TAX RETURN 2017

2017 Tax Return Tracker #1

1) The Internal Revenue Service (IRS) tracks tax return filings on a weekly basis.
2) As of February 17, the IRS had received 42.5 million tax returns, down 13.3% year over year.
3) A total of 32.9 million refunds had been issued as of February 17 (down 14.6% year over year), totaling $103.2 billion (down 14.4% year over year) and averaging $3,137 each (up 0.3% year over year).
4) The significant drop is attributable to a delay of tax refunds, as a result of the enactment of the Protecting Americans from Tax Hikes Act (PATH Act) which mandates the IRS to withhold tax returns until mid-February in an effort to improve tax fraud detection.

In exchange for a small portion of American tax dollars, Uncle Sam (through his IRS arm) keeps citizens updated on the number of returns filed during tax season.

It is worth noting that year-to-year data released at this stage of the year only paints a partial picture, as the 2016 data includes four more processing days, contributing to the higher-than-usual year-over-year percentage change. Furthermore, as it is still early in the filing season, there is likely more variability to the data.

As of February 17, 2017:

- The IRS had received 42.5 million tax returns, of which, 41.3 million have been processed. The number of returns processed was down 12.9% from the corresponding year-ago date.
- Of the returns filed, 95.2% were electronically filed. Of those, 46.8% were prepared by tax professionals; the remaining 53.2% were self-prepared.
- Fewer people are using the IRS website to get information: the site logged about 142.1 million visits, down 16.2% from the year-ago period.
- A total of 32.9 million refunds have been issued, totaling $103.2 billion and averaging $3,137 each. The number of refunds issued was down 14.6% and the total amount refunded was down 14.4% year over year, while the average refund is up 0.3%.
- Of those refunds issued, 95.4% were paid using direct deposit. The average direct deposit refund was $3,239, up 0.4% from the corresponding date last year.
- The IRS reported that a delay in issuing tax refunds is the main reason behind the significant drop in refund figures across the board. The IRS is mandated by the Protecting Americans from Tax Hikes Act (PATH Act), which is a new law passed by Congress near the end of 2015 that requires the federal government to withhold tax refunds until at least mid-February for those taxpayers eligible for the Earned Income Tax Credit (ETIC) or the Additional Child Tax Credit (ACTC). Therefore, taxpayers should only expect to receive refunds starting the week of February 27. Comparing the IRS data from the week ending February 17 to this week's data, year-over-year changes are seen to be gradually trending back to the previous-year's level.

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Figure 1. 2016 Filing Season Statistics

Cumulative Statistics Comparing February 19, 2016 and Feb 17, 2017

Calendar year-to-year comparisons are difficult at this early stage in the season, as four additional days of tax return processing are included in the 2016 totals. However, when comparing the same number of days of filing, the IRS is seeing an increase in returns received and accepted this year compared to 2016.

Individual Income Tax Returns	2016	2017	YoY Change
Total Receipts	49,020,000	42,502,000	(13.3)%
Total Processed	47,420,000	41,298,000	(12.9)%
E-Filing Receipts			
Total	46,758,000	40,447,000	(13.5)%
Tax Professionals	22,588,000	18,941,000	(16.1)%
Self-Prepared	24,170,000	21,506,000	(11.0)%
Web Usage			
Visits to IRS.gov	169,616,932	142,134,050	(16.2)%
Total Refunds			
Number	38,550,000	32,904,000	(14.6)%
Amount (USD Bil.)	$120.574	$103.237	(14.4)%
Average Refund	$3,128	$3,137	0.3%
Direct Deposit Refunds			
Number	35,720,000	30,616,000	(14.3)%
Amount (USD Bil.)	$115.226	$99.170	(13.9)%
Average Refund	$3,226	$3,239	0.4%

Source: IRS

The PATH Act mandates that the IRS withhold tax refunds claiming the Earned Income Tax Credit (ETIC) or the Additional Child Tax Credit (ACTC) until February 15. This legislation aims to provide more time for the IRS to detect and prevent tax fraud.

We believe the delay of tax refunds is likely to temporarily slow retail sales and mortgage payments in February. The new legislation could affect between 25 million and 30 million US households, with the majority being lower- and middle-income, according to Bloomberg. As these households are more likely to spend additional income than the wealthy households (i.e., have a higher marginal propensity to consume), coupled with the fact that tax refunds are often the largest financial event of the year for lower-income households, the delay will likely have an immediate impact on purchasing activity and the payment of debts. The US weekly retail traffic index, which is tracked by Bloomberg on a year-over-year basis, is down 13.7% thus far in 2017, compared with the second week of February 2016 when it was down 1.0%.

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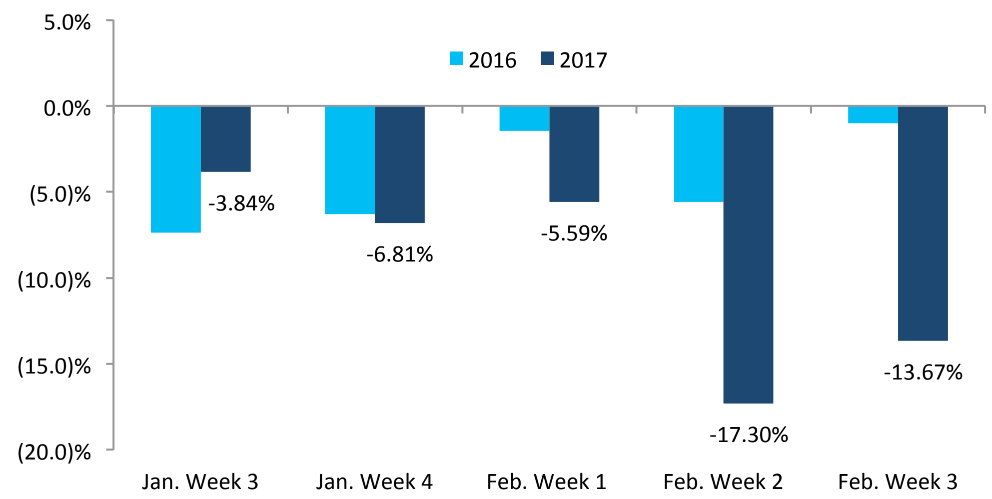
Figure 2. US Weekly Retail Traffic Index Year Over Year

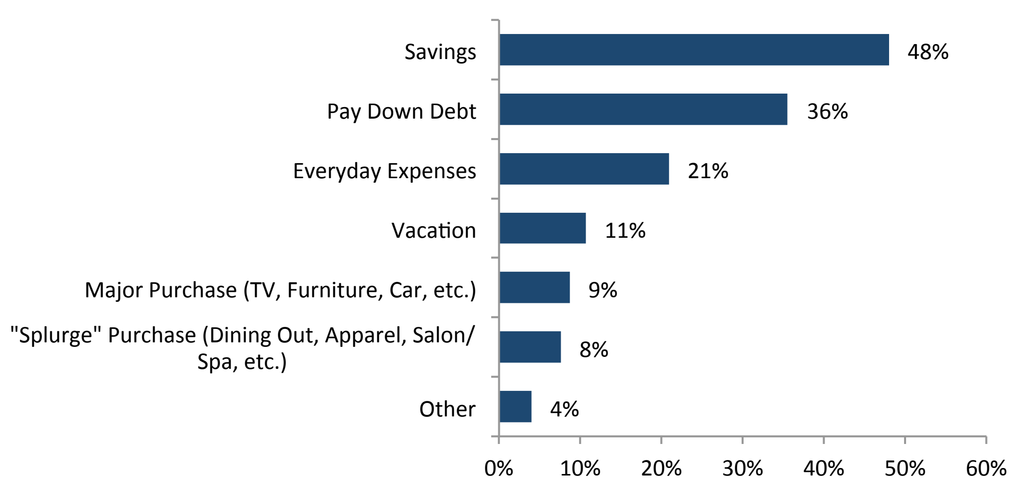


Source: Bloomberg

The impact of the delay of tax refunds is likely to be short-lived, and will soon be reversed once households eventually receive the refunds from the IRS, according to economist Spencer Hill. Overall sales are not expected to be affected, as spending will now occur later rather than sooner, according to economic research firm IHS Global Insight.

A record-low number of Americans will spend their tax returns this year. According to the survey conducted by the National Retail Federation and Prosper Insights & Analytics, among respondents who are expecting a refund this season, only 20.9% of consumers will spend their refunds on everyday expenses, 8.7% will use them for major purchases such as a television, furniture or a car, and 7.6% will splurge on special treats like dining out, apparel or spa visits. The numbers are down from 22.4%, 9.2% and 8.3% last year, respectively, and are record lows in the history of the survey. In contrast, 48% of consumers plan to save their tax returns, second only to last year's record high 49.2%.

Figure 3. Planned Uses of Refund



Source: NRF Tax Returns Survey, conducted by Prosper Insights & Analytics

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