Evidence on Pre-Filled Form 1040s

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PRE-FILLED INDIVIDUAL TAX RETURNS

Automatic Tax Filing: Simulating a Pre-Populated Form 1040 by
Goodman, Lim, Sacerdote, and Whitten

https://www.nber.org/papers/w30008:

- Using existing information reported to the IRS, how close
  could pre-filled returns come to taxpayer filed returns?
- Undertake two exercises
  1. Examine 2019 filed returns to identify taxpayers with "failure
     situations" meaning something about the return suggests that
     IRS would not correctly pre-populate it
  2. Uses information returns from 2019 and taxpayers' 2018
     dependent and filing status to calculate tax liability

KEY RESULTS

- Overall between 42% and 48% of returns match
- While 52% have some failure situation, 30% have only one
    - 8% only have Schedule C and Form 1099-MISC NEC mismatch
    - 5% report wages that do not match W-2s
    - 4% have itemized deductions
- Dependent and filing status problems are meaningful; success rates improve by 5 percentage points if IRS solicited this information perfectly prior to pre-filling returns

CHARACTERISTICS OF THOSE SUCCESSFUL

- Had lower average and median income and tax liability
- Were less likely to use a paid preparer although 43% of them did use a paid preparer
- Were younger
- Were less likely to have dependents and less likely to be married

SUBGROUP ANALYSIS

Examine success among subsets of taxpayers:

- Narrowest subset (single, without dependents, only wage income, limited credits/deductions, income under $100K) covers 20% taxpayers with success rates of 80%

- Over half of failures arose from reported wage income not matching W-2s (61%)

- Based on NRP audit data, half of these mismatches post-audit would be the W-2 amounts

NON-FILERS

- Pre-populated returns may prompt filing possibly increasing compliance, credit take-up, and receipt of refunds
- Majority do not appear to have an obligation to file
  - 16% estimated to have a refund
  - 8% eligible for a childless EITC; <1% may be eligible for a child EITC or CTC

KEY CONSIDERATIONS FOR IMPLEMENTATION

- Uncertainty:
  - Take-up, compliance cost reduction and value for individual taxpayers
  - Behavioral responses that affect revenue and distribution of taxes paid
  - Administrative costs to IRS and third-party reporters
- Wide range of scenarios to calculate marginal value of public funds
  - Some suggest this is a highly beneficial program and others suggest benefits would not be worth the costs
- As with any program, design and implementation will determine success