

Projections of Returns That Will Be Filed in Calendar Years 2004-2010

by Terry Manzi

Each year, a number of tax return forecasts are prepared by the Internal Revenue Service (IRS) research staff under the National Headquarters Office of Research, Analysis, and Statistics. These projections of the number of returns to be filed include categories of tax forms within the individual, tax-exempt, and business returns areas. The information from by these projections provide a foundation for IRS workload estimates and resource requirements contained in budget submissions to the Department of the Treasury, Office of Management and Budget, and Congress. This update represents projections made in the fall of 2003.

Table 1 represents the most current forecasts for the major form types that are projected. The grand total of all tax returns to be filed in Calendar Year (CY) 2004 is expected to be 226.9 million. This volume is projected to increase at an approximate annual rate of 1.6 percent through CY 2010, when the number of return filings is expected to reach 249.7 million.

In preparing these projections, various factors that may affect IRS workload are carefully reviewed. These include recent filing patterns, economic and demographic trends, enacted legislation, and administrative changes. In these latest projections, partial year data through late summer 2003 are factored into most forecast models. Legislative and administrative changes approved for future implementation are also factored in the forecasts as “off-model” adjustments. These “adjustments” are explained in more detail in the later part of the article.

New Forms Impact Grand Total, Primary Total, and Supplemental Documents Volumes

In response to customer requests, projections of several additional form types have now been included. These additional forms being projected include: Form 2553, *Election by a Small Business Corporation*; Form 1066, *U.S Real Estate Mortgage Investment Conduit Income Tax Return*; and Form 8868, *Application for Extension of Time To File an Exempt Organization Return*. Form 8868 is incorporated under the “Supplemental Documents” subtotal, while the other two are listed separately.

The additional return types being forecast by Research staff for the first time, i.e., Forms 1066, 2553, and 8868 will impact the reported total and subtotals. Forms 1066 and 2553 will add to the count of “Primary Returns.” Form 8868 will add to the count of “Supplemental Documents.” And all three return types will add to the count for “Grand Total.” Customers should keep this in mind when making any historical comparisons to past-published data series.

E-Filing Initiatives

In a major IRS-industry effort to promote and encourage electronically filed (e-filed) returns, a consortium of 17 private sector companies began providing free tax preparation and e-filing options via the Internet starting in the 2003 filing season. More than 2.7 million qualifying taxpayers filed online individual returns by accessing various consortium member companies’ web sites. The link to consortium companies’ web sites will continue to be provided on the IRS home page (www.irs.gov).

The IRS will also provide incentives for practitioners to increase electronic filing by offering them web-based products that allow electronic interactions with the IRS. The electronic services products give qualifying members access to the following activities: *electronic account resolution*--which allows authorized practitioners to submit inquiries for their clients’ individual/business tax accounts; *disclosure authorization*-- which allows authorized practitioners to electronically submit Power of Attorney or Tax Information Authorization over the Internet; *transcript delivery system*--which speeds request and delivery of taxpayer return/account information; and *taxpayer identification number (TIN) matching*-- which allows taxpayers subject to backup withholding to match name and TIN combinations with IRS records. These products will be accessible from the IRS home page.

There are also an increasing number of programs to provide paperless filing in the business returns area. For example, more business friendly e-file tax software is being implemented in CY 2003. Also, new e-file options for exempt organization returns (Forms 990, 990EZ, and 8868) and corporate income tax returns (Forms 1120A, 1120S, and 1120POL) will be available beginning in CY 2004. The new e-file software initiative will lead to the phaseout of the current e-filing, online filing, and magnetic-tape filing

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options in the employment returns (Forms 941 and 940) area.

The introduction of major new products to the e-file/e-commerce environment, such as the initiatives described above, results in upward adjustments to the projected baseline e-file volumes. However, it is not possible to quantify all likely future developments in the e-file arena, as some IRS plans are still in their infancy, and some technological adaptations are still speculative. Thus, the e-file forecasts of IRS research staff merely reflect extrapolations of existing trends and what is known about future developments. As such, they should not be interpreted as the agency's goals.

Projection Highlights

Grand Total Returns, Primary Returns, Supplemental Documents

The "grand total" figure encompasses "total primary returns" and "supplemental documents." "Total primary returns" account for the bulk of the IRS returns processing workload and include the three largest return categories: individual income tax returns, employment tax returns, and individual estimated tax payment vouchers. These three form types constitute over 90 percent of the "total primary returns." "Supplemental documents" consist mainly of amended returns and requests for filing extensions by individuals and corporations.

Table 1 presents a complete list of yearly projections by form type and medium of filing through CY 2010. In CY 2004, approximately 206.8 million returns are projected to fall under "total primary returns," and 20.07 million under "supplemental documents." As shown in Figure A, these forecasts reflect an increase of 1.1 percent in primary returns and 3.2 percent in supplemental returns over CY 2003. Figure A also shows an average annual growth rate from CY 2003 through CY 2010 for "total primary returns" and "supplemental documents" of 1.4 percent and 3.0 percent, respectively.

Individual Income Tax Returns

"Total individual returns" are defined as: paper and electronic versions of the major individual income tax returns, Forms 1040, 1040A, 1040EZ; Form 1040NR, *U.S. Non-Resident Alien Income Tax Return*; Form 1040PR, *Planilla para la Declaracion de la Contribucion Federal Sobre El*

Trabajo Por Cuenta Propia--Puerto Rico; and Form 1040SS, *U.S. Self-Employment Tax Return--U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands (CNMI), or Puerto Rico*. This heading excludes Form 1040X, *Individual Amended Return*, which is included under the "supplemental documents" heading.

In CY 2004, the number of "total individual returns" filed is projected to reach 131.6 million and grow at an average annual rate of 1.3 percent until CY 2010. At this rate, the projected number of "total individual returns" will reach 143.0 million by CY 2010, with 92.4 million projected to be filed electronically.

Total Individual Electronic Returns

Total individual electronic (e-file) returns include individual income tax returns filed via TeleFile, or the "standard" electronic method, as described below. The projected number of individual returns to be filed electronically in CY 2004 is 59.8 million. Under current trends, this number is expected to grow at an average rate of 8.4 percent per year. The projected e-file pattern for CY 2004 to 2010 is one of stronger growth in the initial forecasted years, followed by a dampened growth in the later years, as is customary in the growth pattern for an innovative commercial product.

Standard Electronic Returns

Standard e-file returns are non-TeleFile returns (defined below) filed through an authorized third party, or what is termed an "electronic return originator" (ERO). In general, standard e-file returns are filed either through tax practitioners or from a home computer via an "online" filing option that routes the return to an ERO. In CY 2004, standard e-file returns are projected to make up 55.8 million of the total individual returns filed. This reflects a relatively large increase (15 percent) over CY 2003. Online filing, particularly, is the fastest growing component of e-file. CY 2004 shows a 21-percent jump over CY 2003 in online filed returns, and it is expected that CY 2005 will show a jump of another 18 percent, aided greatly by the new consortium offering free e-file options over the Internet. The strong continued rise of standard e-file returns, in general, is attributable to all the promotion and aggressive product innovations from both the IRS and private industry.

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Figure A

Projection Overview of Returns To Be Filed for Calendar Years 2004-2010

Type of return	2004 projection	Percentage increase, from 2003	Average annual percentage increase, 2004-2010	Type of return	2004 projection	Percentage increase, from 2003	Average annual percentage increase, 2004-2010
	(1)	(2)	(3)		(1)	(2)	(3)
Grand total	226,859,900	1.26	1.56	Total primary returns--continued			
Total primary returns	206,784,900	1.08	1.42	Employment tax--continued			
Individual, total.....	131,597,000	0.66	1.29	Forms 943 and 943 PR.....	266,700	-3.02	-2.72
Forms 1040, 1040A, and 1040EZ	130,878,700	0.63	1.25	Form 945.....	165,100	-1.61	-1.74
Total paper individual returns.....	71,076,100	-8.09	-6.18	Form CT-1.....	1,900	-5.00	-2.26
Paper Form 1040.....	52,099,500	-6.61	-5.51	Form 1042.....	29,000	1.05	1.15
Paper Form 1040A.....	10,405,300	-14.02	-8.20	Exempt organization, total.....	784,100	2.40	2.09
Paper Form 1040EZ.....	8,571,300	-9.24	-7.81	Paper exempt organization, total.....	783,700	2.35	0.70
Total individual electronic returns.....	59,802,600	13.42	8.39	Electronic exempt organization, total.....	400	N/A	N/A
Online filing.....	14,513,400	21.45	10.99	Form 990, total.....	375,700	2.09	1.65
Practitioner electronic filing.....	41,316,300	12.42	8.31	Form 990, electronic.....	300	N/A	N/A
TeleFile.....	3,972,900	-1.33	-0.84	Form 990EZ, total.....	140,300	1.96	1.84
Form 1040NR.....	610,900	7.93	8.99	Form 990EZ, electronic.....	100	N/A	N/A
Forms 1040PR and 1040SS.....	107,500	1.80	1.56	Form 990C.....	3,600	N/A	-1.66
Individual estimated tax, Form 1040-ES.....	29,290,300	2.66	2.34	Form 990PF.....	83,300	4.00	3.57
Paper Form 1040-ES.....	29,204,500	2.61	2.27	Form 990T.....	48,800	0.62	0.61
Electronic (credit card) Form 1040-ES.....	85,900	25.58	18.53	Form 4720.....	2,200	4.76	2.55
Fiduciary (Form 1041), total.....	3,846,900	1.39	1.85	Form 5227.....	130,300	3.58	3.22
Paper fiduciary returns.....	2,436,400	-0.07	0.06	Government entities, total.....	59,000	2.25	2.07
Electronic/magnetic tape fiduciary returns.....	1,410,500	4.03	4.66	Form 8038.....	5,200	1.96	1.85
Fiduciary estimated tax, Form 1041-ES.....	633,800	2.74	5.04	Form 8038G.....	28,900	1.76	1.63
Partnership, Form 1065/1065B	2,480,300	4.35	3.71	Form 8038GC.....	14,100	5.22	4.39
Paper partnership returns.....	2,392,400	2.86	1.27	Form 8038T.....	10,600	N/A	N/A
Electronic partnership returns.....	87,900	72.35	40.51	Form 8328.....	300	50.00	7.14
Corporation, total.....	6,073,100	2.39	2.27	Political organizations, total.....	31,000	79.19	31.76
Paper corporation returns, total.....	6,049,200	1.98	0.14	Form 1120POL, total.....	5,900	-26.25	-5.80
Electronic corporation returns, total.....	23,900	N/A	N/A	Electronic 1120POL.....	N/A	N/A	N/A
Form 1120, total.....	2,174,000	0.05	0.61	Form 8871.....	11,700	254.55	104.48
Form 1120A, total.....	218,600	-1.89	-1.09	Form 8872.....	13,400	123.33	42.55
Electronic 1120/1120A.....	9,700	N/A	N/A	Excise tax, total.....	862,800	1.21	0.91
Form 1120F.....	24,800	2.48	2.26	Form 11-C.....	10,400	-3.70	-4.72
Form 1120FSC.....	N/A	-100.00	N/A	Form 720.....	153,400	-2.97	-5.13
Form 1120H.....	147,400	3.08	2.89	Form 730.....	47,700	-2.05	-2.19
Form 1120RIC.....	12,800	4.92	4.23	Form 2290.....	651,300	2.58	2.40
Form 1120S, total.....	3,486,400	4.25	3.45	Form 5330.....	24,200	-2.81	-3.08
Electronic 1120S.....	14,200	N/A	N/A	Form 8752.....	40,900	-4.22	-3.82
Forms 1120L/PC/REIT/SF, total.....	9,200	1.10	1.79	Supplemental documents, total.....	20,075,000	3.19	3.01
Small corporation election, Form 2553.....	616,100	2.82	2.18	Form 1040X.....	3,713,600	3.10	3.35
"REMIC" Form 1066.....	16,000	6.67	5.42	Total Form 4868.....	8,836,000	3.44	3.13
Estate tax, Forms 706 and 706NA, total.....	74,800	-13.82	-18.20	Paper Form 4868.....	7,890,400	3.14	2.75
Gift tax, Form 709.....	306,800	4.07	3.65	Electronic Form 4868.....	945,600	6.08	6.08
Employment tax, total.....	30,019,000	0.69	0.52	Credit card Form 4868.....	21,000	N/A	-0.07
Paper employment returns.....	24,252,200	-0.08	-0.70	Form 4868 e-file.....	306,800	-1.13	-1.12
Magnetic tape employment returns.....	724,300	-49.30	N/A	Form 4868 TeleFile.....	617,800	10.30	9.24
Electronic returns	5,042,500	22.64	9.82	Form 2688.....	3,525,500	2.93	2.70
Forms 940, 940EZ, and 940PR, total.....	5,671,100	0.43	0.43	Form 1120X.....	15,500	0.65	0.99
Paper Forms 940, 940EZ, and 940PR.....	4,819,700	0.01	-0.66	Form 5558.....	446,800	3.96	3.55
Magnetic tape Form 940.....	482,800	4.39	N/A	Form 7004.....	3,134,300	3.05	2.81
Form 940 e-file/online/XML.....	368,600	0.90	25.48	Form 8868.....	403,400	1.10	1.10
Forms 941, 941PR/SS/E, total.....	23,914,100	0.81	0.59	Form 8868 e-file.....	400	N/A	374.89
Paper 941, 941PR/SS/E.....	18,998,700	-0.05	-0.67				
Magnetic tape Form 941	241,500	-75.00	N/A				
Form 941 e-file/online/XML.....	3,848,200	31.76	10.51				
Form 941 TEL.....	825,700	N/A	N/A				

N/A--Not applicable.

NOTES: For definitions of most of the form numbers, see the text discussion and the footnotes to Table 1, at the end of this article. Detail may not add to total due to rounding.

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TeleFile

Returns filed via the TeleFile program are transmitted by the filer using a touch-tone telephone. A large share of filers of Form 1040EZ can opt to file using TeleFile in lieu of a paper return. Unlike standard e-file, however, TeleFile volumes should drop by 53 thousand returns, or 1.3 percent, in CY 2004, and are expected to drop another 1.6 percent in CY 2005. This decline is attributable to several factors, including the migration to other e-file options.

Individual Electronic Returns by Form Type

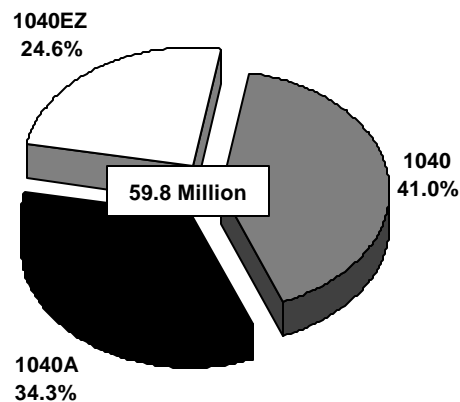
The strength of the average annual growth rate of electronically-filed individual income tax returns (8.4 percent through CY 2010) compared to that of total individual income tax returns (1.3 percent) is an indication that taxpayers may be switching increasingly to an electronic filing option. To date, most individual e-file returns reflect taxpayers with less complicated tax situations. As a result, and as illustrated in Figure B, of the 59.8 million total individual e-file returns projected to be filed in CY 2004, only about 41 percent (24.5 million) will have the characteristics of the more complicated “long” Form 1040, if filed on paper. In contrast, 25 percent (14.7 million) will have the characteristics of the “short” Form 1040EZ returns, and another 34 percent (20.5 million) will have the characteristics of the other “short” return, Form 1040A.

Individual Estimated Tax Vouchers

Form 1040ES, *Estimated Tax for Individuals*, is used by filers who need to make advance tax payments and who expect their tax withholding to be less than 90 percent of their tax for the year in which they are filing. Individual taxpayers typically file more than one voucher (Form 1040ES) during the course of the year, usually one per quarter. The number of Forms 1040ES filed actually dropped in CY 2003. The suspected reasons for this drop include recent tax law changes which reduced tax liabilities, the dramatic slump in the stock market which has greatly reduced the amount of capital gains being realized, and the “sluggish” economic recovery. However, approximately 29.3 million individual estimated tax vouchers are expected to be filed in CY 2004, a projected growth of about 2.7 percent over CY 2003. This return category is expected to grow at an average annual rate of 2.3 percent over the entire period from CY 2003 to CY 2010. In CY 2010,

Figure B

Electronically-Filed Individual Income Tax Returns by Form Type, Projections for Calendar Year 2004



NOTE: Detail may not add to 100 percent due to rounding.

about 33.5 million individual estimated tax vouchers are projected to be filed.

Employment Tax Returns

Paper and electronic versions of several tax forms fall under the heading of employment tax returns. These forms include: Form 940 series, *Employer's Annual Federal Unemployment (FUTA) Tax Return*; Form 941 series, *Employer's Quarterly Federal Tax Return*; Form 943 series, *Employer's Quarterly Federal Tax Return for Agricultural Employees*; Form 945, *Annual Return of Withheld Federal Income Tax*; and Form CT-1, *Employer's Annual Railroad Tax Return*.

Employment tax returns make up the third largest component of the “total primary returns” figure, after individual income tax returns and individual estimated tax vouchers. Approximately 30.0 million employment tax returns are projected to be filed in CY 2004. This represents an increase of 0.7 percent over CY 2003. The number is expected to grow at an annual rate of 0.5 percent until CY 2010, when it is projected to reach 30.9 million. The relatively slow rate reflected for this series is based on actual filing experience in recent years, and particularly the slow increase projected for the two largest components, the Form 940 and Form 941 return series.

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The Form 941 return series is the largest in the employment tax category, with about 80 percent of the total. In CY 2004, an estimated 23.9 million returns from the Form 941 return series are expected to be filed. The e-file and TeleFile components of the 941 return types are expected to reach 3.8 million and 0.8 million, respectively, in CY 2004.

Both the Form 940 and Form 941 have a magnetic tape filing component. Form 940 returns filed by magnetic tape are projected to stay at about 483 thousand in CY 2004, while Form 941 magnetic-tape filings are expected to drop to 242 thousand returns. Both Forms 940 and 941 magnetic-tape filing will undergo major program changes in their respective electronic filing category. In particular, magnetic-tape filing in these areas will be phased out in CY 2005, when business returns filers are expected to switch over to the enhanced e-file option based on new e-filing software.

Return filings of Form 1042, *Annual Withholding Tax Return for U.S. Source Income of Foreign Persons*, are not included in the above total employment tax figure. They are, instead, reported separately in Table 1. Approximately 29.0 thousand Form 1042 returns are expected to be filed in CY 2004. The projected volume is expected to grow slowly to about 31.1 thousand by CY 2010.

Cessation of IRS Processing of Employee Plan Returns

Employee plan returns are filed by employers or other administrators of employee pension plans to report information on the benefits they provide. Employee plan returns include Form 5500, *Annual Return/Report of Employee Benefits Plan* (with more than 100 participants), Form 5500C/R, *Annual Return/Report of Employee Benefits Plan* (with fewer than 100 participants); and Form 5500EZ, *Annual Return of One Participant Pension Benefit Plan*. However, in July 2000, the Department of Labor assumed responsibility for processing all employee plan returns associated with Return Year 1999 and beyond so as to capture more of the data on the return than IRS could provide. The IRS will continue to handle other administrative responsibilities regarding employee plan returns but not their submission processing. Hence, projections will no longer be reported for these return series.

Partnership Returns

Form 1065, *U.S. Partnership Return of Income*, and Form 1065B, *U.S. Large Partnership Return of Income*, are filed by partnerships to report income, deductions, tax credits, or losses. The projected number of these returns to be filed in CY 2004 is 2.5 million. This number, an increase of 4.4 percent over CY 2003, is projected to keep increasing at an average rate of 3.7 percent per year. The number of partnership returns filed is expected to increase to 3.1 million by CY 2010.

Corporation Income Tax Returns

Corporation income tax returns include a number of form types. The vast majority of these returns are filed on Form 1120, *U.S. Corporation Income Tax Return*; Form 1120A, *U.S. Corporation Short-Form Income Tax Return*; or Form 1120S, *U.S. Income Tax Return for an S Corporation* (returns filed by qualifying corporations electing to be taxed through shareholders). The remainder of corporation income tax returns are filed by entities such as homeowners' associations (Form 1120H), foreign corporations (Form 1120F), and real estate investment trusts (Form 1120REIT), among others. Amended returns (Form 1120X) are not included under corporation income tax returns, but are instead listed under "supplemental documents." In CY 2004, the projected number of corporation returns filed is 6.1 million. This is nearly a 2.4-percent increase over CY 2003. It is expected that these returns will continue to increase, to 6.9 million by CY 2010, as Table 1 shows. Beginning in CY 2004, there will be a new electronic filing option available for Forms 1120/A, 1120S, and 1120POL, also shown in Table 1.

Excise Tax Returns

Excise tax returns include the following four return types: Form 11C, *Occupational Tax and Registration Return for Wagering*; Form 720, *Quarterly Federal Excise Tax Return*; Form 730, *Tax on Wagering*; and Form 2290, *Heavy Vehicle Use Tax Return*. The total number of excise tax returns filed with the IRS is projected to be 863 thousand in CY 2004. That number is expected to grow to 908 thousand by CY 2010.

Tax-Exempt Organization Returns

The category "exempt organization" traditionally included Form 990 series returns, plus Form 4720,

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Return of Certain Excise Taxes on Charities and Other Persons Under Chapters 41 and 42 of the Internal Revenue Code, and Form 5227, Split-Interest Trust Information Return--all reflecting various returns for organizations exempt from income tax. However, in response to IRS resource-planning needs, this return category has been expanded and now includes the following additional returns: Form 5330, *Return of Initial Excise Taxes Related to Employee Benefit Plans*; and Form 5558, *Application for Extension of Time To File Certain Employee Plans Returns*. A new grouping "Government Entities/Bonds" has now been added and includes: Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*; Form 8038G, *Information Return for Government Purpose Tax-Exempt Bond Issues*; Form 8038GC, *Consolidated Information Return for Small Tax-Exempt Government Bond Issues*; Form 8038T, *Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate*; and Form 8328, *Carry Forward Election of Unused Private Activity Bond Volume Cap*. The category "Political Organizations" has also been added and includes Forms 1120POL; Form 8871, *Political Organization Notice of Section 527 Status*; and Form 8872 *Political Organization Report of Contributions and Expenditures*. (Note that in prior years, Form 1120POL was included in the subtotal for "Corporation.") The newly-defined total for exempt organization returns is projected to be 868 thousand in CY 2004, and to grow to 976 thousand by 2010. In addition, Forms 990/EZ will also be available to be filed electronically beginning in CY 2004.

Estate Tax Returns

The Economic Growth and Tax Relief Reconciliation Act of 2001 has significant impact on estate tax (Forms 706/706NA) law. The tax relief act reduces estate tax liability by raising the allowable exempt amount of taxable estates and by lowering the maximum tax rate for years 2003 through 2010. Under current law, the estate tax will be repealed on all estates where the year of death is 2010. In 2011, however, under existing law, estate tax will then revert to the law in place before June 7, 2001. The effects of this new tax law account for the projected downward trend in estate tax return filings.

Unique Drops in Filings for FY 2003

In what is a rare development, available data for the current fiscal year indicate that return filing volumes in CY 2003 will be lower than those for 2002--for several major (high volume) return categories. The most notable of these are the individual income tax returns and the individual estimated tax payments. Yearly declines in these individual return categories, in turn, largely account for the associated drops in Total Primary and Grand Total for 2003 relative to 2002. Such year-to-year declines in filing volumes have occurred only a few times over the past 3 decades. This most recent occurrence is due to two factors: filing extensions to military personnel overseas and the U.S. economy.

Data indicate that total individual income tax returns received in 2003 will be about 248,000 returns less than the number received in 2002. Special filing extension granted to military forces in the Persian Gulf and related war zones is contributing somewhat to fewer tax returns filed in 2003. However, the main cause for the expected drop in individual tax return filings in 2003 appears to be the noticeable drop in employment measured for both 2001 and 2002. In effect, fewer people employed mean fewer people required to file tax returns. And the related fallout effects from the recent recession and "sluggish" recovery are also likely reasons for individuals needing to make fewer estimated tax payments. However, expectations for stronger economic growth in the future lead to projections for future growth in return filings.

New Submission Processing Center Alignments

The IRS is continuing its modernization efforts, begun in CY 2001, to realign and consolidate its ten submission processing centers for paper returns. Cincinnati and Ogden centers have discontinued accepting individual returns and process virtually all business and certain other returns, starting in CY 2003. Included are such returns as employment tax, estate and trust income tax, tax-exempt organization, employee plans, partnership, estate, gift, and corporation tax returns. The Brookhaven center will process fewer individual returns in CY 2003 than it did in CY 2002, and will cease to exist as a submission processing center in CY 2004. Under current modernization plans, the following three IRS centers will also cease

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to process individual returns: Memphis will be phased out in CY 2006, Philadelphia in CY 2008, and Andover in CY 2010. All paper individual tax returns and related forms, such as the individual estimated tax vouchers, will be then redistributed and processed in the remaining centers.

IRS modernization plans for the realignment of the processing of electronically-filed returns are also currently under way. Final decisions are pending in many program areas.

Projection Methodology

A variety of statistical methods is employed in the production of the projections represented in this article. In general, each unique return (form) type has its own forecasting methodology. Among the forecasting models employed are regression analyses, exponential smoothing techniques, weighted moving averages, and other time series models that incorporate historically observed growth rates.

Partial year data through late summer of CY 2003 were generally available at the time these projections were made. These partial year data were extrapolated for the full year and factored into the models.

Regression Analysis

One of the common methods the IRS staff uses in forecasting is econometric modeling. It is used when a solid statistical relationship can be formed between the historical filings of a tax return and an economic or demographic independent variable. Some examples of these independent variables include estimates of personal income, and employment, as provided by Global Insight, Inc. These variables, where applicable, are lagged 1 year to reflect their effect on the filings of the tax return for the specific tax year.

Time Series Analysis

In the case where no statistically relevant relationship can be found between the filing pattern of a form type and an independent variable(s), the research staff then employs trend extrapolation methods. The two most common forms of these time series models are weighted moving averages and exponential smoothing.

Growth Rates

If the actual recorded data are insufficient to form the basis for a reliable statistical projection model, then simple growth rates are used as the final ap-

proach. This method assumes that, for a given form type, a previously observed growth pattern will continue into the future for a limited number of years. Should historical data be nonexistent or the data prove to be ineffective in deriving any growth pattern assumption, the pattern for a related form with an established trend is used as a proxy.

Off-Model Adjustments

“Off-model adjustment” is a term used to describe additional changes occasionally made to the initial projection generated by the statistical model. These changes are typically made in the case of legislative or administrative changes that will have effects in the future and which the statistical forecasting models are not designed to take into account. These off-model adjustments are estimated from other available data or the judgment of knowledgeable program staff. The projections of estate tax returns (Form 706 series) provide a clear example of such off-model adjustments. The projection for estate tax returns reflects adjustments for the estimated impact of the Economic Growth and Tax Relief Reconciliation Act of 2001, which gradually reduces this tax in stages. However, most legislative or administrative changes must be formally enacted in order to be factored into forecasts developed by the IRS research staff.

Notes and References

- [1] All values in Table 1 are taken from the 2003 update of *Calendar Year Return Projections for the United States and IRS Centers: 2003-2010*, IRS Document 6186, November 2003, National Headquarters Office of Research, Analysis, and Statistics, Internal Revenue Service, U.S. Department of the Treasury.
- [2] These values are taken from the Fall 2003 update of *Calendar Year Projections of Individual Returns by Major Processing Categories*, Document 6187, November 2003, National Headquarters Office of Research, Analysis, and Statistics, Internal Revenue Service, U.S. Department of the Treasury. Detail does not add to totals because of rounding.
- [3] Magnetic tape refers to returns filed and processed on magnetic tape at the IRS submission processing centers.

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[4] The Tax-Exempt return category has been expanded and now includes the following additional returns: Form 5330, *Return of Initial Excise Taxes Related to Employee Benefit Plans*; Form 5558, *Application for Extension of Time To File Certain Employee Plans Returns*; Form 8038, *Information Return for Tax-Exempt Private Activity Bond Issues*; Form 8038G, *Information Return for Government Purpose Tax-*

Exempt Bond Issues; Form 8038GC, *Consolidated Information Return for Small Tax-Exempt Government Bond Issues*; Form 8038T, *Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate*; Form 8328, *Carry Forward Election of Unused Private Activity Bond Volume Cap*; Form 8871, *Political Organization Notice of Section 527 Status*; and Form 8872, *Political Organization Report of Contributions and Expenditures*.

SOURCE: IRS, Statistics of Income Winter 2003-2004 Bulletin, Publication 1136.

Projections of Returns That Will Be Filed in Calendar Years 2004-2010

Table 1.--Number of Returns Filed, or To Be Filed, With the Internal Revenue Service, Calendar Years 2002-2010

Type of return	Actual	Estimated ¹	Projected						
	2002	2003	2004	2005	2006	2007	2008	2009	2010
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Grand total.....²	227,396,852	224,031,900	226,859,900	231,237,600	235,401,700	239,173,800	242,829,900	246,333,400	249,688,100
Total primary returns.....³	208,532,562	204,577,300	206,784,900	210,517,000	214,032,000	217,160,200	220,171,200	223,027,800	225,737,500
Individual, total..... ⁴	130,977,519	130,728,900	131,597,000	134,038,000	136,341,500	138,247,500	139,976,000	141,586,900	143,010,400
Forms 1040, 1040A, and 1040EZ..... ⁵	130,341,159	130,057,300	130,878,700	133,265,600	135,506,700	137,341,100	138,993,200	140,522,600	141,859,100
Total paper individual returns.....	83,505,077	77,330,400	71,076,100	66,562,600	62,230,900	58,144,400	54,830,500	51,948,500	49,444,700
Paper Form 1040.....	59,486,144	55,785,400	52,099,500	49,857,300	47,200,800	44,101,200	41,587,800	39,401,800	37,502,700
Paper Form 1040A.....	13,456,212	12,101,600	10,405,300	9,131,200	8,326,500	7,779,700	7,336,300	6,950,700	6,615,700
Paper Form 1040EZ.....	10,562,721	9,443,500	8,571,300	7,574,100	6,703,600	6,263,400	5,906,400	5,596,000	5,326,300
Total individual electronic returns.....	46,836,082	52,726,900	59,802,600	66,703,000	73,275,800	79,196,800	84,162,700	88,574,100	92,414,400
Online filing.....	9,420,295	11,950,000	14,513,400	17,179,900	19,593,700	21,599,800	22,871,100	23,819,700	24,475,200
Practitioner electronic filing.....	33,239,859	36,750,600	41,316,300	45,615,700	49,818,000	53,761,300	57,474,900	60,950,200	64,143,200
TeleFile.....	4,175,928	4,026,400	3,972,900	3,907,400	3,864,200	3,835,600	3,816,700	3,804,200	3,795,900
Form 1040NR.....	555,609	566,000	610,900	663,100	723,600	793,600	868,300	948,100	1,033,700
Forms 1040PR and 1040SS.....	80,751	105,600	107,500	109,300	111,100	112,800	114,500	116,100	117,700
Individual estimated tax, Form 1040-ES.....	32,995,873	28,531,100	29,290,300	30,032,600	30,716,200	31,417,200	32,127,200	32,827,300	33,537,800
Paper Form 1040-ES.....	32,952,032	28,462,700	29,204,500	29,925,700	30,587,600	31,266,100	31,952,700	32,628,700	33,314,100
Electronic (credit card) Form 1040-ES.....	43,841	68,400	85,900	106,900	128,600	151,100	174,500	198,600	223,600
Fiduciary (Form 1041), total.....	3,657,960	3,794,000	3,846,900	3,924,700	4,002,500	4,080,200	4,157,900	4,235,700	4,313,400
Paper fiduciary returns.....	2,447,227	2,438,100	2,436,400	2,439,400	2,442,100	2,444,400	2,446,200	2,447,500	2,448,100
Electronic/magnetic tape fiduciary returns.....	1,210,733	1,355,900	1,410,500	1,485,300	1,560,400	1,635,800	1,711,700	1,788,200	1,865,300
Fiduciary estimated tax, Form 1041-ES.....	586,924	616,900	633,800	694,400	728,600	762,500	796,900	830,200	869,300
Partnership, Form 1065/1065B.....	2,271,755	2,376,800	2,480,300	2,582,100	2,682,300	2,781,000	2,878,200	2,973,800	3,067,900
Paper partnership returns.....	2,246,410	2,325,800	2,392,400	2,447,100	2,489,700	2,520,300	2,538,900	2,545,500	2,540,200
Electronic partnership returns.....	25,345	51,000	87,900	135,000	192,600	260,700	339,300	428,300	527,700
Corporation, total.....	5,728,230	5,931,500	6,073,100	6,217,300	6,358,500	6,503,400	6,648,400	6,794,300	6,942,300
Paper corporation returns, total.....	5,728,230	5,931,500	6,049,200	6,150,200	6,226,500	6,226,500	6,146,800	6,084,000	5,984,100
Electronic corporation returns, total.....	N/A	N/A	23,900	67,100	132,000	276,800	501,600	710,300	958,200
Form 1120, total.....	2,131,902	2,173,000	2,174,000	2,190,100	2,205,900	2,221,300	2,236,600	2,251,800	2,266,800
Form 1120A, total.....	229,658	222,800	218,600	215,200	212,500	210,400	208,700	207,400	206,300
Electronic 1120/1120A.....	N/A	N/A	9,700	26,800	51,900	107,000	190,700	265,900	353,000
Form 1120F.....	23,579	24,200	24,800	25,400	26,000	26,600	27,200	27,800	28,300
Form 1120FSC.....	4,575	2,900	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Form 1120H.....	127,298	143,000	147,400	151,900	156,500	161,000	165,500	170,100	174,600
Form 1120RIC.....	11,450	12,200	12,800	13,400	14,000	14,500	15,100	15,700	16,300
Form 1120S, total.....	3,191,108	3,344,400	3,486,400	3,612,000	3,734,100	3,859,700	3,985,300	4,111,400	4,239,700
Electronic 1120S.....	N/A	N/A	14,200	40,300	80,100	169,800	310,900	444,500	605,200
Forms 1120L/PC/REIT/SF, total.....	8,660	9,100	9,200	9,400	9,600	9,800	10,000	10,200	10,300
Small corporation election, Form 2553.....	615,983	599,200	616,100	629,500	643,000	656,500	669,900	683,400	696,800
"REMIC" Form 1066.....	14,059	15,000	16,000	16,900	17,900	18,900	19,800	20,800	21,700
Estate tax, Forms 706 and 706NA, total.....	113,959	86,800	74,800	59,900	55,900	43,200	38,300	38,000	18,200
Gift tax, Form 709.....	282,625	294,800	306,800	318,800	330,800	342,800	354,800	366,800	378,800
Employment tax, total..... ⁶	29,514,177	29,812,800	30,019,000	30,161,900	30,274,300	30,418,300	30,576,500	30,735,200	30,907,100
Paper employment returns.....	24,429,091	24,272,500	24,252,200	24,074,700	23,858,600	23,664,500	23,478,500	23,289,700	23,107,300
Magnetic tape employment returns.....	1,340,422	1,428,600	724,300	N/A	N/A	N/A	N/A	N/A	N/A
Electronic returns.....	3,744,664	4,111,700	5,042,500	6,087,200	6,415,700	6,753,800	7,098,000	7,445,500	7,799,800
Forms 940, 940EZ, and 940PR, total.....	5,546,253	5,647,000	5,671,100	5,695,900	5,719,900	5,744,600	5,770,200	5,795,500	5,820,800
Paper Forms 940, 940EZ, and 940PR.....	4,785,162	4,819,200	4,819,700	4,783,600	4,746,600	4,709,900	4,673,900	4,637,300	4,600,400
Magnetic tape Form 940.....	440,832	462,500	482,800	N/A	N/A	N/A	N/A	N/A	N/A
Form 940 e-file/online/XML.....	320,259	365,300	368,600	912,300	973,300	1,034,700	1,096,300	1,158,200	1,220,400
Forms 941, 941PR/SS/E, total.....	23,510,052	23,721,000	23,914,100	24,042,200	24,140,600	24,269,500	24,411,500	24,553,900	24,709,600
Paper 941, 941PR/SS/E.....	19,186,057	19,008,500	18,998,700	18,867,300	18,698,200	18,550,400	18,409,800	18,266,600	18,130,200
Magnetic tape Form 941.....	899,590	966,100	241,500	N/A	N/A	N/A	N/A	N/A	N/A
Form 941 e-file/online/XML.....	2,573,035	2,920,700	3,848,200	4,349,200	4,616,700	4,893,400	5,176,000	5,461,600	5,753,700
Form 941 TEL.....	851,370	825,700	825,700	825,700	825,700	825,700	825,700	825,700	825,700

Footnotes at end of table.

Projections of Returns That Will Be Filed in Calendar Years 2004-2010

Table 1.--Number of Returns Filed, or To Be Filed, With the Internal Revenue Service, Calendar Years 2002-2010--Continued

Type of return	Actual	Estimated ¹	Projected						
	2002	2003	2004	2005	2006	2007	2008	2009	2010
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Total primary returns--continued									
Employment tax, by form type--continued									
Forms 943 and 943 PR.....	283,306	275,000	266,700	259,500	252,500	245,700	239,100	232,800	226,700
Form 945.....	172,922	167,800	165,100	162,400	159,600	156,800	154,000	151,200	148,400
Form CT-1.....	1,644	2,000	1,900	1,900	1,800	1,800	1,800	1,700	1,700
Form 1042..... ⁷	27,398	28,700	29,000	29,400	29,700	30,100	30,400	30,800	31,100
Exempt organization, total..... ⁸	744,418	765,700	784,100	801,600	818,500	835,200	851,800	868,200	884,700
Paper exempt organization, total.....	744,418	765,700	783,700	790,800	803,600	811,400	808,900	807,800	803,800
Electronic exempt organization, total.....	N/A	N/A	400	10,800	14,900	23,800	42,900	60,400	80,900
Form 990, total.....	361,536	368,000	375,700	382,600	388,900	395,000	400,900	406,800	412,600
Form 990, electronic.....	N/A	N/A	300	7,900	10,900	17,400	31,300	44,000	58,900
Form 990EZ, total.....	133,430	137,600	140,300	142,900	145,600	148,300	151,000	153,600	156,300
Form 990EZ, electronic.....	N/A	N/A	100	2,900	4,000	6,400	11,600	16,400	22,000
Form 990C.....	3,514	3,600	3,600	3,500	3,400	3,400	3,300	3,200	3,200
Form 990PF.....	76,905	80,100	83,300	86,500	89,700	92,900	96,000	99,200	102,400
Form 990T.....	46,377	48,500	48,800	49,100	49,400	49,700	50,000	50,300	50,600
Form 4720.....	2,025	2,100	2,200	2,200	2,300	2,400	2,400	2,500	2,500
Form 5227.....	120,631	125,800	130,300	134,700	139,200	143,600	148,100	152,500	157,000
Government entities, total.....	66,566	57,700	59,000	60,200	61,500	62,800	64,100	65,400	66,600
Form 8038.....	5,000	5,100	5,200	5,300	5,400	5,500	5,600	5,700	5,800
Form 8038G.....	28,392	28,400	28,900	29,400	29,800	30,300	30,800	31,300	31,800
Form 8038GC.....	12,699	13,400	14,100	14,700	15,400	16,100	16,800	17,500	18,100
Form 8038T.....	20,169	10,600	10,600	10,600	10,600	10,600	10,600	10,600	10,600
Form 8328.....	306	200	300	300	300	300	300	300	300
Political organizations, total.....	28,519	17,300	31,000	15,400	30,900	15,600	30,600	15,500	30,300
Form 1120POL, total.....	10,591	8,000	5,900	5,800	5,700	5,600	5,400	5,300	5,100
Electronic 1120POL.....	N/A	N/A	N/A	100	200	300	500	600	800
Form 8871.....	5,631	3,300	11,700	3,400	11,700	3,600	11,700	3,700	11,700
Form 8872.....	12,297	6,000	13,400	6,200	13,400	6,400	13,500	6,600	13,500
Excise tax, total.....	836,402	852,500	862,800	871,600	879,300	886,600	893,800	901,100	908,300
Form 11-C.....	11,128	10,800	10,400	9,900	9,500	9,100	8,600	8,200	7,700
Form 720.....	161,140	158,100	153,400	147,200	140,100	132,400	124,700	117,000	109,300
Form 730.....	48,888	48,700	47,700	46,700	45,700	44,700	43,700	42,700	41,700
Form 2290.....	615,246	634,900	651,300	667,700	684,000	700,400	716,800	733,200	749,600
Form 5330.....	25,581	24,900	24,200	23,500	22,800	22,100	21,400	20,700	20,000
Form 8752..... ¹⁰	44,614	42,700	40,900	39,300	37,800	36,400	35,100	33,800	32,500
Supplemental documents, total.....¹¹	18,864,290	19,454,600	20,075,000	20,720,600	21,369,700	22,013,600	22,658,700	23,305,600	23,950,600
Form 1040X.....	3,499,711	3,601,900	3,713,600	3,850,200	3,990,400	4,125,300	4,261,700	4,399,500	4,535,200
Total Form 4868.....	8,268,541	8,541,900	8,836,000	9,130,200	9,424,300	9,718,400	10,012,300	10,306,500	10,600,700
Paper Form 4868.....	7,424,917	7,650,500	7,890,400	8,127,100	8,360,200	8,589,600	8,815,100	9,036,500	9,253,400
Electronic Form 4868.....	843,624	891,400	945,600	1,003,100	1,064,100	1,128,800	1,197,200	1,270,000	1,347,300
Credit card Form 4868.....	22,754	21,000	21,000	21,000	21,000	21,000	20,900	20,900	20,900
Form 4868 e-file.....	335,328	310,300	306,800	303,400	300,000	296,600	293,200	289,900	286,700
Form 4868 TeleFile.....	485,542	560,100	617,800	678,700	743,100	811,200	883,100	959,200	1,039,700
Form 2688.....	3,324,763	3,425,100	3,525,500	3,625,800	3,726,100	3,826,500	3,926,800	4,027,200	4,127,500
Form 1120X.....	15,223	15,400	15,500	15,700	15,800	16,000	16,100	16,300	16,500
Form 5558.....	412,885	429,800	446,800	463,800	480,700	497,700	514,600	531,600	548,600
Form 7004.....	2,948,526	3,041,400	3,134,300	3,227,100	3,320,000	3,412,800	3,505,700	3,598,500	3,691,400
Form 8868.....	394,641	399,000	403,400	407,800	412,300	416,900	421,400	426,100	430,800
Form 8868 e-file.....	N/A	N/A	400	8,400	11,500	18,300	32,900	46,100	61,500

N/A--Not applicable.

¹ Estimated based on information available as of August 2003.

² Grand total is the sum of total primary returns and supplemental documents.

³ Total primary returns is the sum of all returns, excluding supplemental documents.

⁴ Individual total is the sum of paper and electronic Forms 1040, 1040A, 1040EZ, 1040NR, 1040PR, and 1040SS.

⁵ Forms 1040/A/EZ is the sum of the paper and electronic Forms 1040, 1040A, and 1040EZ.

⁶ Employment tax includes paper, magnetic tape and electronic Forms 940, 940EZ, 940PR, 941, 941E, 941PR, 941SS, 943, 943PR, 945, and CT-1.

⁷ Form 1042 is the Annual Withholding Tax Return for U.S. Source Income of Foreign Persons.

⁸ Exempt organization includes Forms 990, 990EZ, 990T, 990C, 990PF, 4720, 5227, and the following new Forms 5330, 5558, 8871, and 8872.

⁹ Excise tax includes Forms 11C, 720, 730, and 2290.

¹⁰ Form 8752 is Required Payment or Refund Under Section 7519, a computation of payment or refund by partnership or S corporation.

¹¹ Supplemental documents consists mainly of applications for extensions of time to file and amended tax returns.

NOTES: Details may not add to totals because of rounding.