

Projections of Returns To Be Filed in Fiscal Years 1986-1993

By Corman Franklin*

The number of primary tax returns and supplemental documents processed by the Internal Revenue Service (IRS) is projected to exceed 184 million, reaching 184.9 million in Fiscal Year (FY) 1986. This represents a 2.6 percent increase over the estimated 180.3 million filings in FY 1985 [1]. The 1986 projections signal the initiation of a period of decline in the rate of growth of total filings. After an estimated 4.2 percent increase for 1985, the year-to-year rate of growth in total returns to be processed by IRS is projected to decline progressively to 2.2 percent in 1987 and 2.0 percent in 1993. The level of increases, however, remains relatively constant, between three and four million each year.

These projections capture the effects of any recent legislative, regulatory and administrative changes on the filings of the various primary tax returns and supplemental documents. They do not include the possible effect of legislative or administrative changes which are under review, such as proposals for tax reform legislation.

Individual income tax returns, because they are such a large proportion of total returns (56 percent), dominate the primary tax returns category. Employment is the determining variable in projecting individual tax returns because of the high correlation between employed individuals and those filing individual returns. The 1985 employment estimate used by IRS, obtained from Data Resources, Inc. (DRI), shows the rate of employment growth decelerating throughout the period of 1986 to 1993 [2]. Total employment is assumed to reach 109.6 million in 1985, a 2.3 percent increase over the actual 1984 level. After a momentary growth pause projected for 1987, the rate of growth of employment is expected to decrease from 1.8 percent in 1988 to 1.0 percent in 1993. The decline in the rate of growth of employment is expected to be mirrored in individual income tax return filings, so that a decline in the growth of these filings when compared to last year's projections 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 into the projected interval. 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].

TOTAL PROJECTED RETURNS AND DOCUMENTS

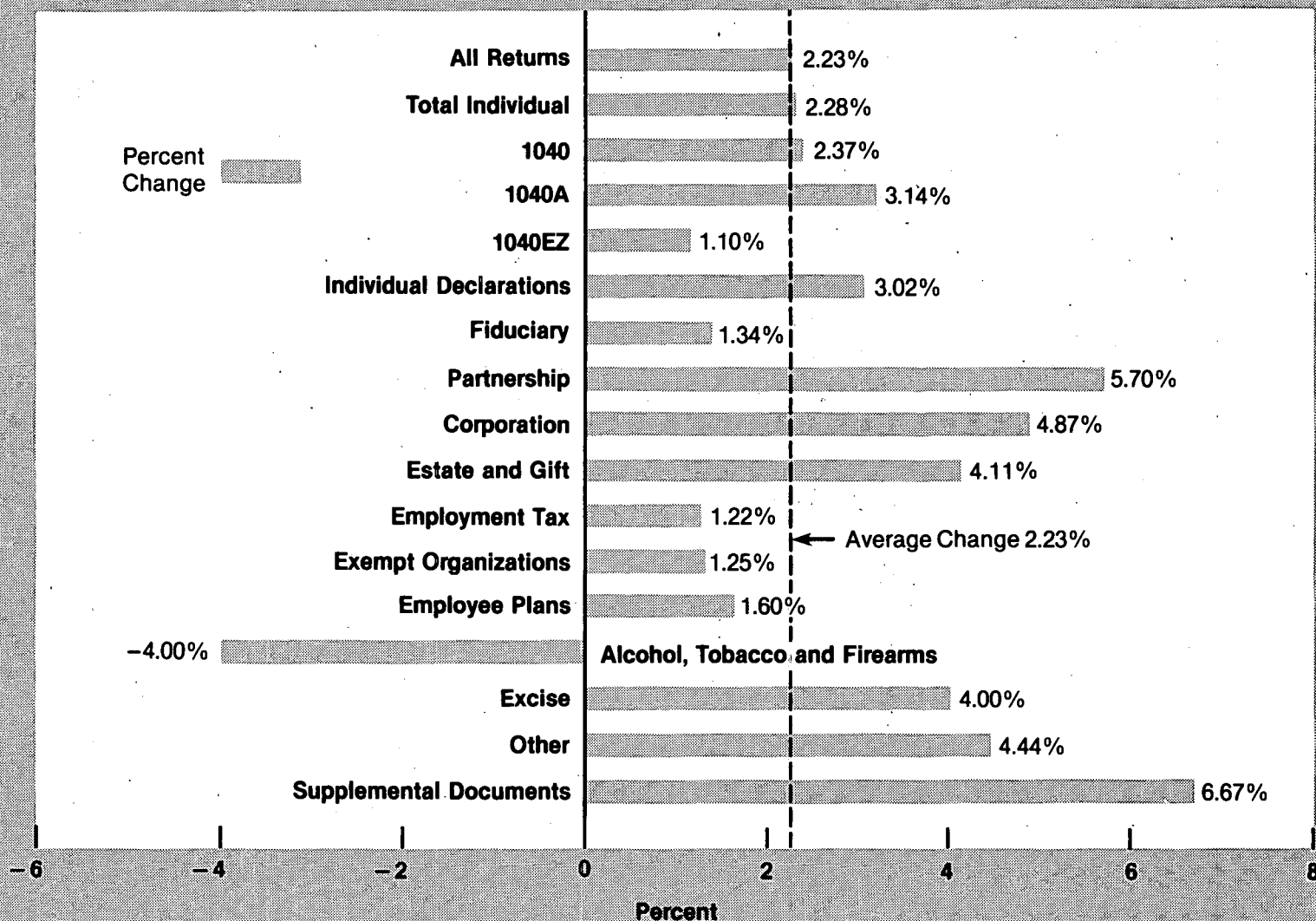
The total number of projected returns, shown in Table 1, consists of primary returns plus selected supplemental documents that are not a part of the IRS Master File system. Because collectively they make up the bulk of total filings, primary returns have traditionally generated most of the IRS document processing workload and their relationship to total filings is expected to continue throughout the 1986-1993 period. Of the approximately 172.5 million tax forms filed in 1984, 164.6 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 or Forms 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 (668 million were processed in 1984 and 806 million are expected in 1985), are mostly filed on magnetic media.

Figure A presents the average annual percentage changes for the major return types during the 1984-1993 projection period. Total returns increase by an average of 2.2 percent per year after 1985.

*Projections and Forecasting Group, Research Division. Prepared under the direction of James Dumais, Acting Chief.

Figure A
**Projected Average Annual Percentage Change in the
 Number of Returns Processed, FY 1984-Fy 1993**



Projections for 1986 and the associated rates of change from 1985 to 1986 are presented in the following table:

Type of Return	1986 Pro- jection (thousands)	Percent Increase or Decrease from 1985
Total Returns	184,992	+ 2.6%
Primary Returns	175,851	+ 2.4
Individual	103,761	+ 2.9
Individual Declaration of Estimated Tax	34,536	+ 1.5
Fiduciary	2,086	+ 1.4
Partnership	1,852	+ 4.2
Corporation	3,479	+ 4.3
Estate and Gift	161	- 3.0
Employment Tax	27,056	+ 1.5
Exempt Organization.	426	+ 2.7
Employee Plans	1,083	+ 3.8
Alcohol, Tobacco, and Firearms 1/....	551	+27.8
Excise	884	-15.3
Other 2/.....	16	-15.8
Selected Supplemental Documents.....	9,141	+ 7.3

1/ Forms 7, 8, 4705, 4706, 4707 and 4708 are no longer counted in this total. An estimated 200,000 additional Form 11 returns are expected because of a one-time alcohol floor tax.

2/ Decrease is due to a change in filing requirements for Foreign Sales Corporations enacted by the Tax Reform Act of 1984.

Individual Income Tax Returns

After realizing a 4.6 percent increase in filings of individual income tax returns in 1985, a post-World War II single-year record, the rate of growth of individual filings is expected to decelerate, i.e., filings are expected to grow at a slower pace than previously anticipated. Current projections call for an increase of 2.9 percent in individual filings in 1986 over 1985. This increase can be described as modest in light of 1985's record increase percent over the previous year [4].

Current projections for individual filings during 1986 are 0.6 percent lower than last year's projection for 1986. Similarly, projections for 1987 and 1988 are 1.0 percent and 0.9 percent lower, respectively, than last year's estimates. Over the spectrum of the forecast interval, projections this year are marginally lower than those proposed last year. The projections are affected by employment projection revisions since the spring of 1985 and an over-projection of 618,000 returns in 1984.

The revamped forecasts also suggest a change in the composition among the principal forms constituting individual returns--Forms 1040, 1040A and 1040EZ. It now appears that the number of Forms 1040A and 1040EZ to be filed in 1986 will be 8.9 percent and 3.8 percent less, respectively, than last year's estimates for the same period, while Form 1040 filings are expected to increase. These adjustments are based on the approximately 1.2 million increase in 1040EZ's between 1984 and 1985, and an increase of 3.8 million in Forms 1040. Over the projection period, 1040's will increase as a proportion of total individual filings, while 1040A's and 1040EZ's decline. This projection reflects the prevailing trend toward more complex returns seen over the past few years.

Figure B compares the number of Forms 1040, 1040A, 1040EZ and total individual returns expected to be filed in 1986 and 1993, respectively.

Individual Declarations of Estimated Tax

The current projections of Individual Declarations of Estimated Tax (Form 1040-ES) are lower than last year's projections for the same period. Form 1040-ES vouchers, while expected to post nominal gains for the forecast interval, are somewhat lower compared to last year's forecast, principally because of refinements made in the projection model.

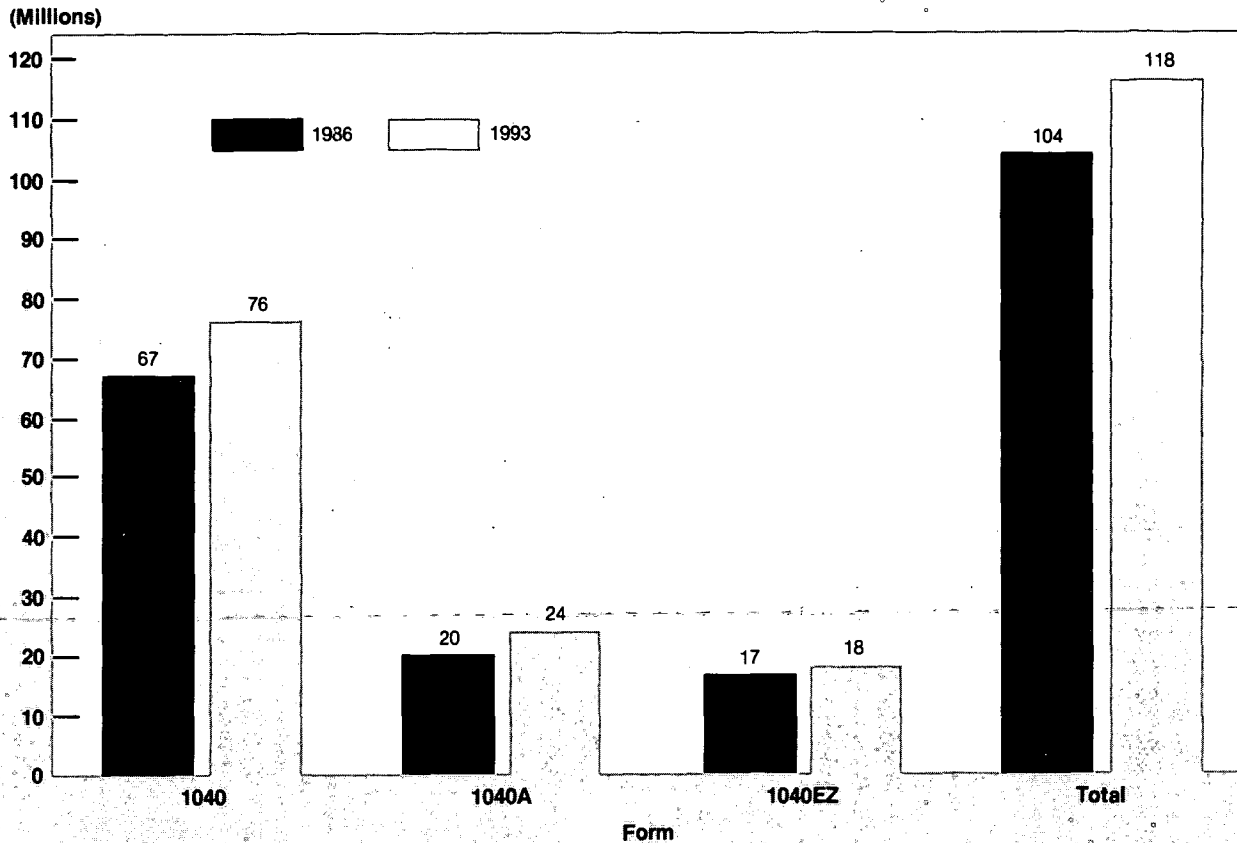
Fiduciary

Fiduciary income tax returns (Form 1041) were projected as a function of current dollar personal income (a proxy for changes in wealth) and time. Although current dollar personal income is projected to increase, this year's forecast calls for fiduciary filings to grow at a slower pace than last year's projections. The lower growth is expected because of the filing requirement change in 1981 allowing grantor trusts to file on Form 1040. By 1993, fiduciary income tax returns should decline to 91.6 percent of the 1984 level.

Partnership

Partnership (Form 1065) return projections are also closely related to movements in per capita personal income (in current dollars). This year's partnership projections differ slightly from those published last year in that increases averaging 2.6 percent per year from 1986 to 1993 are projected. The slight increase reflected in this year's projections is expected as taxpayer awareness of the tax advantages of partnerships increases and as per capita personal income (in current dollars) continues to grow at a steady pace.

Figure B
Individual Returns by Type
Fiscal Years 1986 & 1993



Corporation

Corporation returns posted an unexpected decrease between 1983 and 1984, marking the first decrease ever recorded in the number of corporation returns processed. As a result, current estimates are in the range of 6 to 7 percent lower through 1988 than estimates made last year. Lower growth is also anticipated for the remainder of the projection period compared to last year. Although growth has slowed, the most recent estimates still call for corporate return filings in the near term to increase to about 3.5 million in 1986, 3.7 million in 1987 and 4.0 million in 1989.

Estate and Gift Tax

The Economic Recovery Tax Act of 1981 mandates that the filing threshold for estate tax

returns be gradually increased on an annual basis, through 1988. Current projections have incorporated this and thus call for a decline in filings through the latter part of the decade, with the 1989 estate returns projected to decline to 33 percent of their 1984 total. Filings are then expected to gradually increase through the early part of the 1990's from a low of 30,000 returns in 1989 to 40,000 by 1993. This increase is anticipated as per capita personal income and the number of deaths of persons age 45 and over increases.

The Tax Reform Act of 1984 will freeze the maximum estate and gift tax rate at 55 percent through 1987 and will reduce it to 50 percent thereafter. This change, however, should not have a significant effect on filings of estate and gift tax forms over the projection interval.

Employment Tax

Employment tax returns consist of Employer's Annual Federal Unemployment Tax Return, Employer's Annual/Quarterly Federal Tax Return, and Employer's Annual Railroad Retirement Tax Return. Projections for the forecast period 1986-1993 show relatively small year-to-year increases.

Exempt Organizations

This category of returns consists of exempt organization, farmers' cooperative association and private foundation returns. The aggregate total is effectively dictated by changes in Form 990, Return of Organization Exempt from Income Tax, which accounts for 75 percent of exempt organization filings. This year's projections call for a slight increase of approximately 2 percent every year over the forecast period. Although increasing, current projections represent a decrease of 6 percent per year when compared to last year's estimates. This lower projection level reflects an administrative change within the tax law that relieves small organizations whose gross receipts are normally \$25,000 or less from filing a return.

Employee Plans

Projections of employee plans were initially increased to reflect the impact of the Tax Equity and Fiscal Responsibility Act of 1982, which was expected to significantly increase the employee plan filing population. This Act significantly changed the reporting requirements for self-employed or Keogh plans by requiring all administrators of plans with fewer than 100 participants, including owner-employee plans, to file Form 5500-C, Return/Report of Employee Benefit Plan, beginning with returns filed in 1985. Two hundred thousand additional filers are anticipated in 1985, with additional increases expected in future years as more taxpayers become aware of this new filing requirement. This year's projections have been revised downward, because although the filing population has increased due to the law change, it is anticipated that there will be a slowdown in the growth of businesses providing retirement plan coverage. Thus, current projections for 1986 are 11 percent less than projections made in 1984, and 1993 numbers are 23 percent less than those presented last year. Current projections call for a growth rate of less than 2 percent for the forecast interval, with returns rising from 1.0 million in 1986 to 1.2 million in 1993.

Alcohol, Tobacco and Firearms

Forms 7, 8, 11, 4705, 4706, 4707, 4708 and alcohol and tobacco excise tax returns constitute the total alcohol, tobacco and firearms return category. Filings are projected to show a steady drop, declining to 61 percent of their

corresponding 1986 level by 1993. This downward revision in projections is a consequence of the Service no longer being responsible for processing Forms 7, 8, 4705 and 4706, and 4707 and 4708 (these items are firearm and explosives licensing forms). By being released from the responsibility of processing more forms (in real terms), projections for alcohol, tobacco and firearms filings are projected to decline throughout the forecast period.

Excise

Projections of excise tax filings (Forms 11C, 720, 730 and 2290) have been significantly revised relative to last year's projections. Last year's projection overestimated the effect that the Tax Reform Act of 1984 would have on excise tax returns. This Act subjected only trucks of 55,000 pounds and over to a Federal highway tax (Form 2290). Prior law had a 26,000 pound filing exclusion. However, fewer returns than previously anticipated dropped from the filing universe as a result of this change. Also, processing of certain 1984 quarterly excise tax returns was postponed until 1985. This accounts for the apparent jump in filings between 1984 and 1985.

Supplemental Documents

Supplemental documents are composed of amended returns and requests for filing extensions from both individuals and corporations. Current forecasts call for moderate increases over last year's numbers. Increases in supplemental documents range from 2.9 percent in 1986 to 0.4 percent in 1992.

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. Returns processed in 1984 and receipts for previous years are presented in the Annual Report, Commissioner and Chief Counsel, Internal Revenue Service. Data for 1985 include actual returns processed through June, with the remainder of the year estimated, in general, on the basis of 1984 filing patterns [5].

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, 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 [6]. The historical base period for this regression was 1949-1985, with 1985 estimated on January-June processed returns and 1984 filing patterns.

Return projections were primarily formulated on a calendar year basis and subsequently converted to fiscal year projections by the Census Bureau's X11-Q Seasonal Adjustment Program by applying resultant seasonal factors to calendar year projections [7].

NOTES AND REFERENCES

- [1] All statistics cited are on a fiscal year basis, unless otherwise noted. As defined in Table 1, primary tax returns are equal to total returns minus supplemental documents. A complete listing of tax returns included in this table can be found in U.S. Department of the Treasury, Internal Revenue Service, Annual Report, Commissioner of Internal Revenue and Chief Counsel, Internal Revenue Service, 1984.
- [2] Employment, gross national product and personal income projections were obtained from Data Resources, Inc. (DRI), in June 1985.
- [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. 8-85). In particular, see the Fall Update.
- [4] See Soffer, Evan, "Projections of Returns to be Filed in Fiscal Year 1985-1992," Statistics of Income Bulletin, Fall 1984, p.13.
- [5] U.S. Department of the Treasury, Internal Revenue Service, Annual Report, Commissioner of Internal Revenue and Chief Counsel, Internal Revenue Service, 1984.
- [6] Projections of total employment, employed married women with husbands present and pension beneficiaries and annuitants were made by the Projections and Forecasting Group, Research Division, Internal Revenue Service.
- [7] U.S. Department of Commerce, Bureau of the Census, "The X11-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 1984 - 1993¹
 [Numbers are in thousands]

Type of Return	Actual	Projected								
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Grand Total	172,517	180,265	184,992	188,411	193,321	197,799	201,807	206,014	210,064	214,424
Primary Total	164,615	171,746	175,851	178,605	182,754	186,506	189,813	193,294	196,609	200,226
Individual, Total	96,296	100,829	103,761	105,435	108,085	110,333	112,061	113,813	115,380	117,207
Form 1040	60,854	64,610	66,740	67,798	69,287	70,634	71,777	73,084	74,267	75,607
Form 1040A	19,599	19,135	19,716	20,225	20,966	21,624	22,169	22,776	23,325	23,915
Form 1040EZ	15,690	16,922	17,146	17,255	17,675	17,918	17,956	17,793	17,625	17,519
Other ²	153	163	159	157	157	158	158	160	163	166
Declarations of Estimated Tax	32,597	34,019	34,536	35,171	35,952	36,701	37,492	38,398	39,316	40,271
Fiduciary	2,013	2,058	2,086	2,112	2,138	2,166	2,192	2,223	2,251	2,276
Partnership	1,663	1,777	1,852	1,926	2,029	2,144	2,274	2,418	2,578	2,751
Corporation ³	3,129	3,335	3,479	3,652	3,820	4,001	4,193	4,396	4,604	4,813
Estate Tax	90	71	53	38	30	30	32	35	37	40
Gift Tax	87	95	108	123	138	151	165	178	190	200
Employment Tax ⁴	26,133	26,658	27,056	27,396	27,772	28,149	28,535	28,928	29,317	29,697
Exempt Organization ⁵	393	415	426	435	444	453	462	470	479	488
Employee Plans ⁶	955	1,043	1,083	1,097	1,116	1,138	1,158	1,175	1,189	1,206
Alcohol, Tobacco & Firearms ⁷	551	431	551	351	348	346	343	340	337	335
Excise ⁸	694	997	844	855	866	877	888	899	911	922
Other ⁹	14	19	16	16	17	18	19	20	20	21
Supplemental Documents	7,902	8,518	9,141	9,806	10,567	11,294	11,995	12,720	13,455	14,198
Form 1040X	1,929	2,161	2,333	2,479	2,649	2,816	2,973	3,134	3,295	3,455
Form 4868	3,746	3,923	4,171	4,487	4,859	5,227	5,582	5,947	6,314	6,681
Form 2688	885	986	1,065	1,139	1,222	1,305	1,384	1,465	1,545	1,626
Form 1120X	38	42	51	59	67	75	83	91	99	106
Form 1120-ND	---	---	---	1	1	1	1	1	1	1
Form 7004	1,269	1,370	1,483	1,606	1,731	1,833	1,934	2,044	2,163	2,291
Form 1041A	18	19	19	20	20	21	21	21	21	22
Form 1042	17	17	17	17	17	17	17	17	17	17

¹ Projections based on counts of returns processed as reported on NO-TX-R-308 as of August, 1985.

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

³ "Corporation" includes Forms 1120, 1120-A, 1120-F, 1120-POL, 1120S, 1120-H and other special purpose 1120's except as noted in footnote 9 and those included in Supplemental Documents.

⁴ "Employment Tax" includes Forms 940, 940PR, 941, 941E, 941PR, 941SS, 942, 942PR, 943, 943PR and CT-1.

⁵ "Exempt Organization" includes Forms 990, 990PF, 990C, 990-T, 4720 and 5227.

⁶ "Employee Plans" includes Forms 5500, 5500-C, and 5500-R; and 5500-G and 5500-K in the historical period.

⁷ "Alcohol, Tobacco & Firearms" includes Forms 7, 8, 4705, 4706, 4707 and 4708 for 1984-85; and only Form 11 and alcohol and tobacco excise tax returns after 1985. A one-time alcohol floor tax is included in 1986.

⁸ "Excise" includes Forms 11C, 720, 730 and 2290.

⁹ "Other" includes Forms CT-2, 941M, 941NMI, 990BL and 1120-DISC/FSC.

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