

Projections of Returns to be Filed in Fiscal Years 1983-1990

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The number of tax returns and supplemental documents filed in Fiscal Year 1983 is projected to be 171.9 million, an increase of 0.7 percent over the estimated 170.7 million 1982 filings [1]. This growth rate is down sharply from the 2.5 percent increase registered in 1982. Individual income tax returns, the largest component of returns filed, are expected to show little growth from 1982 to 1983 because of the reduction in employment caused by the declining economy.

Changes in filings of individual income tax returns have historically been closely linked to changes in employment. The anticipated economic recovery in 1983 is expected to boost primary returns filed by 3.0 percent in 1984 and 2.8 percent in 1985. After 1985, because of demographic factors that will hold down economic growth, growth rates of returns filed are expected to decrease slightly until they reach 2.3 percent in 1990.

Major changes are being introduced this year which will greatly affect the projections of individual returns and the number of total returns. Filings of Form 1040ES, Individual Declarations of Estimated Tax, are now being projected on a voucher (quarterly payment) count basis instead of a taxpayer entity basis as they were last year. This will increase the projected number of Form 1040ES returns by about 20 million in 1983 because approximately 3 vouchers are filed by each individual filing a Form 1040ES.

Beginning in Filing Year 1983, single taxpayers will have the option of filing a new individual income tax return, Form 1040EZ. This return will replace many of the 1040As currently being filed. Nearly 11 million Form 1040EZ's are projected to be filed in 1983. In addition to these major changes, some provisions of the Economic Recovery Tax Act of 1981 are expected to bring about a decrease in 1983 filings of estate tax and gift tax returns; other compliance provisions of the Tax Act will increase the number of tax returns to be filed.

Total returns are projected to increase by 23.6 percent from 1981 to 1990, a 2.4 percent compound annual rate of growth. Individual returns are projected to grow 16.7 percent. Some of the tax returns projected to grow faster than average include individual declarations of estimated tax, employee plans, fiduciary, corporate, and most of the forms included in the category of supplemental documents.

The compound annual growth rates are illustrated in Figure 1. Figure 2 shows the total number of returns in different categories.

The projections for 1983 and changes from 1982 are as follows:

Type of Return	1983 Projection (000)	Change From 1982 %
Total	171,926	0.7
Individual	95,850	*
Fiduciary	2,103	4.0
Partnership	1,523	2.6
Corporation	3,012	2.9
Estate and Gift	200	-13.0
Employment	26,178	0.9
Individual Declarations	32,730	2.5
Other	10,330	0.2

* Less than 0.05

General Summary

The projected number of returns to be filed consists of primary returns, supplemental documents, and non-master file returns. This year they are being projected based on the number of returns processed rather than returns received. Returns received are returns counted as they arrive and are counted at one of the ten IRS service centers. The present level, returns processed, are returns counted as they are posted to one of the master files at the IRS National Computer Center. This results in a modest reduction in level of about 0.2 percent [2].

The primary returns, numbering about 160 million in 1981, are a major part of the IRS workload. Included are such returns as Form 1040 and Form 1040A, U.S.

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Figure 1
Projected Compound Annual Percent Change in Number
of Returns Processed, 1981-1990

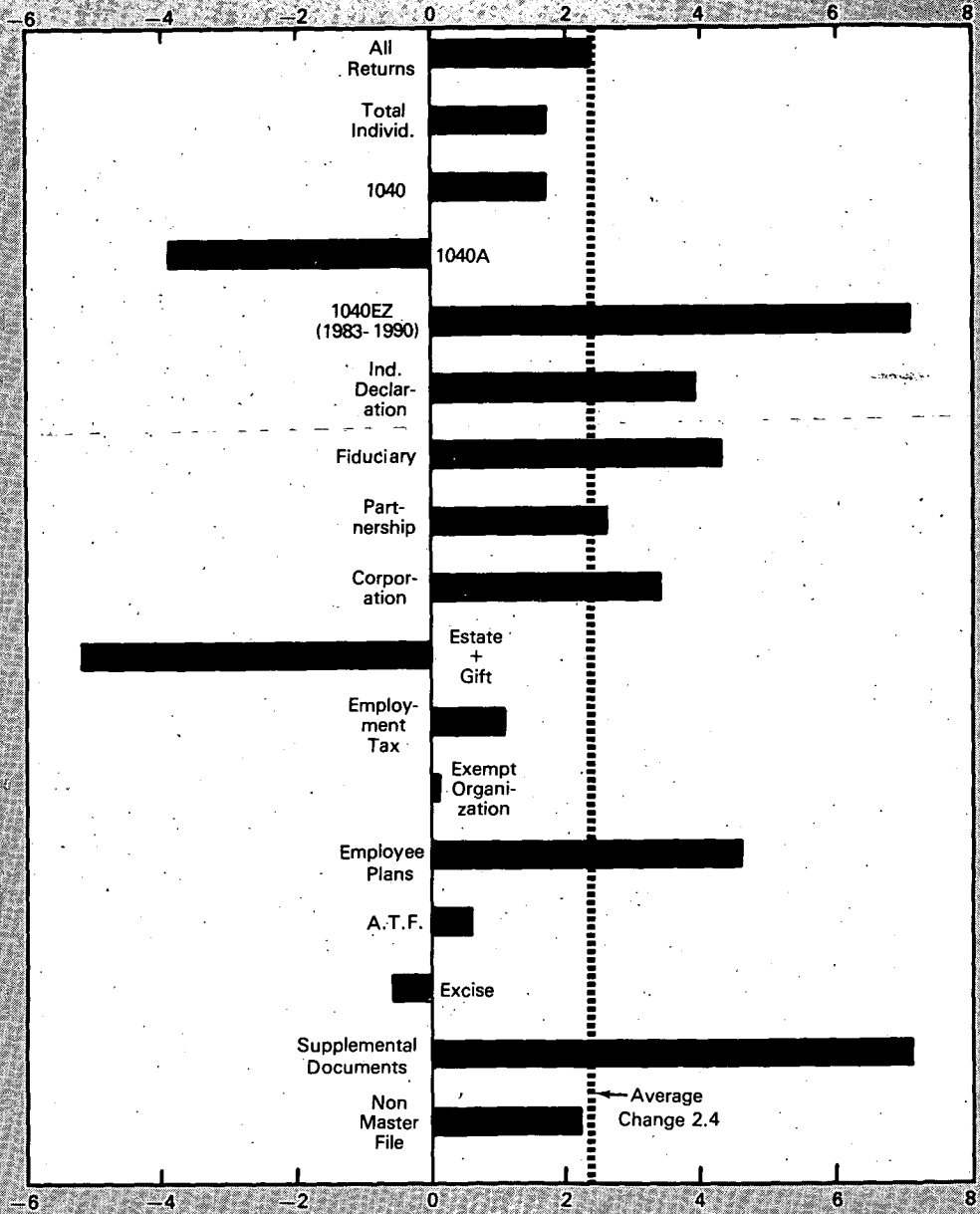
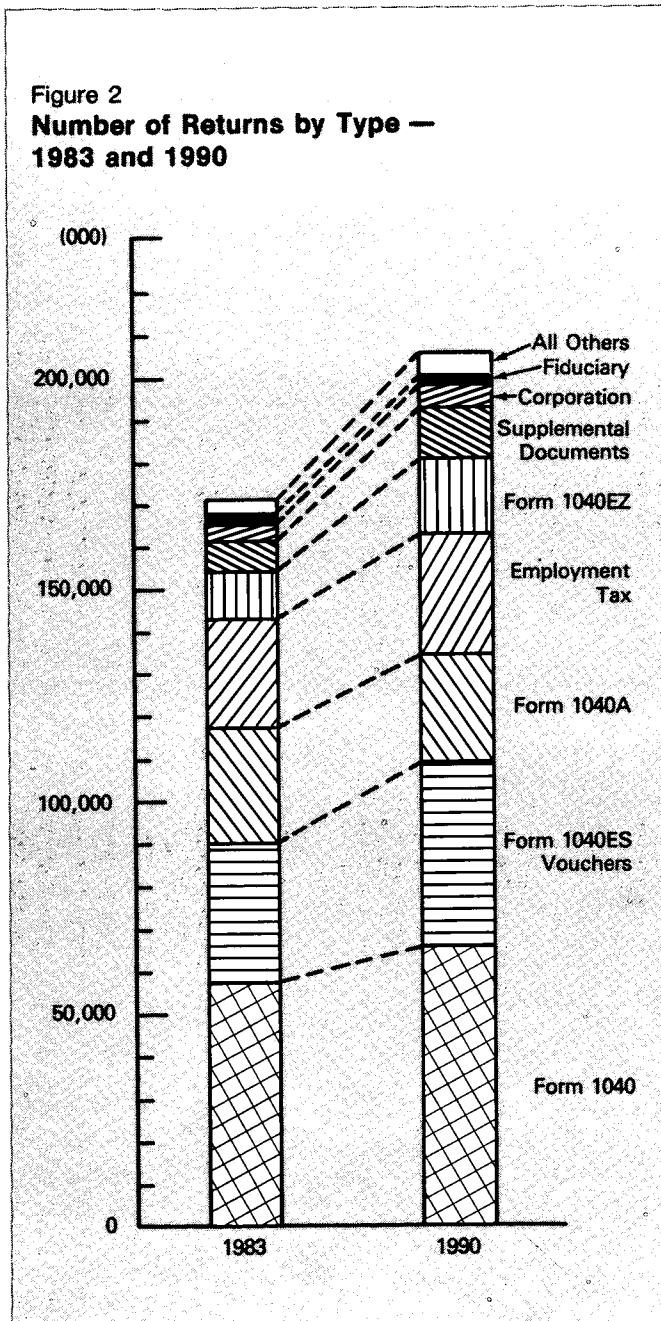


Figure 2
Number of Returns by Type —
1983 and 1990



Individual Income Tax Returns; Form 1120, U.S. Corporation Income Tax Return; Form 1040ES, Individual Declaration of Estimated Tax; and Form 941, Employers Quarterly Federal Tax Return.

The supplemental documents are mostly amended returns and requests for filing extensions for both individuals and corporations. The category, non-master file returns, totaling 55,000 in 1981, includes a variety of small-volume returns, such as Employer's Monthly and Quarterly Tax Returns and Quarterly Federal Excise Tax Returns. Not included in any of these categories are almost 400 million information documents such as forms for the reporting of interest and dividend income by payers of such income.

Individual Income Tax Returns

Projections of Forms 1040 and 1040A are somewhat lower for each projected year than projections made last year. [3] The estimates for the Fiscal Years 1983-1985 have been reduced due to the lower employment during the current recession. Employment is expected to decrease to 102.0 million during 1982 from 102.5 million in 1981. When combined with other variables, the net result will be a small increase of 47,000 individual tax returns in 1983.

In 1983, a new individual income tax return, Form 1040EZ, will be introduced. To be eligible to file a Form 1040EZ, a taxpayer must be single, claim no dependents, claim no exemptions for age or blindness, and have taxable income of less than \$50,000. Interest income of \$400 or less is the only income other than wages that can be reported on this form. It is assumed that filers of Form 1040EZ are those who would have filed Form 1040A. Because of this, Form 1040A is expected to decline from 39.3 percent of all individual returns filed in 1981 to 23.5 percent in 1990. Filings of Form 1040EZ are expected to comprise 11.5 percent of individual returns filed in 1983 and 16.1 percent in 1990.

The Tax Equity and Fiscal Responsibility Act of 1982 requires withholding at a flat rate of 10 percent on payments of interest and dividends beginning July 1, 1983. Payments to certain tax exempt institutions, corporations, low income elderly individuals, and to nominees or custodians are exempt. Interest payments made by individuals are generally exempt. In addition, the Act exempts individuals with no income tax liability in the preceding year. Other provisions impose an increased penalty for extended failure to file. Higher penalties will also now be imposed for failure to accurately report on certain information documents. As a result of this Act, approximately 200,000 additional return filings have been included in the projections beginning in 1984.

Estate and Gift Tax Returns

Fewer estate and gift tax returns are expected to be filed because of changes in filing requirements mandated by the Economic Recovery Tax Act of 1981. Some of these include: (a) a gradual increase in 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) a repeal of the limits on the marital deduction for estate and gift taxes; and (c) an increase in the excludable gifts in any single year to any individual person from \$3,000 to \$10,000. When fully effective, these provisions are expected to reduce the number of estate tax returns (Form 706) by more than 70 percent and the number of gift tax returns (Form 709) by more than 50 percent.

Individual Declarations of Estimated Tax

The projections of Form 1040ES are being done on a voucher basis for the first time. A 1040ES voucher is the form used by an individual to remit each quarterly payment. Each individual, or entity, may file as many as four vouchers a year. This results in far higher projections than the former method of projecting 1040ES returns on a taxpayer entity basis. Voucher counts were three times higher than taxpayer entity counts in 1981.

Receipts of Form 1040ES have been rising at an increasing rate for the last four years. High interest rates have helped to raise the number of

Projections of Tax Return Filings, 1983-1990

1040ES filers by about 30 percent from 1978 to 1982. Because of the higher number of 1040ES returns filed in recent years, this year's projections of 1040ES returns for 1982 and 1983 are 16 percent above last year's projections, when compared on an entity basis. After 1985 the projected growth rates are expected to be about the same as those projected last year. Projections include adjustments for later years to reflect the higher filing thresholds enacted by the Economic Recovery Tax Act of 1981. That Act raised the tax due filing threshold, in annual \$100 increments, from \$100 in 1981 to \$500 in 1985. Projections for Form 1040ES returns are based on the assumption that the current voucher system will continue. If the payment method shifts to the Federal Tax Deposit (F.T.D.) system, a similar number of F.T.D.'s would be filed. Under the F.T.D. system, taxpayers would deposit their estimated income and self-employment taxes with a Federal Reserve Bank or an authorized financial institution. This change would conform the method for individuals to that currently used by corporations for making their estimated tax payments.

BASIC TABLE INFORMATION

Projections for the major types of primary returns for Fiscal Years 1983-1990 are shown in Table 1. For comparison purposes, actual receipt figures are shown for 1981 and estimated receipts are given for 1982.

BASIC METHODOLOGY AND ASSUMPTIONS

The number of returns filed represents receipts of returns at IRS Service Centers during a fiscal year. Receipts for FY 1981 and earlier years are those reported in the Annual Reports of the Commissioner of Internal Revenue. [4] Data for FY 1982 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 1981. Until FY 1976, fiscal years for the U.S. Government were from July through June. Beginning in FY 1977, fiscal years were changed to October through September.

The projections are based on regression models involving independent economic and demographic variables or on observed trends over time [5]. The models are updated to incorporate recent trends in return filing patterns and the current economic outlook. The models were developed for calendar years.

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 [6]. The base period used was 1949-1982, with 1982 estimated on January-June receipts.

Calendar year projections for Forms 1040 and 1040A (current definition) were separately estimated before they were adjusted to the combined total, using regression models with employment, time, and a step function variable to adjust for the special emphasis by IRS to encourage eligible filers to use 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.

Projections for Form 1040EZ were derived from the estimated number of Form 1040A filers eligible to use the new form. After the calendar year projections were completed, they were converted to fiscal year projections by using the Census Bureau's X-11Q Seasonal Adjustment Program to obtain seasonal factors [7].

Other individual returns forms in this group were each projected using similar types of models.

References

- [1] A full listing of the tax returns included in the categories shown in Table 1 can be found in the report specified in [4] below.
- [2] Projections made this year are based on the number of returns processed as reported on an internal IRS report. Report Symbol NO-TX-R-308. In previous years, projections were based on returns received as reported on a now discontinued report, Report Symbol NO-TX-R-24.
- [3] Kenneth Utter and Max Johns, "Projections of Return Filings, 1982-1990," Statistics of Income Bulletin, Volume 1, No. 3, Winter 1981-82, pp. 1-3, Department of the Treasury, Internal Revenue Service. Publication 1136, Washington, DC, 1981.
- [4] Department of the Treasury, Internal Revenue Service, "Annual Report: Commissioner of Internal Revenue and the Chief Counsel for the Internal Revenue Service: 1981," Publication 55, Washington, DC, 1981.
- [5] Internal Revenue Service, "Number of Returns to be Filed: Statistical Methodology," Calendar Year Projections series, Document 6186-B.
- [6] Projections of total employment, employed married women, pension beneficiaries and annuitants are all prepared by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [7] U.S. Bureau of the Census, "The X-11 Variant of the Census Method II Seasonal Adjustment Program," Technical Paper No. 15 (1967 revision).

Table 1.--Number of Returns by Type, Fiscal Years 1981-1990¹

[Thousands]

Type of return	Actual	Estimated ²	Projected							
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Grand total.....	166,528	170,650	171,926	177,027	182,068	187,034	191,906	196,495	201,246	205,870
Individual, total.....	94,018	95,803	95,850	98,425	101,349	103,437	105,272	106,758	108,307	109,761
Form 1040.....	56,972	57,826	57,851	59,287	61,052	62,314	63,423	64,321	65,257	66,135
Form 1040A.....	36,903	37,834	26,868	25,776	23,794	24,265	24,693	25,041	25,402	25,741
Form 1040EZ.....	-	-	10,988	13,218	16,356	16,709	17,004	17,243	17,492	17,726
Other.....	143	144	143	145	146	148	151	153	156	159
Declaration of Estimated Tax (Individual).....	30,347	31,929	32,730	33,862	34,555	36,121	37,796	39,479	41,187	42,831
Fiduciary.....	1,917	2,022	2,103	2,191	2,281	2,378	2,474	2,575	2,680	2,790
Partnership.....	1,467	1,484	1,523	1,564	1,607	1,652	1,699	1,748	1,799	1,852
Corporation.....	2,806	2,928	3,012	3,109	3,210	3,312	3,424	3,537	3,659	3,789
Estate Tax.....	146	137	112	94	78	66	46	39	41	44
Gift Tax.....	199	93	88	98	105	117	128	142	156	169
Employment Tax.....	26,063	25,941	26,178	26,586	26,995	27,301	27,657	28,049	28,458	28,880
Exempt Organization.....	409	395	361	360	369	378	386	396	405	414
Employee Plans.....	790	895	893	915	958	1,000	1,042	1,085	1,136	1,180
Alcohol, Tobacco and Firearms.....	523	549	550	550	550	550	550	550	550	550
Excise Tax.....	971	855	860	867	875	883	892	900	909	917
Selected Supplemental Documents ³	6,817	7,561	7,628	8,346	9,076	9,777	10,477	11,172	11,893	12,626
Non-Master File Returns ⁴	56	56	58	59	61	62	64	65	67	68

¹Based on counts of returns processed. Projections made in previous years were based on returns received.

²Estimated from returns processed through June 30, 1982.

³Includes Forms 1040X, 1120X, 2688, 4868, 7004, 7005, 990-AR and 1041-A. Most of these documents relate to amended tax returns and applications for extensions to file tax returns.

⁴Includes Forms CT-2, 720M, 941-M, 941-NMI, 990-BL, 1120-DISC, and 1042. These are documents which are not included on one of the principal IRS master files for individuals, businesses, and employee benefit plans.

NOTE: Detail may not add to total due to rounding.