



# Issue Brief

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## Tax Complexity Has Decreased, But 2021 Filing Challenges Add to Taxpayer Stress

This was yet another odd year for taxpayers. In 2018, many taxpayers were adjusting to the sweeping changes enacted in the landmark Tax Cuts and Jobs Act of 2017. Then, the 2019 filing season was disrupted by the government shutdown and the subsequent two tax seasons have been disrupted even more so by the COVID-19 pandemic.

Despite all this difficulty, there has been some good news in recent years: as an earlier National Taxpayers Union Foundation analysis explained, Internal Revenue Service data shows that the overall taxpayer compliance burden with the tax code eased for the third straight year, largely attributable to the passage of the TCJA. The trends show that taxpayers are spending less time laboring over tax forms and the burden of out-of-pocket expenses has been reduced.

However, this year did present some unique challenges for tax system compliance and administration, including the shutdown of IRS processing centers, a decline in taxpayer services, and many substantive changes to the tax code enacted by Congress late in the year. These challenges ultimately led to the decision to delay the official filing day by a month to May 17.

### Key Facts:



NTUF's most recent tax complexity report found that the time taxpayers spent working on taxes fell from 8 billion hours in 2017 to 6 billion in 2020. Although complexity has been trending downwards since passage of the 2017 tax reform, this year presented challenges for taxpayers.



Due to the pandemic-related closure of IRS facilities, the agency experienced a backlog in processing forms and correspondence, and the level of service via phone suffered. Additional complications arose from late year tax law changes.



The White House is intent on boosting the IRS budget with a focus on increasing heavy-handed enforcement of tax laws. A better path would be to boost taxpayer services and continue the work to simplify the tax code.

## Overall Compliance Burden

For many years NTUF has tracked the time and expenses associated with complying with the tax code. This is a burden above and beyond the dollar value of any taxes that are ultimately owed, and in general, the trend had previously been for complexity and compliance costs to increase from year to year. That has changed since TCJA was passed. Our most recent report from last April found that the time taxpayers spent preparing and submitting tax forms fell from 8.06 billion hours in 2017 to [6.08 billion](#) in 2020.<sup>1</sup>

Using comparable private sector labor costs, NTUF tallied the opportunity cost of this time burden at \$220 billion – over \$50 billion in savings compared to three years ago. Factoring the IRS’ estimate of out-of-pocket costs paid for tax preparation services and software, the overall compliance burden decreased from \$357 billion in 2017 to \$304 billion in 2020.

**Table 1. Tax Compliance Burden, 2017 – 2020 (in Billions)**

	<b>Total Hourly Compliance Burden</b>	<b>Opportunity Cost of the Time Burden</b>	<b>Out-of- Pocket Cost</b>	<b>Net Tax Compliance Burden</b>
2017	8.064	\$271.91	\$85.51	\$357.41
2018	8.023	\$273.18	\$91.36	\$364.54
2019	7.854	\$270.86	\$96.47	\$367.33
2020	6.081	\$220.31	\$83.86	\$304.17

*Source: National Taxpayers Union Foundation analysis of Office of Information and Regulatory Affairs and Bureau of Labor Statistics data.*

A lot of this time and money saved can be attributable to the TCJA, which made progress in simplifying the tax system, especially so for individual income taxes where a dramatically higher standard deduction eliminated the complexity of itemized returns for millions of taxpayers.

This year, the IRS also made some significant methodological changes to its taxpayer burden model but did not fully explain the underlying reasons. NTUF has reached out to the IRS for more information on the changes in its methodology and is still awaiting a response.

While the reduced burden is good news, the most recent filing season has been difficult to say the least. A massive IRS backlog in processing taxpayer forms, inadequate taxpayer services, and flurry of changes to the tax code as parts of newly enacted laws in response to the pandemic and economic crises have led to significant taxpayer confusion and ongoing administrative problems for IRS.

## Shutdown Delays

Many of the problems flowed from the pandemic shutdown in the spring of 2020. During the previous government shutdown, which resulted from the budget fight between Congress and the White House, the IRS could force employees to report to work even though they would not get paid until the budget impasse was resolved. But during the pandemic shutdown, the IRS was paying employees even though they could not perform their work remotely.

<sup>1</sup> Brady, Demian. *Tax Complexity 2021: Compliance Burdens Ease for Third Year Since Tax Reform*. National Taxpayers Union Foundation. April 15, 2021. Retrieved from <https://www.ntu.org/foundation/detail/tax-complexity-2021-compliance-burdens-ease-for-third-year-since-tax-reform>.

The IRS was forced to close all four of its return processing centers, its customer services, and taxpayer assistance centers. Whether due to the manual nature of the work or technology security and taxpayer privacy issues, many employees were unable to perform their work remotely.

The Government Accountability Office (GAO) released a [report](#) on March 1, 2021 on tax filing issues and noted that, “As of late October 2020, about one-third of these staff remained on paid leave.”<sup>2</sup> Ahead of the ordinary Tax Day of April 15, NTUF asked officials what percentage of those workers were still on paid leave. The GAO did not know, and the IRS did not reply to our inquiry.

## Filing Backlog

Because telework was not an option for the processing of paper documents sent to IRS centers, there was a massive pileup of millions of letters, files, and documents submitted through the mail to the IRS. By the end of 2020, the IRS was finally able to open all the mail it had received that year but was still figuring out how to process the correspondence: the IRS still had more than 13 million returns to process and 4 million letters and correspondence from taxpayers, including many from 2019.

This delay causes angst for financially distressed taxpayers who are awaiting needed refunds and it increases administrative costs because the IRS is generally required to pay interest on refund payments made 45 days after the filing deadline. The processing delay pushed up the refund interest costs from \$2.06 billion in 2019 to \$3.03 billion in 2020.<sup>3</sup> Interest costs will likely be even higher this year.

The processing delay also led to some unnecessary taxpayer confusion and worry after the IRS sent out nearly 19 million automated noncompliance notices to taxpayers, many of whose tax forms were waiting to be processed in an IRS facility.<sup>4</sup> This added significant stress because failure to reply to such correspondence by their required dates can lead to a loss of rights for the taxpayer. And many of the notices were not received by the taxpayers until after the mandated response dates in the first place.

## Last Minute Changes to the Tax Code

According to the House of Representatives Office of the Law Revision Counsel, Congress enacted 314 [changes to the tax code](#) in 2020, including the stimulus checks included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.<sup>5</sup> This also includes several substantive changes enacted late in the year through the Consolidated Appropriations Act of 2021 (enacted in late December 2020).

The American Recovery Plan Act (ARPA) – enacted on March 11– made another 96 changes to tax law including retroactive provisions impacting tax filings this year. It provided yet another round of stimulus checks to those below a certain income and also excluded some unemployment benefits compensation from income tax.

Many of these changes required the IRS to adjust forms, instructions, and software, adding to the administrative burden of the code. They also increased compliance burdens by forcing filers to amend previously submitted documents or to spend more time figuring out the new changes.

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<sup>2</sup> Government Accountability Office. (2021). *Tax Filing: Actions Needed to Address Processing Season*. Retrieved from <https://www.gao.gov/assets/720/712729.pdf>.

<sup>3</sup> Ibid

<sup>4</sup> Taxpayer Advocate Service. (2021). *2020 National Taxpayer Advocate Report to Congress*. Retrieved from <https://www.taxpayeradvocate.irs.gov/reports/2020-annual-report-to-congress/>.

<sup>5</sup> Office of the Law Revision Counsel. United States Code Classification Tables: 2020, U.S. House of Representatives. Retrieved from <http://us-code.house.gov/classification/tables.shtml>.

The IRS was also still completing guidance on tax laws enacted last year, such as the Employee Retention Credit and how it interacts with the Paycheck Protection Program. The late guidance forced many small businesses to apply for a filing extension because ERC adjustments needed to be claimed on 2020 tax returns, and this provision could also be a [complication](#) on eligible wages for purposes of the qualified business income deduction in another provision of tax law.<sup>6</sup>

## Taxpayer Services

Taxpayers seeking assistance with forms, refunds, non-compliance notes, the status of stimulus checks, or changes to tax law were often stonewalled because in-person assistance centers were not fully operational around the country. Even as late as last December, [24 percent of taxpayer assistance centers](#) were shuttered.<sup>7</sup>

Taxpayers are also experiencing increased wait times calling in to the IRS for telephone assistance. Table 2 below shows the total calls, levels of service (which tracks “the percentage of callers seeking and receiving live assistance”), and average wait times over the previous five filing seasons. Call volume declined in 2020 because of the shutdown, but wait times increased and the level of service worsened compared to 2018.

**Table 2. Calls During the Filing Season 2016 – 2020**

	Total Calls (millions)	Level of Service	Average Wait Time
2016	58.2	72.1	11.1
2017	41.1	79.1	6.5
2018	40	80	5.1
2019	39.3	66.9	9
2020	31.3	67	10.3

Sources: GAO and the Taxpayer Advocate Service.

However, the level of service statistics can be misleading. The Taxpayer Advocate Service (TAS), an independent watchdog office within the IRS, points out that the calculation does not take into account [the complete level of service](#) provided.<sup>8</sup> TAS clarifies that in 2020, only 23 percent of the 25.3 million calls received to Accounts Management were answered by IRS agents. The remainder of these calls were directed to an automated system or were disconnected by the taxpayers because of frustration with automated services or wait times. The calculation also does not take into account another 6 million calls routed to IRS divisions other than Accounts Management. As a result, the percentage of taxpayers that sought service and received it is far lower than the IRS’s statistics might suggest.

And even if you did get through to an IRS representative on the phone or in one of the centers, they might not be able to answer your question, as the agency considers vast areas of the tax code as [“out of scope”](#) for taxpayer telephone assistance.<sup>9</sup> There are also areas that are out of scope through the IRS tax preparation assistance programs like the Volunteer Income Tax Assistance and Tax Counseling for the Elderly.

<sup>6</sup> McClelland, Nancy. “What the ARPA, ERC, PPP and Other Laws Mean for Your 2020 Taxes.” The Dancing Accountant. March 21, 2021. Retrieved from <https://www.thedancingaccountant.com/?p=2726>.

<sup>7</sup> Government Accountability Office. (2021). *Tax Filing: Actions Needed to Address Processing Season*. Retrieved from <https://www.gao.gov/assets/720/712729.pdf>.

<sup>8</sup> Taxpayer Advocate Service. (2021). *FY 2021 Objectives Report To Congress*. Retrieved from <https://www.taxpayeradvocate.irs.gov/reports/2021-objectives-report-to-congress/>.

<sup>9</sup> Brady, Demian. *Tax Complexity 2021: Compliance Burdens Ease for Third Year Since Tax Reform*. National Taxpayers Union Foundation. April 15, 2021. Retrieved from <https://www.ntu.org/foundation/detail/tax-complexity-2021-compliance-burdens-ease-for-third-year-since-tax-reform>.

## Conclusion

Over the past several years, there have been many sweeping changes of the tax code, and this filing season was particularly difficult for taxpayers and the IRS.

A few weeks ago, Treasury Secretary Janet Yellen [wrote](#) on Twitter, “It’s a stunning achievement. In the midst of a crisis, the IRS has put on a masterclass in implementation and how the machinery of government should work.”<sup>10</sup> While no one could have predicted a pandemic and the IRS did competently handle some of the challenges thrown its way, it strains credulity to call it a “masterclass,” to say the least.

Moving forward, the White House is intent on boosting the IRS budget with a focus on increasing heavy-handed enforcement of tax laws in an attempt to close the so-called “tax gap.” Instead of focusing narrowly on audits of a small cross-section of taxpayers, Congress should work to boost services to taxpayers, modernize the IRS’s woefully outdated technology systems, and simplify the tax code

## About the Author

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<sup>10</sup> Yellen, Janet. Twitter. May 6, 2021. Retrieved from <https://twitter.com/SecYellen/status/1390320194149564417>.



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