

Politics

Claims about the cost and time it takes to file taxes

By Glenn Kessler

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“It takes the average American taxpayer 13 hours to comply with the tax code, gathering receipts, reading the rules and filling out the forms the IRS requires. . . . The tax code forces Americans to spend over \$168 billion to comply and 6 billion hours.”

— **Rep. Dave Camp (R-Mich.), hearing of the House Ways & Means Committee, April 11, 2013**

Federal taxes are due on Monday, so it seems appropriate to check some of the rhetoric concerning the burden of complying with the nation’s complex tax code. Politicians love to complain about the size and scope of the tax code — though much of the complexity stems from laws passed by Congress.

Camp is chairman of the tax-writing committee in the House of Representatives, and his remarks at a hearing on the president’s budget caught our attention. The Fact Checker has always done his own taxes, but sophisticated tax software in recent years has certainly eased the burden of endless calculations.

How accurate are Camp’s figures and where do they come from?

The Facts

Camp’s first statement — about compliance taking 13 hours — was carefully phrased, adding in not only filling out the forms but also gathering receipts and reading the rules. He does not cite a source, but it turns out this estimate [comes from the Internal Revenue Service itself](#).

According to the IRS, the average burden for all taxpayers is 13 hours, with four hours devoted to actually completing the forms. Record-keeping takes an additional six hours and tax planning two more, it says, and an extra hour is thrown in for miscellaneous tasks.

“Reported time and cost burdens are national averages and do not necessarily reflect a ‘typical’ case,” the IRS says. “Most taxpayers experience lower than average burden, with taxpayer burden varying considerably by taxpayer type.”

The IRS breaks it down even further, saying that someone filling in a 1040 form (69 percent of all taxpayers) actually devotes 16 hours to the task, mainly because the record-keeping figure is higher. The 1040EZ form,

by contrast, takes just four hours out of a year.

And that average for 1040 forms is really driven up by business filers (which can include anyone filing a Schedule C, E or F with their 1040 form). Business filers spend an average of 23 hours, compared to the 70 percent of taxpayers who are non-business filers. For just non-business filers, the average time drops to a mere eight hours.

That's the problem with averages. A relatively small segment of taxpayers who face burdensome extra forms help increase the overall number. But, with those caveats, there's nothing wrong with the figure that Camp used.

These IRS estimates, by the way, originally stem from a study done in the early 1980s by Arthur D. Little, based on a mail questionnaire of 6,200 people, as well as a diary study of 750 people. (The IRS later updated the methodology using an IBM study in the early 2000s.) The figures have increased over time, perhaps reflecting increasing complexity: In 1992, the 1040 form was estimated to take an average of about 10 hours to complete, and in 2004 about 13 hours, compared to the 16 hours today.

Meanwhile, Camp's other numbers — \$168 billion and 6 billion hours spent on taxes — come from another source: the IRS' National Taxpayer Advocate.

In its [2012 annual report](#), the Taxpayer Advocate estimated it took a total 6.1 billion hours for all taxpayers to handle their taxes, which it calculated by “multiplying the number of copies of each form filed for tax year 2010 by the average amount of time the IRS estimated it took to complete the form.” But it concedes that this figure “is difficult to measure with precision.”

Interestingly, the Taxpayer Advocate as recently [as 2008](#) gave an estimate of 7.6 billion hours, but then the next year the number suddenly dropped by about 15 percent — which was attributed to efficiency gains because higher-income taxpayers increasingly were using tax software. Even so, in a footnote, the Taxpayer Advocate concedes that the number may be still lower because the IRS has not kept up with efficiency gains from such software.

The \$168 billion is based on another simple calculation: The Taxpayer Advocate focused on what was spent just on personal and business incomes taxes (thus excluding such items as estate taxes) and came up with a figure of 5.648 billion hours. It then multiplied that against the average hourly cost of a civilian employee (\$29.72) as reported by the Bureau of Labor Statistics.

You see where this is going. There was an average time spent on a form, which had been multiplied by the number of forms filed, to get a figure for the total number of hours. Then that was multiplied against an average wage. “There is no clearly correct methodology,” the Taxpayer Advocate says, but it notes that its result — about 15 percent of tax receipts — falls in the mid range of other estimates.

Indeed, we've [previously given Pinocchios](#) to House Speaker John Boehner for claiming that the cost of compliance was an astonishing \$500 billion. We noted the Taxpayer Advocate's much lower number and concluded: "The estimates of the cost of tax compliance vary all over the map, but the safest bet would be to rely on the estimate of a federal government entity — the IRS Taxpayer Advocate."

The Pinocchio Test

There are always going to be problems with estimates and averages, and so politicians need to handle them with care. Camp here demonstrates a textbook case for how to use such data.

He placed the average time burden of 13 hours in the right context, noting that it includes record-keeping and reading the rules. He also cited the most recent figures produced by an official government entity, even though the numbers were lower than what other Republicans have used in the past. He earns a prized Geppetto Checkmark.

Geppetto Checkmark

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