

Projections of Returns to be Filed in Fiscal Years 1987-1994

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The number of primary tax returns and supplemental documents processed by the Internal Revenue Service (IRS) are projected to reach the 191.8 million mark in Fiscal Year (FY) 1987. This represents a 2.5 percent increase over estimated 1986 filings [1]. Current projections, following the trend established by last year's projections, continue to post declines in the rate of growth of total filings. After an estimated 5.0 percent increase in 1986, the year-to-year rate of growth in total returns to be processed by IRS is projected to progressively decline from 2.6 percent in 1988 to 1.9 percent in 1994. The level of increases, however, remain relatively constant, ranging between 3 and 5 million each year. None of these projections take into account the effects of the major tax reform legislation enacted in the fall of 1986.

Employment is an important determinant for estimating several different types of tax returns. Because of the high correlation between employed individuals and those filing individual returns, employment is especially important in projecting individual returns.

The 1986 employment estimates show the rate of growth decelerating throughout the 1987 to 1994 period (this trend was initially identified in 1984) [2]. Total employment is estimated to reach 104.6 million in 1986, a 2.3 percent increase over the 1985 actual, but the rate of employment growth is expected to decrease from 2.6 percent in 1987 to 0.8 percent in 1994. The decline in the rate of growth of employment is expected to be reflected in individual income tax return filings, so that a decline in the growth of these filings is anticipated.

Returns projections are developed by (1) using econometric models that relate the number of returns filed to selected independent economic and demographic variables and (2) extrapolating observed time trends. The forecasting models are initially formulated on a calendar year basis. Fiscal year projections are derived from calendar year statistics by various methods, including seasonal adjustment [3].

Except for the 1986 tax law revision, these fiscal year projections take into consideration the effects of past legislative, regulatory, and administrative changes on the filings of the various primary tax returns and supplemental documents. They do not quantify legislative or administrative changes which are under review.

TOTAL PROJECTED RETURNS AND DOCUMENTS

The total number of projected returns, as shown in Table 1, consists of (1) primary returns and (2) selected supplemental documents that are not a part of the IRS Master File system. Because collectively they make up the bulk of total filings, primary returns have traditionally generated most of the IRS document processing workload, and their relationship to total filings is expected to remain consistent throughout the 1987-1994 projection period.

Of the approximately 178.2 million tax forms filed in 1985, 170 million were designated as primary returns. Major elements of the primary returns category include: Forms 1040, 1040A and 1040EZ--U.S. Individual Income Tax Returns; Form 1040ES--Individual Declaration of Estimated Tax; Form 1120--U.S. Corporation Income Tax Return; and, Form 941--Employer's Quarterly Federal Tax Return.

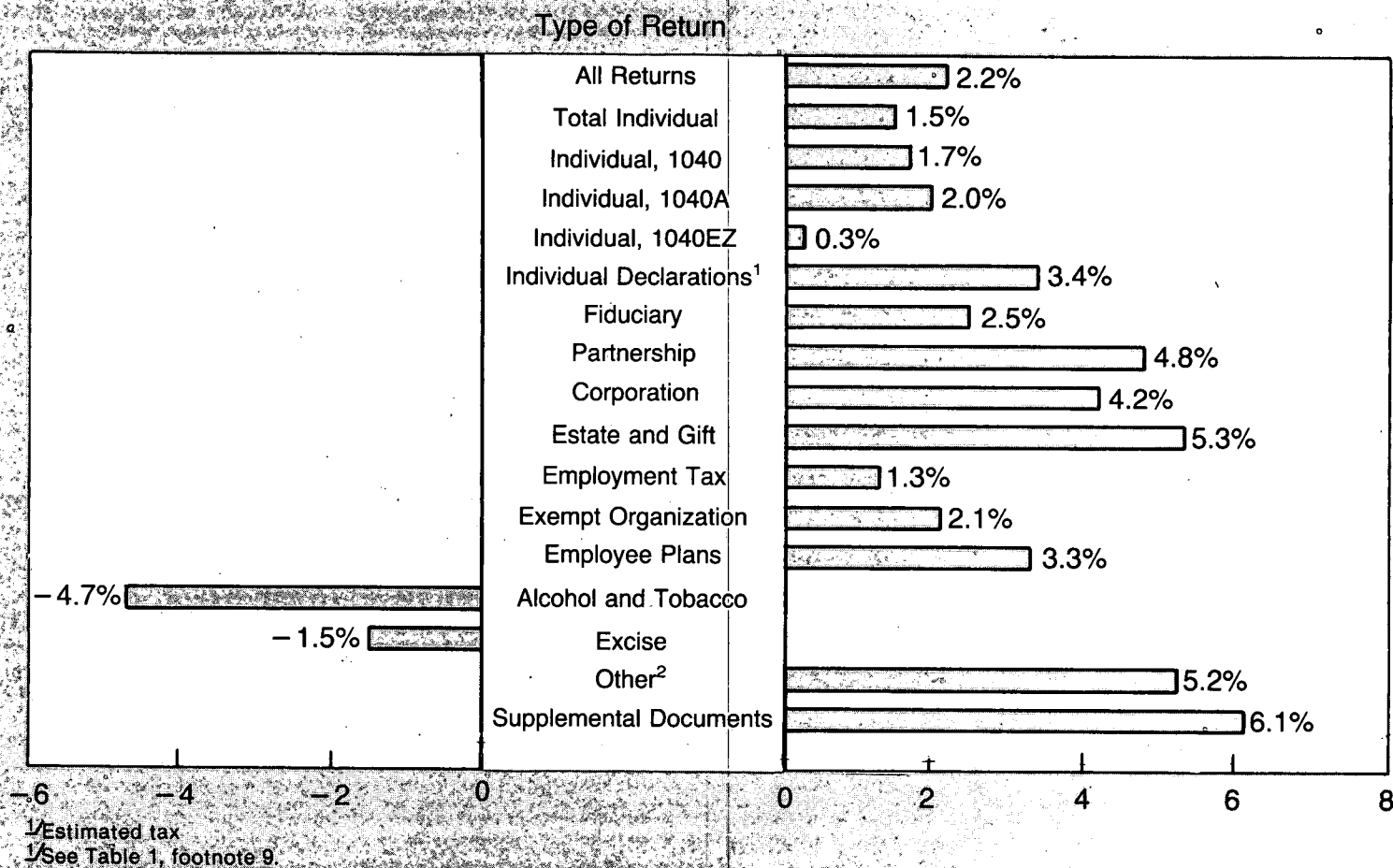
Information documents processed by the Service, such as interest and dividend statements, and Form W-2, Wage and Tax Statement, are not included in the returns counted or projected in this article and, consequently, have been excluded from all of the previously discussed return categories. These various information documents, while large in volume (773.4 million were processed in 1985 and 823.9 million were expected in 1986), are mostly filed on magnetic media.

Figure A presents the average annual percentage changes for the major return types during the 1987-1994 projection period. Total returns increase by an average of 2.2 percent per year between 1987 and 1994. Projections

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Figure A.

Projected Average Annual Percentage Change in the Number of Returns Processed, Fiscal Years 1987-1994



for 1987 and the associated rates of change from 1986 to 1987 are presented in Figure B.

Figure B.--Projections for Fiscal Year 1987

Type of return	1987 Projection (thousands)	Increase or decrease from 1986
Total returns.....	191,795	+ 2.5%
Primary returns.....	181,421	+ 2.3
Individual.....	105,520	+ 2.7
Individual Declaration of Estimated Tax.....	36,413	+ 2.2
Fiduciary.....	2,212	+ 2.6
Partnership.....	1,866	+ 3.4
Corporation.....	3,668	+ 3.5
Estate and Gift.....	161	- 4.8
Employment Tax.....	28,306	+ 1.6
Exempt Organization...	487	+ 3.8
Employee Plans.....	1,404	+11.3
Alcohol and Tobacco ^{1/}	405	-35.6
Excise ^{2/}	954	-23.0
Other.....	20	+11.1
Supplemental Documents.	10,374	+ 6.5

^{1/}An estimated 200,000 additional Form 11 returns were expected in 1986 because of a one-time alcohol floor stock tax.

^{2/}The 1985 Form 2290 returns filed were not processed until 1986. This caused the decline in projected 1987 filings.

Individual Income Tax Returns

The rate of growth of individual filings is expected to decline from the record high increase in 1985 [4]. Deceleration in growth throughout the forecast period is attributable to revised employment projections which show declining growth through the mid-1990's. Current projections call for modest annual increases that average 1.5 percent per year.

Over the projection interval, the filing of Forms 1040 and 1040A are expected to increase slightly as a proportion of total individual filings, while Forms 1040EZ decrease. Growth in 1040EZ filings is expected to decline as the 18-24 year old workforce declines (18-24 year olds are the primary users of 1040EZ's) [5].

Figure C compares the number of Forms 1040, 1040A, 1040EZ and total individual returns expected to be filed in 1987 and 1994, respectively.

Individual Declarations of Estimated Tax

Projections of Individual Declarations of Estimated Tax (Form 1040-ES "vouchers") are

developed from a regression of vouchers on the number of their taxpayer counterparts. Progressively higher taxpayer projections and the same "voucher-to-taxpayer" ratio forecasts result in progressively increasing growth in the number of Forms 1040ES. Current projections call for increases ranging from 2.2 percent in 1987, 3.5 percent in 1990, to 4.0 percent in 1994.

Fiduciary

Estimates of fiduciary income tax returns (Forms 1041) were prepared by regressing Form 1041 returns filed on current dollar personal income (a proxy for wealth) and the U.S. population. Fiduciary returns are projected to post small gains throughout the forecast horizon, ranging from 2.6 percent in 1987 to 2.3 in 1994.

Partnership

Partnership (Form 1065) return projections are closely allied to movements in current dollar personal income. This year's forecast calls for growth averaging 4.8 percent per year through 1994.

Corporation

A variety of forms, including U.S. Corporation Income Tax Return (Form 1120) and U.S. Income Tax Return for an S Corporation (Form 1120S), which are the two principal returns, comprise the corporation category. Total corporation filings are projected to show steady growth, with gains averaging 4.2 percent per year from 1987 through 1994.

Estate and Gift Tax

The Economic Recovery Tax Act of 1981 stipulated that the filing threshold for a U.S. Estate Tax Return (Form 706) be gradually increased on an annual basis through 1988. Current projections reflect this rising threshold; the result is a decline in filings through 1988. After the filing threshold stabilizes in 1988, filings are expected to gradually increase throughout the balance of the forecast interval at an annual rate averaging 5.4 percent per year.

Filings of the U.S. Gift Tax Return (Form 709) are expected to grow rapidly and then taper off towards the mid-1990's. Year-to-year growth ranges from 14.4 percent in 1988 to 5.1 percent in 1994.

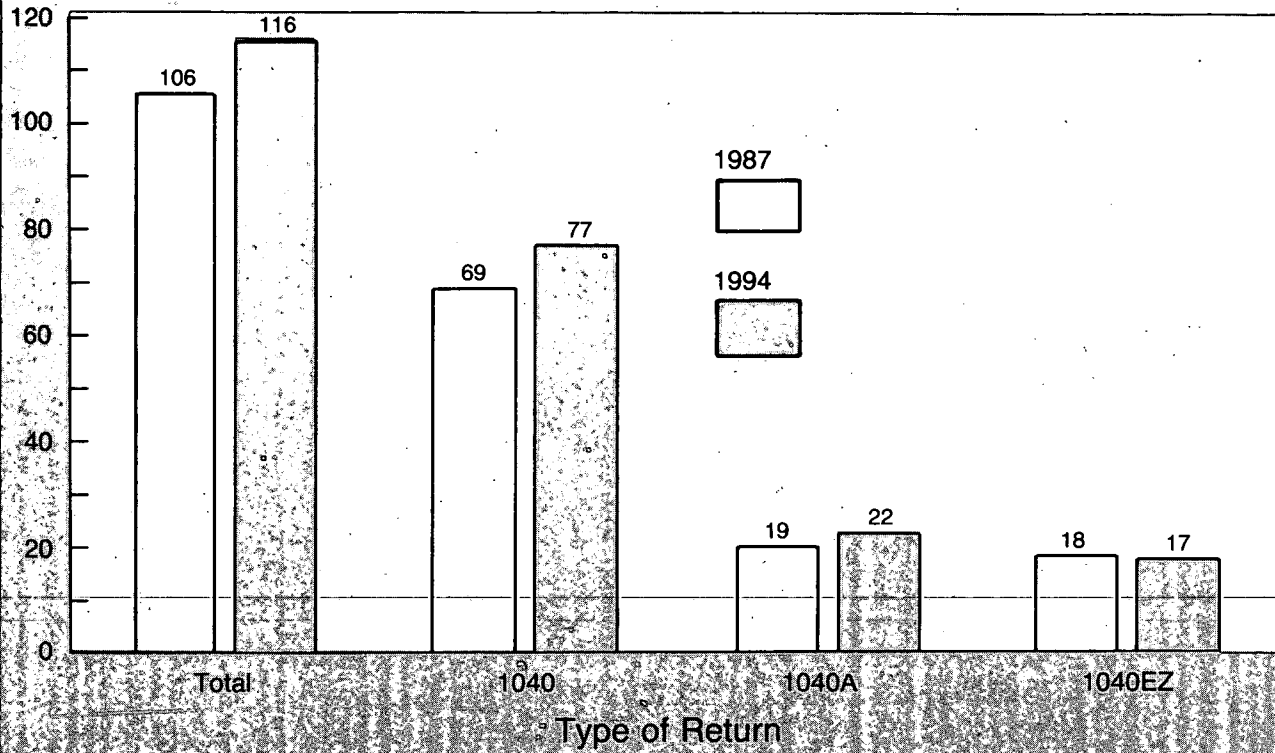
Employment Tax

Employment tax returns consist of employer's annual Federal unemployment tax returns, employer's annual/quarterly Federal tax return, and employer's annual railroad retirement tax returns. Projections for the forecast period

Figure C.

Individual Income Tax Returns by Type, Fiscal Years 1987 and 1994

Million returns



1987-1994 show small year-to-year increases that average 1.3 percent.

Tax-Exempt Organizations

A host of returns of tax-exempt entities, including those for farmers' cooperative associations, private foundations, and "other" exempt organizations, comprise this category of returns. The magnitude of this return category is dictated by changes in the "other" exempts, i.e., Form 990, Return of Organization Exempt From Income Tax, which accounts for approximately 80 percent of exempt organization filings. Total exempt organization returns projections show a declining growth throughout the forecast interval, with increases ranging from 3.8 percent in 1987 to 1.7 percent in 1994.

Employee Plans

Projections of employee plan returns (Forms 5500, 5500C, and 5500R) have been adjusted to

include owner-employee plan participants that the Tax Equity and Fiscal Responsibility Act of 1982 will add to the filing population. It is anticipated that the Act will increase the filing population by over 500,000 returns, thus increasing 1986 filings by over 95 percent. In subsequent years, year-to-year advances will resume a more normal growth path, with growth averaging 3.3 percent per year from 1987 through 1994.

Alcohol and Tobacco

Forms 11 (Special Tax Return and Application for Registry) and 5000.24 (Consolidated Excise Tax Return Form) comprise the alcohol and tobacco returns category. Total filings are expected to post sharp declines in 1987 as a result of a one-time floor tax imposed in 1986, which increased Form 11 filings by an estimated 200,000. After 1987, total filings are expected to post declines ranging from 7.1 percent in 1988 to 0.8 percent in 1994.

Excise

Total excise tax returns are the sum of the following four categories of returns: (1) Form 11C (Special Tax Return and Application for Registry-Wagering); (2) Form 720 (Quarterly Federal Excise Tax Return); (3) Form 730 (Tax on Wagering); and (4) Form 2290 (Heavy Vehicle Use Tax Return). Processing of Form 2290 returns filed in 1985 were postponed until 1986. That accounts for the apparent jump in filings between 1985 and 1986. After 1986, total filings are expected to show only marginal growth, with annual increases ranging from 0.2 percent in 1988 to 1.1 percent in 1994.

Supplemental Documents

Supplemental documents are composed of amended returns and requests for filing extensions from both individuals and corporations. The current forecast calls for increases ranging from 6.5 percent in 1987 to 4.8 percent in 1994.

DATA SOURCES AND LIMITATIONS

The number of returns filed (as used in this article) represents returns processed at IRS service centers during a fiscal year [6]. Data for 1986 include actual returns processed through June, with the remainder of the year estimated, in general, on the basis of 1985 filing patterns.

To illustrate the general forecasting process, projections for the combined total of Forms 1040, 1040A and 1040EZ returns were developed based on a multiple regression relating total 1040 returns to total employment; an interaction variable involving both total employment and employed married women with husbands present (used as a proxy for potential joint filers); pension beneficiaries and annuitants; and a qualitative "dummy" variable which accounts for the effects of the Tax Reduction and Simplification Act of 1977 [7]. The historical base period for this regression was 1949-1986, with 1986 estimated on January-June processed returns and 1985 filing patterns.

Return projections were primarily formulated on a calendar year basis and subsequently

converted to fiscal year projections by the Census Bureau's XII-Q Seasonal Adjustment Program by applying resultant seasonal factors to calendar year projections [8].

NOTES AND REFERENCES

- [1] All statistics are cited on a fiscal year basis, unless otherwise noted. Actual counts for all of Fiscal Year 1986 were incomplete at the time this article was written (see the Data Sources and Limitations section). For complete counts, see U. S. Department of the Treasury, Internal Revenue Service, 1986 Annual Report, Commissioner and Chief Counsel, Internal Revenue Service (in preparation). As defined in Table 1, primary tax returns are equal to total returns minus supplemental documents.
- [2] Employment projections were obtained from Data Resources, Inc. (DRI), in June 1986.
- [3] For details of these methods, see U.S. Department of the Treasury, Internal Revenue Service, "Number of Returns to be Filed," Fiscal Year Projection series, Document 6292 (Rev. 8-86).
- [4] See Franklin, Corman G., "Projections of Returns to be Filed in Fiscal Year 1986-1993," Statistics of Income Bulletin, Fall 1985, p.61.
- [5] See Musselman, Bryan and Grayson, Paul, "Individual Income Tax Returns, 1983: A Demographic Snapshot," Statistics of Income Bulletin, Summer 1986, pp. 57-58.
- [6] U.S. Department of the Treasury, Internal Revenue Service, 1985 Annual Report, op. cit.
- [7] Projections of employed married women with husbands present, and pension beneficiaries and annuitants were made by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [8] U.S. Department of Commerce, Bureau of the Census, "The XII-Q Variant of the Census Method II Seasonal Adjustment Program," Technical Paper No. 15 (1967 revision).

Table 1. -- Number of Returns by Type, Fiscal Years 1985 - 1994
 [Numbers are in thousands]

Type of return	Actual				Projected ¹					
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Grand total	178,218	187,136	191,795	196,855	201,505	205,521	209,862	214,535	218,890	223,077
Primary total	170,006	177,397	181,421	185,663	189,513	192,810	196,422	200,332	203,949	207,412
Individual, total	99,426	102,774	105,520	108,064	110,109	111,254	112,461	113,930	115,036	115,900
Form 1040	63,821	67,202	68,560	70,499	72,082	72,915	73,928	75,196	76,065	76,742
Form 1040A	18,752	18,720	19,294	19,660	19,996	20,301	20,765	21,145	21,554	21,913
Form 1040EZ	16,711	16,694	17,513	17,749	17,872	17,878	17,605	17,420	17,244	17,069
Other ²	141	158	153	156	158	160	164	169	173	176
Declaration of Estimated Tax	34,225	35,628	36,413	37,429	38,523	39,889	41,407	43,007	44,701	46,490
Fiduciary ³	2,053	2,156	2,212	2,268	2,329	2,390	2,451	2,507	2,569	2,627
Partnership	1,717	1,804	1,866	1,930	2,012	2,117	2,232	2,354	2,482	2,618
Corporation ⁴	3,303	3,543	3,668	3,811	3,979	4,153	4,364	4,558	4,746	4,932
Estate tax	77	74	55	44	43	45	47	50	53	56
Gift tax	95	100	111	127	142	158	171	184	195	205
Employment tax ⁵	26,824	27,848	28,306	28,705	29,045	29,426	29,849	30,252	30,628	30,998
Exempt organization ⁶	431	469	487	498	508	517	527	536	545	554
Employee plans ⁷	644	1,261	1,404	1,432	1,461	1,492	1,532	1,563	1,592	1,624
Alcohol and tobacco ⁸	397	549	405	378	375	371	369	366	363	360
Excise ⁹	796	1,173	954	956	966	975	987	1,000	1,011	1,022
Other ¹⁰	18	18	20	21	22	23	24	25	27	28
Supplemental documents	8,212	9,739	10,374	11,192	11,991	12,711	13,440	14,204	14,941	15,664
Form 1040X	1,789	1,938	2,037	2,140	2,247	2,341	2,433	2,524	2,611	2,701
Form 4868	4,037	4,881	5,388	5,906	6,419	6,893	7,387	7,909	8,418	8,919
Form 2688	930	1,373	1,304	1,396	1,470	1,515	1,554	1,599	1,636	1,665
Form 1120X	32	36	44	52	60	68	75	83	90	97
Form 1120-ND	---	---	---	1	1	1	1	1	1	1
Form 7004	1,390	1,473	1,564	1,660	1,757	1,854	1,951	2,048	2,145	2,242
Form 1041A	19	20	20	21	21	22	22	23	24	24
Form 1042	16	16	16	16	16	17	17	17	17	17

1 Projections based on counts of returns processed as reported on NO-TX-R-308 as of June, 1986.

2 "Individual, Other" includes Forms 1040NR, 1040PR, 1040SS and 1040C; excludes amended returns.

3 "Fiduciary" excludes Form 1041A.

4 "Corporation" includes Forms 1120, 1120-A, 1120-F, 1120-POL, 1120S, 1120-H, and other special purpose 1120's except as noted in footnote 10 and those included in Supplemental Documents.

5 "Employment Tax" includes Forms 940, 940PR, 941, 941E, 941PR, 941SS, 942, 942PR, 943, 943PR, and CT-1.

6 "Exempt Organization" includes Forms 990, 990PF, 990C, 990-T, 4720, and 5227.

7 "Employee Plans" includes Forms 5500, 5500-C, and 5500-R; and 5500-G and 5500-K in the historical period.

8 "Alcohol and Tobacco" includes Forms 7, 8, 4705, 4706, 4707, and 4708 for 1985; and only Form 11 and alcohol and tobacco excise tax returns after 1985. A one-time alcohol floor tax is included in 1986.

9 "Excise" includes Forms 11C, 720, 730, and 2290.

10 "Other" includes Forms CT-2, 941M, 941NMI, 990BL, and 1120-DISC/FSC.

Note: Detail may not add to total due to rounding.