

Projections of Returns to be Filed in Fiscal Years 1988–1995

By Corman G. Franklin*

The latest Internal Revenue Service (IRS) projections estimate that nearly 200 million primary tax returns and supplemental documents will be filed in Fiscal Year (FY) 1988. These projections call for total filings to reach 198.1 million—a 3.0 percent increase over estimated 1987 filings [1]. Although projected year-to-year increases will consistently range between 4 to 6 million, the year-to-year rates of growth in total filings are expected to decline. After a 5.5 percent increase in 1986, the year-to-year rates of growth in total returns to be processed by IRS are projected to decline to 2.6 percent in 1990 and 2.0 percent in 1995.

Employment is a major determinant for estimating several different types of tax returns. Because of the high correlation between employed individuals and those filing individual returns, employment is especially important in projecting individual returns.

Current forecasts show the rate of employment growth declining throughout the 1988 to 1995 forecast interval [2]. Total employment is projected to reach 114.3 million in 1987, a 2.3 percent increase over actual employment in 1986. FY 1988 should initiate the beginning of a period of gradual decline in the rate of employment growth. From 1988 through 1995, the rate of employment growth is expected to decrease from 2.0 percent in 1988 to 1.1 percent in 1994. This slowdown in the rate of employment growth is expected to be mirrored in individual income tax return filings, so that a decline in the rate of growth of these filings is anticipated.

Projections are developed by: (1) using econometric models that relate the number of returns filed to selected independent economic and demographic variables and (2) extrapolating observed time trends into the 1988 through 1995 time period. The forecasting models are initially formulated on a calendar year basis. Fiscal year projections are derived from calendar year statistics by various methods including seasonal adjustment [3].

These fiscal year projections are the first to capture the

effects of the Tax Reform Act of 1986. They also reflect the impact of other recent legislative, as well as regulatory and administrative changes affecting the filings of the various primary tax returns and supplemental documents. They generally do not anticipate legislative or administrative changes which are under consideration.

TOTAL PROJECTED RETURNS AND DOCUMENTS

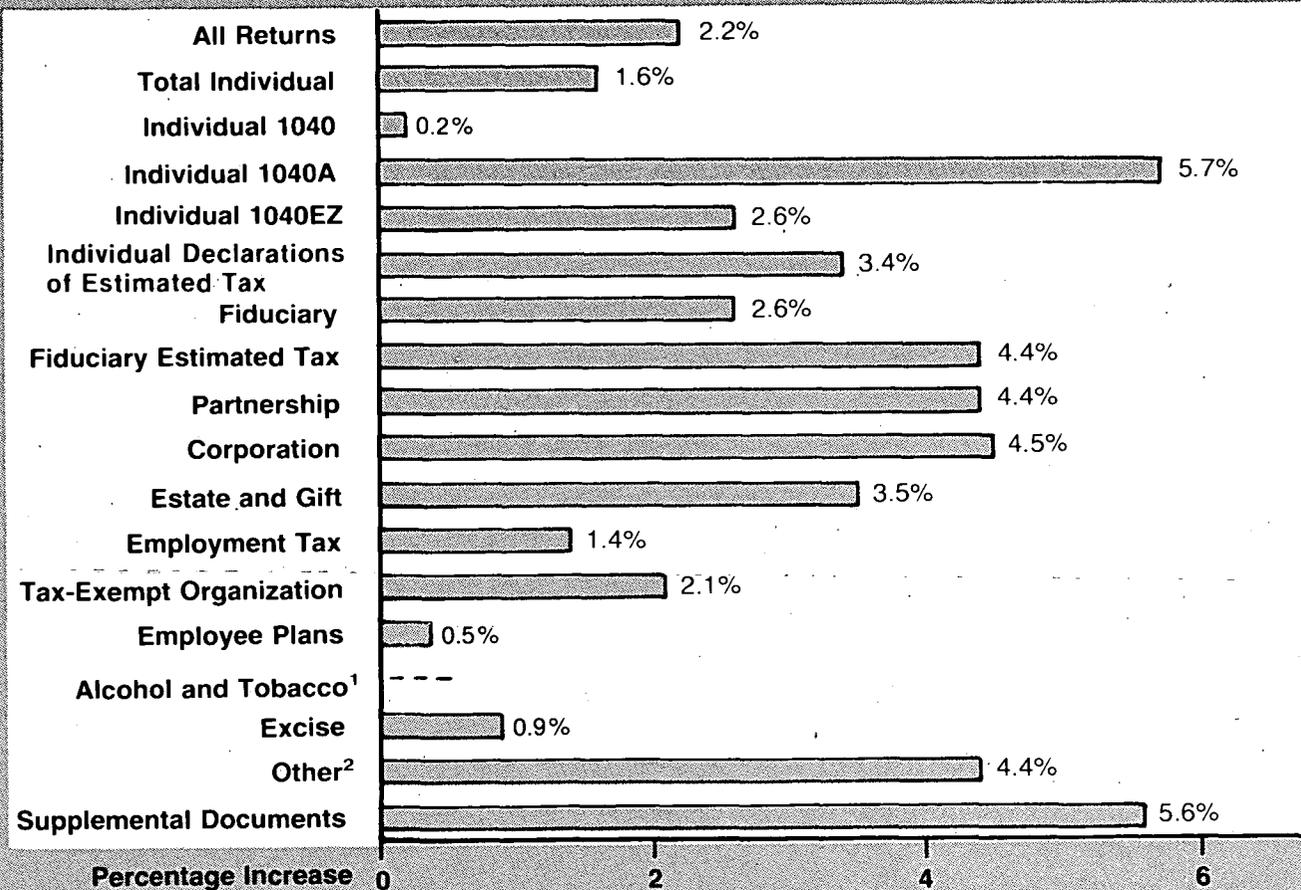
The total number of projected returns, as delineated in Table 1, consists of primary returns and supplemental documents. Except for the category of primary returns titled "other," items in both of these categories of returns are a part of the IRS Master File system. Primary returns, because they account for the majority of total filings, have historically generated the majority of the IRS document processing workload. These returns are expected to continue to account for the bulk of total filings throughout the forecast horizon.

Of the approximately 188.0 million tax forms filed in 1986, 178.2 million were designated as primary returns. Major returns in the primary returns category include: U.S. Individual Income Tax Returns; Individual Declaration of Estimated Tax; U.S. Corporation Income Tax Return; and, Employer's Quarterly Federal Tax Return.

Information documents processed by the Service, such as interest and dividend statements and Form W-2, Wage and Tax Statement, are not included in the returns counted or projected in this article and, consequently, have been excluded from all of the previously discussed return categories. These various information documents, while large in volume (848.3 million were processed in 1986 and 887.1 million are expected to be processed in 1987), are mostly filed on magnetic media. Figure A presents the average annual percentage changes for the major return types during the 1988–1995 projection period. Total returns increase by an average of 2.2 percent per year during this time frame. Projections for 1988 and the associated rates of change from 1987 to 1988 are presented in Figure B.

* Economist, Projections and Forecasting Group, Research Division.

Figure A.
Projected Average Annual Percentage Increase in the Number of Returns Processed, Fiscal Years 1988-1995



¹As of July 1987, the IRS will no longer process these forms.

²See Table 1, footnote 9

Figure B.—Projections for Fiscal Year 1988

Type of return	1988 projection (thousands)	Percentage increase from 1987
	(1)	(2)
Total returns	198,060	3.0%
Primary returns	186,972	2.8
Individual	107,662	3.5
Individual declaration of estimated tax	37,323	2.7
Fiduciary	2,534	8.5
Fiduciary estimated tax	911	17.2
Partnership	1,887	0.2
Corporation	4,053	6.5
Estate and gift	157	-3.7
Employment tax	28,575	1.6
Tax-exempt organization	512	2.8
Employee plan	2,275	-11.5
Alcohol and tobacco	[1]	-100.0
Excise tax	1,072	0.6
Other	11	10.0
Supplemental documents	11,089	6.5

¹ Projections exclude returns filed with the Bureau of Alcohol, Tobacco and Firearms which were no longer processed by the Internal Revenue Service after July 1987

Individual Income Tax Returns

The number of individual income tax returns filed (including Forms 1040, 1040A, and 1040EZ) are expected to increase 3.5 percent in 1988. This 3.5 percent increase will represent the largest single year increase in individual filings experienced this decade. Two major occurrences will drive this increase in returns. First, provisions in the Tax Reform Act of 1986 repealed the personal exemption for taxpayers who are dependents while also increasing the standard deduction and personal exemption amounts. The repeal of the personal exemption for dependents will significantly increase the number of dependents required to file for the first time. Conversely, the increase in the standard deduction and personal exemption amounts will remove several

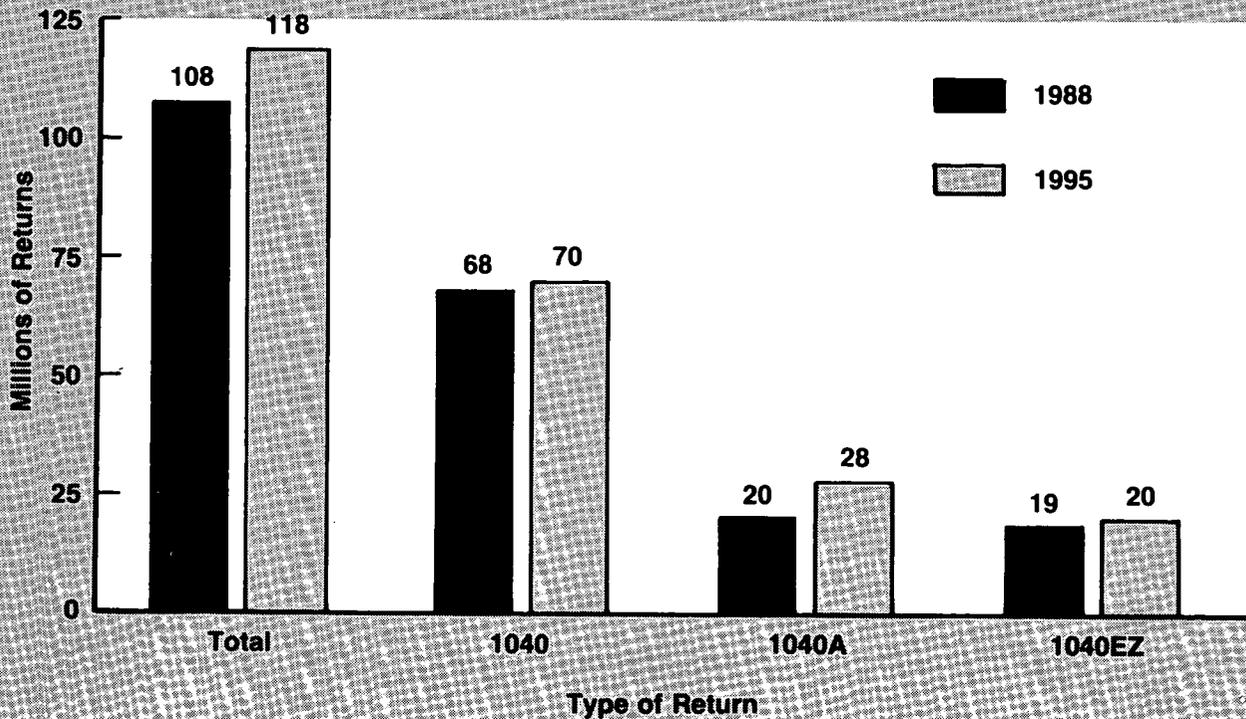
million lower-income taxpayers from the filing rolls. The net effect will be an increase in the number of individual returns filed. Secondly, the illegal alien amnesty program is also expected to slightly increase the number of persons filing for the first time.

The Tax Reform Act will also enable a significant number of taxpayers to switch to simpler forms because of the restrictions placed on itemized deductions (e.g., taxpayers who previously filed a 1040 can now file a 1040A). This shift is reflected in the projected 1988 filings. Forms 1040A and 1040EZ are projected to increase by 12.8 and 13.9 percent,

respectively, in 1988, while Form 1040 is projected to decline by 1.5 percent.

Over the projection interval, the rate of growth in total individual filings is expected to gradually decline from 3.5 percent in 1988 to 0.8 percent in 1995. This decline is attributable to recent employment projections which show rate-of-employment growth declining throughout the mid-1990's, as already mentioned. Figure C compares the number of Forms 1040, 1040A, 1040EZ, and total individual returns expected to be filed in 1988 and 1995, respectively.

Figure C.
Individual Income Tax Returns by Type
Fiscal Years 1988 and 1995



Individual Declarations of Estimated Tax

Projections of Individual Declarations of Estimated Tax (Form 1040-ES "vouchers"—up to four per year can be filed) are developed from a regression of vouchers on the number of their taxpayer counterparts. Progressively higher taxpayer projections and the same "voucher-to-taxpayer" ratio forecasts result in increasingly higher estimates of the number of Forms 1040ES. Current forecasts are calling for increases in growth ranging from 2.7 percent in 1988 to 4.2 percent in 1995.

Fiduciary Income Tax Returns

A provision in the the Tax Reform Act of 1986 mandated that taxable trust filers of fiduciary income tax returns (Forms 1041) who previously could have filed on a noncalendar year basis had to begin filing their returns on a calendar year basis. This ruling is expected to account for a surge in fiduciary return filings in 1988, as noncalendar year filers adjust their accounting periods to coincide with the calendar year by filing additional returns to cover transitional part-year accounting periods. Current estimates call for a 8.5 percent increase in 1988 filings. After 1988, growth is expected to range from 1.6 percent in 1991 to 2.3 percent in 1995.

Fiduciary Estimated Tax Returns

The Tax Reform Act of 1986 required that both new and existing estates and trusts make estimated tax payments for calendar years beginning after 1986. Form 1041-ES, Estimated Income Tax for Fiduciaries, was developed for taxpayers with a tax liability of \$500 or more to compute and pay estimated taxes. Initial rapid growth in these forms is expected because not all estates and trusts were affected in 1987. Therefore, 1988 filings are estimated to increase by 17.2 percent. In later years, growth will taper off to 3.0 percent in 1991 and to 2.3 percent in 1995.

Partnership Tax Returns

The Tax Reform Act also required most noncalendar year filers of partnership returns (Form 1065) to file on a calendar year basis. Tax reform also required that "passive losses" can only be offset by "passive gains" [4]. This revision in the law is expected to make "net loss" limited partnerships less attractive to investors, thereby resulting in fewer filings of partnership returns. Thus, although there will be a surge in 1988 filings because of the need to file for part-years before converting to calendar year accounting periods, it is expected that there will be a decline in filings, as partnerships become less attractive to investors. The net effect is a projected 0.2 percent increase in partnership filings in 1988. In later years, growth is projected to increase, as investors adjust their investment strategies to coincide with tax re-

form. Year-to-year increases from 1989 to 1995 range from 3.4 percent to 5.6 percent.

Corporation Income Tax Returns

As with certain fiduciaries and most partnerships, tax reform also required most noncalendar year filers of "personal service" and "S" corporation returns to file on a calendar year basis. The collective group of corporation returns, including U.S. Corporation Income Tax Return (Form 1120) and U.S. Income Tax Return for an S Corporation (Form 1120S), are expected to post a 6.5 percent increase in 1988 because of the one-time increase in part-year returns caused by the new provision. After 1988, growth in corporation return filings is projected to stabilize, with year-to-year increases ranging from 2.8 percent in 1989 to 4.7 percent in 1995.

Estate and Gift Tax Returns

The Tax Reform Act of 1976 and the Economic Recovery Act of 1981 both stipulated that the filing threshold for the U.S. Estate Tax Return (Form 706) be gradually increased on an annual basis, from \$60,000 in 1976 to \$600,000 in 1987 and beyond. Current projections reflect this rising threshold, and call for a decline of 17.7 percent in 1988. Filings are then expected to gradually increase throughout the remainder of the forecast interval, with annual increases ranging from 1.7 percent in 1989 to 6.7 in 1995.

Filings of U.S. Gift Tax Returns (Form 709) are expected to grow steadily through the mid-1990's. Year-to-year growth ranges from 3.8 percent in 1988 to 2.3 percent in 1995.

Employment Tax Returns

Employment tax returns consist of Employer's Annual Federal Unemployment Tax Return, Employer's Annual/Quarterly Federal Tax Return, and Employer's Annual Railroad Retirement Tax Return. Projections for the forecast period 1988-1995 reflect year-to-year increases that average 1.4 percent per year.

Tax-Exempt Organization Returns

A host of tax-exempt entities, including those for public charities, farmers' cooperative associations, private foundations, and "other" exempt organizations, embody the exempt organization category of returns. The magnitude of this return category is dictated by changes in Form 990, Return of Organization Exempt From Income Tax (filed by the "other" organizations that include most public charities), which accounts for 77 percent of exempt organization filings. Current estimates of tax-exempt organizations call for growth throughout the forecast interval consistent with that experienced in the 1980's—an average annual increase of

1.5 percent. Year-to-year increases are expected to range from 2.8 percent in 1988 to 1.6 percent in 1995.

Employee Plan Returns

Form 5500, Annual Return/Report of Employee Benefit Plan, Form 5500C (same as the Form 5500 except that it is filed by plans with fewer than 100 participants), and Form 5500R, Registration Statement of Employee Benefit Plan (to be filed by plans with fewer than 100 participants) comprise the total employee plans category of returns. Filings in 1987 increased by over 20 percent, in response to the initial filings by owner-employee plan participants that the Tax Equity and Fiscal Responsibility Act of 1982 added to the filing population. These returns are projected to decline 11.5 percent in 1988, as filings return to a more normal growth pattern. In subsequent years, employee plan returns are expected to show steady growth, with year-to-year advances averaging 1.7 percent per year from 1989 through 1995.

Alcohol and Tobacco Returns

Forms 11 and 5000.24 comprise the alcohol and tobacco returns filed with the Bureau of Alcohol, Tobacco, and Firearms. As of July 1987, these forms will no longer be processed by the Internal Revenue Service. Therefore the counts given for 1987 are estimated only through July 1987, not for the entire fiscal year. No projections of alcohol and tobacco returns were made by the IRS for years beyond 1987.

Excise Tax Returns

Total excise returns are the sum of the following four categories of returns: (1) Form 11C (Special Tax Return and Application for Registry-Wagering); (2) Form 720 (Quarterly Federal Excise Tax Return); (3) Form 730 (Tax on Wagering); and (4) Form 2290 (Heavy Vehicle Use Tax Return). Projections of Form 720 filings were adjusted downward because of two provisions in the Tax Reform Act of 1986 that are expected to reduce the number of diesel fuel retailers and gasoline wholesalers required to file Form 720. Total projections for all excise tax returns are projected to post a nominal increase of 0.6 percent in 1988 and then decline by 6.9 percent in 1989. For the balance of the forecast interval, positive growth will again appear, with year-to-year advances ranging from 0.3 percent in 1990 to 2.6 percent in 1995.

Supplemental Documents

Supplemental documents are composed of amended returns and requests for filing extensions from both individuals and corporations. Current forecasts call for increases con-

sistent with those in previous years, ranging from 6.4 percent in 1988 to 4.6 percent in 1995.

DATA SOURCES AND LIMITATIONS

The number of returns filed (as used in this article) represents the number of returns processed at IRS service centers during a fiscal year [5]. Data for 1987 include actual returns processed through June 1987, with the remainder of the year estimated, in general, on the basis of 1986 filing patterns.

To illustrate the general forecasting process, projections for the combined total of Forms 1040, 1040A, and 1040EZ returns were developed based on a multiple regression relating total 1040 returns to total employment; an interaction variable involving both total employment and employed married women with husbands present (used as a proxy for potential joint filers); pension beneficiaries and annuitants; and a qualitative "dummy" variable which accounts for the effects of the Tax Reduction and Simplification Act of 1977 [6]. The historical base period for this regression was 1949-1987, with 1987 estimated on the basis of returns filed through June 1987.

Return projections were primarily formulated on a calendar year basis and subsequently converted to fiscal year projections by the Census Bureau's X11-Q Seasonal Adjustment Program by applying resultant seasonal factors to calendar year projections [7].

NOTES AND REFERENCES

- [1] All statistics are cited on a fiscal year basis, unless otherwise noted. Actual counts for all of Fiscal Year 1987 were incomplete at the time this article was written (see the Data Sources and Limitations section). For complete counts, see U. S. Department of the Treasury, Internal Revenue Service, *1987 Annual Report, Commissioner and Chief Counsel, Internal Revenue Service* (in preparation). As defined in Table 1, primary tax returns are equal to total returns minus supplemental documents. (Alcohol and tobacco return totals were not used in computing the year-to-year increase in primary returns between 1987 and 1988.)
- [2] Employment projections were obtained from Data Resources, Inc. (DRI), in June 1987. DRI believes that employment growth will decline due to a general slowdown in economic activity through the mid-1990's.
- [3] For details of these methods, see U.S. Department of the Treasury, Internal Revenue Service, "Number of Returns to be Filed," *Projections*, Document 6292 (Rev. 8-87). In particular, see the Fall 1987 update.

- [4] Passive gains or losses resulted from trade or business activities in which the partners did not materially participate in the business on a regular, continuous, or substantial basis (i.e., they were "limited" partners).
- [5] U.S. Department of the Treasury, Internal Revenue Service, *1986 Annual Report*, op. cit.
- [6] Projections of total employment, employed married women with husbands present, and pension beneficiaries and annuitants were made by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [7] U.S. Department of Commerce, Bureau of the Census, "The X11-Q Variant of the Census Method II Seasonal Adjustment Program," *Technical Paper No. 15* (1967 revision).

Table 1.—Number of Returns by Type, Fiscal Years 1986–1995

[Numbers are in thousands]

Type of return	Actual	Projected								
	1986	1987 ¹	1988	1989	1990	1991	1992	1993	1994	1995
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	188,015	192,261	198,060	202,695	207,984	212,380	216,957	221,216	225,465	230,029
Primary returns, total	178,219	181,841	186,972	190,891	195,420	199,087	202,923	206,460	210,004	213,856
Individual income tax, total	102,393	104,043	107,662	110,093	112,767	114,119	115,496	116,538	117,408	118,324
Form 1040	66,675	69,009	67,972	64,800	65,776	66,745	67,938	68,756	69,280	69,836
Form 1040A	18,466	18,005	20,317	23,986	25,045	25,702	26,163	26,689	27,232	27,767
Form 1040EZ	17,015	16,823	19,161	21,088	21,720	21,440	21,154	20,843	20,640	20,457
Other ²	236	206	212	219	225	233	241	249	257	265
Individual declaration of estimated tax	35,485	36,331	37,323	38,301	39,435	40,830	42,348	43,929	45,656	47,588
Fiduciary income tax ³	2,305	2,336	2,534	2,480	2,520	2,587	2,660	2,730	2,795	2,858
Fiduciary estimated tax	N/A	777	911	937	953	982	1,011	1,038	1,062	1,086
Partnership	1,845	1,883	1,887	1,951	2,027	2,136	2,265	2,391	2,519	2,660
Corporation ⁴	3,667	3,807	4,053	4,166	4,311	4,508	4,725	4,951	5,184	5,426
Estate tax	72	57	47	47	49	51	54	57	60	64
Gift tax	103	106	110	114	118	122	126	129	132	135
Employment tax ⁵	27,921	28,133	28,575	28,966	29,358	29,791	30,199	30,575	30,976	31,410
Tax-exempt organization ⁶	487	498	512	525	538	549	559	569	578	587
Employee plan ⁷	2,142	2,572	2,275	2,302	2,332	2,364	2,404	2,452	2,504	2,560
Alcohol and tobacco ⁸	520	224	(⁹)							
Excise tax ⁹	1,265	1,066	1,072	998	1,001	1,033	1,062	1,088	1,115	1,144
Other ¹⁰	14	10	11	11	12	12	13	13	13	14
Supplemental documents, total	9,796	10,420	11,089	11,804	12,565	13,294	14,034	14,756	15,461	16,173
Form 1040X	2,180	2,264	2,300	2,397	2,508	2,609	2,709	2,810	2,911	3,013
Form 4868	4,658	5,047	5,525	5,958	6,415	6,861	7,322	7,771	8,210	8,658
Form 2688	1,358	1,409	1,453	1,525	1,604	1,673	1,738	1,796	1,847	1,895
Form 1120X	30	32	34	36	38	41	43	45	47	50
Form 1120–ND	N/A	(¹¹)	1	1	1	1	1	1	1	1
Form 7004	1,534	1,629	1,737	1,846	1,956	2,067	2,178	2,289	2,400	2,511
Form 1041A	23	23	24	24	25	26	26	27	28	28
Form 1042	14	16	16	16	17	17	17	17	18	18

N/A—not applicable

¹ Projections based on counts of returns processed as of June, 1987.

² Includes Forms 1040NR, 1040PR, 1040SS and 1040C; Form 1040X is included in the Supplemental Documents category.

³ Includes Form 1041, but excludes Form 1041A (see Supplemental Documents).

⁴ Includes Forms 1120, 1120–A, 1120–F, 1120–POL, 1120S, 1120–H, and other special purpose Forms 1120, except Forms 1120–DISC/FSC (see footnote 10) and those included in Supplemental Documents (Forms 1120X and 1120–ND).

⁵ Includes Forms 940, 940PR, 941, 941E, 941PR, 941SS, 942, 942PR, 943PR, and CT–1.

⁶ Includes Forms 990, 990PF, 990C, 990–T, 4720, and 5227.

⁷ Includes Forms 5500, 5500–C, and 5500–R; and 5500–G and 5500–K in years previous to 1987.

⁸ Includes Forms 11 and alcohol and tobacco excise tax returns in 1986 and 1987. A one-time alcohol floor tax is included in 1986. The 1987 figure is an estimate through July 1987, at which time IRS ceased processing alcohol and tobacco returns.

⁹ Includes Forms 11C, 720, 730, and 2290.

¹⁰ Includes Forms CT–2, 941M, 941NM1, 990BL, and 1120–DISC/FSC. (These returns are not included in the IRS Master File system.)

¹¹ Less than 500 returns.

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