

# Increasing Complexity Brings Back Bigger Compliance Burdens

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GET THE TAX IMPLICATION



Investment #3

by way of voluntary monthly investment	
115 305	127 989
122 223	277 735
129 557	452 094
137 330	654 261
145 570	887 812
154 304	1 156 749
163 542	1 463 545
173 276	1 818 263
183 516	2 213 308
194 262	2 658 525
205 514	3 153 945
217 272	3 700 600
229 536	4 298 630
242 305	4 947 175
255 579	5 646 405
269 357	6 396 470
283 640	7 197 530
298 428	8 049 835
313 720	8 953 545
329 516	9 908 920
345 817	10 916 120
362 623	11 975 305
380 934	13 086 735
399 750	14 250 680
419 071	15 467 400
438 897	16 737 055
459 228	18 060 000
480 064	19 435 500
501 405	20 863 800
523 251	22 345 150
545 602	23 879 800
568 458	25 467 000
591 819	27 107 000
615 685	28 799 000
640 056	30 543 400
664 932	32 340 500
690 313	34 190 600
716 200	36 093 000
742 593	38 048 000
769 492	40 055 000
796 897	42 114 000
824 808	44 225 000
853 225	46 388 000
882 148	48 603 000
911 576	50 870 000
941 509	53 189 000
972 047	55 560 000
1 003 190	58 083 000
1 034 938	60 758 000
1 067 291	63 485 000
1 100 249	66 264 000
1 133 812	69 095 000
1 167 980	71 978 000
1 202 753	74 913 000
1 238 131	77 900 000
1 274 114	80 939 000
1 310 702	84 030 000
1 347 895	87 173 000
1 385 593	90 368 000
1 423 796	93 615 000
1 462 503	96 914 000
1 501 714	100 265 000
1 541 429	103 668 000
1 581 648	107 123 000
1 622 371	110 630 000
1 663 598	114 189 000
1 705 329	117 800 000
1 747 564	121 463 000
1 790 303	125 179 000
1 833 546	128 947 000
1 877 293	132 768 000
1 921 544	136 642 000
1 966 299	140 569 000
2 011 558	144 549 000
2 057 321	148 582 000
2 103 588	152 668 000
2 150 359	156 807 000
2 197 634	160 999 000
2 245 413	165 243 000
2 293 696	169 540 000
2 342 483	173 889 000
2 391 774	178 291 000
2 441 569	182 746 000
2 491 868	187 254 000
2 542 671	191 815 000
2 593 978	196 429 000
2 645 789	201 096 000
2 698 104	205 816 000
2 750 923	210 589 000
2 804 246	215 415 000
2 858 073	220 294 000
2 912 404	225 226 000
2 967 239	230 211 000
3 022 578	235 249 000
3 078 421	240 340 000
3 134 768	245 484 000
3 191 619	250 681 000
3 248 974	255 931 000
3 306 833	261 234 000
3 365 196	266 590 000
3 424 063	271 999 000
3 483 434	277 461 000
3 543 309	282 976 000
3 603 688	288 544 000
3 664 571	294 165 000
3 725 958	299 839 000
3 787 849	305 566 000
3 850 244	311 346 000
3 913 143	317 179 000
3 976 546	323 065 000
4 040 453	329 004 000
4 104 864	335 096 000
4 169 779	341 241 000
4 235 198	347 439 000
4 301 121	353 690 000
4 367 548	359 994 000
4 434 479	366 351 000
4 501 914	372 761 000
4 569 853	379 224 000
4 638 296	385 740 000
4 707 243	392 309 000
4 776 694	398 931 000
4 846 649	405 606 000
4 917 108	412 334 000
4 988 071	419 115 000
5 059 538	425 949 000
5 131 509	432 836 000
5 203 984	439 776 000
5 276 963	446 769 000
5 350 446	453 815 000
5 424 433	460 914 000
5 498 924	468 066 000
5 573 919	475 271 000
5 649 418	482 529 000
5 725 421	489 840 000
5 801 928	497 204 000
5 878 939	504 621 000
5 956 454	512 091 000
6 034 473	519 614 000
6 112 996	527 190 000
6 192 023	534 819 000
6 271 554	542 501 000
6 351 589	550 236 000
6 432 128	558 024 000
6 513 171	565 865 000
6 594 718	573 759 000
6 676 769	581 706 000
6 759 324	589 706 000
6 842 383	597 759 000
6 925 946	605 865 000
7 009 013	614 024 000
7 092 584	622 236 000
7 176 659	630 499 000
7 261 238	638 814 000
7 346 321	647 181 000
7 431 908	655 600 000
7 517 999	664 071 000
7 604 594	672 594 000
7 691 693	681 169 000
7 779 296	689 796 000
7 867 403	698 475 000
7 956 014	707 206 000
8 045 129	715 989 000
8 134 748	724 824 000
8 224 871	733 711 000
8 315 498	742 650 000
8 406 629	751 641 000
8 498 264	760 684 000
8 590 403	769 779 000
8 683 046	778 926 000
8 776 193	788 125 000
8 869 844	797 376 000
8 963 999	806 679 000
9 058 658	816 034 000
9 153 821	825 441 000
9 249 488	834 899 000
9 345 659	844 409 000
9 442 334	853 971 000
9 539 513	863 585 000
9 637 196	873 251 000
9 735 383	882 969 000
9 834 074	892 729 000
9 933 269	902 541 000
10 032 968	912 405 000
10 133 171	922 321 000
10 233 878	932 289 000
10 335 089	942 309 000
10 436 804	952 381 000
10 539 023	962 505 000
10 641 746	972 681 000
10 744 973	982 909 000
10 848 704	993 189 000
10 952 939	1 003 521 000
11 057 678	1 013 905 000
11 162 921	1 024 341 000
11 268 668	1 034 829 000
11 374 919	1 045 369 000
11 481 674	1 055 961 000
11 588 933	1 066 605 000
11 696 696	1 077 301 000
11 804 963	1 088 049 000
11 913 734	1 098 849 000
12 023 009	1 109 701 000
12 132 788	1 120 605 000
12 243 071	1 131 561 000
12 353 858	1 142 569 000
12 465 149	1 153 629 000
12 576 944	1 164 741 000
12 689 243	1 175 905 000
12 802 046	1 187 121 000
12 915 353	1 198 389 000
13 029 164	1 209 709 000
13 143 479	1 221 081 000
13 258 298	1 232 505 000
13 373 621	1 243 981 000
13 489 448	1 255 509 000
13 605 779	1 267 089 000
13 722 614	1 278 721 000
13 840 053	1 290 405 000
13 958 096	1 302 141 000
14 076 743	1 313 929 000
14 195 994	1 325 769 000
14 315 749	1 337 661 000
14 436 008	1 349 605 000
14 556 771	1 361 601 000
14 678 038	1 373 649 000
14 799 809	1 385 749 000
14 922 084	1 397 901 000
15 044 863	1 410 105 000
15 168 146	1 422 361 000
15 291 933	1 434 669 000
15 416 224	1 447 029 000
15 541 019	1 459 441 000
15 666 318	1 471 905 000
15 792 121	1 484 421 000
15 918 428	1 496 989 000
16 045 239	1 509 609 000
16 172 554	1 522 281 000
16 300 373	1 535 005 000
16 428 696	1 547 781 000
16 557 523	1 560 609 000
16 686 954	1 573 489 000
16 816 989	1 586 421 000
16 947 628	1 599 405 000
17 078 871	1 612 441 000
17 210 718	1 625 529 000
17 343 169	1 638 669 000
17 476 224	1 651 861 000
17 609 883	1 665 105 000
17 744 146	1 678 401 000
17 879 013	1 691 749 000
18 014 484	1 705 149 000
18 150 559	1 718 601 000
18 287 238	1 732 105 000
18 424 521	1 745 661 000
18 562 408	1 759 269 000
18 700 899	1 772 929 000
18 839 994	1 786 641 000
18 979 693	1 800 405 000
19 119 996	1 814 221 000
19 260 903	1 828 089 000
19 402 414	1 842 009 000
19 544 529	1 855 981 000
19 687 248	1 870 005 000
19 830 571	1 884 081 000
19 974 508	1 898 209 000
20 119 059	1 912 389 000
20 264 224	1 926 621 000
20 409 993	1 940 905 000
20 556 366	1 955 241 000
20 703 343	1 969 629 000
20 850 924	1 984 069 000
20 999 109	1 998 561 000
21 147 898	2 013 105 000
21 297 291	2 027 701 000
21 447 288	2 042 349 000
21 597 889	2 057 049 000
21 749 094	2 071 801 000
21 900 903	2 086 605 000
22 053 316	2 101 461 000
22 206 333	2 116 369 000
22 360 954	2 131 329 000
22 516 179	2 146 341 000
22 672 008	2 161 405 000
22 828 541	2 176 521 000
22 985 778	2 191 689 000
23 143 719	2 206 909 000
23 302 364	2 222 181 000
23 461 713	2 237 505 000
23 621 766	2 252 881 000
23 782 523	2 268 309 000
23 943 984	2 283 789 000
24 106 149	2 299 321 000
24 269 018	2 314 905 000
24 432 591	2 330 541 000
24 596 868	2 346 229 000
24 761 849	2 361 969 000
24 927 534	2 377 761 000
25 093 923	2 393 605 000
25 261 016	2 409 501 000
25 428 813	2 425 449 000
25 597 314	2 441 449 000
25 766 519	2 457 501 000
25 936 428	2 473 605 000
26 107 041	2 489 761 000
26 278 358	2 505 969 000
26 450 379	2 522 229 000
26 623 104	2 538 541 000
26 796 533	2 554 905 000
26 970 666	2 571 321 000
27 145 503	2 587 789 000
27 321 044	2 604 309 000
27 497 289	2 620 881 000
27 674 238	2 637 505 000
27 851 891	2 654 181 000
28 030 248	2 670 909 000
28 209 309	2 687 689 000
28 389 074	2 704 521 000
28 569 543	2 721 405 000
28 750 716	2 738 341 000
28 932 593	2 755 329 000
29 115 174	2 772 369 000
29 298 459	2 789 461 000
29 482 448	2 806 605 000
29 667 141	2 823 801 000
29 852 538	2 840 949 000
30 038 639	2 858 149 000
30 225 444	2 875 401 000
30 412 953	2 892 705 000
30 601 166	2 910 061 000
30 790 083	2 927 469 000
30 979 704	2 944 929 000
31 170 029	2 962 441 000
31 361 058	2 980 005 000
31 552 791	2 997 621 000
31 745 228	3 015 289 000
31 938 369	3 033 009 000
32 132 214	3 050 781 000
32 326 863	3 068 605 000
32 522 316	3 086 481 000
32 718 573	3 104 409 000
32 915 634	3 122 389 000
33 113 509	3 140 421 000
33 312 198	3 158 505 000
33 511 691	

## Introduction

This filing season is even more taxing than others in recent history. As the National Taxpayers Union Foundation (NTUF) noted earlier this year, this is a [disastrous tax season](#).<sup>1</sup> The Internal Revenue Service's (IRS) major backlog has caused headaches for filers while they wait for previous years' refunds or other documents needed to file this year's tax. Worse, some letters the IRS sent to many filers with information on amounts of payments for last year's complicated advanced child tax credits had erroneous information. And of course, the IRS's poor performance of answering its phone lines has made it hard for taxpayers to get in touch with IRS agents.

Even if they were able to get through to a live person at the agency but had questions beyond the basics, they likely ended up having to pay out of pocket for advice from a tax preparation professional. It can be painful to have to pay a professional to help you figure out how to pay your taxes. But beyond that financial cost, there is also a massive time burden imposed on individuals and businesses because of the time spent filling out tax forms and filing each year under our complicated tax regime.

Using official data sources, these burdens can be calculated to estimate the total cost, in terms of both time and dollars, of complying with the U.S. tax code. NTUF's annual study of the tax system finds that complexity is once again on the rise. The tax code, along with its volumes of regulations, is expanding, leaving taxpayers to spend more time laboring over forms when filing.

This tax season, taxpayers spent over 6.5 billion hours filing their taxes, an increase of 451 million hours over 2020 after the overall compliance burden had fallen over the previous three years. Based on average private sector salaries, this represents an opportunity cost of \$249 billion. Adding in the nearly \$90 billion spent out-of-pocket on tax preparation, the total compliance burden of the tax code totals \$339 billion.

While the increase is concerning, it should be noted that nearly three-quarters of the increase is due to the IRS revising its estimate of the compliance burden of claiming the Qualified Business Income (QBI) deduction established in the Tax Cuts and Jobs Act (TCJA). Even though the provision was known to be complicated when the bill was passed, last year, the agency grossly underestimated the compliance burden at 30,000 hours. This year, it increased its estimate of the compliance burden of this provision by over 1 million percent to over 336 million hours.

The IRS should provide additional background information regarding changes of this magnitude. Taxpayers can also assist the IRS's estimation process by providing comments and feedback to the agency when it annually posts revisions to tax forms and burden estimates in the Federal Register. With better and more timely data, lawmakers can take steps to simplify filing burdens.

## The Tax Code's Increasing Complexity and Compliance Burden

**Table 1. Tax Compliance Burden, 2017 – 2021 (in Billions)**

	Total Hourly Compliance Burden	Opportunity Cost of the Time Burden	Out-of- Pocket Cost	Net Tax Compliance Burden
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
2021	6.53	\$248.61	\$89.93	\$338.53

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

<sup>1</sup> Wilford, Andrew et al. *Taxpayers Desperately Need Help with Disastrous Filing Season*. National Taxpayers Union Foundation. February 17, 2022. Retrieved from: <https://www.ntu.org/foundation/detail/taxpayers-desperately-need-help-with-disastrous-filing-season>.

## Time and Cost Burdens Increased in 2021 ...

According to our analysis of data and supporting documentation that the Internal Revenue Service (IRS) files with the Office of Information and Regulatory Affairs (OIRA), altogether, complying with the tax code in 2021 consumed 6.53 billion hours for recordkeeping, learning about the law, filling out the required forms and schedules, and submitting information to the IRS.<sup>2</sup>

The cumulative time spent on taxes stretches out to over 745 thousand years. NASA's New Horizon probe took nine and half years to travel to Pluto. It would be able to make 39 thousand roundtrips to the dwarf planet over the current compliant horizon.

We can calculate an estimate of the value of this time burden using private sector labor costs. According to the Bureau of Labor Statistics (BLS), U.S. non-federal civilian employers spent an average of \$38.07 per hour worked by their employees in December 2021. This includes all wages, salaries and benefits provided.<sup>3</sup>

The opportunity cost of the billions of hours spent on taxes is equivalent to \$249 billion in labor – valuable time that could have been devoted to more productive or pleasant pursuits, but was instead lost to tax code compliance. Add to that the \$90 billion in estimated out-of-pocket costs taxpayers spent on software, professional preparation services, or other filing expenses, and the total economic value of the compliance burden imposed by the tax code can be calculated at \$339 billion.

To put this figure into context, it is approaching the cost of the net interest payments on the federal debt projected by OMB this year, \$356 billion, and is bigger than the GDP of all but 34 nations, surpassing Ireland, Denmark, and Singapore.

## ... But There's More to the Story

The time burden has gone up, but not necessarily by as much as indicated in the data reported by the IRS. Any time any federal agency requires the public to fill out any sort of form, it is called an "information collection." Every agency that issues a form is required under the Paperwork Reduction Act to estimate how long each respondent will take to fill it out, as well

<sup>2</sup> Office of Information and Regulatory Affairs. "Inventory of Currently Approved Information Collections." Retrieved on April 7, 2022 from <https://www.reginfo.gov/public/do/PRA-Main>.

<sup>3</sup> Bureau of Labor Statistics. "Employer Costs for Employee Compensation – December 2021." March 18, 2021. <http://www.bls.gov/news.release/pdf/ecec.pdf>.

## Key Facts:



**In addition to the financial cost resulting from taxes, complying with the tax code eats up a significant amount of time.**



**After falling for several consecutive years since tax reform was enacted in 2017, the overall time compliance burden of the federal tax system ticked up this year to 6.5 billion hours – an increase of 451 million hours.**



**However, a large part of the increase in the burden hours was due to an IRS adjustment of a complicated deduction that was previously grossly underestimated. Excluding this adjustment, the net increase this year is 113 million hours.**



**The 6.5 billion hours spent on taxes is equivalent to \$249 billion in private-sector labor – a valuable opportunity cost that represents what is lost to tax code compliance. Out-of-pocket expenses related to tax compliance amount to \$90 billion.**



**The total compliance burden of \$339 billion is catching up with federal net interest payments on the federal debt and exceeds the GDP of all but 33 countries, topping Ireland, Denmark, and Singapore.**



**The number of words in the tax code is again on the rise, now reaching almost 4.1 million. The number of pages in the volumes of tax regulations has grown to over 17,700.**

as any potential out-of-pocket expenses incurred as a result, and it must get approval from the Office of Management and Budget. In general, federal agencies must get each collection re-approved on a 3-year cycle, but most collections under the Internal Revenue Code are reviewed every year.

Table 2 provides a summary of the changes in time burden estimates since the previous tax year. The vast majority of the information collections were re-approved with no change, some were discontinued since last year, and a few were added. While there were fourteen collections with lower time estimates, saving filers 8 million hours, the biggest changes the IRS made were increased time burden estimates for 18 information collections by a total of 459 million hours. Nearly three-quarters of the change here was due to a revision of burden estimates under forms for the Qualified Business Income Deduction. Last year, the IRS estimated that 10,000 filers would spend a cumulative total of 30,000 hours working on these tax forms. The revision pumps the estimate up to over 41 million filers devoting 336 million hours.

**Table 2. Summary of Changes to Hourly Burden from 2020 to 2021**

	Changes in Burden Hours
18 collections with time burden increases	459,491,034
429 collections with no net change in time burdens	-
14 collections with time burden reductions	-8,001,542
6 new collections	1,288,222
25 collections discontinued	-1,420,708
<b>Net Change</b>	<b>451,357,006</b>

The QBI deduction is available to small businesses known as “[pass-throughs](#)” because their profits are “passed through” the business and claimed by the owners of the business on their individual income tax returns. Before the pandemic, upwards of 90 percent of businesses were pass-throughs. The QBI deduction allows these taxpayers to deduct up to 20 percent of business expenses, and was added in the TCJA to keep pass-through taxation on par with corporate tax rates that received a different tax cut under the reform.

However, it was known to be a complicated fix even while it was being debated, so it was surprising that the IRS estimate before this year was so low, especially given that the 2019 IRS Complete Report (Publication 1304 (Rev. 12-2021)) showed that nearly 19 million filers claimed the deduction in 2018 and 22 million claimed it in 2019. The Supporting Statement filed with the change in the information collection did not provide much detail about the drastic revision. NTUF reached out to the IRS for additional information but did not receive a reply before publication of this paper.

*Ceteris paribus*, if the adjustment for the QBI had been accounted for last year, the net time compliance burden would have reflected 6.42 billion hours, resulting in a net increase this year of 113 million hours.

NTUF noted a similar issue [last year](#) regarding a major change that saw the business income tax burden estimate drop by two-thirds with little explanation at the time.<sup>4</sup> NTUF learned the reasons for the re-baselining of the estimate in a discussion with the IRS last December, and the agency also published a [backgrounder](#) about the change.<sup>5</sup> As part of its process for estimating time burdens, the IRS sends out surveys to taxpayers with detailed questions about how much time the individual or business spent on various tax preparation and filing activities. A few years back, the IRS realized that the survey questions to businesses were resulting in double counting of some of the recorded time burdens. They adjusted their survey questions and calculated the revised time estimates but waited to adjust the official reported estimate with the new methodological corrections so that the impacts of the TCJA – the first comprehensive overhaul of the tax code in a generation – could be seen under the IRS’ original paperwork burden baseline.

<sup>4</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://ntu.org/foundation/detail/tax-complexity-2021-compliance-burdens-ease-for-third-year-since-tax-reform>.

<sup>5</sup> Internal Revenue Service. *FY21 OMB 1545-0123 Rebaseline*. 2021. Retrieved from: <https://www.irs.gov/pub/irs-pdf/p5589.pdf>.

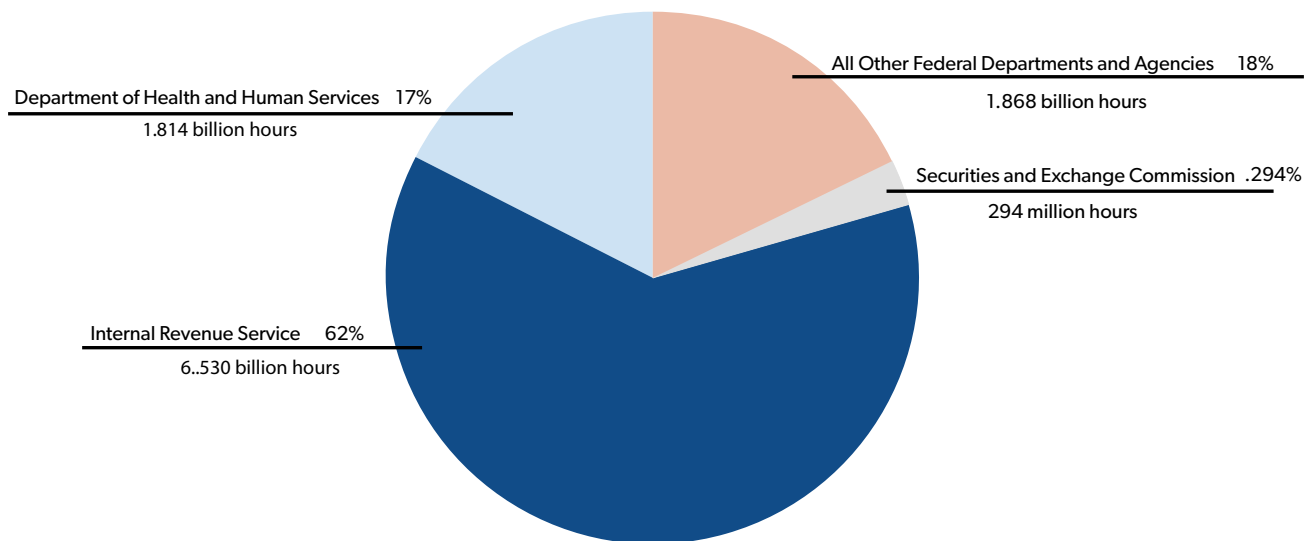


NTUF appreciates the IRS's transparency in publishing an explainer of the re-baselining that happened last year. But to echo what NTUF recommended last year, the IRS should continue to shed more light on its taxpayer burden model and calculations and strive to do so in a timelier manner. Transparency of the data and model would allow for assessment and feedback to improve the calculations. The IRS should also work to provide more accountability on the massive compliance burdens imposed on taxpayers through the tax code so that lawmakers can address areas of concern. This effort could also help fill in the gaps in missing cost estimate burdens across major sections of the tax system (see below).

### Tax Forms Dominate the Government-wide Paperwork Burden

The OMB's Office of Information and Regulatory Affairs maintains a database of all the information collections across the federal departments and agencies. Currently there are 9,774 different collections. While the IRS's various forms comprise just 5 percent of all the information collections, they consume nearly two-thirds of the 10.5-billion-hour paperwork burden imposed across all government agencies. The next largest source of paperwork is the Department of Health and Human Services, imposing 1.8 billion hours, 17 percent of the government. The Security and Exchange Commission requires 294 million hours complying with forms, topping the other departments.

**Figure 1. The Government-wide Hourly Paperwork Compliance Burden**



### The Tax Code is Expanding Again

One source of complexity and compliance confusion stems from the sheer size of the tax code. The tax code had relatively humble beginnings: the income tax was enacted in 1913 through a bill that was originally 27 pages in length. Amendments, regulations, and judicial rulings increased the length to 400 pages.<sup>6</sup> Through the steady implementation of new provisions, which required corresponding new regulations over the next 100-plus years, lawmakers expanded the tax system into a labyrinthine behemoth. The TCJA helped reduce compliance hours and also led to a period of successive years in which the tax code became slightly smaller.

The total number of pages of the tax code can vary widely depending on the formatting of columns, page widths, font, or margins in the documents. For example, this year's PDF of the Internal Revenue Code, (Title 26 of the U.S Code of public laws) published on the House of Representatives' website runs 6,874 pages (vs 6,571 last year) while the archived version of the Code from 2019 with a smaller font and two columns per

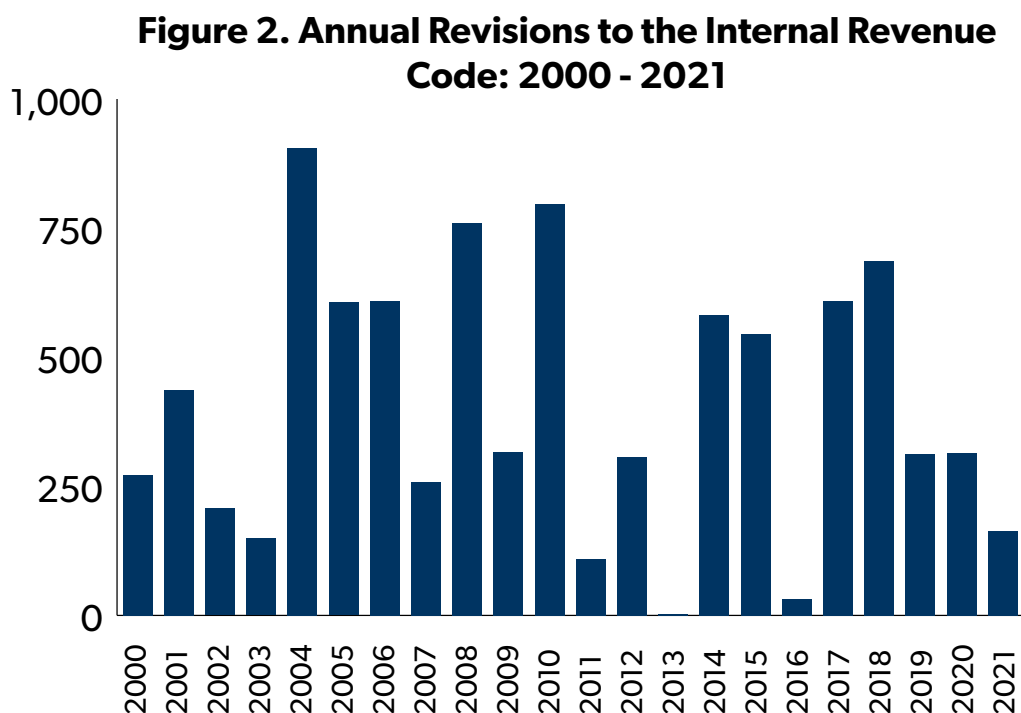
<sup>6</sup> Wolters Kluwer, CCH. "Fact Sheet: 100-Year Tax History: The Length and Legacy of Tax Law." 2013. Retrieved from: <https://www.cch.com/wbot2013/factsheet.pdf>.

page stands at 3,945 pages.

To help standardize year to year comparisons, NTUF has copied the texts of the Tax Code PDFs into Microsoft Word in order to use the program to generate a word count. The results may not be perfect given the number of cross-references to various sections of law through the code, but it provides a consistent methodology, and was also used in the past by the Office of the Taxpayer Advocate to find that in 2017 the code had 4 million words.

After passage of the TCJA, the number of words began to fall, receding to 3.96 million by 2020. But the tax code is again on rise, ticking up to 4,085,524 words in the [latest version](#) published on the House of Representatives’ website as of April 8, 2022.<sup>7</sup>

Lawmakers also make frequent revisions and additions to tax laws. From 2000 through 2021, Congress enacted, on average, 408 changes to the tax code each year (see Figure 2), ranging from a low of three in 2013 up to 797 in 2010.<sup>8</sup> While the changes in the past few years have been lower than average, they have been significant, including the recovery rebates in 2020 and 2021 and the new advance child tax credits in the American Rescue Plan Act (ARPA).



To interpret and implement all of these changes to tax laws, the Department of Treasury develops and publishes regulations across 22 volumes of the Code of Federal Regulations. The most recently available complete version of tax regulations, published [online](#) with revisions through April 2021, comprises a record length of 17,707 pages (including tables of contents and additional introductory prefaces in each volume).<sup>9</sup> The previous high mark was reached in 2017, then after two years of reductions, the regulatory count began to rise in 2020.

<sup>7</sup> Office of the Law Revision Counsel. United States Code: Current Release Point. April 4, 2022. Retrieved from: <https://us-code.house.gov/download/download.shtml>.

<sup>8</sup> Office of the Law Revision Counsel. United States Code Classification Tables: 117th Congress, 1st Session. 2021. Retrieved from: <http://uscode.house.gov/classification/tables.shtml>.

<sup>9</sup> U.S. Government Publishing Office. *Code of Federal Regulations (Annual Edition)*. 2021. Retrieved from: <https://www.govinfo.gov/app/collection/cfr/>

Note: Counts for some individual years may differ slightly from those reported in NTUF’s previous tax complexity studies. This is due to either reformatting or subsequent revisions of the posted volumes of regulations. For consistency, all the counts in Table 3 were completed on April 13, 2022.

**Table 3. Number of Pages in the Internal Revenue Code of Regulations**

Year Posted	Number of Pages
2000	13,070
2010	15,179
2017	16,786
2018	16,777
2019	16,411
2020	16,746
2021	17,707

In addition to issuing all these regulations, the IRS also [releases](#) regular guidance, notices, announcements, private letter rulings, and technical advice memorandums in response to various issues that arise.<sup>10</sup> Some of these pertain to individual cases and have limited scope, other may involve substantive interpretations of tax laws.

For taxpayers with complicated finances, that is a lot of information to keep track of to ensure a proper understanding of applicable tax laws, regulations, and rulings. The ongoing issues related to the pandemic and complicated changes in law continue to impose difficulties on taxpayers seeking assistance and information from the IRS.

Getting filing advice from the IRS was already difficult. Previous editions of our annual tax complexity study have warned that the agency considers vast areas of the tax code as “out of scope” for the IRS tax preparation assistance [programs](#) like the Volunteer Income Tax Assistance and Tax Counseling for the Elderly.<sup>11</sup> The guidance means that IRS agents cannot answer questions about these specified areas of the tax laws. There are also areas that are “out of scope” for telephone assistance. An online guide for IRS account management lists 14 tax forms that are “out of scope” and also notes that the list is “not all inclusive.”<sup>12</sup> Apparently, the full list of “out of scope” services is also “out of scope.”

## The Complexity Burden of Sections of the Tax Code

### Overview of Tax Forms

Table 4, below, breaks out the latest data on compliance burdens associated with the thirteen information collections for which the IRS has provided an out-of-pocket expense estimate. The top two areas, the individual and business tax forms, are discussed below. The third area concerns tax-exempt organizations, which are required to file forms with the IRS to provide transparency regarding financial information and for purposes of IRS enforcement and regulation of certain activities. The fourth collection on the list is a joint effort of the IRS and the Department of Labor pursuant to a law requiring administrators of employee pension and benefit plans to file annual returns or reports to the federal government. In addition to these, there are nine sets of paperwork that require 68 million hours and \$7 million in out-of-pocket expenses.

<sup>10</sup> Internal Revenue Service. *Understanding IRS Guidance – A Brief Primer*. July 21, 2021. Retrieved from: <https://www.irs.gov/uac/understanding-irs-guidance-a-brief-primer>.

<sup>11</sup> Internal Revenue Service. *VITA/TCE Volunteer Resource Guide*. January 2021. Retrieved from <https://www.irs.gov/pub/irs-pdf/p4012.pdf>.

<sup>12</sup> Internal Revenue Service. *Accounts Management and Compliance Services Overview*. September 9, 2021. Retrieved from: [https://www.irs.gov/irm/part21/irm\\_21-001-001](https://www.irs.gov/irm/part21/irm_21-001-001).

**Table 4. Tax Code Complexity Burden and Out-of-Pocket Expenses by Sections of Tax Code (Dollar Figures in Billions)**

IRS Information Collections	Total Hourly Compliance Burden	Opportunity Cost of the Time Burden	Out-of- Pocket Cost Associated with Tax Forms	Net Tax Compliance Burden
U.S. Individual Income Tax Return	2,048,000,000	\$77.97	\$39.75	\$117.72
U.S. Business Income Tax Return	1,138,000,000	\$43.32	\$48.30	\$91.63
U.S. Tax-Exempt Income Tax Return	58,220,000	\$2.22	\$1.73	\$3.94
Annual Return/Report of Employee Benefit Plan	939,700	\$0.04	\$0.14	\$0.18
9 Additional Titles w/ Dollar Burden Costs*	67,538	\$0.00	\$0.01	\$0.01
<b>Total</b>	<b>3,245,227,238</b>	<b>\$123.55</b>	<b>\$89.93</b>	<b>\$213.48</b>

Table 5 shows the remaining 454 IRS collections that do not have an estimated out-of-pocket expense. The seven sets of paperwork with time burdens over 100 million hours are listed and the remaining 447 are grouped together. In some cases, an expense estimate is not listed because there is no actual associated cost. For example, W-2 forms are quick to fill out and do not impose any expenses. However, expense data is missing from some of these collections because the IRS has perhaps incorrectly projected that there are no associated expenses with the forms

**Table 5. Tax Code Complexity Burden by Sections of Tax Code without an Out-of-Pocket Burden Estimate (Dollar Figures in Billions)**

IRS Information Collections	Total Hourly Compliance Burden	Opportunity Cost of the Time Burden
Proceeds From Broker and Barter Exchange Transactions	674,360,608	\$25.67
Employer's Quarterly Federal Tax Return	580,656,074	\$22.11
Depreciation and Amortization (Including Information on Listed Property)	448,368,447	\$17.07
Deduction for Qualified Business Income (Form 8995 and Form 8995-A)	336,107,360	\$12.80
U.S. Income Tax Return for Estates and Trusts	307,844,800	\$11.72
Wage and Tax Statements W-2/W-3 Series	126,988,903	\$4.83
Employer's Annual Federal Unemployment	105,271,229	\$4.01
447 Additional Titles without a Dollar Burden Estimate*	705,384,908	\$26.85
<b>Total</b>	<b>3,284,982,329</b>	<b>\$125.06</b>

A noteworthy example of this was highlighted in NTUF's 2021 tax complexity report. The IRS had previously reported that there were "no capital/start-up or ongoing operation/maintenance costs" associated with Form 4562, used for calculating Depreciation and Amortization (imposing 448 million compliance hours).<sup>13</sup>

<sup>13</sup> Internal Revenue Service, "Supporting Statement: Form 4562 Depreciation and Amortization (Including Information on Listed Property)," May 1, 2017. Retrieved from: [https://www.reginfo.gov/public/do/PRAViewDocument?ref\\_nbr=201704-1545-011](https://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=201704-1545-011).



In response to that NTUF [commented](#):

It is, of course, implausible that a form that imposes a time cost of nearly 450 million hours has no out-of-pocket costs associated with it, suggesting that compliance burdens could remain significantly underreported in some ways.<sup>14</sup>

In the Supporting Statement included with that form when it was reapproved in 2020, the IRS notes instead, “To ensure more accuracy and consistency across its information collections, IRS is currently in the process of revising the methodology it uses to estimate burden and costs. Once this methodology is complete, IRS will update this information collection to reflect a more precise estimate of burden and costs.”<sup>15</sup>

As that illustrates, in many cases the IRS simply does not have sufficient feedback from taxpayers to incorporate an expense estimate with many forms. Many of the collections in the database include the same IRS note listed above for Form 4562. This includes the notorious Form 1099-B, which takes up over 674 million hours of compliance. It is astonishing that the IRS expects to receive 1.4 billion submissions of this form, nearly 4 filings for every person in the country. It is no wonder that tax preparers consider it the worst tax form of all. Back in 2013, the IRS had requested information regarding expenses but received no responses. The IRS conducts surveys of taxpayers to gather data on time burdens and expenses. Collections are also posted for public comment in the Federal Register.

By taking some extra time to provide feedback to the IRS through its surveys and requests for feedback, taxpayers could do themselves a favor down the road. With better data, the IRS and policymakers will have a better idea of problem areas of the tax code, those which impose undue time and expense burdens relative to the amount of taxes they collect.

## The Overall Individual Income Tax Compliance Burden

Some of the tax forms are targeted for very specific circumstances (including 53 with 100 or fewer respondents, eight with 10 or fewer, and two each with only a single respondent). The part of the tax code that most Americans are familiar with is the Form 1040 and its associated schedules and filings under the individual income tax. Reflective of the general upswing in complexity tracked in the data this year, the number of instructions associated with the 1040 and the primary schedules increased.

As shown in Tables 7 and 8, despite an estimated drop in the number of taxpayers filing individual income taxes, the overall hourly burden increased by 53 million hours.

The IRS notes that most of the change since last year is due to [technical adjustments](#) from updates to the macroeconomic model inputs factored into its taxpayer burden model and “from updated data and an improving 2021 economy that is also experiencing higher inflation.”<sup>16</sup> Additional changes were the result of legislative changes in ARPA, such as the expansion of the Earned Income Tax Credit to households with no children and the Advance Child Tax Credit, which will require taxpayers to reconcile amounts they received in advance with the amount they were actually eligible to receive. Some taxpayers may end up having to return a portion of the advance payments automatically made by the IRS. After all, opting out of the payments proved challenging because of online identification requirements the IRS established until it received pushback regarding privacy concerns. Combined, these added 12 million hours in compliance burdens and increased aggregate out-of-pocket costs by \$165 million. Sometimes, when the government tries to help, it just ends up creating new problems for taxpayers.

<sup>14</sup> Brady, Demian. *Ibid.*

<sup>15</sup> Internal Revenue Service, “Supporting Statement: Form 4562 Depreciation and Amortization (Including Information on Listed Property),” July 27, 2021. Retrieved from: [https://www.reginfo.gov/public/do/PRAViewDocument?ref\\_nbr=202004-1545-027](https://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=202004-1545-027).

<sup>16</sup> Internal Revenue Service. *Supporting Statement: U.S. Income Tax Return for Individual Taxpayers*. January 21, 2022. Retrieved from: [https://www.reginfo.gov/public/do/PRAViewDocument?ref\\_nbr=202111-1545-013](https://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=202111-1545-013).

**Table 6. Form 1040 Form and Instruction Booklet Length**

Tax Year	Lines, Form 1040	Pages, Form 1040	Pages, Form 1040 Instruction Booklet
2021	38	2	230*
2020	37	2	218*
2019	24	2	216*
2018	23	2	221*
2017	79	2	220*
2016	79	2	215*
2015	79	2	211*
2014	79	2	209*
2013	77	2	206**
2012	77	2	214
2011	77	2	189
2010	77	2	179
2005	76	2	142
2000	70	2	117
1995	66	2	84
1985	68	2	52
1975	67	2	39
1965	54	2	17
1955	28	2	16
1945	24	2	4
1935	34	1	2

**Notes:**

*The 2021 tax complexity report incorrectly reported 37 lines for tax year 2020.*

*\*Starting in 2014, the 1040 Instructions no longer included instructions for Forms 8812 and 8949 and Schedules A, C, D, E, F, R, and SE. Totals include the count for the separately printed instructions.*

*\*\* Excludes one extra page in the IRS's online PDF version regarding donations for Philippines typhoon relief.*

**Table 7. Individual Income Tax Compliance Burden, 2017 – 2021 (in Billions)**

	Total Hourly Compliance Burden	Opportunity Cost of the Time Burden	Out-of- Pocket Cost	Net Tax Compliance Burden
2017	1.855	\$62.55	\$31.72	\$94.27
2018	1.784	\$60.75	\$31.76	\$92.51
2019	1.717	\$59.61	\$33.27	\$92.88
2020	1.995	\$72.28	\$37.96	\$110.24
2021	2.048	\$77.97	\$39.75	\$117.72

**Table 8. Individual Income Tax Compliance Burden per Response, 2017 – 2020 (Dollar Figures in Billions)**

	# of Responses (in millions)	Burden per Response	Burden per Response in 2020 Dollars
2017	152.9	\$616.53	\$654.95
2018	157.8	\$586.24	\$610.14
2019	159.3	\$583.06	\$597.56
2020	164.5	\$670.14	\$670.14
2021	163.6	\$719.56	\$687.25

It is also important to be aware that the experience of different taxpayers can vary greatly from the average time burden calculated by the IRS. Individuals have much lower time burdens than pass-through businesses that file individual income taxes.

**Table 9. Compliance Burden of the 1040 Form: 2020 vs. 2021**

	Filing for Tax Year 2020			Filing for Tax Year 2021		
	% of Returns	Average Time Burden	"Out-of-Pocket Cost"	% of Returns	Average Time Burden	"Out-of-Pocket Cost"
Non-business	70	8	\$140	72	9	\$160
Business	30	21	\$440	28	22	\$470
<b>Average for All 1040 Tax Filers</b>	<b>100</b>	<b>12</b>	<b>\$230</b>	<b>100</b>	<b>13</b>	<b>\$240</b>

Source: 1040 Instruction Form 2019 & 2020.

## Business Income Tax Compliance Burden

Partnerships and corporations file taxes using Business Income Tax returns. The compliance burden ticked up because of an increased estimate of the number of filers and also because the IRS revised both its time compliance and expense estimates. The Supporting Statement did not go into great detail on the technical changes apart from noting updates to its macro estimates. The increase in filers is undoubtedly due to the economic improvements since last year, and the upward revision of expenses is likely attributable to the upswing in inflation.

**Table 10. Business Income Tax Compliance Burden, 2017 – 2021 (Dollar Figures in Billions)**

	# of Responses (in Millions)	Total Hourly Compliance Burden (in Billions)	Opportunity Cost of the Time Burden	Out-of-Pocket Cost	Net Tax Compliance Burden
2017	11	3.04	\$102.51	\$53.64	\$156.15
2018	11.3	3.157	\$107.50	\$58.15	\$165.64
2019	12	3.344	\$116.10	\$61.56	\$177.66
2020	11.8	1.085	\$39.31	\$44.28	\$83.59
2021	12.3	1.138	\$43.32	\$48.30	\$91.63

## IV. Conclusion

The Supporting Statement for the Business Income Tax forms [notes](#) that the IRS's compliance burden model "does not include a taxpayer's tax liability, economic inefficiencies caused by suboptimal choices related to

tax deductions or credits, or psychological costs.”<sup>17</sup> Obviously, this applies across the tax code, not just to business taxes.

NTUF has quantified the opportunity costs associated with the vast amount of time spent on tax forms, but it is difficult to replicate this for the costs of potentially poor choices in use of credits or deductions, let alone the level of stress and even dread that the IRS can instill in taxpayers who did their best to abide by the law. Many filers go on to experience compliance burdens long after Tax Day if the IRS has questions about the forms they submitted.

There are people who intentionally underreport income or attempt to fraudulently claim deductions they are not eligible for, but with the rising complexity of our code and the confusion many taxpayers face, many of those who make innocent mistakes on their taxes are treated like criminals by IRS enforcement agents. NTU and NTUF have chronicled too many horror stories of this over the years. Yet what we generally see in Congress is more funding into enforcement while taxpayer services lag behind and tax simplification reforms are left by the wayside.

The IRS compliance with the Paperwork Reduction Act is important to help identify problem areas of the tax code, but the gaps in the data reported above indicate that more work is needed to quantify the time and expense burdens and make the data available in a timelier manner, and with more detailed transparency describing the changes such as the IRS did with its re-baselining explainer. Taxpayers can play a role in this by filling out taxpayer burden surveys and providing public comment on IRS forms as they cycle through the Federal Register for regular review.

Ultimately, the burden of fixing our cumbersome and increasingly complicated and confusing tax code rests upon the shoulders of lawmakers in Congress.

## About the Author

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<sup>17</sup> Internal Revenue Service. *Supporting Statement: U. S. Business Income Tax Returns*. January 24, 2022. Retrieved from: [https://www.reginfo.gov/public/do/PRAViewDocument?ref\\_nbr=202108-1545-016](https://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=202108-1545-016).



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