxpayer Burden Survey was likely causing duplicative burden reporting on the survey. To address this issue, the survey instrument was revised to clarify items that were apparently causing confusion. Data collected from the revised survey made it clear that estimates based on the original survey were substantially overstated.

To address the overstatement of burden and to ensure accurate reporting of the tax compliance burden imposed on businesses, RAAS issued a technical correction in the FY21 OMB burden update that establishes a new baseline for use going forward. This change allows the IRS to stay consistent with its mission of providing taxpayer-centric tax compliance burden, based in large part on information gathered from the taxpayers themselves about the time and money they spend to comply with their federal income tax filing requirements.