

EXTRA POINT

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Rebates, Prebates and Freebates: Congressional Tax Proposals Ignore Administrative Burden

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Recent events have made Americans more sympathetic to the thankless work performed by civil servants including firemen and postal workers. Now, thanks to the new “freebate” provision in the stimulus package being crafted by Congressional leaders, we will soon be able to add IRS workers to the list.

The whole “rebate, prebate, freebate” fiasco began in the usual Washington way—on a Sunday morning talk show.

“Let’s cut checks and send what comes to \$300 to every one of the almost

would come from their plan to create a new 10 percent tax bracket. Technically, these checks wouldn’t be rebates, which Webster’s defines as “a return of a part of a payment,” because taxpayers haven’t filed their 2001 returns yet. Hence, “prebates.”

So the IRS had to use year 2000 return data to guesstimate the proper recipients, amounts, addresses, etc. The checks were to be \$300 for singles and \$600 for joint returns, if the recipients had paid that much in 2000.

Concerned that taxpayers would be confused by receiving a check rather than a tax bill from Uncle Sam, the IRS first needed to send out notification letters to every taxpayer who qualified. The wording of that letter became a major beltway brouhaha, but the IRS gritted its teeth and managed to get 93 million letters and then 93 million checks delivered on schedule over the late summer and early fall.

But that happy ending is not the end of this story. Back came the prebates. More than 295,000 checks were returned as undeliverable. Now, the IRS is busy trying to make these checks available through other means.

What’s more, because many taxpayers did not receive a prebate (because they did not pay any income taxes in 2000 or couldn’t be located) the IRS had to change the 2001 tax forms. Changes include an additional line on the standard

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200 million taxpayers in America,” said Senator Joseph Lieberman during a March 25th interview. These twenty words have led to a series of colossal mailings to the nation’s taxpayers that are adding up to one of the most burdensome exercises in the history of the income tax.

Taking a Bad Idea and Running With It

First, the Bush administration absorbed Lieberman’s idea and proposed rebating, in advance, the tax relief that

returns and an entirely new worksheet. If this extra step adds just half an hour to the time the average American spends

prebates. This will make another round of "Where's the Taxpayer" inevitable, and the IRS will have to re-engineer the 2001 tax forms yet again.

Add to this the obvious problem that the U.S. Postal Service will be asked to deliver the next round of letters and checks while trying to manage the biggest challenge in its 226 year history.

Washington is a town known for making short stories long. But it is beyond the pale for a five-second soundbite to result in over 280 million pieces of mail, 75 million additional hours wasted filling out tax forms, and months of additional hardship placed on an already overwhelmed IRS and Postal Service.

If Congress and the White House are committed to putting cash in the pockets of workers who do not pay income taxes, they can do so without burdening underappreciated postal and IRS employ-

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filling out tax forms, the creation of prebates will increase compliance time by more than 75 million hours, or the equivalent of 1.5 million weekends.

Ironically, the new 10 percent tax bracket in the Bush tax cut that led to the prebates doesn't even appear on the 2001 tax forms.

From Prebates to Freebates

If all this were not enough grief for weary IRS employees already consumed with putting together the more than 1,000 forms, instructions, and worksheets necessary for next year's tax returns, Congress and the President are at it again. Lawmakers are now set to make what was already an administrative nightmare even worse, this time by offering "freebates" — checks to people who paid no income taxes in 2000 and don't owe any income taxes in 2001.

If the proposal becomes law, the IRS would have to go through the same rigamarole all over again, sending out checks to everyone who wasn't sent one before, and also to everyone who got a check for less than the maximum amount.

That's 50 million more checks, and probably 50 million more letters explaining what's going on. Because many of the checks will be going to low-income individuals who tend to move more frequently than the general population, even more freebates will be undeliverable than

If Congress and the White House want to put cash in the pockets of workers, they can do so without burdening underappreciated postal and IRS employees. Just cut the payroll tax and allow workers to keep the money before sending it to Washington in the first place.

ees. Lawmakers simply need to cut the payroll tax and allow workers to keep the money before sending it to Washington in the first place. ●



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