

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

#### Present Law

Internal Revenue Code (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 Form 1040 that show the relative sizes of major budget outlay categories and major income categories. In the 2018 Form 1040 instructions booklet, the IRS published two graphs on page 112 depicting *Major Categories of Federal Income and Outlays for Fiscal Year 2017*.

#### Reasons for Change

IRC § 7523 was enacted for tax years beginning after 1990. The purpose was to help taxpayers understand the connection between the taxes they pay and the benefits they receive. Taxpayers who perceive that connection may 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, about 90 percent of individual income tax returns are filed electronically,<sup>20</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, and can 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 relation to the taxes they pay, tax morale and tax compliance are likely to increase.

20 IRS, 2019 Filing Season Statistics (week ending May 10, 2019), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-may-10-2019> (showing that of 141,567,000 returns received by the IRS during filing season 2019 as of May 10th, 127,939,000 had been e-filed).

### 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>21</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 to require that (i) the taxpayer receipt contain an online link or a paper “ballot” where the taxpayer can “vote” on which programs he or she believes federal funds should be spent on and in what amounts and (ii) the IRS publish the aggregate results of taxpayer “voting” no later than 30 days after the end of the calendar year.

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21 See Rev. Proc. 2007-40, 2007-1 C.B. 1488; IRS Pub. 3112, IRS e-file Application and Participation (Apr. 2017).