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IRS-Prepared Tax Returns: A Theory That Doesn't Work in Practice

by James Edward Maule

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James Edward Maule argues against having the IRS calculate returns, citing the administrative costs but focusing on how return preparation forces individual taxpayers to be accountable for the amount they owe the government.

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To the Editor:

As is the case around every tax policy debate, policymakers work to concoct new ways to try and "simplify" or make the filing process "more efficient." Accordingly, the idea that the IRS itself, rather than taxpayers, should prepare individuals' returns becomes a much discussed concept in tax policy circles. Despite the program's failure, twice, in California, proponents claim that it will save millions of taxpayers the time and mental effort they expend once a year to fill out their tax returns.

In this proposed system, each year the IRS would calculate what every taxpayer owes and send them a bill for that amount. Taxpayers would have the option to accept the IRS's calculation and pay the bill, or file taxes on their own.

Despite the advantages cited by advocates, there are so many disadvantages that this sort of approach will never work if put into action. Even though there are some benefits to the plan, the drawbacks are so pervasive that they

overwhelmingly outweigh whatever advantages exist.

The benefit of citizens doing their own taxes is that it forces them to become familiar with the laws that determine how much they pay. By removing taxpayers from the process and letting the IRS prepare individuals' returns, the value of the self-compliance principle of the federal income tax system would be eroded.

There is a very good reason that taxpayers have the obligation to step forward, file a return, report their income, and compute tax liability. By taking ownership of their civic duty to pay taxes, citizens participate in the process of government. By focusing on the details of the return, they become aware of what decisions their members of Congress have made as they relate to the tax law. Letting the IRS become the tax preparer as well as the collector would effectively disengage a large number of people from the important discussion of how our tax code currently works and should work.

An additional problem is that under the current system, information does not reach the IRS in time to send pre-filled or tentative returns to taxpayers in time for them to review the calculations and then file by April 15. Some suggest that to resolve this, the deadlines for filing information returns with the IRS be advanced to earlier in the year. But doing so would merely shift the burden from the taxpayer to businesses. It is not feasible for employers, corporate payroll departments, and bookkeepers at small businesses to shut down for several weeks each year in order to process this information.

Requiring the IRS to analyze this data by itself would impose significant demands on its resources. Assuming such a system became operational, what happens if a taxpayer finds a discrepancy between what the IRS puts on the return and what the taxpayer knows is correct? Would the IRS have the resources to change the inaccurate data on information returns imbedded in the system? Under current procedures, the IRS sends notices if there are mismatches with its information, and yet far too many of these automated notices are already incorrect.

Perhaps the most important problem created is that the plan removes third-party protection from taxpayer-revenue department relationships. An inherent conflict of interest is created when the IRS begins preparing returns. The IRS, as the auditor, is required to maximize the government's tax revenue; however, the IRS also needs to act as the taxpayer's accountant and file in his best interest (that is, reducing his tax burden). Surely it cannot do both.

The nation is not ready for such a radical overhaul of our tax responsibilities. Nor will it ever be, until and unless the federal income tax law is overhauled. This concept rests on the idea of government-computed tax bills, which work for

taxes such as the real property tax or the sales tax. Those taxes, though not simple by any stretch of the imagination, are child's play compared to the federal income tax.

The idea of the IRS preparing individuals' returns is a classic example of a theory that cannot survive in a practical world. Like most theories, it deserved an experiment. It had that chance, in California, and it failed, with only a tiny portion of the eligible population deciding to participate.

Making taxpayers' lives easier is a matter of simplifying the tax law, not enabling the complexities by turning tax preparation over to the IRS. Fooling around with the nation's primary source of revenue in this manner is unwise, unwarranted, and dangerous.

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