Nonfiling Gap Grew in Recent Years, IRS Study Shows

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Millions of Americans will pay their taxes in time for the April 18 deadline -- the IRS has received 93 million individual tax returns as of March 31 -- but recent data show that an increasing number of taxpayers have been opting not to file instead.

The average nonfiling gap for tax years 2008 to 2010 was 59.7 percent of the total payments, according to the administrative data method, and the nonfiling gap is about 61.5 percent of the total payments, according to the Census method. That represents a 17 percent increase over tax year 2005, according to estimates by IRS researchers.

The researchers' final estimate for their study on finding new ways to measure the nonfiling gap put the average annual gap in 2008 to 2010 at $29.8 billion. They estimated total annual payments of tax were $48.4 billion or $50.1 billion, using the administrative data method or census method, respectively.

In 2005, the nonfiling gap was $24.7 billion, calculated using the administrative data method, according to the research paper. Using that method, the average gap in 2008 to 2010 was found to be $28.9 billion, a little lower than their final estimate.

The IRS released the research paper March 23 among selected papers from joint research studies between the IRS and non-governmental researchers presented at the IRS-Tax Policy Center Joint Research Conference on Tax Administration in June 2016. The nonfiling gap study was authored by Pat Langetieg, Mark Payne, and Alan Plumley of the IRS's Office of Research, Applied Analytics, and Statistics.

Plumley told Tax Analysts the study is part of an ongoing area of research that includes estimating the tax gap every three years or so to learn about noncompliance and to monitor trends. "It's a never-ending pursuit," he said.

The IRS is "working on a number of things" to see how it can improve filing compliance, Plumley said. "Having estimated the extent of [noncompliance] doesn't in and of itself create these opportunities, but it gives us the background we need to pursue those other efforts," he said.

One point of the research paper is "to document some changes, some improvements" in quantifying the size of the tax gap, Plumley said. The table comparing the gap in 2005 to the average gap in 2008 to 2010 shows both a change in method and change over time, he pointed out. Plumley added that the "upward trend in that amount doesn't seem like it's unexpected, given the three to five year" time frame, but the difference is not large.

Filing Compliance Drivers

Another research paper, which the IRS released March 23, analyzed drivers of filing behavior.

Brian Erard of B. Erard & Associates, the lead author of the study, told Tax Analysts the IRS has been trying to estimate the voluntary filing rate of taxpayers required to file but that his research attempts to go beyond estimating the rate to identifying what drives filing behavior.

“There’s very limited evidence” about why some taxpayers comply with filing requirements and others don’t, Erard said. He added there has been more research on the extent of compliance when taxpayers do file: some report “everything they’re supposed to,” some understate their liability, and a small number overstate their liability.

Co-authors on the study were Langetieg, Payne, and Plumley as well as John Guyton, also of the IRS’s Office of Research, Applied Analytics, and Statistics.

Erard said their results confirm some trends they would expect: If taxpayers are self-employed or have a high filing burden, they are less likely to file. He said the team estimated the burden of filing compliance and found it is negatively associated with filing. Taxpayers “closer to the [income filing] threshold seemed less likely to file in the analysis, other things equal,” he said. “While even for folks that are near the threshold, an increase in burden makes them less likely to file overall, the impact of burden [is less] on that group.” However, Erard suggested that the effective overall burden for taxpayers close to the filing income threshold might be lower because some of those taxpayers are eligible for the earned income tax credit, a filing incentive.

The researchers found increased compliance among taxpayers who had a greater financial incentive to file, Erard said. In response to the 2007 economic stimulus, when taxpayers had to file returns to receive the stimulus benefit, there was a short-lived improvement in compliance before the filing rate decreased again after a few years, he said. An increased EITC benefit for families with three or more children also “led to improved filing compliance to some degree” among those receiving it, he added.

Estimating who is required to file in the overall population is tricky, Erard said, adding that his team started with the Census Bureau’s Current Population Survey (CPS) and tried to improve the income measures because not everyone reports all their income sources and levels on the survey. He noted that the IRS has done similar work over several years as part of its effort to determine the voluntary filing rate, and to improve those measures. The “IRS is currently working to come up with a better way of inferring, from updated CPS data, the required-to-file population, and then we’d like to use that improved data in our analysis,” Erard added.

Preliminary results Erard presented at a National Tax Association conference suggest taxpayers are more likely, by 43 percentage points, to file in a given year if they filed in the prior year.

Effects of Social Norms on Filing Compliance

Another of the research studies tested the effects of telling groups of taxpayers descriptive social norms, approval-framed injunctive social norms, and disapproval-framed injunctive social norms against a control group that didn't receive information on social norms. The approval-framed injunctive social norm was, "Some 90% of Americans say that personal integrity is a big reason why they comply with tax regulations, and those who withhold enough taxes have a 97% tax compliance rate." The disapproval-framed social norm was, "Some 88% of Americans agree that any type of tax cheating is unacceptable, and people who do not withhold enough earnings to pay all of their taxes are 4 times more likely to cheat on their taxes."

The study found that messages with approval-framed injunctive norms as well as those with disapproval-framed injunctive norms increased the rate of taxes paid over the control group by about 2 percent.

Researcher Carrie von Bose of the Fors Marsh Group suggested possibilities for how the research could affect tax administration. "Some field studies have included language about social norms as part of direct communications sent to taxpayers, such as letters sent to a certain tax demographic," von Bose told Tax Analysts. "One could imagine other possibilities like adding social norm language directly onto the tax forms or tax filing software or conducting an advertising campaign to spread awareness of the social norms around tax compliance."

Von Bose's co-authors were James Alm of Tulane University, Michael McKee of Appalachian State University, William D. Schulze of Cornell University, and Jubo Yan of Nanyang Technological University. Plumley and Kim Bloomquist were the primary IRS researchers who provided comments, the paper noted.

DOCUMENT ATTRIBUTES

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