

## #2 REQUIRE THE IRS TO PROVIDE TAXPAYERS WITH A “RECEIPT” SHOWING HOW THEIR TAX DOLLARS ARE BEING SPENT

### Present Law

IRC § 7523 requires the IRS to provide taxpayers with very basic information regarding federal taxes and federal spending. Specifically, the IRS is required to include pie-shaped graphs in its instructions for Forms 1040, 1040A, and 1040EZ showing the relative sizes of major budget outlay categories and major income categories. In the 2017 Form 1040 instructions booklet, the IRS published two graphs on page 103 with data from fiscal year (FY) 2016.

### Reasons for Change

IRC § 7523 was enacted for tax years beginning after 1990. The purpose of the statute—namely, to help taxpayers understand the connection between the taxes they pay and the benefits they receive—is important, and it is likely that some taxpayers who perceive that connection will be more compliant with their tax obligations. However, the National Taxpayer Advocate believes the information required by IRC § 7523 is too cursory to achieve its objective. It would be more helpful to provide each taxpayer with personalized information regarding the taxpayer’s own contributions, such as the taxpayer’s marginal tax rate, effective tax rate, and tax benefits claimed.

In addition, the value of even this cursory requirement has diminished over time. In 1990, almost all taxpayers filed their tax returns on paper, so the instructions booklet was widely available and widely used. Today, nearly 90 percent of individual income tax returns are filed electronically,<sup>8</sup> and the instructions booklet is much less visible. For those reasons, far fewer taxpayers see the Form 1040 instructions booklet today.

If the statute is modified, e-filing has the potential to enhance the value of the requirement. Specifically, tax software is capable of computing and displaying personalized tax information, including the taxpayer’s marginal tax rate, effective tax rate, and tax benefits claimed—as well as show how much of each taxpayer’s tax payments go toward major categories of federal spending. If required by Congress and programmed by software companies, this information can be presented in far greater detail than was possible when the statute was enacted in 1990.

To further promote public engagement, once taxpayers are given information regarding their tax payments and their contribution to federal spending, taxpayers could be given an opportunity to voice their opinions about how their tax dollars should be spent in the future. This could be achieved by inviting taxpayers to “vote” on their tax returns regarding how much and on what programs the government should spend its money and by requiring the IRS to report the results of that “voting.” The “voting,” of course, would be non-binding. But this exercise in public engagement could help Americans gain a better understanding of the connection between the federal taxes they pay and the federal benefits they receive. And, as noted, when taxpayers have a clear understanding of the benefits they receive in exchange for the taxes they pay, tax morale and tax compliance are likely to increase.

<sup>8</sup> See <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-29-2017> (showing the e-file rate was 87 percent in 2017).

### Recommendations

Amend IRC § 7523 to require the IRS to provide each taxpayer with a “taxpayer receipt” that shows, on a single page, how federal dollars are spent and the taxpayer’s own contributions in the form of taxes paid and tax benefits claimed. The IRS should develop these receipts in consultation with TAS. For taxpayers who use tax software to self-prepare their returns, this requirement may be satisfied if the IRS, as part of its Authorized IRS e-file Providers rules,<sup>9</sup> requires e-file providers to include a page displaying the one-page breakdown at the end of the return preparation process. For taxpayers who use paid preparers, the requirement may be satisfied by requiring the preparer to include the one-page breakdown when furnishing the taxpayer with a completed copy of his or her tax return, as required by IRC § 6107(a).

Consider amending IRC § 7523 (i) to require the taxpayer receipt to contain an online link or a paper “ballot” where the taxpayer can “vote” on what he or she believes federal funds should be spent on and in what amounts and (ii) to require the IRS to publish the aggregate results of taxpayer “voting” no later than 30 days after the end of the calendar year.

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<sup>9</sup> See Rev. Proc. 2007-40, 2007-1 C.B. 1488, and IRS Pub. 3112, *IRS e-file Application and Participation* (Rev. 4-2017).