

Legislative Recommendation #67**Improve Tax and Financial Literacy by Promoting Interagency Collaboration and Modernizing the Requirement That the IRS Publish Graphics Summarizing Government Revenue and Spending****SUMMARY**

- *Problem:* Limited tax and financial literacy is a significant problem in this country that has costly consequences for taxpayers and the government alike. In 2003, Congress took an important step to improve financial literacy by creating the Financial Literacy and Education Commission (FLEC), whose members are 24 federal agencies. FLEC has a range of duties related to promoting financial literacy and education, but none specifically address tax literacy. Separately, Congress has required the IRS to publish pie charts showing major income and outlay categories in the instructions for the Form 1040. This requirement, enacted in 1990 when paper instructions were the norm, does not capture current data visualization practices.
- *Solution:* Amend 20 U.S.C. § 9703 to include the promotion of tax literacy among the duties of the FLEC or create a separate multi-agency commission focused on tax literacy, and modernize the requirement that the IRS publish graphics showing government revenue and spending.

PRESENT LAW

In 2003, Congress created FLEC, a multi-agency task force responsible for developing a national strategy on financial education.¹ 20 U.S.C. § 9703(a)(1) directs FLEC, through the authority of its members, “to take such actions as it deems necessary to streamline, improve, or augment the financial literacy and education programs, grants, and materials of the Federal Government, including curricula for all Americans.” 20 U.S.C. § 9703(a)(2) directs FLEC to emphasize “basic personal income and household money management and planning skills.” 20 U.S.C. § 9703 imposes additional requirements on FLEC, such as developing best practices for teaching financial literacy to higher education students, maintaining a website that is a clearinghouse for information about federal financial literacy and education programs, and developing and disseminating materials to promote financial literacy and education to the public.

IRC § 7523(a), enacted in 1990, requires the IRS to include in a prominent place in the instructions for Form 1040 two pie-shaped charts showing the relative sizes of “major outlay categories” and “major income categories.”² IRC § 7523(b)(1) defines major outlay categories as (1) defense, veterans, and foreign affairs; (2) Social Security, Medicare, and other retirement; (3) physical, human, and community development; (4) social programs; (5) law enforcement and general government; and (6) interest on the debt.

IRC § 7523(b)(3) requires the chart for major outlay categories to include footnotes that break down some of the categories, such as the percentages of the defense outlays for veterans and foreign affairs.

IRC § 7523(b)(2) defines major income categories as (1) Social Security, Medicare, and unemployment and other retirement taxes; (2) personal income taxes; (3) corporate income taxes; (4) borrowing to cover the deficit; and (5) excise, customs, estate, gift, and miscellaneous taxes.

¹ Financial Literacy and Education Improvement Act, Pub. L. No. 108-159, Title V, § 513, 117 Stat. 1952, 2003 (2003) (codified at 20 U.S.C. §§ 9701-9707); see also U.S. Dep’t of the Treasury, *Financial Literacy and Education Commission*, <https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission> (last visited Oct. 24, 2024).

² Pub. L. No. 101-508, Title XI, § 11622(a), 104 Stat. 1388, 1388-504 (1990).

REASONS FOR CHANGE

Limited tax and financial literacy is a significant problem in this country.³ In 2023 alone, it is estimated that insufficient financial literacy in the United States cost more than \$388 billion, or about \$1,506 per adult.⁴

Having a basic understanding of taxes and the U.S. tax system is important because taxes influence how people make decisions that impact many areas of their lives. Tax and financial literacy are intertwined in financial decision-making, including managing a household budget, saving for retirement, paying for education, buying a house, and starting or expanding a small business. Filing a tax return is often a prerequisite for obtaining loans and other financial resources required for success and stability, including small business loans, home mortgages, and federal student aid.

The National Taxpayer Advocate commends the IRS for its efforts to work with other federal agencies to promote taxpayer education and outreach. However, significant knowledge gaps remain. There is a need for the IRS and other federal agencies to develop a more coordinated approach to providing tax-focused education in a meaningful and systemic way and to incorporate tax literacy content into other agencies' financial literacy programming. Congress took an important step to improve financial literacy in this country when it created FLEC. In its two decades of existence, FLEC has performed an impressive array of work, including developing a financial education website, holding public hearings on important issues related to financial literacy, and issuing reports that look at financial literacy from a variety of perspectives.⁵ The National Taxpayer Advocate encourages Congress to show a similar commitment to tax literacy by amending the law that created FLEC to include duties related to promoting tax literacy or creating a separate multi-agency commission focused on tax literacy.

Another way in which Congress can promote tax literacy is by updating the requirements in IRC § 7523. An important component in tax literacy is understanding the role of the U.S. tax system. The public benefits from seeing where the money that funds the government comes from and the purposes for which the government uses it, and it is likely that some taxpayers who perceive that connection will be more compliant with their tax obligations. The requirements in IRC § 7523 are outdated, reflecting that they were enacted in 1990 when paper instructions were the norm. Today, there are better ways to visualize and present this data to the public. To give taxpayers a more complete picture of the role of taxes in our lives, the National Taxpayer Advocate recommends that Congress amend IRC § 7523 to modernize its requirements by directing the IRS to develop and post graphics on IRS.gov that present information on government revenue and spending in a way that uses plain language and incorporates technology to provide an interactive data visualization experience.⁶

3 See National Taxpayer Advocate 2024 Annual Report to Congress, www.taxpayeradvocate.irs.gov/AnnualReport2024.

4 Nat'l Financial Educators Coun., *Financial Illiteracy Cost Americans \$1,506 in 2023*, <https://www.financialeducatorsCouncil.org/financial-literacy-costs> (last visited Oct. 19, 2024).

5 For examples of FLEC's reports, see U.S. Dep't of the Treasury, *Financial Literacy and Education Commission, Resources*, <https://home.treasury.gov/policy-issues/consumer-policy/financial-literacy-and-education-commission>.

6 For additional background, see National Taxpayer Advocate 2020 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration 9 (Require the IRS to Provide Taxpayers With a "Receipt" Showing How Their Tax Dollars Are Being Spent)*, https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC19_PurpleBook_01_StrengthRights_3.pdf.

RECOMMENDATIONS

- Amend 20 U.S.C. § 9703 to include the promotion of tax literacy among the duties of FLEC or create a similar multi-agency commission focused on tax literacy.
- Amend IRC § 7523 to require the IRS to develop, post on IRS.gov, and update at least annually graphics that present information on government revenue and spending in an accessible manner and that use interactive data visualization to provide taxpayers with an understanding of the U.S. tax system. Also, require the IRS to publicize the availability of this information.