

Harnessing Technology to Improve Tax Administration

Janet McCubbin, AARP Public Policy Institute

Corporate Tax Data in a Digital Age

- > Three observations about tax administration:
 - > Too costly to audit more than a small fraction of taxpayers.
 - > Collect substantial amounts of data electronically, in the normal course of business.
 - > Many taxpayers want to comply, and would welcome help in doing so.

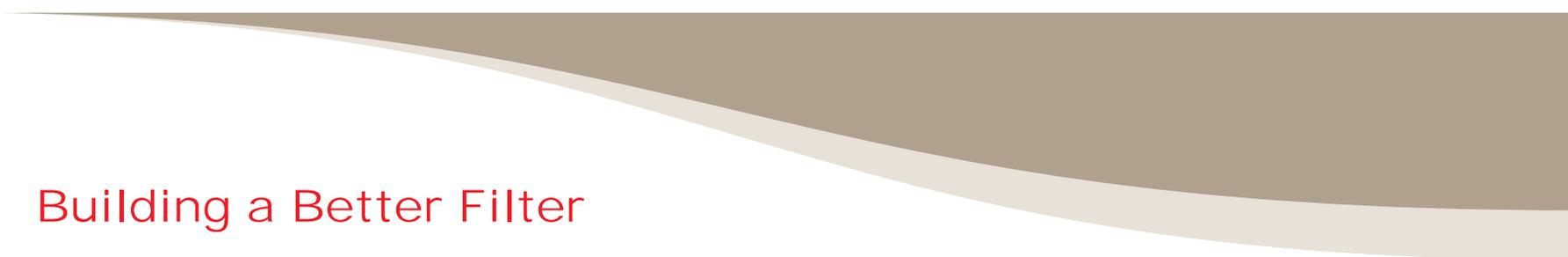
Corporate Tax Data in a Digital Age

- > How to manage in this environment?
 - > Create a National Fiscal Database.
 - Persons
 - Property
 - Expenditure and income
 - “One person’s expenditure leads to another person’s income thereby creating an ex-income audit trail.”
 - > Use it to verify taxpayer reports (modeling).
 - > Or, use it to pre-populate taxpayer accounts.

Corporate Tax Data in a Digital Age

> Questions:

- > How comprehensive and accurate would the database – especially the ex-income data – be?
- > How would taxpayers respond to pre-populated reports?
- > How costly would it be to assemble and process the data?

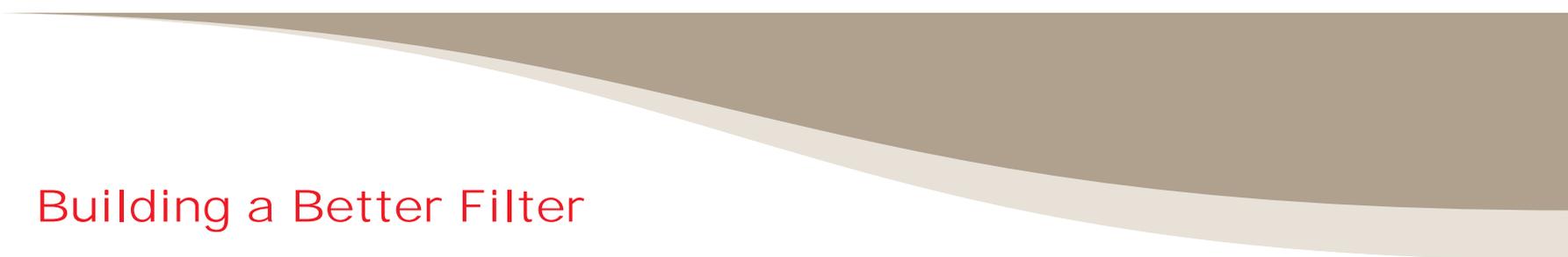


Building a Better Filter

- > The Taxpayer Relief Act of 1997 made it more cost-effective for IRS to levy certain Federal payments.
 - > Provided for a “continuous levy” that may remain in effect until the debt is paid.
 - > Maximum amount is 15% of payment.
 - > Most taxpayers affected are Social Security recipients.

Building a Better Filter

- > Social Security recipients may be vulnerable.
 - > About a third of Social Security recipients depend on Social Security for virtually all of their income.
- > IRS initially excluded Social Security recipients with low Total Positive Income (TPI).
 - > About 55 percent of delinquent Social Security recipients.
- > GAO (2003) argued that many of these taxpayers could pay their tax debts.
- > IRS dropped the TPI filter in 2005; FPLP cases referred to the Taxpayer Advocate grew from 500 in FY 2004 to over 4,000 in FY 2006.



Building a Better Filter

- > Options:
 - > No filter
 - > TPI filter using last tax return
 - > Tax return + third party data income filter
 - > Collection standards applied to “best income” filter
 - > Other filters
- > Which filter does the best job of separating those who can pay from those who cannot? How do we know?

Building a Better Filter

- > Establish a benchmark for a “good” filter.
- > Paper uses actual dispositions.

Case Status/Filter Result	Cannot Pay	Can Pay
Levy	28,420 (15%)	128,635 (67%)
Paid	785 (<1%)	14,435 (8%)
Installment Agreement	935 (<1%)	12,303 (6%)
Hardship waiver	952 (<1%)	4,851 (3%)

Building a Better Filter

- > Actual dispositions might not be the correct outcomes.
- > Investigate the levy cases further.
 - > “Accepting” a levy does not mean that hardship has not occurred.
 - > Is IRS levying inappropriately, or is the filter exempting too many cases?
- > Other data (e.g., experience with levying wages)?

Building a Better Filter

- > Compare taxpayers excluded by each filter.
 - > What is the rationale and methodology behind alternative filters?
 - > Are there substantial differences in the numbers and types of taxpayers screened out by each filter?
 - > Can a fast, cheap, easily implemented filter perform nearly as well as a more complicated filter?
 - Looking for assets probably not productive.
- > How do taxpayer circumstances change over time? Should cases be reevaluated? Annually?

A Lifetime of Electronic Filing

- > First research goal: determine whether the Free File program acts as a gateway to electronic filing.
 - > Answer *seems* to be YES.
 - > 80% of those using Free File for TY 2005 but not for 2006, nonetheless filed electronically for 2006.
 - > 87% using Free File for 2005 and eligible to use Free File for 2006, filed electronically.
 - 40 percent via Free File
 - 11 percent via a paid preparer
 - 36 percent on their own
 - > 73% of 2005 Free Filers filed electronically (including telefile) for 2004



A Lifetime of Electronic Filing

- > Second research goal: identify market segments with the greatest potential for increasing participation in Free File.
 - > Young filers
 - > Self-prepared, V-coded return filers
 - > “Students”

A Lifetime of Electronic Filing

> Young filers

- > Shackelford (2007) finds younger filers prefer to get forms and information on-line.
- > Chu and Kovalick (2007) find that Free Filers are likely to be young.
- > Most taxpayers *eligible* to free file are young.
- > Thus, young filers account for the largest number of eligible non-participants as well as the largest group of participants.
 - 41% of Free Filers & 24% of non-participants are < age 25.
 - 24% of Free Filers & 21% of non-participants are age 25-34.
- > Compare the characteristics of young participants and non-participants



A Lifetime of Electronic Filing

> Self-prepared, V-coded filers

- > Hypothesize that V-coded filers would be receptive to Free File and electronic filing, because they are already using a computer to prepare their return
- > 8.5 million such filers eligible for Free File
 - 2.8 million under age 25
 - 1.5 million age 25 – 34
 - 1.2 million aged 65 and older
- > What else do we know about these filers? Why don't they Free File and what would make them do so?



A Lifetime of Electronic Filing

> “Students”

- > Aged 18 – 24
 - > AGI under \$17,000
 - > No EITC claimed
 - > 48% filing on paper (compared to 40% of all taxpayers)
- > A diverse group of taxpayers, including many who are low-wage workers, not students
- > How do you reach them?
- > Use Form 1098-T or other data to identify students
 - > Determine market share of students vs. non-students