

Projections of Returns to be Filed in Fiscal Years 1984-1991

By Richard Fratanduono and Patrick O'Keefe*

The number of tax returns and supplemental documents filed with the IRS in Fiscal Year (FY) 1984 is projected to be 175.4 million, an increase of 2.2 percent over the estimated 171.5 million 1983 filings [1]. This growth rate is up significantly from the 0.7 percent increase which was projected for 1983. Fiscal Year 1985 and 1986 growth rates are even more substantial at 3.7 and 3.2 percent, respectively.

Individual income tax returns, which represent the principal component of all returns filed, are projected to grow by 1.8 percent from 1983 to 1984, 3.6 percent from 1984 to 1985, and 2.9 percent from 1985 to 1986. These increases reflect the expectation of a continued upturn in the economy and marked growth in projected employment. Following a forecasted growth pause in employment in 1986 (Filing Year 1987), total tax returns and supplemental documents are projected to increase by an average of 2.7 percent per year through FY 1991. However, individual income tax returns are expected to rise at a slightly slower average rate of 2.1 percent.

Returns projections are based on either econometric models involving independent economic and demographic variables, or observed trends extrapolated over time [2]. The models, which are developed on a calendar year basis, are revised annually to incorporate the current economic outlook as well as the most recent experience in return filing patterns.

The basic assumption of the employment projections is that the rate of growth of the money supply will be managed in a fashion that will accommodate a robust economic recovery and maintain reasonable control of inflation through 1985. After a growth pause in 1986 the economy is expected to regain momentum, primarily because lower projected inflation and wage growth from 1987 through 1991 should foster a climate of stable but moderate economic growth.

GENERAL SUMMARY

The projected number of returns to be filed in 1984 and later years consists of primary returns, supplemental documents, and returns which are not part of the master file system. The approximately 163 million primary returns actually filed in 1982 generated most of the IRS processing workload. Included were such returns as Forms 1040 and 1040A, U.S. Individual Income Tax Returns; Form 1040ES, Individual Declaration of Estimated Tax; Form 1120, U.S. Corporation Income Tax Return; and Form 941, Employers Quarterly Federal Tax Return.

The supplemental documents which were filed consisted primarily of amended returns and requests for filing extensions from both individuals and corporations.

For 1982 the 55,000 returns which were not part of the master file included a variety of small-volume returns such as Employer's Monthly and Quarterly Tax Returns and Quarterly Federal Excise Tax Returns. However, approximately 600 million information documents were not included in any of these categories. Such forms included Form 1099, which is used for the reporting of interest and dividend income by its payers.

Average annual percent changes for the various returns series are illustrated in Figure A. Figure B shows the total number of returns in different categories.

The projections for 1984 and the rate of change from 1983 to 1984 are as follows:

Type of Return	1984 Projection (000)	Change From 1983 %
Total	175,356	2.2
Individual	96,269	1.8
Individual Declarations	34,340	2.8
Fiduciary	2,042	2.7
Partnership	1,666	3.3
Corporation	3,187	3.9
Estate and Gift	194	-3.0
Employment	26,442	1.7
Exempt Organization	435	-6.3
Employee Plans	1,053	-0.7
Alcohol, Tobacco, and Firearms	571	-2.1
Excise	869	2.4
Selected Supplemental Documents	8,244	7.9
Non-Master File	44	2.3

INDIVIDUAL INCOME TAX RETURNS

Projections of Forms 1040, 1040A, and 1040EZ prepared this year have a different 1984-1990 growth path than the same projections formulated last year. Last year's estimates for Fiscal Years 1984 through 1987 have been adjusted downward because of the unexpected length of the recession. The projections for Fiscal Years 1988 through 1990 are higher than those made last year because employment is currently forecasted to increase by 6.4 percent between 1986 and 1989 (Filing Years 1987-1990), rather than the 4.7 percent rise previously forecasted [3].

In addition to the adjustment in the growth path, there was a downward shift made to the previously forecasted level of these returns because of the

*Projections and Forecasting Group, Research Division. Prepared under the direction of Richard Blucher, Chief.

Figure A
Projected Average Annual Percentage Change in the
Number of Returns Processed, 1982-1991

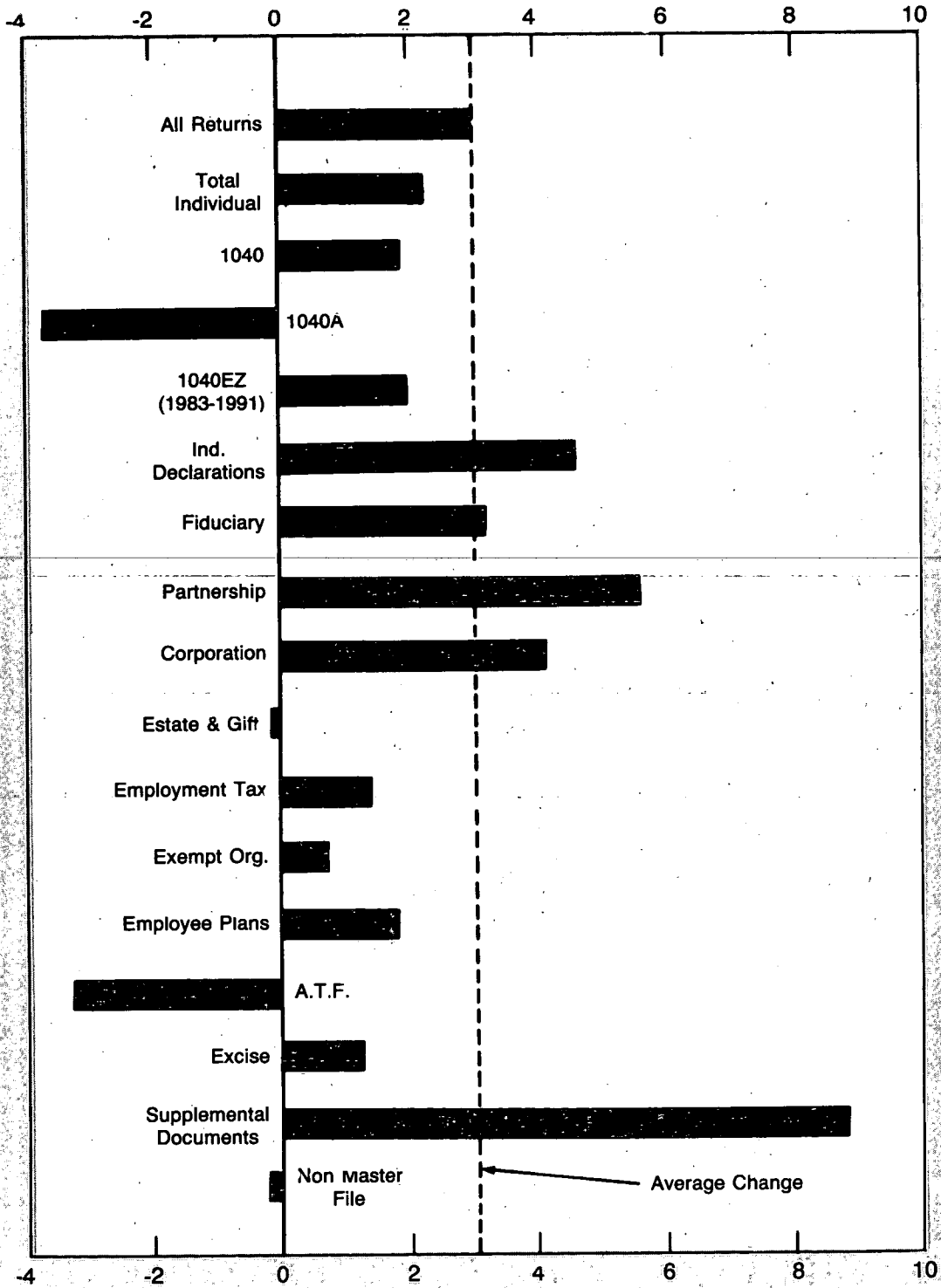
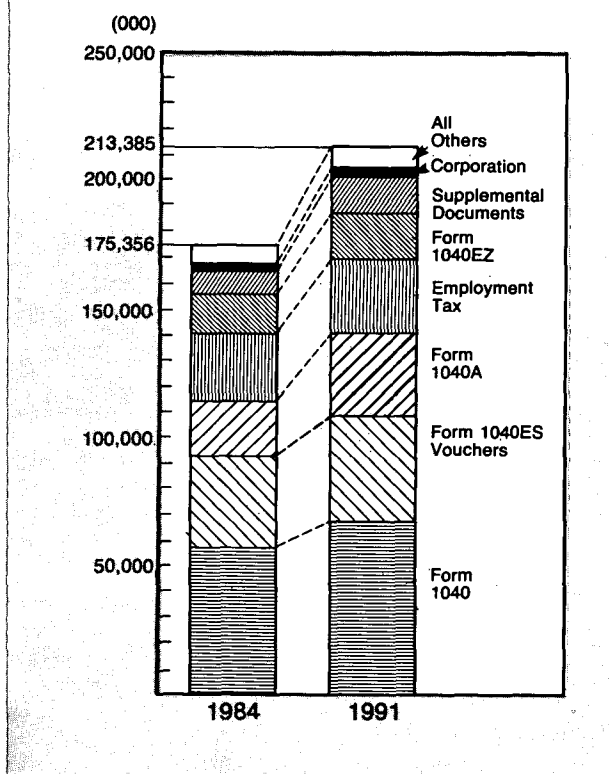


Figure B
Number of Returns by Type—
1984 and 1991



repeal of the interest and dividend withholding requirement provision of the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982. The 1984-1990 projections made last year included approximately 200,000 additional annual return filings as an estimate of the effect of TEFRA, which required a 10 percent rate of withholding on payments of interest and dividend income to begin on July 1, 1983.

Projections for Form 1040 were made by extrapolating the historical proportion of Form 1040 to the total 1040 series (Forms 1040, 1040A, and 1040EZ) using a 3-period moving average. After completion of this procedure the final allocations of the total 1040 series projections between Form 1040 and 1040A were developed by estimating the impact of anticipated program changes. For instance, many taxpayers will become eligible to file Form 1040A in Filing Year 1984 due to the inclusion of two new lines on the form. The lines will allow for a deduction from income for contributions to an Individual Retirement Account and for the child care credit. Based on an analysis of Tax Year 1982 returns filings, it is expected that 900,000 taxpayers will shift from filing Form 1040 to 1040A in 1984 and 1.4 million in subsequent years.

The projection of 15.9 million Forms 1040EZ to be filed in FY 84 was based on a potential filer base derived from studies conducted by the Internal Audit Division of IRS and data from the Taxpayer Usage Study conducted for Tax Year 1982 [4]. An estimated 80 percent of the potential filer base will file Form 1040EZ in 1983. The potential filer base for 1985-1991 was projected by correlating potential filers of Form 1040EZ with forecasts of employment of persons in the 16-24 years age group. This group is believed to be most representative of potential filers of Form 1040EZ

because of the size and source of their income, marital status, and lack of itemized deductions. The 80 percent usage ratio employed for the 1983 estimate was assumed to grow by five percentage points each year through 1986, at which point it will stabilize at 95 percent of potential.

OTHER TAX RETURN FILINGS

Individual Declarations of Estimated Tax

Projections of Form 1040ES, Individual Declarations of Estimated Tax, are moderately higher than those made last year. Increases from levels projected last year range from one to four percent.

The revised projections are largely the result of an amended estimate of the effect of a provision in the Economic Recovery Tax Act of 1981 which raised the filing threshold for Form 1040ES filers by \$100 annually until reaching \$500 in 1985. The greatest changes are expected to occur in Fiscal Years 1985 and 1986, during which an additional one million ES vouchers are forecast. Projected increases in income not subject to withholding such as interest, dividends and rent are expected to contribute to the increased filings of individual declarations through the remainder of the decade.

Fiduciary

Fiduciary returns, Form 1041, traditionally have been projected as a function of time and current dollar personal income. Because of the lower rate of inflation expected throughout the remainder of the decade, current dollar personal income is expected to be much lower than previously forecast. This change caused a significant decrease in the FY 1983 fiduciary returns projections. The decline in projections, this year compared to those made last year, vary from 5.5 percent in 1983, to 8.7 percent in 1986, to 12.9 percent in 1990.

Partnership

The 1983 projections of Form 1065, partnership returns, have been adjusted upward, both in level and in growth rate, from the 1982 projections. The 1983-1990 forecasted rate of growth has risen from 21.6 percent to 45.7 percent. These adjustments are a direct result of heightened taxpayer awareness of the numerous tax advantages available through partnerships, as well as continued emphasis on tax savings through partnership arrangements.

Corporation

Total corporation returns, which consist of Forms 1120, 1120S, 1120H, 1120F, and 1120-POL, are projected to be 2 to 4 percent higher than the projections prepared last year. This change takes into account the fact that actual receipts during 1982 exceeded projections of all forms except Form 1120S. Among the asset classes of Form 1120, ten classes exhibited increases ranging from two to eight percent, while the "assets not reported" class declined by approximately three percent.

Estate and Gift Tax

There has been a dramatic downward shift in estate and gift tax returns caused by filing requirement changes mandated by the Economic and Recovery Act (ERTA) of 1981. Included among the changes is a gradual increase in the unified credit against estate and gift taxes over a five year period, so that no tax

Projections of Tax Return Filings, 1984-1991

will be imposed on transfers of \$600,000 or less occurring in 1986. Also included is an increase in the excludable gifts in any single year to any individual from \$3,000 to \$10,000. These provisions are expected to reduce the number of estate tax returns (Form 706) by more than 56 percent through 1991. The changes introduced in ERTA have also caused a decrease in filings of gift tax returns of 60 percent between 1980 and 1983; however, these returns are expected to increase at an average annual rate of 14.4 percent between 1983 and 1991.

Employment Tax

Forms 940, 940PR, 941, 941E, 941PR/SS, 942, 942PR, 943, 943PR, and CT-1 comprise the employment tax returns. Total projections of the employment forms for Fiscal Years 1983 through 1986 are lower than last year. Much of the decrease is due to lower projections of Form 942 caused by the general decline of employment in the Home Service Industry.

Exempt Organization

Total exempt organization returns are composed of Forms 990, 990C, 990PF, 990T, 4720, and 5227. This total is greatly influenced by Form 990 which represents 75 percent of all exempt returns. A 6.5 percent decrease from FY 1983 to FY 1984 is expected because the receipt threshold requirement for filing will increase from \$10,000 to \$25,000.

Employee Plans

Employee plans, which have been projected since 1977, are one of the newest and most volatile projections prepared. There was a methodological change in the projection of these returns this year. Rather than the trend and point analyses employed in previous years, regressions on civilian employment, employees not covered by pension plans, and time were used this year. The result is an increase of approximately 16 percent in the FY 1984 and FY 1985 projections over the projections made last year. For the longer range, however, the increase is expected to diminish to 2.8 percent.

Alcohol, Tobacco and Firearms

Total alcohol, tobacco and firearms returns are composed of Forms 7, 8, 11, 4705, 4706, 4707, 4708, and Alcohol and Tobacco Excise Tax returns. Forecasts of these returns over the past two years have displayed virtually no growth; however, a recent change in regulations concerning the duration of licenses has caused a downward adjustment in the projections for this year.

During FY 1984, one third of all licenses renewed or issued to dealers, manufacturers, and importers of firearms and explosives will expire after one year, one third will expire after two years, and one third will expire after three years. Beginning in FY 1985, all original and renewal licenses issued will have a three year duration, rather than the current length of one year. The 22 percent decrease forecasted between Fiscal Years 1984 and 1991 reflects the anticipated effect of this major change in regulations on this return series.

Excise

Projections of excise returns have been updated to reflect recent economic and receipts information. Excise returns, which consist of Forms 11C, 720, 730,

and 2290, are projected to increase from 862,000 in 1983 to 928,000 in 1991, at an annual growth rate of less than one percent. Returns filed on Form 2290 (Federal Use Tax Returns on Highway Motor Vehicles), are expected to increase modestly from 454,000 in 1983 to 455,000 in 1984, while returns filed on Form 720 (Quarterly Federal Excise Tax Return) are expected to increase from 383,000 in 1983 to 390,000 in 1984. The Airport and Airway Revenue Act (AAR) of 1982, which increased some existing aviation taxes and imposed new user taxes on excise returns, is anticipated to have a negligible effect on the volume of filings of Forms 2290 and 720.

Selected Supplemental Documents

Selected Supplemental Documents consist of Forms 990AR, 1040X, 1041A, 1120X, 2688, 4868, 7004, and 7005. These forms are principally amended returns and requests for filing extensions from both individuals and corporations. An increase in the length of time from two to four months for the automatic extension for individual filers (Form 4868) is expected to substantially decrease filings of second extensions (Form 2688).

BASIC METHODOLOGY AND ASSUMPTIONS

The number of returns filed represents processed returns at IRS Service Centers during a fiscal year. Returns processed in FY 1982 and receipts for fiscal years prior to 1982 are those reported in the Annual Report of the Commissioner of Internal Revenue [5]. Data for FY 1983 include actual processed returns through June with the remainder of the fiscal year estimated, in general, on the basis of FY 1982 filing patterns.

To illustrate the general forecasting process, projections for the combined total of Forms 1040, 1040A, and 1040EZ were prepared based on a multiple regression of the combined total on historical and forecasted values of total employment, employed married women with husbands present (used to identify potential joint filers), pension beneficiaries and annuitants, and a qualitative (dummy) variable which adjusts for the effects of the Tax Reduction and Simplification Act of 1977 [6]. The base period for this regression was 1949-1983, with 1983 estimated on January-June processed returns.

Most returns projections were formulated on a calendar year basis, then subsequently converted to fiscal year projections through the use of the Census Bureau's X-11Q Seasonal Adjustment Program [7]. Seasonal factors were obtained from the program and then applied to the calendar year projections.

BASIC TABLE INFORMATION

Projections for the major types of primary returns for Fiscal Years 1984-1991 are shown in Table 1. For comparison purposes, actual receipt figures are shown for 1982 and estimated receipts are given for 1983.

NOTES AND REFERENCES

- [1] A complete listing of the tax returns included in the categories shown in Table 1 can be found in U.S. Department of the Treasury, Internal Revenue Service, Annual Report: Commissioner of Internal Revenue and the Chief Counsel for the Internal Revenue Service: 1982, Publication 55, Washington, DC 1982.

- [2] U.S. Department of the Treasury, Internal Revenue Service, "Number of Returns to be Filed Statistical Methodology," Calendar Year Projections series, Document 6186-B.
- [3] O'Keefe, Patrick and Padden, John, "Projections of Returns to be Filed in Fiscal Years 1983-1990," Statistics of Income Bulletin, Volume 2, Number 2, pp. 35-39.
- [4] Riley, Dorothea, "Individual Income Tax Returns: Selected Characteristics from the 1982 Taxpayer Usage Study," Statistics of Income Bulletin, Volume 3, Number 1, pp. 43-56.
- [5] U.S. Department of the Treasury, Internal Revenue Service, Annual Report, op. cit.
- [6] Projections of total employment, employed married women with husbands present, and 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 1982 - 1991¹
(Thousands)

Type of return	Actual	Estimated	Projected							
	1982	1983 ²	1984	1985	1986	1987	1988	1989	1990	1991
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Grand total.....	170,369	171,515	175,356	181,780	187,553	192,526	198,003	203,702	208,721	213,385
Individual, total.....	95,482	94,603	96,269	99,720	102,651	104,894	107,367	110,014	111,706	113,470
Form 1040.....	57,718	58,402	58,649	59,681	60,813	62,572	64,045	65,516	66,521	67,570
Form 1040A.....	37,608	21,020	21,513	23,036	23,953	24,458	25,517	26,721	27,468	28,244
Form 1040EZ.....	-	15,022	15,946	16,840	17,714	17,686	17,621	17,585	17,519	17,453
Other.....	155	159	161	164	170	178	184	192	198	203
Declaration of Estimated Tax (Individual).....	31,863	33,413	34,340	35,862	37,231	38,490	39,907	41,445	43,339	45,021
Fiduciary.....	1,964	1,988	2,042	2,105	2,170	2,235	2,300	2,365	2,430	2,498
Partnership.....	1,561	1,612	1,666	1,744	1,848	1,945	2,049	2,151	2,251	2,348
Corporation.....	2,950	3,068	3,187	3,300	3,423	3,547	3,669	3,793	3,913	4,037
Estate Tax.....	135	114	93	76	64	45	41	44	47	50
Gift Tax.....	100	86	101	116	132	136	150	163	176	185
Employment Tax.....	25,835	25,991	26,442	26,951	27,278	27,690	28,153	28,536	28,823	29,156
Exempt Organization.....	444	464	435	433	439	446	453	459	466	473
Employee Plans.....	1,021	1,060	1,053	1,072	1,096	1,115	1,133	1,151	1,168	1,185
Alcohol, Tobacco and Firearms..	575	583	571	461	452	449	452	443	440	443
Excise Tax.....	829	849	869	887	886	894	903	911	919	927
Selected Supplemental										
Documents.....	7,555	7,637	8,244	9,006	9,835	10,591	11,375	12,176	12,990	13,538
Form 1040X.....	1,865	1,957	2,076	2,230	2,397	2,534	2,669	2,822	2,946	3,081
Form 4868.....	2,861	3,286	3,505	3,915	4,337	4,723	5,141	5,571	5,976	6,129
Form 2688.....	1,342	763	859	917	1,024	1,132	1,232	1,339	1,452	1,557
Form 1120X.....	66	80	94	108	122	133	142	151	160	170
Form 7004.....	1,072	1,171	1,280	1,371	1,455	1,535	1,621	1,715	1,816	1,926
Form 7005.....	329	363	413	448	482	516	551	559	620	655
Form 990AR.....	3	-	-	-	-	-	-	-	-	-
Form 1041A.....	17	17	17	17	18	18	19	19	20	20
Non-Master File Returns ⁴	55	43	44	47	48	49	51	51	53	54

¹Based on counts of returns processed.

²Based on returns processed through June 30, 1983.

³Revised from a previous IRS estimate.

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

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