



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

B-196969

MAY 8, 1980

The Honorable Russell B. Long
Chairman, Joint Committee on
Taxation
Congress of the United States

TNT 1400

Dear Mr. Chairman:

Subject: [Legislative Change Needed To Eliminate the Requirement for a Declaration of Estimated Tax] (GGD-80-61)

By letter dated December 24, 1976, your Committee asked us to identify ways to simplify the individual income tax. This report, one in a series in response to that request, deals with the estimated tax requirements for individual taxpayers. The report discusses the need for a legislative change to reduce cost and paperwork burden both for taxpayers and the Internal Revenue Service (IRS).

Section 6015 of the Code requires taxpayers to make a declaration of estimated tax if they meet certain eligibility requirements. IRS has developed a declaration-voucher (Form 1040-ES) for taxpayers to use in complying with this requirement. When IRS receives an estimated tax payment, it uses the information on the declaration-voucher to credit the taxpayer's account. If a taxpayer elects to use an overpayment of tax for the preceding year as a credit against current year tax pursuant to section 6513(d) of the Code, and if the amount of the credit equals or exceeds the estimated tax payment(s), the taxpayer must still file a declaration of estimated tax but does not have to enclose a remittance.

Once a taxpayer makes a declaration of estimated tax by filing the first declaration-voucher, subsequent vouchers need be filed only when making installment payments of the tax. This apparently is confusing to many taxpayers because IRS regularly receives subsequent declaration-vouchers which are not accompanied by remittances.

IRS has no need for, and thus routinely destroys, all declaration-vouchers which are not accompanied by remittances. IRS does not keep records concerning nonremittance declaration-vouchers but estimates that it received and destroyed about

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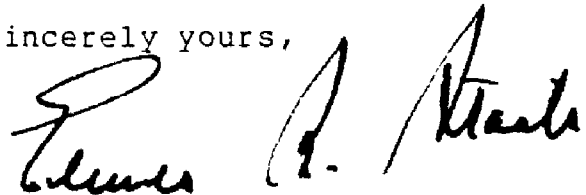
234,500 such vouchers for the filing periods April 15, 1979; June 15, 1979; September 15, 1979; and January 15, 1980. We estimate that it cost taxpayers about \$35,175 in postage to file those vouchers and that it cost IRS about \$11,360 to receive and destroy them. These figures are conservative because IRS could provide estimates for only 6 of its 10 service centers.

This situation does not exist for corporate taxpayers. In 1968, the requirement that corporations file declarations of estimated tax was eliminated with the repeal of sections 6016 and 6074 and the amendment of section 6154 of the Code. We are not aware of any administrative difficulties caused by this simplification of the estimated tax payment procedure for corporations.

Given this, and considering the reduction in cost and paperwork burden to both the taxpayers and IRS, we recommend that the Code be amended to remove the requirement that individual taxpayers make declarations of estimated tax. A draft of a proposed amendment is enclosed. We have informally discussed the thrust of the amendment with IRS and Treasury officials. They have no objection and have informally agreed that legislation is the best solution to the problem. We would be glad to discuss this further if you and members of your staff think it would be beneficial.

As arranged with your Committee, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of the report. At that time we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,



Comptroller General
of the United States

Enclosure

UNITED STATES GENERAL ACCOUNTING OFFICEPROPOSED AMENDMENT OF THE INTERNAL REVENUE CODE
TO ELIMINATE THE REQUIREMENT THAT INDIVIDUALS
FILE DECLARATIONS OF ESTIMATED INCOME TAX

We propose the following amendment to the Internal Revenue Code:

(a) Repeal of Requirement of Declaration.--Section 6015 (relating to declarations of estimated income tax by individuals) and section 6073 (relating to time for filing declarations of estimated income tax by individuals) are repealed.

(b) Installment Payments of Estimated Income Tax by Individuals.--Section 6153 (relating to installment payments of estimated income tax by individuals) is amended to read as follows:

"SECTION 6153. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY INDIVIDUALS

"(a) Individuals Required To Pay Estimated Income Tax.--Except as otherwise provided by this section, every individual subject to taxation under section 1 shall make payments of his estimated tax (as defined in subsection (c)) during the taxable year as provided in subsection (b)) if--

(1) the gross income for the taxable year can reasonably be expected to exceed--

(A) \$20,000 in the case of--

(i) a single individual, including a head of household (as defined in section 2(b)) or a surviving spouse (as defined in section 2(a)); or

(ii) a married individual entitled under subsection (e) to make joint payments with his spouse, but only if his spouse has not received wages (as defined in section 3401(a)) for the taxable year; or

(B) \$10,000 in the case of a married individual entitled under subsection (e) to make joint payments with his spouse, but only if both he and

his spouse have received wages (as defined in section 3401(a)) for the taxable year; or

(C) \$5,000 in the case of a married individual not entitled under subsection (e) to make joint payments with his spouse; or

(2) the gross income can reasonably be expected to include more than \$500 from sources other than wages (as defined in section 3401(a)).

Notwithstanding the provisions of this subsection, no payments are required if the estimated tax (as defined in subsection (c)) can reasonably be expected to be less than \$100.

"(b) Payment in Installments.--Any individual required under subsection (a) to make payments of estimated tax (as defined in subsection (c)), shall make such payments in installments as follows:

<u>If the requirements of subsection (a) are met--</u>	<u>The following percentages of the estimated tax shall be paid on the 15th day of the--</u>			
	<u>4th month</u>	<u>6th month</u>	<u>9th month</u>	<u>1st month of succeeding taxable year</u>
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33 1/3	33 1/3	33 1/3
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) Estimated Tax Defined.--For purposes of this title, in the case of an individual, the term 'estimated tax' means--

(1) the amount which the individual estimates as the amount of the income tax imposed by chapter 1 for the taxable year (other than the tax imposed by section 55 or 56), plus

(2) the amount which the individual estimates as the amount of the self-employment tax imposed by chapter 2 for the taxable year, minus

(3) the amount which the individual estimates as the sum of any credits against tax provided by part IV of subchapter A of chapter 1.

"(d) Recomputation of Estimated Tax.--If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be) by the amount computed by dividing--

(1) the difference between--

(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) Joint Payments by Husband and Wife.--In the case of a husband and wife, payments under this section may be made by them jointly, in which case the liability with respect to the estimated tax shall be joint and several. No joint payment may be made if either the husband or the wife is a nonresident alien, if they are separated under a decree of divorce or of separate maintenance, or if they have different taxable years. If joint payments are made but a joint return

is not made for the taxable year, the estimated tax for such year may be treated as the estimated tax of either the husband or the wife, or may be divided between them.

"(f) Farmers or Fishermen.--Payments of estimated tax required by this section from any individual--

(1) whose estimated gross income from farming or fishing (including oyster farming) for the taxable year is at least two-thirds of his total estimated gross income from all sources for the taxable year, or

(2) whose gross income from farming or fishing (including oyster farming) shown on his return for the preceding taxable year is at least two-thirds of the total gross income from all sources shown on such return

may in lieu of the time prescribed in subsection (b) file a return, for the taxable year for which the estimated tax is payable, and make full payment of the estimated tax on or before March 1 of the succeeding taxable year.

"(g) Installments Paid in Advance.--Any installment payment of estimated tax required by this section may be made prior to the date prescribed for its payment.

"(h) Short Taxable Years.--The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary.

"(i) Estates and Trusts.--The provisions of this section shall not apply to an estate or trust.

"(j) Nonresident Alien Individuals.--No payments shall be required to be made under this section by a nonresident alien individual unless--

(1) withholding under chapter 24 is made applicable to the wages, as defined in section 3401(a), of such individual,

(2) such individual has income (other than compensation for personal services subject to deduction and withholding under section 1441) which is effectively connected with the conduct of a trade or business within the United States, or

ENCLOSURE I

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(3) such individual is a resident of Puerto Rico during the entire taxable year."