

The Life Cycle of Individual Income Tax Returns

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Information on year-to-year changes in the characteristics of an identical group (or "panel") of taxpayers is a useful supplement to cross-section studies based on recurring samples. This article draws on several sources over the 1978-1983 period to suggest the "life-cycle" through which the returns of taxpayers pass over time. For example, 9 percent of the 1983 filings of Form 1040A were "start-filers," while less than 3 percent of the Forms 1040 were similarly classified. Data also suggest that relatively few taxpayers shift from the 1040A to the 1040 in the subsequent year if their returns show a small adjusted gross income (AGI)--e.g., below \$5,000; but as many as 40 percent may do so if their AGI is over \$30,000. The 1040A filer who prepared his (her) own return in 1981 was about 90 percent likely to prepare it again in 1982, and this probability was little affected by the taxpayer's filing status and only moderately by size of AGI. The probability of continuing to use a paid preparer did, however, increase markedly with size of AGI reported on the 1040A.

The percentage of taxpayers changing filing status from one year to the next is likely to be very small for those married filing joint 1040A returns in the first year, but the switching rate is substantially higher for single returns and highest among the married filing separately. A taxpayer filing for a refund in one year (on a 1040 or 1040A) was more than 80 percent likely to be a refund filer in the next year, but a "balance due" filer (i.e., a taxpayer with remittance due with the return) was almost as likely to be a refund filer as a balance due filer in the subsequent year. And, finally, there are "stop-filers": About 14 percent of the 1040A's filed during 1982 did not appear in the following year; the corresponding rate among 1040's was less than half as great.

START-FILERS

Start-filers, in general, are the "births" in the tax administration system, as stop-filers are the "deaths" [1]. (A tax return is classed as a "start-filer" if it is filed under a primary Social Security Number (SSN) that has

not appeared as a primary SSN during the two previous reporting periods.) Of a total of about 96 million returns filed in 1983, about 5 percent were start-filers. While more Form 1040 returns are filed than any other single type, most start-filers entered the system by filing the 1040A or 1040EZ. On a nationwide basis, start-filers accounted for almost 9 percent of the Form 1040A/EZ returns filed in 1983; this was three times their relative importance among 1040 returns of which only 2.6 percent were start-filers (see Table 1). Start-filer rates were particularly significant in the lowest adjusted gross income (AGI) class of 1040A/EZ returns: almost 15 percent among returns with less than \$10,000 AGI, compared with 0.5 percent among those with \$15,000 or more. Comparable 1982 data tell the same story, with the rates somewhat higher than in 1983.

It should be noted that changes in filing status can affect start-filer statistics. Since divorce or separation may result in two tax returns in place of one jointly filed return, what has been a secondary tax identification number--normally, of a wife--will now show up as a primary number on its own separate return. ("Filing status shifts," of which this case is only one example, are treated in more detail later in this article.)

The parallelism between national and Atlanta Internal Revenue District data is notable. The latter are shown as a "bridge" to the following sections that are based on information from the Atlanta District in the absence of national data.

SWITCHING FROM FORM 1040A TO FORM 1040

"Form 1040A switchers" might be considered members of the system who have "graduated." Their tax situation has become more involved than that for which the 1040A was designed, or it is to their financial advantage to use the more complex Form 1040. This is the type of development one associates with such factors as increasing income, age, and labor force experience, or with income diversification, family formation and home ownership.

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Table 1.--Start-File Rates by Type of Return and Adjusted Gross Income Class, U.S. and Atlanta District, Filing Years 1982 and 1983

Return group (type of return, adjusted gross income class) ¹	Percent of groups appearing as start-filers			
	In 1983		In 1982	
	U.S.	Atlanta District	U.S.	Atlanta District
	(1)	(2)	(3)	(4)
Forms 1040 and 1040A, total	5.1	5.7	6.9	7.4
Forms 1040A, total	8.9	9.2	11.5	11.5
Under \$10,000	14.7	14.0	17.7	16.8
\$10,000 under \$15,000	1.9	1.7	2.8	2.6
\$15,000 under \$50,000	0.5	0.7	1.2	1.2
Forms 1040, total	2.6	2.5	3.8	3.6

¹1040EZ returns are combined with 1040A's to make 1982 and 1983 data comparable.
Source: see [1].

From a study of taxpayers filing Form 1040A in the Atlanta District in 1981 come data that show how strongly the tendency to switch to a Form 1040 in 1982 was associated with increasing levels of adjusted gross income--(Table 2, Figure A) [2]. Thus, less than 5 percent of those reporting under \$5,000 AGI on returns filed in 1981 shifted to a 1040 in the following year. The comparable figure for taxpayers with \$30,000 or over was 41 percent. Consistent with the "graduation" or development hypothesis are the shift rates by filing status. While almost 20 percent of the married couples filing joint returns on the 1040A shifted to the 1040 in 1982, only about 7 percent of the comparable singles made the shift.

Table 2.--Rates of Switching from Form 1040A to 1040, by Adjusted Gross Income Class and Filing Status, Atlanta District, Filing Years 1981-1982 [Estimates based on sample data]

Return group (adjusted gross income class, filing status) ¹	Percent of 1981 1040A groups switching to Form 1040 in 1982
Total	10.1
Under \$1	3.0
\$1 under 5,000	4.6
\$5,000 under 10,000	8.2
\$10,000 under \$20,000	15.6
\$20,000 under \$30,000	30.1
\$30,000 or more	40.6
Married filing jointly	18.4
Married filing separately	10.2
Head of household	7.3
Single	6.9

¹AGI class and filing status are as reported in 1981 for Tax Year 1980.
Source: see [2].

Future studies will indicate the effect on these relationships of such modifications in the tax forms system as, for example, the introduction of Form 1040EZ and the inclusion of additional items on the Form 1040A.

CONSISTENCY IN USE OF PAID PREPARERS

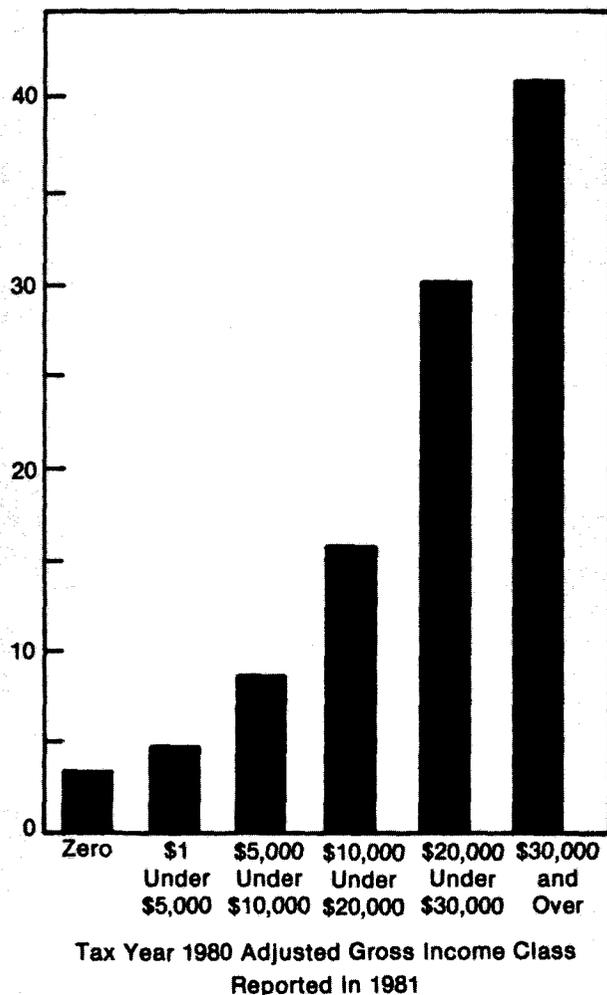
The choice of which return form to file interacts, as both cause and effect, with the decision to prepare the return oneself or have it commercially prepared. Nationwide, about 15 percent of Form 1040A returns filed in 1982 and of combined 1040A and EZ returns in 1983 bore the signatures of commercial preparers, according to Taxpayer Usage Study reports [3].

But, here we are concerned with how taxpayer decisions about return preparation in 1982 related to their 1981 decisions. The Atlanta District sample of taxpayers filing Form 1040A in both years provides some insights. Table 3 shows that taxpayers who prepared their own 1040A returns in one year were very likely--90 percent likely, on the average--to prepare their own returns also in the following year, and were moderately influenced by income level. But taxpayers paying for return preparation in one year were more strongly affected by their income level (or by factors associated with income) in the decision to engage a commercial preparer in the next year. Thus, among the taxpayers using paid preparers, 54 percent of the lowest income group also paid in the following year; for the highest income group the comparable figure was 91 percent.

As for filing status, taxpayers filing joint 1040A returns appeared to have the highest overall level of year-to-year consistency with respect to both self-preparation of the return and paid preparation. Returns of married

Figure A.
Forms 1040A Filed in 1981:
Percentage Switching to
Form 1040 in 1982,
by Adjusted Gross Income Classes
(Atlanta District)

Percent Switching to Form 1040 in 1982



taxpayers filing separately appeared to have the lowest overall rates of consistency.

Of related interest were the results from a study of Tax Year 1982 Form 1040 returns with itemized deductions that claimed a deduction for payment of a preparer's fee (in 1982) [4]. The study showed that 91 percent of these returns bore a paid preparer's signature (entered in 1983). Thus, there is an indication that the rate of year-to-year consistency of preparer usage may be substantially higher, as might be expected, among 1040 filers than among 1040A filers.

Quite likely, *changes* in the income level or filing status of taxpayers affect consistency of preparer usage even more than level or status in a given year. The following two sections provide information on these topics.

ADJUSTED GROSS INCOME SHIFTS, FORM 1040A FILERS

It is common knowledge that the effect of inflation in recent years has been to thrust many taxpayers into higher nominal income classes. Based on the Atlanta District study, Table 4 shows that, for taxpayers filing Form 1040A in both 1981 and 1982, 25 percent found themselves in a higher AGI class in the second year and 9 percent in a lower class--in terms of the classes as defined. (Smaller class intervals, of course, would yield larger percentages of change.) The percentage reporting in a higher income class--25.3 percent--was almost three times as large as the percentage reporting in a lower class.

How filing status groups compared to this overall average is summarized in Table 5. Joint returns showed a stronger than average increase in AGI and the highest ratio--3.50--of increase to decrease. Single returns approximated the overall averages. And "other" filing statuses (married filing separately and head of household, combined) were below average. The greater propensity for increased income among the joint returns, it will be noted, was consistent with their previously noted tendency to switch from Form 1040A to 1040.

FILING STATUS SHIFTS, FORM 1040A FILERS

Overall, 10.5 percent of the Atlanta District filers of 1040A in both 1981 and 1982, reported a shift in filing status. The proportion shifting, however, varied widely, depending on initial filing status (see Table 6). "Married filing separately" was apparently the most unstable of all the filing status groups, over one-half of the 1981 reports for that filing status being associated with a different one in the following year. On the other hand, only 6 percent of the "married filing joint" returns shifted to a different filing status in the second year.

Of the 1981 single returns, one notes that 5 percent shifted to "married filing joint" status in the following year. This is reasonably consistent with the reporting of marriage in 1979 for 6.3 percent of all U.S. unmarried women [5]. One also notes that 4 percent of the single returns shifted to "head of household" which implies one or more dependents. To the extent that these dependents were children, the data could be of special interest to students of current social trends. (According to Statistics of Income data, the "head of household" filing status occurred on only 5 percent of all returns

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Table 3.--Rates of Consistency in Preparation of Form 1040A Returns, by Adjusted Gross Income Class and Filing Status, Atlanta District, Filing Years 1981-1982

[Estimates based on sample data]

Return group (adjusted gross income class, filing status) ¹	Percent of	
	Taxpayer-prepared returns in 1981 prepared same in 1982	Paid-prepared returns in 1981 prepared same in 1982
Total	89.6	66.6
Under \$5,000	89.5	54.1
\$5,000 under \$10,000	87.4	65.3
\$10,000 under \$20,000	91.1	74.7
\$20,000 under \$30,000	92.2	77.0
\$30,000 or more	96.2	90.8
Married filing jointly	88.8	76.2
Head of household	89.0	62.9
Single	90.1	61.6
Married filing separately	86.8	55.5

¹ AGI and filing status are as reported in 1982 for 1981.
Source: see [2].

Table 4.--Adjusted Gross Income (AGI) Reported in Filing Year 1981 by AGI Reported in 1982, Forms 1040A, Atlanta District

[Estimates based on sample data]

Adjusted gross income reported in 1981	Percentage distribution						
	Total	Adjusted gross income reported in 1982					
		Under \$1	\$1 under \$5,000	\$5,000 under \$10,000	\$10,000 under \$20,000	\$20,000 under \$30,000	\$30,000 or more
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Total	100.00	0.27	25.52	34.69	31.79	6.93	0.80
Under \$1	0.09	.08	-	*	*	-	-
\$1 under \$5,000	31.66	.17	19.65	10.21	1.58	0.04	-
\$5,000 under \$10,000	36.47	.01	5.23	21.90	9.05	.29	*
		9.12% with decrease			25.32% with increase		
\$10,000 under \$20,000 ...	27.53	.01	0.64	2.56	20.69	3.59	0.04
\$20,000 under \$30,000 ...	3.98	-	0.01	0.01	0.46	2.99	.52
\$30,000 or more	0.27	-	0.01	-	.01	.02	.23

*Less than 0.005 percent.

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

Source: see [2].

Table 5.--Comparison of Proportions of Form 1040A Returns with Increased or Decreased Adjusted Gross Income, by Filing Status, Atlanta District, Filing Years 1981-1982

Filing status ¹	Percentage of Form 1040A filers moving to		Ratio, higher to lower (1 ÷ 2)
	Higher AGI classes	Lower AGI classes	
	(1)	(2)	(3)
Total	25.32	9.12	2.78
Married filing jointly	28.69	8.19	3.50
Single	25.05	8.84	2.83
Other	24.59	13.04	1.89

¹As reported in 1982.

Source: see [2].

filed for 1971 compared with almost 9 percent for 1981; the number of such returns increased over the 10-year period by 125 percent while total returns increased by only 28 percent.)

TAX PAYMENT STATUS AND SIZE OF REFUND/BALANCE DUE

Having chosen to file a return, having selected a form and having decided whether to continue to have the new form prepared in the same way as in the previous year, taxpayers in the various income and filing status classes report their tax, indicating whether they have a *balance due, payable with the return*, or have overpaid and expect a refund. (A minor proportion have no tax liability and even fewer have already paid the exact amount of their tax.) Of the taxpayers filing returns (Forms 1040 and 1040A) for either Tax Years 1978 or 1979 (or both), more than half (53.5 percent) filed for refunds for both years. About 10 percent filed balance due returns for the two successive years. Thus, for 64 percent of the 1978-79 filing population, tax payment status remained the same across both years; for 36 percent, there were changes among the five specified categories [6].

Persistence of tax payment status, as might be anticipated, was much greater among refund filers than among balance due filers (see Table 7). Of the 1978 refund filers (who also filed for 1979), 88 percent also claimed refunds for 1979, as against 10.5 percent who switched to balance due--a ratio of more than 8:1. By contrast, only 52 percent of 1978 balance due filers repeated that payment status the following year, against 43 percent who switched to refund--a ratio of only 1.2:1. In other words, 90 percent of the time the 1978 refund filer was likely to repeat as a refund filer; on the other hand, the average 1978 balance due filer was almost as likely to switch to refund as to repeat the prior status.

To what extent were these average relationships related to the size of the amount involved? Very considerably, it appeared, for balance due taxpayers; and very little for refund taxpayers. According to Table 8 (from which payers of estimated tax have been excluded), only about one-third of taxpayers in the lowest balance due class (less than \$100) for Tax Year 1978 continued as balance due for 1979, while almost two-thirds in the highest class (with a mean balance due of about \$2,300) persisted as balance due (also see Figure B). The two-thirds *shift* in the lowest size class suggests that many taxpayers with a small balance due are in that situation temporarily and, perhaps, accidentally. Since the amount involved is small, a taxpayer's situation may easily change from a "negative refund" (i.e., balance due) to a "positive refund." Those with a large balance due, on the other hand, for the most part apparently "know what they are doing" and intend to continue their past practice.

Continuing as a refund filer, however, is highly likely from one year to the next, irrespective of size of refund: Repeat performance was almost as high--89.5 percent--in the lowest refund size class, as the 94.4 percent reported for the highest class (where the mean refund was about \$1,000). Comparable data for Tax Years 1977 and 1978 yielded similar results.

How do refund amounts in one year--or balance due amounts--compare with the following year? To what extent do they tend to remain at about the same level or disperse over time? Tables 9 and 10 provide insight into the patterns of persistence and dispersion, despite the limitation that they are for returns with some withholding and no estimated tax payments. (The data are also somewhat limited to the extent of the low dollar value--\$400--of the lower bound of the open-ended class.)

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Table 6.--Filing Status Reported in Filing Year 1981 by Filing Status Reported in 1982, Forms 1040A, Atlanta District

[Estimates based on sample data]

Filing status reported in 1981	Percentage distribution					Percent shifting filing status
	Total	Filing status reported in 1982				
		Single	Married filing jointly	Married filing separately	Head of household	
	(1)	(2)	(3)	(4)	(5)	(6)
Total	100.0	52.8	28.1	1.4	17.8	10.5
Single	100.0	89.8	5.2	0.6	4.3	10.2
Married filing jointly	100.0	3.1	93.5	1.1	2.3	6.5
Married filing separately	100.0	23.4	23.5	36.1	17.0	63.9
Head of household	100.0	8.9	2.8	1.0	87.4	12.6

NOTE: Detail may not add to total because of rounding.
Source: see [2].

Table 7.--Tax Year 1978 Tax Payment Status--Percentage Distribution by Tax Year 1979 Tax-Payment Status, Form 1040 and 1040A Returns.

[Estimates based on sample data]

Tax Year 1978 tax payment status	Total	No return for Tax Year 1979	Return filed for Tax Year 1979	Returns filed for Tax Year 1979				
				Total	Refund	Exact ⁽¹⁾	Balance due	No liability, no refund
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	100.0	7.8	92.2	100.0	77.0	*	20.5	2.4
No return for Tax Year 1978	100.0	X	100.0	100.0	88.8	0.1	9.7	1.5
Returns for Tax Year 1978, total	100.0	8.6	91.4	100.0	75.7	*	21.7	2.5
Refund	100.0	9.1	90.9	100.0	88.4	*	10.5	1.1
Exact ¹	100.0	8.3	91.7	100.0	76.1	0	23.4	0.5
Balance due	100.0	6.7	93.3	100.0	42.7	0.1	51.7	5.6
No liability, no refund	100.0	10.4	89.6	100.0	32.2	*	54.1	13.7

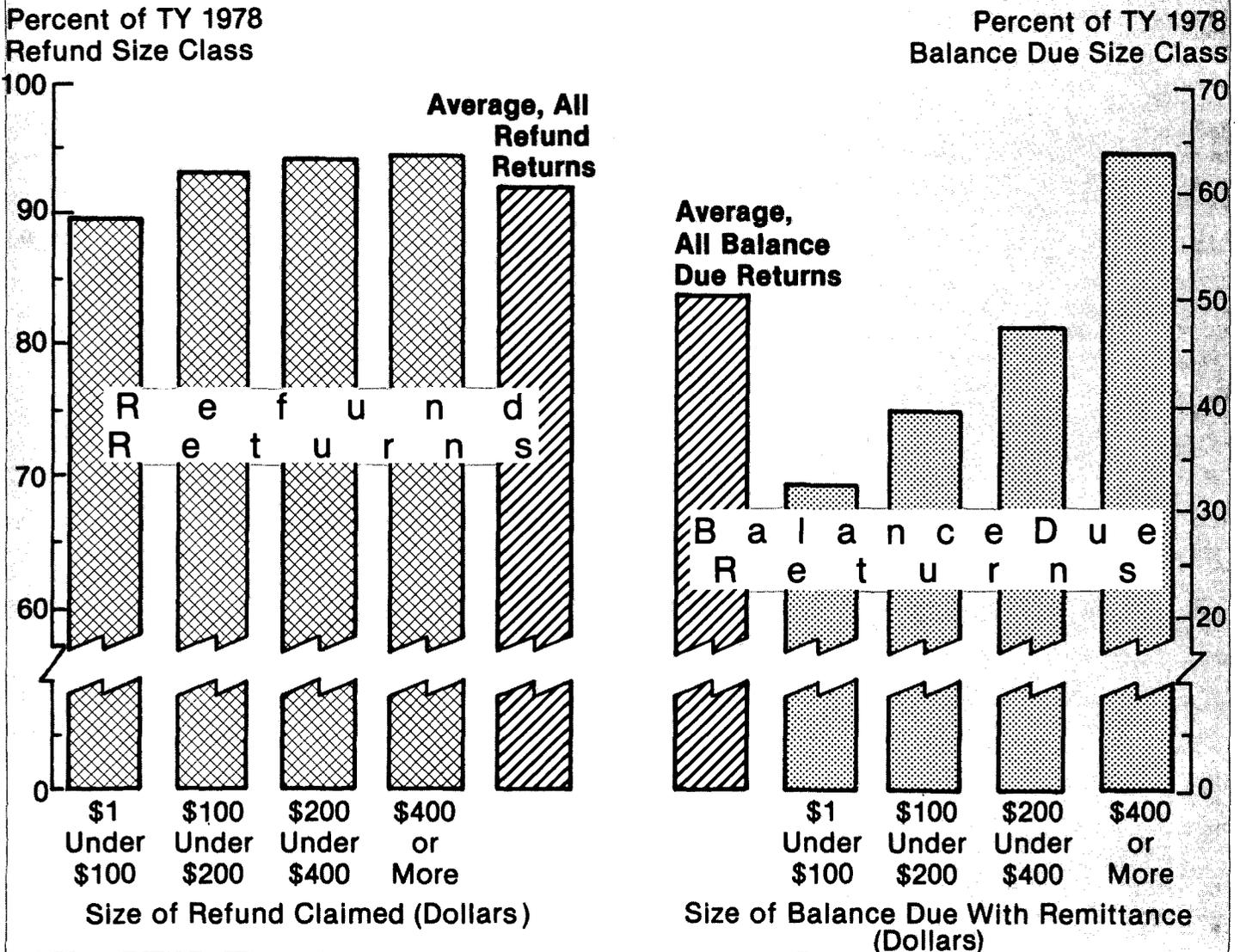
Estimates subject to very large relative sampling error.
* Less than 0.05 percent.
NOTE: Detail may not add to total because of rounding.
Source: see [6].

Table 8.--Rates of Consistency in Payment Status by Size of Balance Due or Refund, All Returns, Tax Years 1978-1979

Size of balance due or refund, Tax Year 1978	Percent of returns with	
	1978 balance due continuing as balance due for 1979	1978 refund continuing as refund for 1979
\$1 under \$100	32.1	89.5
\$100 under \$200	39.6	92.6
\$200 under \$400	47.2	94.3
\$400 or more	63.8	94.4

Source: see [6].

Figure B.
Percentage of Tax Year 1978 Tax Payment Status Class Continuing in Same Payment Status for 1979



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Table 9.--Tax Year 1978 Refund Size Classes by Tax Year 1979 Refund Size Classes--Percentage Distribution of Refund Filers for Both Years, Form 1040 and 1040A Returns

[Estimates based on sample data]

Size of refund, Tax Year 1978	Total	Size of refund, Tax Year 1979				
		\$1 under \$100	\$100 under \$200	\$200 under \$300	\$300 under \$400	\$400 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Total	100.0	8.5	12.9	12.9	14.1	51.5
\$1 under \$100	14.0	3.9	3.5	2.4	1.7	2.5
\$100 under \$200	16.9	1.9	4.8	3.9	2.7	3.6
\$200 under \$300	16.1	1.1	2.3	3.3	4.6	4.9
		15.0% with decrease		*	36.6% with increase	
\$300 under \$400	13.0	0.6	1.1	1.6	2.8	6.9
\$400 or more	40.0	0.9	1.3	1.8	2.4	33.6

* Remaining in same size class: 48.4 percent.

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

Source: see [6].

Table 9 distributes refund filers for both 1978 and 1979 by size of refund amounts in the two years. The proportion of these taxpayers claiming a larger refund for 1979--36.6 percent--was more than double the proportion--15 percent--that claimed a smaller amount. The ratio of the two percentages is 2.44. Close to one-half (those on the diagonal) remained in the same amount class for 1979 as for 1978.

Table 10 provides comparable data for balance due filers. Consistent with the net shift to larger refunds is the net shift to smaller balance due amounts: The percentages with increases and decreases--22.7 and 29.9, respectively--yield a ratio of 0.76.

The summary in Table 11 provides an instructive comparison of these results with a similar analysis for 1977-78. One sees not merely the extent of year-to-year change but the extent of changes in the pattern of change: The pattern for 1977-78 is roughly the reverse of that for 1978-79, both with respect to the percentages and the ratios.

Also reflected in the 1978-79 pattern was the impact of tax law changes that affected TY 1979 returns, namely, liberalized (higher) income filing requirements, reduced tax rates, and liberalized eligibility for the earned income credit. The shift into larger refund amount and smaller balance due amount classes undoubtedly related to those developments. In the absence of comparable factors intervening between 1977 and 1978, the pattern across those two years was much different. Refund filers were almost in balance as between "increased"

and "decreased" amounts. And balance due filers for 1978 were more than twice as likely to be in the increase group (38.9 percent) as the decrease group (17.8 percent).

STOP-FILERS

Stop-filers are taxpayers whose returns are known from the previous reporting period, but who have not filed in the following one. (This is indicated by the presence of a return with a given "primary" Social Security Number (SSN) in one year, but no return with that primary SSN in the subsequent year.) Of a total of about 94 million primary taxpayers filing returns during 1982, 9 percent did not show up in 1983. Over 60 percent of these stop-filers were 1040A filers in 1982, among which the drop-out rate was 14 percent, more than double the 1040 rate of less than 6 percent. The stop-filer rate, Table 12 shows, was highest among the lower adjusted gross income 1040A returns and declined with higher AGI.

While some of the stop-filer phenomenon reflects newly deceased taxpayers, its relation to income suggests that a decrease in income among a substantial proportion of taxpayers with already low income dropped them below the level where they were required to file a tax return. Another consideration, and by no means the only one, is illustrated by the young unmarried woman who starts out as the primary tax filer on a single return. With marriage, she typically no longer appears in the tax file as a "primary" taxpayer, generally becoming a "secondary" taxpayer on a joint return.

Table 10.--Tax Year 1978 Balance Due Size Classes by Tax Year 1979 Balance Due Size Classes--
Percentage Distribution of Balance Due Filers for Both Years, Form 1040 and 1040A Returns

[Estimates based on sample data]

Size of balance due, Tax Year 1978	Total	Size of balance due, Tax Year 1979				
		\$1 under \$100	\$100 under \$200	\$200 under \$300	\$300 under \$400	\$400 or more
	(1)	(2)	(3)	(4)	(5)	(6)
Total	100.0	16.7	13.6	11.0	8.6	50.1
\$1 under \$100	13.2	4.8	2.6	1.8	1.0	3.1
\$100 under \$200	12.4	3.6	2.8	1.8	1.2	3.1
\$200 under \$300	10.6	2.2	2.1	1.7	1.2	3.4
		29.9% with decrease		*	22.7% with increase	
\$300 under \$400	9.5	1.7	1.7	1.4	1.2	3.6
\$400 or more	54.2	4.3	4.5	4.4	4.0	36.9

* Remaining in same size class: 47.4 percent.
NOTE: Detail may not add to total because of rounding.
Source: see [6].

Table 11.--Comparison of Proportions of Returns with Increased Amounts or Decreased Amounts of Balance Due or Refund, All Returns, 1978-1979 and 1977-78

Payment status	Tax Years 1978-79			Tax Years 1977-78		
	Percent of filers with		Ratio, (1 ÷ 2)	Percent of filers with		Ratio, (4 ÷ 5)
	Increased Amounts	Decreased Amounts		Increased Amounts	Decreased Amounts	
	(1)	(2)	(3)	(4)	(5)	(6)
Refund filers, both years	36.6	15.0	2.44	24.3	26.7	0.91
Balance due filers, both years	22.7	29.9	0.76	38.9	17.8	2.19

Source: see [6].

The Atlanta District mirrored the national experience, and no substantial difference was apparent between 1981 and 1982.

From the Tax Years 1978-1979 data, an analysis of stop-filing by payment status showed that the likelihood of stop-filers was greatest when the size of refund (for the previous year) was smallest, and that this likelihood decreased as the refund became larger (see Table 13).

The story was quite different, however, among the balance due filers: About 4 percent of 1978 balance due taxpayers became stop-filers, and this proportion was quite insensitive to the size of the amount due, in contrast to the situation for refund filers. Comparable data for 1977 and 1978 yielded the same results. It is quite likely, therefore, that the decline of stop-filer rates with increasing AGI is mainly confined to the refund filers, and not to those filing with balance due.

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Table 12.--Stop-Filer Rates by Type of Return and Adjusted Gross Income Class, U.S. and Atlanta District, Filing Years 1982 and 1983

Return group (type of return, adjusted gross income class)	Percent of groups filing			
	In 1981 absent in 1982		In 1982 absent in 1983	
	U.S.	Atlanta District	U.S.	Atlanta District
	(1)	(2)	(3)	(4)
Forms 1040 and 1040A, total	8.2	9.2	9.1	10.0
Forms 1040A, total	13.8	13.6	14.1	14.8
Under \$10,000	17.9	17.5	20.1	19.8
\$10,000 under \$15,000	7.1	6.4	5.2	7.3
\$15,000 under \$50,000	3.7	3.6	4.7	4.2
Forms 1040, total	4.6	5.1	5.8	5.5

Source: see [1].

Table 13.--Stop-Filer Rates for Refund and Balance Due Filers, by Size of Balance Due or Refund, All Returns, Tax Years 1978-1979

Size of refund or balance due, Tax Year 1978	Percent of	
	1978 refund taxpayers not filing for 1979	1978 balance due taxpayers not filing for 1979
\$1 under \$100	16.7	3.2
\$100 under \$200	10.8	4.6
\$200 under \$400	8.9	4.1
\$400 or more	5.1	4.1

Source: see [6].

CONCLUSION

The previous discussion outlines some of the kinds of changes that take place in tax returns as they are filed by taxpayers over the years by individual income taxpayers. By means of a longitudinal or panel approach, the analysis has drawn upon data on year-to-year changes in the characteristics of returns from identical taxpayers, starting with their entrance into the tax administration system [7].

Most "new" taxpayers, or start-filers, are likely to enter the tax system as young, single, with no dependents, and with little additional income beyond wages. Hence, at the outset, they file the simplest return form. Prior to 1983 this was the Form 1040A; in 1983 it was the 1040EZ. With family formation, home ownership and diversification and/or increases in income, taxpayers tend to switch to the more complex Form 1040. Thus, what and how the taxpayer reports is a reflection of the changes

in his (her) social and economic status. Similarly, the individual income tax returns, taken as an aggregate, reflect the society and economy at large.

Whether to prepare the 1040A return oneself or to use a paid preparer is a decision that is strongly affected by what the taxpayer did the previous year and his (her) level of income. The indications were that 1040A filers, once they start to file and prepare their own returns, generally continue to prepare them over the years, despite increases in income. However, when a paid preparer is used, that decision is quite likely to be reversed in the following year if the taxpayer's income is low. The higher the income level, the greater is the likelihood that the paid preparer will be used again.

A significant concern to the tax system is the payment status of a taxpayer at the time

his (her) return is filed, namely, whether a payment is due or tax was overpaid. The Internal Revenue Service has explored ways by which taxpayers could bring their prepayments (mainly by withholding) in line with their self-assessed tax liabilities. It is one kind of problem to attempt to reduce payment delinquency by facilitating increased withholding. But it is a different kind of problem to try to deal with the 75 percent of all returns filed in recent years that have claimed a refund.

The present analysis found that about 10 percent of the refund filers in a given year had shifted to a balance due status in the next year. This level held irrespective of the size of the refund. Whether a balance due filer, however, retained the same status in the next year appeared to depend markedly on the size of the amount due with the return. If the amount due was \$400 or more, almost two-thirds of the taxpayers continued to file with a balance due. As the amount due decreased below \$400, the proportion with balance due in the next year progressively declined.

The final stage in the life cycle of a return is its disappearance from the filing population. Three major reasons account for these (legitimate) "stop-filer" returns: death of the taxpayer; the taxpayer no longer required to file a return; and the taxpayer no longer filing a non-joint (generally single) return, but now filing as a partner on a joint return. While the present data do not permit a precise accounting, some generalizations are possible.

About 5 percent of Atlanta 1040A returns were non-joint returns that shifted to joint filing status. This component thus may have accounted for about one-third of the 15 percent stop-filer rate. For the remaining two-thirds of the stop-filers, a chief factor probably was declining income. This would appear to be particularly likely in view of the greater than average stop-filer rates observed among 1040A filers with incomes below \$10,000, and especially below \$5,000. (These observations are confirmed by analyses of nonbusiness 1040 filers and of farm and nonfarm business filers.) With income declining below the filing requirements, many taxpayers no longer file returns, and attainment of age 65 emphasizes the process. Nevertheless, there still remain many million taxpayers who continue to file returns and to contend with one member of a well-known pair, taxes, till they meet the other member, death.

NOTES AND REFERENCES

[1] The data source for start-filers and stop-filers is the annual 100 percent tabulation from the Individual Master File (Series D:R:S-44) of Forms 1040, 1040A, and 1040EZ. Strictly defined, "start-filers" are those

for whom no indication is found of filing an individual income tax return, amended return, or estimated tax in either of the two previous reporting periods, as determined by matching on primary Social Security Numbers (SSN's). The "reporting period" for start-filers--and "stop-filers"--runs from July 1 to June 30 of the following year. For purposes of simplicity--and because it does little violence to the facts--the reporting period is referred to as the filing year that begins on January 1 of the middle of the period. Thus the term, "returns filed during 1981", refers to the reporting period July 1, 1980, to June 30, 1981.

[2] The data source: systematic sample of 20,700 Forms 1040A for Tax Year 1981, stratified by Tax Year 1980 filing status, filed by June 1982 from Atlanta District. This source provided the data base for the sections:

- Switching from Form 1040A to 1040,
- Consistency in Use of Paid Preparers (1040A data),
- Adjusted Gross Income Shifts, and
- Filing Status Shifts

[3] U.S. Department of the Treasury, Internal Revenue Service, *Taxpayer Usage Study, Forms 1040 and 1040A*, Document 6528, Statistics of Income Division, October 1982 and September 1983.

[4] For the study of 1982 Form 1040 returns itemizing a deduction for a paid preparer's fee, the data base was the Taxpayer Usage Sample. For a description of the sample, see Riley, Dorothea, "Individual Income Tax Returns: Selected Characteristics from the 1982 Taxpayer Usage Study," *Statistics of Income Bulletin*, Volume 3, Number 1, pp. 46-47.

[5] U.S. National Center for Health Statistics, *Vital Statistics for the United States*, annual.

[6] For tax payment status and size of refund/balance due, the data source was a systematic sample (selected at 0.52 percent rate) of over 500,000 Form 1040 and 1040A returns on the Individual Master File as of November 1980.

All data involving amount of balance due or refund are based on the records of taxpayers who had some income tax withheld for 1978 and 1979 and who made no estimated tax payments. If the returns thus excluded, had been included, the general patterns of results presented here would not have been materially affected. In Table 7, however, the "excluded" taxpayers have been included

and distributed among the categories shown, according to ratios derived from Statistics of Income data and independent estimates by the author.

- [7] The longitudinal study approach has been found to contribute significantly to the understanding of tax policy and tax administration issues. Some examples in the individual income tax area are:

Steuerle, Eugene and McHugh, Richard, "Income Averaging: Evidence of Benefits and Utilization," OTA Paper Number 24, Office of Tax Analysis, U.S. Department of the Treasury, August 1977.

Auten, Gerald E., "Estimation of the Effects of Capital Gains Taxes on the Realization of Capital Gains," Office of Tax Analysis, U.S. Department of the Treasury, March 1982, unpublished.

In the corporate area, however, continuity of identity over time is an acute problem owing to mergers, acquisitions, change of corporate name, and the like. For an example see Berry, Charles, "Corporate Concentration in Industry, 1948-1962," Brookings Institution, 1970, unpublished.