

Projections of Returns to be Filed in Fiscal Years 1982-1990

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The number of "primary" returns filed with the Internal Revenue Service (IRS) has greatly expanded since World War II. Filings have increased from 67.4 million in Fiscal Year (FY) 1945 to 137.4 million in 1980. This is true even though some types of returns filed in 1945 are no longer required and the filing requirements on others have been liberalized.

Much of this growth can be attributed to the general expansion of the economy, particularly the increase in the number of jobholders. While continued growth is anticipated, we expect the number of returns received in the next two years to increase more slowly than in the past, and the growth between 1985 and 1990 to be below the 35-year historical average.

Type of Return	1982 Projection (Thousands)	Change from 1981
Total	141,678	1.5%
Individual	96,404	2.0
Fiduciary	2,038	4.5
Partnership	1,499	3.2
Corporation	2,899	4.1
Estate and Gift	350	-0.6
Employment	26,528	0.3
Individual Declarations	9,212	-0.7
Other	2,748	-0.9

Fiscal Year	Returns Filed (Thousands)	Annual Growth
1965.....	102,485	2.1%
1970.....	113,078	2.1
1975.....	125,117	2.1
1980.....	137,381	2.0
1981.....	139,544	1.6
1982.....	141,678	1.5
1985.....	150,460	2.1
1990.....	162,953	1.7

Highlights of the projections for 1982-1990 are listed below.

Individual Income Tax Returns.--These returns, which represent about two-thirds of the primary returns filed, will grow in number from 94.5 million for 1981 to 103.5 million for 1985, i.e., at an average annual rate of 2.4 percent. We anticipate, however, smaller increases in the number filed in 1986 and thereafter because of the indexing of filing thresholds and exemption levels provided by the Economic Recovery Tax Act of 1981. (The annual average growth rate over the period 1986-1990 will be about 1.4 percent.) A shift is projected in usage from the Form 1040 to the (short) Form 1040A--an additional 1.3 million 1040A returns in 1982 increasing to 2.5 million by 1990. This is because IRS has removed the current limits on the amount of interest and dividends reportable on the 1040A and increased the tax table limit to \$50,000.

Individual Declarations of Estimated Tax.--The basic trend of Form 1040ES returns has been revised upward to more nearly reflect recent filing experience. In addition, a downward adjustment has been made to reflect the new filing requirements enacted by the Economic Recovery Tax Act of 1981. That Act raised the tax due filing threshold, by annual \$100 increments, from \$100 in 1981 to \$500 in 1985. The net effect of these two adjustments is that the FY 1982 projection decreases from 1981 by 66,000 and then shows small annual increases through 1985 before the normal projected growth resumes after 1986.

Estate and Gift Tax Returns.--Fewer estate and gift tax returns are expected to be filed because of the Economic Recovery Tax Act of 1981 which: (a) gradually increases the unified credit against estate and gift taxes over a 5-year period, so that no tax will be imposed on transfers of \$600,000 or less by the end of that period; (b) repeals the existing limits on the marital deduction for estate and gift taxes; and (c) increases the excludable gifts in any single year to any individual person from \$3,000 to \$10,000. These provisions, when fully effective, will reduce the number of estate tax returns (Form 706) by almost 70 percent and the number of gift tax returns (Form 709) by 35 percent.

The "primary" returns constitute a major part of the IRS workload. Included in this grouping are such returns as Form 1040 and Form 1040A (U.S. Individual Income Tax Return), Form 941 (Employer's Quarterly Federal Tax Return), and Form 1120 (U.S. Corporation Income Tax Return). Not included are almost 400 million information documents such as Form 1099-DIV (Statement for Recipients of Dividends and Distributions) and Form 1087-INT (Statement for Recipients of Interest Income). Also not included are approximately 6 million supplemental returns such as amended returns or requests for filing extensions.

GENERAL SUMMARY

For workload planning purposes, filings of 58 different forms were projected. The major types of returns are expected to maintain their relative importance throughout the projected period. Total primary returns are expected to grow at an average rate of 1.9 percent per year from 1981 to 1990. Fiduciary returns and corporation returns are expected to grow moderately faster than the average. Employment and exempt organization returns are expected to grow more slowly. In contrast, the number of estate and gift returns is expected to decrease from the 1980 filing levels because of the liberalized filing requirements enacted by the Economic Recovery Tax Act of 1981. While not all of these changes become apparent until the mid-1980's, some patterns appear to be established as early as 1982.

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Exempt Organization Returns.--Only a modest increase from the FY 1980 filing level is expected by 1990. The projection reflects a relatively high level of filing with IRS because of an agreement between IRS officials and State government representatives that, in response to the Paperwork Reduction Act of 1980, allows a single form to satisfy both Federal and State filing requirements. The projection does not take into account possible increases in the income filing requirements (from \$10,000 to \$25,000) presently under consideration for Form 990.

Excise Tax Returns.--A modest increase by 1990 is expected for excise tax returns. The projected levels include an additional 20,000 Form 720 returns in 1981 and an additional 10,000 each year through 1989.

These additional returns are expected as a result of the Crude Oil Windfall Profit Tax of 1980. The projections also assume the expiration of the telephone excise tax on January 1, 1985, as provided for by the Economic Recovery Tax Act of 1981.

BASIC TABLE INFORMATION

Projections for the major types of primary returns for Fiscal Years 1982-1990 are shown in Table 1. For comparison purposes, actual receipt figures are shown for 1980 and estimated receipts are given for 1981. Following the table is a description of the methodology used to derive these projections.

Table 1.--Number of Returns Filed by Type, Fiscal Years 1980-1990
(Thousands)

Type of return	Actual 1980	Estimated 1981 ¹	Projected		
			1982	1983	1984
	(1)	(2)	(3)	(4)	(5)
Total primary returns.....	137,381	139,544	141,678	144,572	147,631
Individual, total.....	93,144	94,513	96,404	98,842	101,264
Form 1040A.....	37,691	36,837	38,146	39,078	40,521
Form 1040.....	55,301	57,511	58,091	59,595	60,573
Other ²	152	165	167	169	171
Individual Declaration of Estimated Tax...	8,699	9,278	9,212	9,236	9,322
Fiduciary.....	1,877	1,951	2,038	2,128	2,222
Partnership.....	1,390	1,452	1,499	1,547	1,595
Corporation ³	2,717	2,785	2,899	3,008	3,119
Estate.....	148	142	136	128	111
Gift.....	216	210	214	130	122
Employment ⁴	26,499	26,442	26,528	26,763	27,047
Exempt Organization ⁵	444	453	465	476	488
Employee Plan ⁶	792	819	845	872	894
Alcohol, Tobacco, and Firearms ⁷	547	547	548	549	550
Excise ⁸	909	953	888	893	897

Type of return	Projected--Continued					
	1985	1986	1987	1988	1989	1990
	(6)	(7)	(8)	(9)	(10)	(11)
Total primary returns.....	150,460	153,163	155,944	158,436	160,724	162,953
Individual, total.....	103,499	105,284	107,121	108,640	109,941	111,117
Form 1040A.....	41,800	43,115	43,738	44,028	43,898	43,768
Form 1040.....	61,525	61,993	63,204	64,430	65,857	67,161
Other ²	174	176	179	182	185	188
Individual Declaration of Estimated Tax...	9,352	9,680	10,031	10,387	10,739	11,148
Fiduciary.....	2,319	2,420	2,528	2,642	2,761	2,887
Partnership.....	1,643	1,691	1,739	1,788	1,836	1,885
Corporation ³	3,233	3,349	3,472	3,601	3,732	3,870
Estate.....	88	71	48	39	41	43
Gift.....	125	129	134	138	142	147
Employment ⁴	27,328	27,620	27,911	28,206	28,503	28,794
Exempt Organization ⁵	500	512	524	536	548	560
Employee Plan ⁶	920	948	970	986	1,001	1,017
Alcohol, Tobacco, and Firearms ⁷	550	550	551	551	551	551
Excise ⁸	903	909	915	922	928	934

¹Based on receipts through June 30, 1981.

²Forms 1040NR, 1040PR, 1040SS, 1040C, and 1042.

³Includes Forms 1120, 1120F, 1120-DISC, 1120-POL, 1120S, and 1120-H.

⁴Forms 940, 940PR, 941, 941E, 941PR, 941SS, 941M, 942, 942PR, 943, 943PR, CT-1 and CT-2.

⁵Forms 990, 990-PF, 990-C, 990-T, 4720, and 5227.

⁶Forms 5500, 5500-C, 5500-G, and 5500-K.

⁷Forms 7, 8, 11, 4705, 4706, 4707, 4708, and Alcohol and Tobacco forms.

⁸Forms 11C, 720, 720M, 730, and 2290; 11B, and 4638 (1980 only).

NOTE: Detail may not add to total because of rounding.

BASIC METHODOLOGY AND ASSUMPTIONS

The number of returns filed represents receipts of primary returns at IRS Service Centers during a fiscal year. Receipts for FY 1980 and earlier years are at the level reported in the Annual Report of the Commissioner of Internal Revenue. Data for FY 1981 include actual receipts through June with the remainder of the fiscal year estimated. The estimated part in most cases was based on receipt patterns in FY 1979. Until FY 1976, fiscal years were from July through June; beginning in FY 1977, fiscal years were from October through September.

The projections are based on regression models involving independent economic and demographic variables or on observed trends over time [1]. The models were updated to incorporate recent trends in return filing patterns and current economic outlook. The models are developed for calendar years because most filing requirements are on a calendar year basis.

The fiscal year projections are derived from calendar year projections by one of three methods. The method used most frequently employs the Census Bureau's X-11Q Seasonal Adjustment Program [2] to obtain seasonal factors. The method used next most frequently is to compute a ratio based on the filing experience of one or more previous years. The third method, which is used in instances where filing trends are not well defined, is to assume a logical pattern.

To illustrate the general process, projections for the combined total of Forms 1040 and 1040A for calendar years were prepared using a regression model which makes the projection a function of the forecasted values of total employment, employed married women, pension beneficiaries and annuitants, and a step function variable to adjust for the effect of the Tax Reduction and Simplification Act of 1977. The base period used was 1949-1981, with 1981 estimated based on January-June receipts.

Calendar year projections for Forms 1040 and 1040A were separately estimated (before forcing to the combined total) using regression models with employment, time, and a step function variable to adjust for the special emphasis by IRS to convert eligible filers to using Form 1040A. The resulting projections were then adjusted for the effects of the

Economic Recovery Tax Act of 1981 and the increased filing limit for Form 1040A. Other individual return forms in this group were each projected using similar types of models. After the calendar year projections were completed, they were converted to fiscal year projections by using X-11Q seasonal factors for Forms 1040 and 1040A and the filing experience in 1980 for the remaining forms.

Economic Assumptions

Since many projections are based on regression models involving economic variables, economic assumptions about the future greatly affect the projections.

It is assumed that tax cuts enacted by the Economic Recovery Tax Act of 1981 will bolster personal incomes and business cash flows by sufficient amounts to forestall as sharp declines in spending as might otherwise be expected from severely tight money and high interest rates. At the same time, the monetary constraints are assumed to restrain the economy from strong growth in real economic activity during the year ahead.

For the years beyond 1982, the Census Bureau anticipates that sharp decreases will occur in the growth rate of total population and the working-age population. Real output growth will be maintained in the face of a slowdown in this basic determinant of labor supply by further increases in the labor force participation rate and by productivity growth.

References

- [1] Internal Revenue Service, "Number of Returns to be Filed: Statistical Methodology," Calendar Year Projections series, Document 6186-B.
- [2] U.S. Bureau of the Census, "The X-11 Variant of the Census Method II Seasonal Adjustment Program," Technical Paper No. 15 (1967 revision).