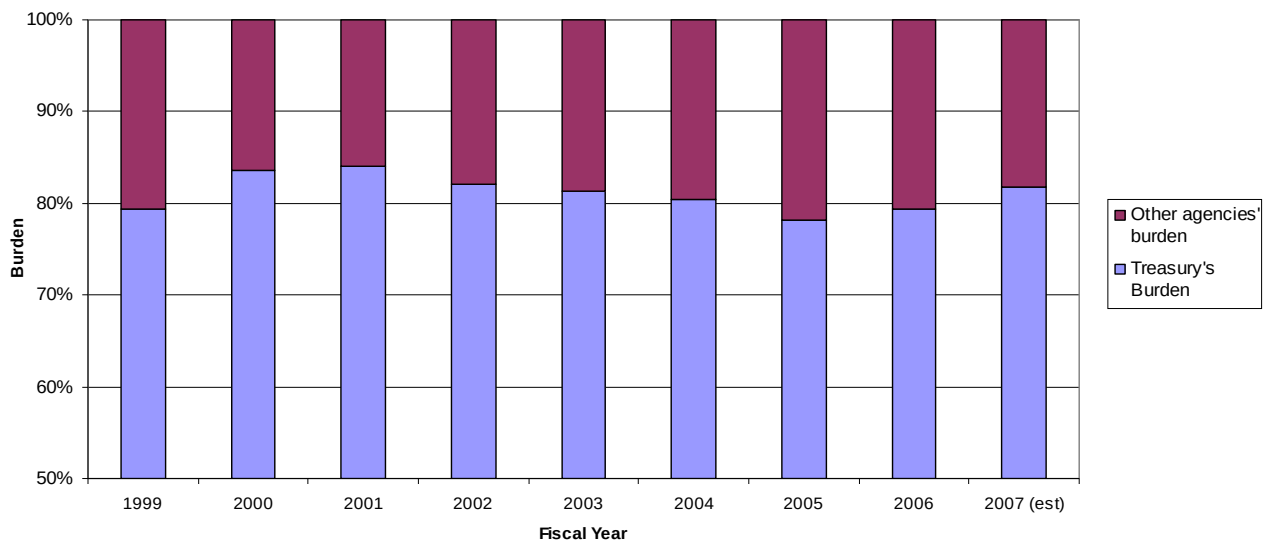


Chapter 3. Recent Developments in Taxpayer Burden

A continuous theme in OMB's annual reports to Congress on the Paperwork Reduction Act has been the predominant role played by the Internal Revenue Service (IRS) in the Federal government's information collection activities. Due to the nature of the Federal income tax system, IRS affects the lives and businesses of Americans like no other agency. Accordingly, in FY 2006 IRS again accounted for a large share (79 percent) of the Federal government's reporting burden on the public. As we report in this year's ICB, significant changes in IRS burden have affected the government totals.

As shown in Figure 6, Treasury's share of all PRA burden (made up almost entirely of IRS burden hours) has been close to 80 percent since FY 1999. IRS experienced a slight downward trend in burden over the past four fiscal years. This trend stopped in FY 2006 with an increase in IRS burden that is expected to continue in FY 2007. While IRS administers a large number of information collections that are subject to the PRA, three collections in particular explain much of the current developments in taxpayer burden. This chapter discusses these three collections—a new form introduced in FY 2006, a [pair of related forms](#) that will be used only once by taxpayers in FY 2007, and the individual tax return, which was the focus of significant burden estimation and accounting changes in FY 2006.

Figure 1. Treasury Burden as a Percentage of All Burden, FY 1999 – FY 2007



Form 8903: Domestic Production Activities Deduction

The American Jobs Creation Act of 2004 created the Domestic Production Activities Deduction, a tax benefit for certain domestic production activities. The new deduction provides a tax savings against income attributable to domestic production activities, and is available for tax years beginning after December 31, 2004.

Qualified production activities include manufacturing, producing, growing, and the construction and substantial renovation of real property. The production of certain films is also a qualifying activity as are certain engineering or architectural services.

To help taxpayers calculate this deduction, IRS created Form 8903. Due to the complexity of the form and length of the instructions, IRS estimates that the average time to complete it for non-individual taxpayers is almost 32 hours. With ~~over 17 million~~ approximately 300 thousand non-individual taxpayers expected to prepare and file Form 8903, IRS estimates that the total burden of the new form is ~~545.48.7~~ million hours for this population.

Forms 8913 and 1040-EZ-T: The Telephone Excise Tax Refund

The telephone tax refund is a one-time payment available to taxpayers filing a 2006 Federal income tax return. It is intended to refund previously collected Federal excise taxes on long-distance or bundled service. It is available to anyone who paid such taxes on landline, wireless, or Voice over Internet Protocol (VoIP) service. IRS is refunding the taxes paid on long-distance or bundled service billed to taxpayers for the period after Feb. 28, 2003, and before Aug. 1, 2006.

To understand the reasons behind this tax refund and the creation of Forms 8913 and 1040-EZ-T, one must begin with a three percent excise tax that was instituted in 1898 to finance the Spanish-American war, and that had been legally collected for many years. Due to recent changes in the telecommunications industry, part (but not all) of this tax was no longer applicable. The applicability of the tax became the subject of debate, and was ultimately resolved by the courts.

Until the matter was resolved by the courts, the IRS continued (appropriately) to collect the taxes, and would have continued collecting them if the IRS had ultimately prevailed in the court cases. Once the issue had been resolved by the courts, however, IRS needed to stop collecting the excise tax and make refunds of already-paid taxes (back to the date of the initial court cases, which was over three years ago).

While the availability of this refund was good news for taxpayers, the burden of calculating and claiming the refund is-can be significant. To assist taxpayers eligible for this one-time credit, IRS created Form 8913, Credit for Federal Telephone Excise Tax

Paid. IRS assumes that ~~nearly 2.438~~ million non-individual filers will file Form 8913, with an average burden of over 28 hours per filer. The large average burden is due to the complexity of calculating the credit or refund. Filers, for example, must have phone records for each month of the refund period for which a credit or refund is requested, and they must calculate the interest due on the refund. To reduce this burden, IRS developed a Business and Nonprofit Estimation Methodology that requires only six consecutive months of phone records. Even with this methodology available to many taxpayers, the aggregate burden for non-individual taxpayers for this one-time collection is ~~almost 1.1 billion~~ 67.6 million hours.

Burden associated with the telephone excise tax incurred by individuals is covered under control number 1545-0074, with the exception of certain individuals only filing a return for purposes of claiming the credit. To meet the needs of these taxpayers, whom would otherwise typically not need to file a return, IRS created Form 1040-EZ-T. This form is only used for claiming the telephone excise tax refund and is covered under control # XXXX-XXXX. Approximately one million individuals are expected to use this form with an average burden of almost two and a half hours. The aggregate burden for this one time collection, over 2.4 million hours, compares favorably with the higher burden that would have been required had these individuals been required to file a full income tax return in order to claim this credit.

Individual Tax Return Burden

As explained in last year's ICB, in FY 2006 IRS updated its burden estimation methodology for calculating the PRA burden of individual taxpayers. Under IRS' new Individual Taxpayer Burden Model (ITBM), the aggregate burden for all individual forms and schedules was estimated to be three billion hours. This total burden figure reflected the burden associated with Forms 1040, 1040A, 1040EZ, 1040NR, or 1040NR-EZ, and their associated schedules and other tax forms that can be attached to these forms. Under the new methodology, *all* forms used by individual income taxpayers are assigned a single control number: 1545-0074.

The new three billion hour burden estimate was 1.44 billion hours higher than was previously assigned to Control Number 1545-0074. Much of this increase was due to double counting of individual burden that had previously been accounted for in separate information collections. Previously, each individual tax form was assigned a separate control number, and each had a separate burden estimate. As noted above, the previously separate burden estimates from other control numbers are now included under Control Number 1545-0074. As a result, IRS has had to (1) discontinue OMB's approval of individual tax forms now covered under 1545-0074 and (2) adjust the burden of "dual-use" forms (i.e., those filed by both individual and non-individual taxpayers) to reflect the fact that the portion of burden imposed on individual taxpayers is now accounted for under 1545-0074.

In last year's ICB, OMB reported that approximately 1.19 billion hours of the 1.44 billion hour increase was due to double-counting. Since then, IRS has reviewed the burden accounting changes and found that 93 million of the 1.19 billion hours was previously accounted for under Control Number 1545-0074, and should not have been considered double counting. With this change, the total adjustment increase in individual taxpayer burden in FY 2006 was approximately 343 million hours, instead of 250 million hours. This adjustment increase, however, reflects a new *estimate of burden*, not an actual *change in burden* imposed on taxpayers. For FY 2007, IRS estimates that the total burden imposed on individual taxpayers is 3.31 billion hours.

Annual burden changes estimated by ITBM reflect the three major PRA categories of change: statutory changes, IRS discretionary changes, and adjustments. Statutory changes are reflected in the model by changing tax parameters (such as the amount of the AMT exemption for married taxpayers filing jointly) and by making adjustments to the model code and input data to reflect new provisions. IRS discretionary changes are reflected in the model by changing administrative parameters (such as the documentation requirements for claiming a deduction for certain charitable contributions) and by editing the compliance burden attributes associated with the forms, instructions, and publications to reflect any changes. Adjustments made using ITBM fall into three major subcategories: (1) a change in the number of filers due to population or economic changes; (2) changes in the Consumer Price Index and other inflation and wage growth adjustment factors; and (3) changes from technical adjustments made during the process of inputting updated data into the model. Each year, an updated input data file is incorporated into the model as the new data become available. The combination of these three components determines the annual adjustment in reported burden.