



75-0119



*REPORT TO
THE JOINT COMMITTEE
ON INTERNAL REVENUE TAXATION
CONGRESS OF THE UNITED STATES*

**Mandatory Tax Withholding
Recommended For
Agricultural Employees**

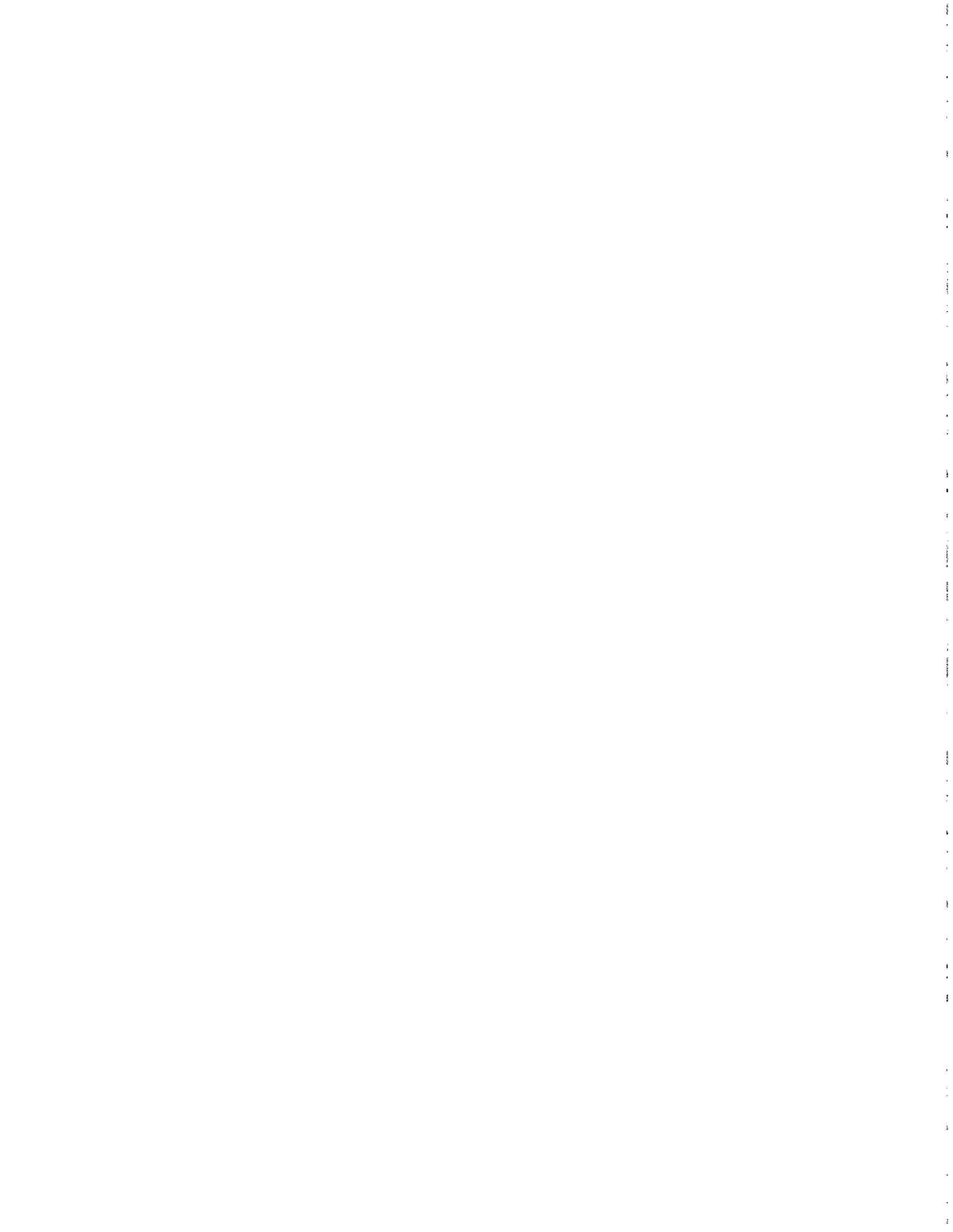
Internal Revenue Service
Department of the Treasury

*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

GGD-75-53

702290

MARCH 26, 1975





COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-137762

Chairman and Vice Chairman
Joint Committee on Internal Revenue Taxation
Congress of the United States

This is one of a series of reports in response to a request of the Joint Committee on Internal Revenue Taxation. We are reporting on the need for mandatory tax withholding for agricultural employees.

We are sending copies of this report to the Director, Office of Management and Budget; the Secretary of the Treasury; and the Commissioner of Internal Revenue.

As authorized by the Committee, we are distributing the report to others without restriction.

A handwritten signature in cursive script, reading "James P. Stacks".

Comptroller General
of the United States



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ABBREVIATIONS

GAO	General Accounting Office
IRS	Internal Revenue Service

COMPTROLLER GENERAL'S REPORT
TO THE JOINT COMMITTEE ON
INTERNAL REVENUE TAXATION
CONGRESS OF THE UNITED STATES

MANDATORY TAX WITHHOLDING
RECOMMENDED FOR
AGRICULTURAL EMPLOYEES
Internal Revenue Service
Department of the Treasury

D I G E S T

WHY THE REVIEW WAS MADE

The Joint Committee on Internal Revenue Taxation asked GAO to review certain activities of the Internal Revenue Service (IRS). This report is one of a series in response to that request.

During the preliminary phase of its review, GAO found that both IRS and agricultural employees faced significant problems related to the reporting of income and payment of taxes. Agricultural employees do not pay taxes on a pay-as-you-earn basis.

GAO, therefore, investigated how much use was being made of the voluntary withholding and declaration of estimated income tax provisions of the Internal Revenue Code and how this use affected the problems noted by GAO.

FINDINGS AND CONCLUSIONS

There was only limited use of the Internal Revenue Code provision for voluntary withholding of Federal income tax from agricultural wages. In four IRS districts reviewed, about 75 percent of the agricultural employees did

not have income taxes withheld. (See pp. 4 and 5.)

Income tax records for agricultural employees showed that many of them

--were not filing income tax returns,

--were not reporting all or part of their agricultural wages,

--owed large--relative to their income--yearend Federal income tax payments, or

--were not paying tax due when filing their tax returns. (See pp. 5 and 6.)

Few agricultural employees required to do so filed a declaration of estimated income tax and made quarterly payments. Of the 240 persons whose individual returns were examined, 69 persons were required to file a declaration and pay an estimated income tax; however, 46 persons failed to do so. (See p. 6.)

Failure of some employees to file tax returns or to report agricultural wages on their annual income tax returns can be linked to nonwithholding of Federal income tax from such wages.

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Exclusion of agricultural wages from mandatory withholding and the limited use of voluntary withholding or of declaration of estimated income tax results in many workers facing the difficulty of making relatively large tax payments--averaging about 3 weeks wages--when they file their tax returns. This plight sometimes leads to tax delinquencies and to collection problems for IRS. (See pp. 6 to 8.)

Withholding Federal income taxes from agricultural wages would ease problems of agricultural employees by placing them on a pay-as-you-earn basis similar to other wage earners, lessen IRS collection problems, and reduce revenue loss resulting from unreported agricultural wages. (See p. 15.)

GAO discussed the desirability of mandatory withholding with a group of agricultural employers in the midwest and western regions. Most said that they would be agreeable to withholding taxes from their employees' wages. Some said mandatory withholding would probably be a more convenient and efficient way for employees to pay their taxes. (See pp. 13 and 14.)

RECOMMENDATIONS

GAO's recommendation for revising the Internal

Revenue Code of 1954 is presented as a matter for consideration by the Joint Committee on Internal Revenue Taxation.

AGENCY ACTIONS AND UNRESOLVED ISSUES

The Commissioner of Internal Revenue, by letter dated January 4, 1975, said IRS concurs in GAO's findings and recommendation. (See app. I.)

MATTERS FOR CONSIDERATION BY THE JOINT COMMITTEE

GAO recommends that the Joint Committee initiate legislation revising chapter 24 of the Internal Revenue Code of 1954, as amended, to include remuneration received as agricultural wages in the Federal income tax withholding system.

To avoid unnecessary burdens on employers who only occasionally hire agricultural employees, the Committee may wish to include in the revision criteria similar to those governing payment of social security taxes by agricultural employers.

Such criteria would require mandatory withholding by employers who either have paid one or more agricultural employees \$150 in cash wages in a year or have employed one or more agricultural employees for 20 or more days during the year for cash wages. (See p. 16.)

CHAPTER 1

INTRODUCTION

In a June 18, 1973, letter to the Comptroller General, the Joint Committee on Internal Revenue Taxation asked us to make studies of various Internal Revenue Service (IRS) activities.

This report stems from that request and is based on information developed during our study of IRS' audit of tax returns. Additional reports in response to the Joint Committee's request are being prepared.

INDIVIDUAL INCOME TAX FILING AND PAYMENT REQUIREMENTS

Various sections of the Internal Revenue Code and IRS regulations established under the code provide rules for filing individual tax returns and methods for paying tax due to the Government.

Filing requirements for U.S. citizens or residents depend upon income, age, and marital status.

Single individuals must file if their gross income was \$2,050 or more for the year. If they are 65 or older, the requirement is \$2,800. Individuals eligible to be another taxpayer's dependent must file if they had gross income of \$750 or more and received any unearned income during the year.

Married persons must file if their combined gross income was \$2,800 or more provided they file a joint return and are living together at the close of the tax year. The requirement is \$3,550 if either husband or wife is 65 or older and \$4,300 if both are 65 or older.

Self-employed persons, regardless of age, must file a return if their net earnings from self-employment were \$400 or more.

The Internal Revenue Code states that, when a tax return is required, the person required to make the return shall, without assessment, notice, or demand, pay such tax when filing the return. The tax is either collected at the source--withholding--or paid by at least quarterly installments through a declaration of estimated income tax. Any tax above that withheld or paid on the basis of a declaration is due at the time of filing.

During fiscal year 1973, taxes withheld by employers accounted for 79 percent of the total individual income taxes collected by IRS.

The Internal Revenue Code requires employers to deduct and withhold specified amounts of taxes from wages subject to withholding; however, agricultural wages are exempt from withholding.

In 1969 there were approximately 2.6 million individuals performing agricultural wage work, either full or part time, whose wages were specifically excluded from all Federal income tax withholding provisions of the law. The Congress, recognizing that this lack of withholding could result in a substantial and burdensome final tax payment for agricultural employees, initiated remedial action under the Tax Reform Act of 1969 (Public Law 91-172). Effective June 30, 1970, Federal income tax was allowed to be voluntarily withheld from agricultural wages, that is, when both employer and employee agreed.

IRS informed us that concern about overwithholding from part-time agricultural employees was the principal reason that it supported a voluntary, rather than a mandatory, withholding system in 1969.

Besides tax payments made through withholding, the Internal Revenue Code provides that persons whose estimated tax is \$100 or more and who receive more than \$500 in income not subject to withholding must file a declaration of estimated income tax.

AGRICULTURAL EMPLOYMENT

The Internal Revenue Code defines agricultural labor, in part, as services performed

- on a farm, raising or harvesting agricultural or horticultural commodities,
- in the care of the employer's farm and equipment if performed on a major part of a farm,
- in the employ of the farm operator in handling, processing, or packaging any agricultural or horticultural commodity if the operator produced over half the commodity, and
- in connection with cotton ginning or turpentine or gum resin products.

The Department of Agriculture reported that in 1973 about 2.7 million individuals were performing agriculture work full or part time. Average employment was 95 days and average earnings were \$1,412. The 421,000 full-time employees averaged 310 days and \$4,696.

Agricultural employees have been excluded from many labor standards and social insurance protections provided to other employees. A notable exception was the amendment of the Federal Insurance Contribution Act in 1951 to provide for social security coverage for most agricultural employees. However, agricultural employees continue to be denied benefits under other programs including

- unemployment insurance;
- workmen's compensation in most States;
- the National Labor Relations Act, which protects workers in most industries while joining unions and in collective bargaining;
- minimum wages under the Fair Labor Standards Act unless they are employed on large farms; and
- Federal income tax withholding unless the worker and employer agree to withhold such taxes.

Exclusion of agricultural employees from these programs has been justified on the basis that employing units were small and scattered and that administration and enforcement would be difficult. In recent years, however, consolidation has steadily decreased the number of small farms.

RECORDKEEPING AND REPORTING REQUIREMENTS FOR AGRICULTURAL EMPLOYERS

Agricultural employers are required to record agricultural wages earned and social security taxes withheld for employees subject to social security, deposit taxes collected in authorized depositories, and provide employees at the end of the calendar year with a record of earnings and social security taxes withheld.

Currently, agricultural workers who earn \$150 or more in cash wages or who worked 20 or more days during the year for any amount of wages for an agricultural employer are subject to social security taxes. Agricultural employers must file an annual tax return with IRS reporting these earnings. In addition, Federal income tax collected under the voluntary withholding provision is also reported to IRS on the annual return.

CHAPTER 2

TAX PROBLEMS OF AGRICULTURAL EMPLOYEES

Wages of agricultural employees are only withheld subject to agreement by both the employer and the employee. Because use of voluntary withholding was limited, tax administration is adversely affected and employees have financial problems at the end of the year. Making a declaration of estimated tax and quarterly payments, commonly done by persons whose income is not subject to withholding, does not seem to be a satisfactory alternative for agricultural employees.

LIMITED USE OF VOLUNTARY WITHHOLDING

To see what use was being made of the voluntary withholding provisions for agricultural wages authorized by the Tax Reform Act of 1969, we examined 200 randomly selected Forms 943, Employer's Annual Tax Return for Agricultural Employees, filed for 1972 at 4 IRS districts. These returns covered social security and withheld income tax and, because social security laws require a return for nearly all agricultural employees, their situation with regard to withholding of income tax can be readily ascertained.

The four districts--Des Moines in the midwest region and Honolulu, Los Angeles, and San Francisco in the western region--accounted for about 13 percent of the agricultural returns IRS received in recent years.

Of the 200 employers, 193 did not withhold income tax from their employees' wages. Using statistical techniques we estimated at the 95-percent confidence level that not more than 5 percent of the agricultural employers in the Des Moines district and not more than 9 percent of all agricultural employers in the Honolulu, Los Angeles, and San Francisco districts were withholding Federal income tax from agricultural wages.

Approximately 1,700 employees were covered by selected employer returns and about three-quarters worked for employers who did not withhold Federal income tax.

There has been a question of whether withholding would place special burdens on those agricultural employers who employ only a few persons. Therefore, we compared, in terms of numbers of employees, the agricultural employers in our sample with nonagricultural employers.

The 200 agricultural employers in our sample did not differ greatly from nonagricultural employers in the

United States. The Department of Commerce reports that about 42 percent of the nonagricultural employers had one to three employees and about 22 percent had four to seven employees. Fifty-six percent of the agricultural employers in our sample also had one to three employees and 14 percent had four to seven. The remainder had 8 to 100 or more.

EFFECT ON TAX ADMINISTRATION

To analyze how the lack of mandatory withholding has affected the collection of income taxes by IRS, we selected 385 persons working for the 193 employers who did not withhold Federal income tax from wages and examined their filing status. IRS had returns filed by 240 persons. The other 145 had not filed.

Nonfilers

Of the 145 employees not filing, 19 should have under IRS requirements. Their agricultural wages as reported by employers ranged between \$2,800 and \$6,630.

The remaining 126 employees would not have been required to file on the basis of agricultural wages reported on the selected employment returns under IRS' filing requirements. However, agricultural employees often work for more than one employer, and some of them might have received other wages which would have brought their income to a level requiring a return and payment of tax.

Unreported income

Although 240 employees filed returns, 29 did not report all their agricultural wages--the unreported wages received from employers in our sample ranged from \$28 to \$1,233. Nineteen employees would have owed additional Federal income tax--the amounts ranging from \$6 to \$220, or an average of \$56 a return.

Most taxpayers filing a return but not reporting all their agricultural wages were part-time agricultural employees who had another, primary, source of income.

As noted previously, agricultural employees may work for more than one employer and possibly some of these employees were paid other wages which they failed to report. One taxpayer, not reporting all income, received agricultural wages of \$6,181 from an employer in our sample. However, he did not report \$991 received from another. Proper reporting would have increased his tax liability by \$170.

Collection delinquencies

The absence of withholding appears to have resulted in greater collection problems. Of the 240 employees in our sample who filed returns, 85 owed Federal income tax at filing time. Twenty-two did not make full payment at the time of filing, for a tax delinquency rate of 26 percent. This rate is much higher than the rate for individual taxpayers, which normally averages about 2 percent.

DECLARATION AS AN ALTERNATIVE TO WITHHOLDING

Agricultural employees not using withholding may be required to file a declaration of estimated income tax and make quarterly payments on the basis of their estimate. The Internal Revenue Code provides that persons whose estimated tax is \$100 or more and who receive more than \$500 in income not subject to withholding must file such a declaration.

Of the 240 employees filing returns, 69 appeared to meet the requirements for filing a declaration and paying an estimated income tax. However, 46 failed to do so.

There are several problems associated with the declaration of estimated income tax by agricultural employees. Agricultural income varies yearly because crop conditions vary, farm employment is often used only to supplement other income, and full-time agricultural employees often shift to and from industrial jobs.

Under these circumstances, agricultural employees may be understandably reluctant to commit part of their income to the Government before they earn it. Also, many may not understand filing requirements.

In any event collecting taxes on a current basis through declarations does not appear to be a satisfactory alternative to withholding.

EFFECT ON TAXPAYERS

Full-time employees 1/ are particularly affected by the lack of withholding or payment of estimated income tax

1/ For purposes of this report we have classified persons receiving more than half of their income from agricultural wages as full-time employees.

because the amount of money needed to pay their Federal income tax at the time of filing is large relative to their income.

Forty-nine percent of the full-time agricultural employees whose returns were reviewed owed Federal income tax when filing their 1972 returns. Their reported average adjusted gross income was about \$6,807, and the Federal income tax due ranged from \$12 to \$3,478, or about 3 weeks' wages for the average employee. About \$5,063 of the average gross income was from agricultural wages and the applicable tax averaged \$198 a return.

For example, one taxpayer had an adjusted gross income of \$3,998 solely from agricultural wages. His tax liability was \$297, about 4 weeks' average wages. Since none of his wages had been subject to withholding, the total amount was due when he filed his return. Another taxpayer had an adjusted gross income of \$10,740, including \$10,515 from agricultural wages. His tax liability was \$1,309, of which \$1,267 was attributable to agricultural wages. Because taxes were not withheld from his agricultural wages, the taxpayer owed \$1,182, or about 5-1/2 weeks' average wages, when he filed his return.

The full-time agricultural employees who did not owe Federal income tax at the time of filing averaged about \$3,800 in adjusted gross income. In most cases, they did not owe any tax because allowances for personal exemptions and deductions offset their income. When there was a tax liability, amounts withheld from nonagricultural wages were adequate to cover the tax due.

Part-time agricultural employees whose principal source of income is other than agricultural wages are less affected by nonwithholding from agricultural wages because their total income is generally higher and Federal income tax withheld from nonagricultural wages often offsets most or all the tax liability attributable to their agricultural wage income. However, occasionally these workers also must make significant additional payments when filing because their total agricultural and nonagricultural income places them in a higher tax bracket.

Eighteen percent of filers in this category owed additional Federal income tax compared with 49 percent for filers whose main source of income was from agricultural wages. When tax was due, nonwithholding from agricultural wages caused part or all of the amount owed at the time

of filing. The additional Federal income tax applicable to agricultural wages ranged from \$2 to \$525--an average of \$87 a return. In most cases these employees would have received a tax refund, except for the inclusion in gross income of agricultural wages on which no tax was withheld.

For example, one taxpayer had an adjusted gross income of \$10,466, including \$4,804 in agricultural wages. His tax liability was \$1,265 of which \$762 was attributable to agricultural wages. He had \$740 withheld from his non-agricultural wages; however, since his agricultural wages had not been subject to withholding, the balance due on his tax liability was \$525.

Another taxpayer had an adjusted gross income of \$15,924, including \$1,211 in agricultural wages. His tax liability was \$2,360 of which \$273 was attributable to agricultural wages. This taxpayer had had \$2,127 withheld from his nonagricultural wages; however, since his agricultural wages had not been subject to withholding, the balance due on his tax liability was \$233.

As noted previously the tax delinquency rate was much higher for taxpayers who received income from agricultural wages than for individual taxpayers generally. Inability to pay at the time of filing subjects the taxpayer to interest on the tax due and places an additional burden on sometimes marginal and uncertain income.

CHAPTER 3

PROBLEMS IDENTIFIED BY IRS DUE TO LACK OF

WITHHOLDING FROM AGRICULTURAL WAGES

During 1969 the IRS western region studied the problems of securing agricultural employees' delinquent income tax returns and collecting delinquent income tax accounts. The region concluded that extending the withholding tax system to the agricultural industry was needed to

- treat agricultural employees equally with other employees,
- provide a more equitable and less burdensome method for farm laborers to pay their income taxes,
- alleviate the significant IRS collection problem and cost of collecting or trying to collect delinquent accounts, and
- collect millions of dollars in tax revenue annually which are now uncollected.

The western region recommended that the IRS national office support extending the mandatory withholding system to agricultural employees. Alternatively, their report recommended that IRS support the proposed voluntary withholding amendment, which the Congress subsequently approved.

A summary of major points of the study follows.

AGRICULTURAL EMPLOYEES UNABLE TO PAY FEDERAL INCOME TAX DUE

The study reported that:

- The western region's agricultural employees' tax delinquency and collection problems are disproportionate with most occupational groups.
- The tax collection problem concerning agricultural employees is fostered by their type of work, lack of income tax withholding, and absence of financial and management ability.
- Agricultural employees who voluntarily file income tax returns usually cannot fully pay the tax at the time of filing.

Further, because of their itinerant nature and because of irregular, seasonal crop harvests, the great majority do not comply with estimated tax requirements of the law. A hardship is often imposed on the agricultural employee when, by permission or enforcement action, IRS collects the tax in one lump sum.

Even if the tax is collected by partial payment or through a levy on current wages, collection of delinquent taxes by field offices is not initiated until October or November because of time required to process delinquent tax notices and normal office processing time. Consequently, the delinquent taxpayer may pay the past year's tax liability but cannot pay the current year's liability. A delinquent account which is not collected during the current farming season usually is carried into the following year. This creates a chain reaction in which the taxpayer becomes, and remains, delinquent for all subsequent years--an insurmountable psychological burden for him.

In various States in the region some agricultural employees had an outstanding account for years with an accumulated tax liability of several thousand dollars. When taxpayers were making payments on the delinquent taxes, the delinquent taxes could not be paid in full before the current tax year's liability was due.

Many delinquent taxpayers contacted by revenue officers indicated they wanted taxes withheld from their wages to alleviate their continued problem. Other delinquent taxpayers indicated they had no intention of paying the taxes unless forced to. Also, when a payment arrangement was worked out or a levy served on current wages, the taxpayer immediately left his job without a forwarding address and IRS' collection activity started over again. Some agricultural employees used other devious ways to avoid tax payment, such as using a different social security number and name with each employer.

The IRS study included numerous letters from farm employers and farm organizations commenting on the desirability of withholding taxes from agricultural employees' wages. The letters indicated that these groups generally endorsed mandatory withholding from farmworkers' wages.

COST TO COLLECT DELINQUENT TAXES AND REVENUE LOST

The examples presented in the IRS study illustrated not only hardship and inconvenience on taxpayers but a costly

collection problem for IRS. In 1968, the region had about 20,470 taxpayer delinquent accounts issued on agricultural employees in the amount of \$5,984,937. During the year the region collected approximately \$3,424,696 of the agricultural employees' delinquent income tax accounts at an estimated collection cost of \$541,125. The region wrote off 5,016 of the delinquent agricultural accounts as uncollectible--an approximate revenue loss of \$1,360,032.

The study also identified a second category of agricultural employee, the nonfiler, which compounds the tax collection problem and results in a significant revenue loss. The agricultural employee's nonfiling is encouraged by the transient nature of his work. Therefore, it is difficult, and frequently impossible, to monitor agricultural employees' income to enforce the income tax law. It is also very costly to obtain delinquent returns from them. Further, tax deficiencies on delinquent returns secured and assessed create a difficult tax collection problem. A very high percentage of this tax is never collected.

The region had each district office estimate the amount of revenue loss from nonfiling agricultural employees. The district offices estimated that about \$19 million was lost in 1968 due to the nonfiling of income tax returns by agricultural employees.

The study concluded that the cost of collection, the amount of accounts reported as uncollectible, and the dollar revenue loss from nonfilers cost the western region an estimated \$21 million in 1968 because of the lack of withholding on agricultural employees. The total does not include loss revenue from taxpayers who reported no tax liability or who paid in full when filing, but who did not report all agricultural wages.

CURRENT STATUS OF PROBLEMS IDENTIFIED IN 1969

The western region has not updated the 1969 study, nor are statistics readily available to update collection costs or revenue loss. However, a western region official stated that the problems reported in the 1969 study stemming from the lack of mandatory withholding on agricultural employees were still significant in 1974. He estimated that currently 40 to 50 percent of the region's collection accounts written off relate to agricultural employees. The official stated that the 1969 tax law revision which provided a voluntary withholding provision has had only a slight impact on the problems found in 1969.

He also stated that since 1969 delinquency notices to district offices have been issued more promptly, increasing the possibility of collecting taxes during the farming season. However, this does not resolve the problem which requires a revenue officer to collect the taxes.

CHAPTER 4

EMPLOYERS' VIEWS ON WITHHOLDING

Comments obtained from agricultural employers not currently withholding Federal income tax indicated that both the employee and employer have made limited use of the voluntary withholding provisions. However, most agricultural employers stated that mandatory withholding would not create a significant burden. In addition, some employers indicated that mandatory withholding is needed to eliminate problems for workers whose wages are presently not subject to withholding.

We contacted 21 agricultural employers in the midwest and western regions who had not withheld Federal income tax on agricultural wages paid in 1972. They employed an average of eight regular and seasonal agricultural employees during 1972. The following reasons were given for not withholding Federal income tax:

- Eleven employers stated that, although employees were informed that Federal income tax could be withheld, the employees did not request that tax be withheld.
- Eight employers stated that they did not inform employees that Federal income tax could be withheld. Two of the eight decided that the employees did not need withholding because the employees were students or retirees. One employer stated that he has to pay the employees' share of social security because employees demand a certain clear salary. He fears that, if withholding is required, he would have to raise salaries so employees would continue to clear the same amount. Another employer stated that although he did not object to withholding, he felt it might interfere with his ability to attract and keep employees.
- Two employers were unaware that Federal income tax could be withheld from agricultural wages. One stated that he hires mostly foreigners who generally do not know what is being taken out of their wages. He doubted that withholding taxes would cause him any problem with employees.

A number of employers commented further on the benefits or problems of withholding:

- Most employers indicated a willingness to withhold Federal income tax. Several of them commented that withholding should, however, apply only to full-time employees.
- Three employers stated that mandatory withholding is a good idea; one stating that it would ease the employees' tax payment burdens.
- Most employers felt that withholding would not cause any bookkeeping problems. One specified that it would not be a problem because he already had to collect and report on social security. A few employers expressed concern over the additional bookkeeping which would be required.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATION

CONCLUSIONS

In 1969 the Congress enacted legislation permitting voluntary withholding of Federal income taxes as a means of overcoming the substantial and burdensome final tax payments of individuals, such as agricultural employees, whose wages were not subject to mandatory withholding. Agricultural employers and employees have made little use of the voluntary withholding provision. As a result many employees still have difficulty paying their taxes when they file returns, particularly those whose income is primarily agricultural. This plight sometimes has led to tax delinquencies and collection problems for IRS and can be linked to the failure of some employees to file income tax returns or to report agricultural wages.

Although agricultural employees could reduce the yearend lump sum tax payment by making quarterly estimated tax payments, they do not do so. It is difficult for them to accurately project annual income and to determine whether a tax would be due because of irregular or seasonal wages. Also it may be that in some cases they are incapable of determining estimated tax payments without assistance, probably at a cost to them.

We believe that both the Federal Government and agricultural employees would benefit from a system of mandatory withholding of Federal income tax from wages earned by agricultural employees.

Present requirements for collecting social security taxes by agricultural employees could serve as criteria for mandatory withholding of Federal income taxes from the wages of such employees. In this case, additional deduction of Federal taxes would not significantly burden employers because the reports now required to meet the social security reporting and payment requirements would also be used to report and pay taxes withheld.

Also, since voluntary withholding for agricultural employees was instituted, two notable improvements in the withholding system have been made:

- An exemption from withholding in situations where the employee files a statement with his employer indicating that he was nontaxable for the preceding year and expects to be nontaxable for the current year.

--An alternative method of withholding for persons who are only periodically employed and may be taxable, but for whom withholding under the regular system would be excessive.

These changes reduce the chances of overwithholding, an underlying concern when the voluntary system was enacted.

RECOMMENDATION TO THE JOINT COMMITTEE
ON INTERNAL REVENUE TAXATION

We recommend that the Joint Committee initiate legislation to revise chapter 24 of the Internal Revenue Code of 1954, as amended, to include remuneration received as agricultural wages in the Federal income tax withholding system.

To avoid unnecessary burdens on those agricultural employers who only occasionally hire agricultural employees, the Committee may wish to include in the revision criteria similar to those now applicable to payment of social security taxes by agricultural employers. Such criteria would require mandatory withholding by employers who either have paid one or more agricultural employees \$150 in cash wages in a year or have one or more agricultural employees who have worked 20 or more days during the year for cash wages.

- - - -

The Commissioner of Internal Revenue, by letter dated January 4, 1975, said IRS concurs in our findings and recommendation.

CHAPTER 6

SCOPE OF REVIEW

Our review included:

- Reviewing the use of the provision of the Tax Reform Act of 1969 authorizing employers and employees to enter into voluntary agreements to withhold Federal income tax from agricultural wages and the effect of nonwithholding on the payment of Federal income taxes by agricultural employees. We obtained appropriate information from the Social Security Administration to identify employees who worked for the employers in our sample.
- Analyzing agricultural employer's returns filed for 1972 by 200 employers residing in areas covered by the Des Moines, Iowa, district office in the IRS midwest region and the Honolulu, Hawaii, and Los Angeles and San Francisco, California, district offices in the IRS western region.
- Analyzing individual income tax returns filed by 240 agricultural employees listed on employer's returns.
- Interviewing IRS personnel responsible for the activities discussed in this report. We also interviewed selected agricultural employers to obtain their views on mandatory withholding.

We provided IRS officials with a list of potential discrepancies found during our review of individual tax returns for whatever action they deemed necessary.

We made our review primarily at IRS' national office in Washington, D.C., and its service centers in Kansas City, Missouri, and Fresno, California.



Department of the Treasury / Internal Revenue Service / Washington, D.C. 20224

Commissioner

JAN 4 1975

Mr. Victor L. Lowe
Director
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

This is in response to your letter of December 5, 1974, in which you asked for our comments on your draft report to the Joint Committee on Internal Revenue Taxation entitled "Tax Problems of Agricultural Employees."

As indicated in your report, the Service does have significant tax delinquency and collection problems with respect to underreporting on individual income tax returns of wages paid for farm labor. On the basis of the figures published by the Department of Agriculture which show substantial increases in recent years in average daily wages paid hired farm workers, as well as in the average number of days worked per year, it seems reasonable to assume that our collection problems in this area will increase unless steps are taken to correct the situation.

We hoped that the legislation enacted in 1969 to permit voluntary withholding of Federal income taxes from wages paid for farm labor would serve to mitigate our collection problems in this area. Unfortunately, reports now indicate that relatively few employees have taken advantage of the option to voluntarily request that income tax be withheld from their wages since it became available.

The principal reason for recommending in 1969 the enactment of legislation for voluntary, rather than mandatory withholding was that we were concerned about overwithholding that would result from imposition of the regular wage withholding system due to the seasonal, or part-time nature of the employment for a large percentage of farm workers. However, there have been two notable improvements in the withholding system since voluntary withholding was recommended, that now offer relief from overwithholding attributable to seasonal, or part-time, employment.

First, section 3402(n) of the Internal Revenue Code, enacted under the Revenue Act of 1969, provides for an exemption from withholding in situations where the employee files a statement with his employer to indicate that he

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was nontaxable for the preceding taxable year and expects to incur no income tax liability for the current year. This would provide the means for relieving from withholding a large percentage of those individuals who are engaged in farm labor on a seasonal basis.

For those who are in and out of the labor market, who may be taxable, but for whom the regular withholding system would withhold an excessive amount of tax, relief is available under the regulations which provide an alternative method of withholding in the case of part-year employment. Under this alternative, if an employee requests that the amount of tax to be withheld from his wages be computed according to the part-year employment method, an employer may determine the amount of tax to be deducted and withheld after considering the period of unemployment preceding the period of employment.

Even using the regular wage-bracket table method of withholding, lower income employees who claim all of their allowable exemptions on the Employee's Withholding Exemption Certificate (Form W-4) will have little or no income tax withheld from their wages. For example, a single person who is paid on a weekly basis, who claims the two exemptions for withholding that he is entitled to (one for himself and the special withholding allowance) will have no income tax withheld if his wages are less than \$40. Similarly, a married person with a wife and two children who is paid on a weekly basis and who claims four exemptions for himself and family plus the special withholding allowance would have no income tax withheld until his wages exceeded \$84.

In view of the continuing and possibly increasing compliance problem with respect to farm wage workers, we concur in your recommendation that consideration be given to the enactment of legislation providing for an extension of mandatory income tax withholding to wages paid for agricultural labor. The availability of exemption from withholding under Code section 3402(n) and the alternative method of withholding for part-year employment should allow overwithholding in the case of low income workers to be avoided or kept within reasonable limits. The additional burden imposed on employers of farm workers could be minimized by limiting mandatory income tax withholding to employees whose wages are subject to social security tax under chapter 21 of the Internal Revenue Code.

With kind regards,

Sincerely,



Commissioner

Form 943 Department of the Treasury Internal Revenue Service	EMPLOYER'S ANNUAL TAX RETURN FOR AGRICULTURAL EMPLOYEES (For Social Security (FICA) and Withheld Income Tax)	1974
SCHEDULE A.—Annual Report of Taxable Cash Wages Paid for Agricultural Labor		
Total pages of this return including this page and any pages of Form 941a ▶ 1		Total number of employees listed ▶ 1
List each employee (a) to whom you paid \$150 or more cash wages in the year for agricultural labor or (b) who performed agricultural labor for you on 20 or more days during such year for any amount of cash wages computed on a time basis. Do not list any employee who does not meet either of these tests. If you paid an employee more than \$13,200 in this year, report only the first \$13,200 paid to that employee. If you paid wages for any services other than agricultural labor, do not report such wages on this form. See instructions.		
Save time and money—If your report shows each employee's name and number exactly as they appear on his social security card, it will not be necessary to write back to you to ask for the correct information.		
1. EMPLOYEE'S SOCIAL SECURITY NUMBER <small>(If number is unknown, see instructions)</small> 000 00 0000	2. NAME OF EMPLOYEE <small>(Please type or print)</small>	3. TAXABLE FICA WAGES <small>Paid to employee in year (before deductions)</small> Dollars Cents
111 11 1111	John Doe	3,000 00
If you need more space for listing employees, use Schedule A continuation sheets, Form 941a.		Total wages reported in column 3 on this page \$ 3,000 00
4. Total wages taxable under FICA paid during year (Total wages shown on this page and on any continuation sheets, Form 941a)		\$ 3,000 00
Employer's name, address, employer identification number, and calendar year. <small>(If not correct, please change)</small>	Name (as distinguished from trade name) John J. Jones <small>Trade name, if any</small> Address and ZIP code R.F.D. 1, ANYTOWN, IOWA 00000 <small>Entries must be made both above and below this line; if address is different from previous return, check here <input type="checkbox"/></small> Name (as distinguished from trade name) John J. Jones <small>Trade name, if any</small> Address and ZIP code R.F.D. 1, ANYTOWN, IOWA 00000	Calendar year 1974 Employer Identification No. 42-0000000 Calendar year 1974 Employer Identification No. 42-0000000
5. Total taxable cash wages paid in year (from line 4)		3,000.00
6. FICA taxes, 11.7% of wages on line 5 (5.85% employer tax and 5.85% employee tax)		351.00
7. Adjustments (attach statement—see instructions)		_____
8. FICA taxes as adjusted		351.00
9. Amount of income tax withheld (see instructions)		208.80
10. Total taxes (line 8 plus line 9)		559.80
11. Total deposits for year (including final deposit made for year) and overpayment from previous year listed in Schedule B (see instructions on page 4)		534.00
Note: If undeposited taxes at the end of the year are \$200 or more, you must deposit the full amount with an authorized commercial bank or a Federal Reserve bank. Enter this deposit in Schedule B and include it on line 11.		
12. Undeposited taxes due (line 10 less line 11—This should be less than \$200). Pay to Internal Revenue Service		25.80
13. If line 11 is more than line 10, enter excess here ▶ \$		_____ and check if to be <input type="checkbox"/> applied to next return, or <input type="checkbox"/> refunded.
14. If you do not expect to be liable for returns in the future, write "Final Return" here ▶		
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct, and complete.		
Date Jan. 15, 1975	Signature John J. Jones	Title (Owner, etc.) Owner
See "Where to File" on page 2. Please use the preaddressed envelope provided.		
Form 943 1974		

Exhibit of Form 943 showing how it should be filled in by the employer

Line 1.—Be sure to enter each employee's social security number correctly so his wages will be credited to his social security record. If you don't know the number, write "UNKNOWN" in this space and enclose a sheet of paper showing his name and address.

Line 2.—Please print or type the employee's full name as shown on his social security card.

Line 3.—Show the total amount of taxable wages you paid the employee during the year.

Internal Revenue will usually address your return with a label showing your name, trade name (if any), employer identification number, and the calendar year covered by the return. If the label is incorrect or if your address changes, draw a line through the error and correct it.

Line 5.—Enter the total taxable cash wages you paid during the year to all of your farm employees who met either test described in section 3.

Line 6.—Multiply the total cash wages by 11.7 percent.

Line 9.—Enter the total income tax withheld for the year.

Line 11.—Enter the total deposits you made for the year. Be sure to list all deposits in Schedule B.

Line 12.—This is the amount to pay the Internal Revenue Service when you file your return. If \$200 or more, see the depositing rules in section 12.

Please remember to sign the return, enter the date, and show your title.

APPENDIX III

PRINCIPAL OFFICIALS RESPONSIBLE
 FOR ADMINISTERING ACTIVITIES
 DISCUSSED IN THE REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF THE TREASURY:		
William E. Simon	Apr. 1974	Present
George P. Shultz	June 1972	Apr. 1974
John B. Connally	Feb. 1971	June 1972
David B. Kennedy	Jan. 1969	Feb. 1971
COMMISSIONER OF INTERNAL REVENUE:		
Donald C. Alexander	May 1973	Present
Raymond F. Harless (acting)	May 1973	May 1973
Johnnie M. Walters	Aug. 1971	Apr. 1973
Harold T. Swartz (acting)	June 1971	Aug. 1971
Randolph W. Thrower	Apr. 1969	June 1971
ASSISTANT COMMISSIONER (COMPLIANCE):		
John F. Hanlon	Jan. 1972	Present
John F. Hanlon (acting)	Nov. 1971	Jan. 1972
Donald W. Bacon	Sept. 1962	Nov. 1971

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