

Using Technology to Simplify Filing Joseph Bankman

Final Summation

Compliance costs of individual tax filing have been estimated at roughly 10 percent of the taxes raised. This figure does not include hard to monetize costs of anxiety, aggravation, and the like. In recent years, efforts to reduce filing costs through technology have gotten increasing attention from tax policymakers. This is in part due to the changes technology has wrought in other facets of daily life, and in part due to the realization that our filing requirements are far more onerous than those in virtually any other nation. We are one of the few nations, for example, to impose a filing burden on the ordinary worker. Technology has the potential to reduce filing burdens on the upper end of the income spectrum even more, to the extent that we weight taxpayer time by an implicit wage rate and measure simplification in dollars. However, the government's ability to reduce filing burdens for the poor or the wealthy depends on its ability to make timely use of third-party reported data.

The idea of using data retrieval to simplify filing is not new. Some limited number of data-retrieved items of income and deduction are available, for a price, through programs such as Intuit's TurboTax®. Data retrieval is not an all-or-nothing proposal. The problems arise when the discussion turns to having third-party wage data to the taxpayer in a timely fashion, and in obtaining data on such tax-relevant activities such as sales of securities and data that is not in the system or is submitted late. However, having said that, for most very high income taxpayers, virtually all of the tax return consists of data already subject to third-party reporting. Automatic retrieval of that data and placement of that data onto tax software should greatly reduce tax preparation costs even for those taxpayers who have two or more line items that are not tracked by third parties.

The success of the California ReadyReturn project, which used technology to make pro-forma returns available to a sampling of 4 million Californians with simple returns, has garnered attention even in the popular media. I have been associated with the ReadyReturn program and believe that program could and should be adopted widely. However, I believe that by making it possible for taxpayers to access and download information return data now held by the government, technology could also reduce the tax burden of those with complex returns. The reduction in burden might be greatest for taxpayers in this latter group. The two forms of technologically-induced simplification are both dependent upon the government's ability to make timely use of third-party reported data; and upon the ability of the government to provide the taxpayer with access to that data.

The enthusiastic user response to the California ReadyReturn pilot shows the promise of using third-party data to calculate estimated tax liability for taxpayers with simple returns. The social gains from using third-party data to populate more complicated returns should be even greater. Implementation of either proposal, however, will require changes in reporting deadlines, additional resources devoted to verifying, storing and transmitting data, solution to numerous smaller problems that are sure to arise – and the support of the legislature and executive branch.