

## **Tax Time Should be Election Time: Moving Tax Filing Day Closer to Election Day**

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### **Introduction**

“Time heals all wounds” is usually offered as soothing advice to heart-broken lovers, but many spendthrift politicians have also embraced this axiom as they go about inflicting economic injuries upon taxpayers. A glance at a calendar and a quick calculation shows that the federal Tax Filing Day is exactly half-a-year away from the height of fall campaign season, when candidates are busy making grand policy promises. As a result, early filers may see eight months pass between dropping a return in the mailbox and dropping a vote card in the ballot box. This passage of time serves as a buffer for lawmakers against an eruption of discontent with the painfully-messy Tax Code. Unsurprisingly, taxpayers often end up with elected officials who give lip service to the idea of lower (or at least simpler) taxes, but rarely do these same politicians have to deal with the immediate consequences of failing to back up words with deeds.

Tax reformers who want to highlight the relationship between what Americans pay to the federal government and what they receive in return should advocate moving Tax Filing Day closer to Election Day, as it would likely have a positive impact on who is elected and what policy priorities are pursued by Congress. This Issue Brief seeks to explain the practicality, estimated costs, and possible policy outcomes of such a move.

### **Closing the Gap: Payment Upon Delivery**

It’s no secret that the federal government has structured the income tax system in a manner that attempts to lull taxpayers into complacency. For example, income tax withholding dulls the impact of the total tax bill, while issuing “refunds” gives the impression that taxpayers are getting extra money from the government when they are simply receiving their own money back without interest. Scheduling Tax Filing Day far away from Election Day conveniently serves a similar purpose: individuals working late into the night on April 14 may curse the politicians who dare to impose a monstrosity of a Tax Code, yet this frustration can seem a distant memory by election time, only to reemerge next April 15.

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As a response to the disconnect between tax filing time and election time, Representative Roscoe Bartlett (R-MD) introduced a bill (H.R. 77) to change the deadline for income tax returns for calendar-year taxpayers from April 15 to the first Monday in November. As Representative Bartlett has noted, “the first Monday in November not coincidentally is the day before Election Day.”<sup>1</sup> The point of this legislation is simple – to enhance the connection between the taxes paid and the politicians elected. In Representative Bartlett’s words:

I think it’s just common sense that the price we pay for our government – which is taxes – should be a top priority when Americans go to the polls to elect their Representative, Senators and our President. ...I think that Americans might make different choices if they have the price of government in their minds when they cast their ballots.

Government reformers have tried for more than half a century to develop performance review methods for the federal government, but try as they might, it would be hard to find a better individual standard of government performance than, “Did I get what I paid for in taxes from the people I elected last time around?”

### **History and Practicality: A Help, Not a Hindrance**

Skeptics of moving Tax Filing Day might note the permanence of April 15 as a date etched in modern taxpayers’ minds, but it isn’t set in stone. In fact, Congress has moved the date in the past. As explained by *Fortune* Magazine contributor Jessica Sung:

When the 16th Amendment, which allows Congress to institute the income tax, was adopted on Feb. 3, 1913, Congress chose March 1 – one year and a few dozen days later – as the deadline for filing returns. Then, with the Revenue Act of 1918, Congress inexplicably moved the date forward to March 15. The next overhaul came in 1955, when buried between tax-code revisions was yet another date change, this time to April 15.<sup>2</sup>

Congress is responsible for decreeing April 15 as Tax Filing Day, and it has the power to change it again.<sup>a</sup> In fact, Congress even received a recommendation from the National Taxpayer Advocate in 2003 to shift the filing due date ahead from April 15 to March 15 for certain partnerships and trusts in order to facilitate on-time filing from taxpayers who receive K-1 Schedules.<sup>3</sup> While the size, scope, and complexity of the Tax Code would make moving Tax Filing Day an admittedly large undertaking, it would be arguably far less complicated than other government goals, such as wiping out poverty through massive wealth transfers.

How would a date shift work? Imagine the move takes place between 2007 and 2008. Taxpayers would pay 2006 taxes on April 15, 2007 and wait until November 3, 2008 (the first Monday in November) to pay 2007 taxes. This move might even constitute a modest tax cut, as

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<sup>a</sup> In 1976 Congress moved the start of the fiscal year to October 1 from July 1, and handled the shift by creating a budget “Transition Quarter.”

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taxpayers owing money could earn interest on those funds for an extra seven months.<sup>b</sup> Taxpayers expecting a refund could adjust their withholding downward in order to see that money earlier than November. Either way, the Treasury receives revenue on a steady basis because of withholding and quarterly filings, which should preclude a shortage of funds (although a lack of funds has never stopped the federal government from financing spending through deficits).

### **Federal Costs: Minimal Pain, Maximum Gain**

Of course, cost should be at the forefront of almost any policy consideration. While no government body has put out a public cost analysis of H.R. 77 to date, it is possible to construct some of the internal IRS expenses associated with shifting Tax Filing Day. The following are some estimates of expected costs:

1. One IRS expense would be notifying taxpayers of the date change and offering customer support for resulting questions. A cost estimate for this can be calculated from a previous rule change notification and support system used after Congress increased the Child Tax Credit as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003. Essentially, the IRS sent separate notices and refunds to 25 million affected taxpayers at an estimated cost of \$30 million.<sup>4</sup> The average cost for postage, printing, programming, and answering customer calls was roughly \$1.20 per taxpayer. An equivalent notification and support system for all individual income tax returnees<sup>c</sup> would cost \$159.41 million, about one-half the price of the infamous “Bridge to Nowhere” to Gravina Island, Alaska.<sup>5</sup>
2. Another expected expense would come from updating IRS computers to reflect the new date, and an estimate can be derived from federal government expenditures for the “Y2K” (i.e., the onset of a new millennium) conversion. The IRS projected a cost of \$850 million through fiscal year 1999<sup>6</sup> for adjusting and testing its computer systems.<sup>d</sup> While the Y2K preparation focused on changing date-processing coding, simply substituting another tax filing date within the same coding system would likely come at a much smaller cost. A more-than-generous estimate would be half of the IRS’s Y2K preparation cost, or \$425 million.
3. A more comprehensive total can be compiled from the costs stemming from the 109<sup>th</sup> Congress’s late passage of a set of tax breaks after the IRS’s deadline for printing 2006 tax publications (which left the IRS with having printed out-of-date paper filing forms). The agency estimates that it will cost at least \$1.9 million to update IRS computers with the last-minute changes, along with handling increased customer

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<sup>b</sup> Moving filing forward (i.e. having taxpayers file 2006 taxes on April 15, 2007 and then file a partial 2007 year return on November 5, 2007) could constitute a slight tax increase, as some taxpayers would forgo personal interest on money that wouldn’t have been sent in until April 2008.

<sup>c</sup> The IRS processed 132,845,000 individual income tax returns in fiscal year 2005.

<sup>d</sup> Totalling over 80 mainframe computers, 75,000 computer application programs, 1,400 minicomputers, and 100,000 desktop computers, in addition to data communications networks comprising more than 50,000 individual product components.



service calls and dealing with late, incorrect, and amended returns for the estimated 13 percent of filers who use the paper forms.<sup>7</sup> Carrying the estimated cost out for the entire taxpaying population would result in a bill of roughly \$14.6 million. Changing the filing date is more complex than accommodating a late extension of tax breaks, but assuming that the latter course would be *one hundred times* more difficult for the IRS to manage, a revised cost estimate would amount to \$1.46 billion.

Disregarding any cost overlap or economies of scale, the combined cost of these three estimates is just over \$2 billion, and implementing the combined expenses would represent an 18.5 percent increase in the IRS's fiscal year 2007 budget request.<sup>8</sup>

### **State Costs: Manageable and Modest**

State governments would also incur expenses from the filing shift even though some states<sup>e</sup> do not have concurrent filing due dates with the federal government. During a transition, states could decide to move their filing day in line with the federal due date or opt to keep their current deadline in effect.

While every state is likely to incur different expenses, a general estimate can be derived by applying the overall 18.5 cost hike figure for the IRS to the agency of a large state that levies personal income taxes. For example, California's Franchise Tax Board received funds totaling \$705.7 million for the 2006-2007 budget,<sup>9</sup> and an 18.5 percent increase would equal \$130.6 million for transition costs.<sup>f</sup> Considering that California's economy accounts for over 13 percent of the nation's output,<sup>10</sup> and that some states do not have personal income taxes, a generous estimate for total state transition costs would be near \$1 billion. A combined federal-state government total could equal about \$3 billion, roughly the same amount enacted in Fiscal Year 2006 for Intramural Research at the National Institutes of Health.<sup>11</sup>

Shifting Tax Filing Day would also entail record keeping headaches and transition costs for private taxpayers and the business community. However, complying with the Tax Code already causes significant burdens for individuals and the private sector, to the tune of more than 6.4 billion paperwork hours imposed by the Treasury Department in fiscal year 2005 alone.<sup>12</sup> For the most part, the cost burden of our tax system is "externalized," i.e., the government "pays" relatively little to collect taxes but citizens and businesses pay a great deal to comply with the law. If greater cognizance of the tax law's complexity and cost creates sufficient outrage to make simplification a top election issue, then H.R. 77 will have paid for itself many times over.

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<sup>e</sup> Such as Virginia and Delaware, whose citizens must file by May 1.

<sup>f</sup> Interestingly, California's 2004-2005 budget gave the Franchise Tax Board \$10.2 million for administrative costs related to a tax amnesty program, which covered "costs resulting from increased customer service contact and notices, modifications to the processing functions and department systems, and \$2.3 million for a statewide marketing campaign."



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Furthermore, changes to the Tax Code are so commonplace now that everyone from tax software companies to payroll departments must cope with adjustments every year.<sup>8</sup> Might taxpayers be willing to put up with a few years of transition in return for future tax policy changes that could make filing taxes more transparent and simple? Very possibly.

### **The Outcome: Civic and Fiscal Dividends**

While Representative Bartlett's bill is a structural move, the shift would likely engender a climate more conducive to substantive tax cut/simplification policy changes. Past examples have shown that the timing of tax due dates can have an impact on policy. To give just one, for many motorists Virginia's much-despised car tax was (and still is) due on October 5, and the proximity of its due date to Election Day played a large part in the decision to cut the tax. Conversely, the Davidson County, Tennessee government delayed sending out property tax bills in fall 2006, and citizen-watchdogs have pointed out how conveniently this might have dampened taxpayer resentment that could have translated into support for a local property tax limit on the county's election ballot. On the federal scale, it is easy to picture an environment where politicians would give tax simplification and reductions a higher legislative priority.

Tax policy changes aside, there is another reason to support a tax filing shift: civic participation. Representative Bartlett makes an interesting argument by pointing out that "moving [Tax Filing Day] close to Election Day is one of the most effective ways to encourage more Americans to vote."<sup>13</sup> Any student of political science can tell you that one of the easiest ways to activate voters is to speak to their personal interest. What could speak more clearly to this interest than highlighting a tax system that takes a large chunk of income out of wallets across the country?

Moving Tax Filing Day closer to Election Day would underscore the connection between policy outcomes and political decisions, and it offers taxpayer advocates an additional structural approach to tax reform. The federal government may try to influence our behavior through the benefits and penalties woven into the Tax Code, but it is high time voters influence government's behavior by changing tax bill due dates. "Voting your pocketbook" could take on a whole other meaning.

#### *About the Author*

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<sup>8</sup> In fact, the National Taxpayers Union Foundation has published three publications on major tax changes within the last five years.

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## Notes

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- <sup>1</sup> Representative Roscoe Bartlett, News Release, “Rep. Roscoe Bartlett Reintroduces Bill to Move Tax Filing Day Before Election Day,” January 16, 2007.
- <sup>2</sup> Jessica Sung, *Fortune Magazine*, “Why is Tax Day April 15?” April 15, 2002, [http://money.cnn.com/magazines/fortune/fortune\\_archive/2002/04/15/321414/index.htm](http://money.cnn.com/magazines/fortune/fortune_archive/2002/04/15/321414/index.htm).
- <sup>3</sup> National Taxpayer Advocate, “2003 Annual Report to Congress,” December 31, 2003, [http://www.irs.gov/pub/irs-utl/nta\\_2003\\_annual\\_update\\_mcw\\_1-15-042.pdf](http://www.irs.gov/pub/irs-utl/nta_2003_annual_update_mcw_1-15-042.pdf).
- <sup>4</sup> Mary Mosquera, Government Computer News, “IRS Has Code Ready for Tax Refund Checks,” July 7, 2003, [http://www.gcn.com/print/22\\_17/22646-1.html](http://www.gcn.com/print/22_17/22646-1.html).
- <sup>5</sup> Ronald Utt, Heritage WebMemo #889, “The Bridge to Nowhere: A National Embarrassment,” October 20, 2005, <http://www.heritage.org/Research/Budget/wm889.cfm>.
- <sup>6</sup> Treasury Inspector General for Tax Administration, “Semiannual Report to Congress,” October 1, 1998 to March 31, 1999, [http://www.ustreas.gov/tigta/semiannual/semiannual\\_mar1999.htm](http://www.ustreas.gov/tigta/semiannual/semiannual_mar1999.htm).
- <sup>7</sup> Jill Barshay, *CQ Weekly*, “Congress Clears Tax Cut Too Late for 2006 IRS Forms,” December 18, 2006, <http://www.cq.com/display.do?dockey=/cqonline/prod/data/docs/html/weeklyreport/109/weeklyreport109-000002418374.html@allnews&metapub=CQ-WEEKLYREPORT&searchIndex=1&seqNum=29>.
- <sup>8</sup> Department of the Treasury, “Budget in Brief FY 2007,” <http://www.irs.gov/pub/irs-news/fy07budgetinbrief.pdf>.
- <sup>9</sup> State of California, “Enacted Budget 2006-07: State and Consumer Services,” <http://www.ebudget.ca.gov/Enacted/StateAgencyBudgets/1000/agency.html>.
- <sup>10</sup> The Legislative Analyst’s Office, “Cal Facts 2004: California’s Economy and Budget in Perspective,” December 6, 2004, [http://www.lao.ca.gov/2004/cal\\_facts/2004\\_calfacts\\_econ.htm](http://www.lao.ca.gov/2004/cal_facts/2004_calfacts_econ.htm).
- <sup>11</sup> Office of Management and Budget, “Program Assessment Rating Tool 2007 Budget,” February 2, 2006, <http://www.whitehouse.gov/omb/budget/fy2007/sheets/part.xls>.
- <sup>12</sup> David Keating, National Taxpayers Union Policy Paper 129, “A Taxing Trend: The Rise in Complexity, Forms, and Paperwork Burdens,” April 17, 2006, [http://www.ntu.org/main/press.php?PressID=829&org\\_name=NTU](http://www.ntu.org/main/press.php?PressID=829&org_name=NTU).
- <sup>13</sup> Representative Roscoe Bartlett, News Release, “Rep. Roscoe Bartlett Reintroduces Bill to Move Tax Filing Day Before Election Day,” January 16, 2007.