

THE BROOKINGS INSTITUTION

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PORTION – AUSTAN GOOLSBEE

MR. GOOLSBEE: It is April 5th. If you have not turned in your taxes, you have 12 days and depending on when your post office closes, you have 12 hours and six minutes to finish your taxes and turn them in. It is with that impending deadline that the proposal, that I will have coming out soon, comes in.

That is, when we begin to think about the complexities of filing your taxes and of tax reform, often the eye drifts toward the top of the income distribution where people are paying the alternative minimum tax. They are preparing their inheritance tax forms. They are talking with their estate and trust lawyers. I believe that there is a mass of people in the middle class who do not itemize, who are just the everyday American, who have a large compliance cost of doing their taxes that is completely and utterly pointless, as I will describe in a moment.

The typical person has a single job and a single bank account. The IRS already receives from your employer and your bank all the information that you fill out on your tax return. And yet, you just became the IRS's lowest paid employee. You are doing

their work for them. If you didn't fill it out, eventually, they will send you a notice that says: We noted you had wages of this amount. You had interest income of this amount. You owe us this much money.

Which leads you to ask: Well, why did you make me fill it out? Why didn't you just send me that to begin with?

Now, you might say: Well, a lot of these people get to fill out easier forms, the 1040EZ, the 1040A.

If you have ever filled out the 1040EZ form, the instruction manual is 36 pages long. It says EZ, but that doesn't make it easy. As I like to say, easy is misspelled on the form.

(Laughter)

The fact is my proposal that will come out is simply that the IRS take the information that it already has, speed up its processing, and send to anybody who is in a simple tax situation, that they have one basic job and they have one basic bank account. Send you your tax return, pre-filed. Now if you are paranoid, and you don't like it, you just crinkle it up and throw it away. It would be completely voluntary. But for any of the millions of people who would prefer not to have to either pay someone to do their taxes for them or get out the 36-page manual and figure out the tax table, you would simply take your W-2, look at it and say: Oh, yes, that is correct. You would sign it, and you would be done.

Now this policy has been enacted in some countries of Europe. In the past year, in California, they tried a pilot project, doing exactly this with California's state income tax. They have all been met with overwhelming success. The people who are given the

opportunity to do that, more than 95 percent of them say: I demand that you send me this again next year.

This policy in my study indicates that up to 40 percent of filers would be able to qualify for this. It could save as much as \$2 billion per year in tax preparer fees and as many as 250 million hours of taxpayers' time, which over the typical budget window, as I like to say, adds up to almost 5,000 lifetimes. So anybody, who says tax filing is not a matter of life and death, has not added up the numbers correctly.

This proposal would be a tax reform for everybody, rather than a tax reform geared just to those with very unusual tax situations. Bill Clinton put people first. Jon Gruber and Peter put savings first. My proposal is to put tax filing last. It doesn't necessarily fit, but that is the idea. Thank you.

(Laughter)

(Applause)