

More on Tax Law Complication

To the Editor:

Arthur P. Hall's article discussing the cost associated with the continual changes made to the Internal Revenue Code since 1954 ("The Cost of Unstable Tax Laws," *Tax Notes*, Nov. 7, 1994, pp. 759-768), states that two types of costs are imposed on the taxpayer by the continual changes in the tax laws. These costs are stated to be the uncertainty of economic activity and the tax law complexity which causes additional tax research and planning as well as "tax compliance and litigation."

Although stating that the continual changes in the tax law causes taxpayers to expend valuable resources on compliance, the mere change does not prove that those changes created or reduced the tax compliance burden. For example, there is probably no question that the elimination of several itemized deductions, such as those for sales and gasoline taxes, or the requirement that miscellaneous itemized deductions and medical expenses exceed 2 percent and 7.5 percent of adjusted gross income, respectively, have probably decreased the burden of tax compliance for many individuals who no longer itemize these deductions. Conversely, the enactment of the kiddie tax and passive activity limitations, just to name a few changes, has more than offset any small savings that may have occurred by the elimination of several itemized deductions. More recently, the increased complexity in the taxation of Social Security benefits will probably cause nightmares for those unfortunate enough to prepare their return by hand rather than by use of a computer program.

One way to determine the net effect of recent tax changes (and therefore provide support for Mr. Hall's premise that the tax laws have become more complex) would be to review Package X, Informational Copies of Federal Tax Forms, published annually by the Internal Revenue Service, which contains "most major tax forms." A comparison of number of tax forms included in Package X from 1980 to 1992 should give an indication of the proliferation of tax forms required by the changing tax law and thus indicate if legislative changes have caused either an increase or decrease in tax compliance.

I have compared the number of forms and schedules contained in Package X at four-year intervals, 1980, 1984, 1988, and 1992. Based on that comparison, it is easy to see the effect of legislative changes on tax compliance. Moreover, each new tax form added by the Treasury to Package X also adds burdens to taxpayers and their tax compliance professionals to learn both the law that was the underlying cause for the creation of a new form and how to properly prepare the new forms.

So how large was the increase in government forms and schedules between 1980 and 1992? The 1980 Package X contained one volume, had approximately 108 forms and schedules, and "only" 300 pages. The 1992 Package X was three volumes and had approximately 200 forms and 864 pages. The 1992 Package X would

be even larger in comparison to the 1980 version if it had included the federal gift tax return, Form 709, which was included in the 1980 Package X. The 1993 Package X was reduced to two volumes totaling 832 pages, not a significant reduction in pages from 1992.

The following chart is a comparison of the number of forms, volumes, and pages in Package X from 1980 through 1992.

	1992	1988	1984	1980
Forms	200	123	95	108
Volumes	3	2	1	1
Pages	864	540	354	300
Comparison to 1980				
Number of Forms	185%	114%	88%	100%
Number of Pages	288%	180%	118%	100%

Although Package X states that it contains most major tax forms, it is interesting that it does not contain either the federal estate tax form, Form 706, which contains approximately 15 forms and schedules, or (except in 1980) the federal gift tax form (Form 709), which contains one form and three schedules. The inclusion of these two forms would have added almost 20 additional forms and schedules to Package X for 1992 and contributed 76 pages of forms, schedules, and instructions. In fact, these are only a few of the numerous forms and schedules that are not included in Package X. One federal tax forms publication in 1993 includes over 600 forms and schedules as compared to the approximately 200 in Package X, although some of the 600 may not be current forms.

The above chart does not attempt to count the large number of worksheets that are used in place of what would otherwise be official forms or schedules. These include such common worksheets as the calculation of taxable Social Security benefits or passive activities and alternative minimum tax passive activity loss carryovers. If the worksheets were included, the proliferation of government forms would be much greater than as indicated above.

One can only wonder what our elected officials in Washington must be thinking every time they change the tax laws. As Mr. Hall's article points out, by continually changing the tax laws, Congress has placed additional burdens on the tax system, and these changes have yet to accomplish meaningful tax simplification.

Sincerely,

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