



TurboTax Tax Trends Report

Tax Year 2022, Mid-Season Update

April 13, 2023



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Introduction

In January TurboTax released the first [Tax Trends Report](#), looking back at the most recent tax year and drawing insights into income, employment, and cryptocurrency investing. TurboTax has continued to analyze tax data into the current filing season up to March 28th, 2023, with a focus on the newest cohort of tax filers: Gen Z. Using anonymized and aggregated data in compliance with U.S. tax regulation requirements, this report offers insights into the financial state and tax-filing behavior of this dynamic and diverse generation of tax filers. The data was sampled to reflect the general U.S. population of tax filers rather than TurboTax customers. Why publish this report now? Preliminary tax data provides a unique view into tax filers who submit their returns at least 3 weeks before the tax filing deadline. This population of tax filers tends to be younger or in the oldest age group, is generally lower income, and is more likely to receive a refund. Our aim is to provide a lens through which this group of tax filers can be better understood.

Want to know more about how the data was sampled and analyzed? Read the [Methodology](#) of the January 2023 Tax Trends, and see the [Appendix](#) of this report for methodological details specific to the Gen Z analysis.

TurboTax Tax Year 2022 Mid-Season Trends: Understanding Gen Z's income, refunds, and tax-filing behavior

63.29% of Gen Z tax filers have seen an Adjusted Gross Income (AGI) increase of 10% or more year-over-year; 3.19% of Gen Z tax filers reported combined W-2 and self-employed income, a 25.57% increase year-over-year; and 91.3% of Gen Z tax filers received a refund in Tax Year 2021.

Over the last three years, Americans experienced events that drove changes in their finances and everyday lives. Gen Z is especially susceptible to changes that impact their finances and taxes as many are exiting college and entering the workforce, starting their own business and investing. Our mid-season data trend report reveals trends in income shifts, refunds, and tax filing, with a focus on Gen Z.

Our data will uncover:

- How has reported income changed to date?
- How have tax filings that include combined W-2 and self-employment income changed over time?
- What are the top metropolitan areas for combined W-2 and self-employment income?
- What percent of Gen Z received tax refunds and when do they file?

Key Findings

Income

Early filers tend to have lower reported incomes. The median AGI in Tax Year 2021 was \$46K. However, early filers (before April) had a median AGI of \$40K, and those who filed after April 1st had a median AGI of \$61K.

For tax filers as of March 28, 2023 (the cutoff date for this analysis), the median AGI for U.S. tax returns is \$46,950, an 11.14% increase in 2022 compared to the prior year.

63.29% of single Gen Z tax filers have seen an increase of 10% or more in 2022, a decline when compared to the previous year.

As reported in our January 2023 [Tax Trends Report](#), looking back at the most recent tax year, there is observed income growth that varies by life stage. The 2022 income growth rate is likely dampened in the current year from inflation.

Key Findings

Sources of Income	Gen Z shows a year-over-year increase in having both W-2 income and self-employed income.
	Compared to other generations, Millennials have seen the most growth in having both employment income and self-employment income year-over-year, however 3.19% of Gen Z tax filers reported income from both employers and self-employment, an increase of 25.57% year-over-year.
	The top 10 metropolitan areas where tax filers report both income from employment (W-2 income) and from 1099 self-employed income are concentrated in the South and in the Mountain sub-region of the West .

Key Findings

Tax Refunds and Filing Behavior

Gen Z has a high rate of refund receipt with 91.3% of Gen Z tax filers receiving a refund in Tax Year 2021.

53% of Gen Z tax filers started and completed their returns on the same day in Tax Year 2021.

Results

Gen Z and Income Change

What We See So Far in Tax Year 2022

- Early filers tend to have lower incomes. The median AGI in Tax Year 2021 was \$46K. However, early filers (before April) had a median AGI of \$40K, and those who filed after April 1st had a median AGI of \$61K.
- For tax filers as of March 23, 2023, median adjusted gross income for U.S. tax returns is \$46,950, an 11.14% increase in 2022 compared to the prior year.
- 63.29% of single Gen Z tax filers have seen an increase of 10% or more in 2022, a decline when compared with the previous year.
- As reported in our January 2023 [Tax Trends Report](#), looking back at the most recent tax year, there is observed income growth that varies by life stage. The 2022 income growth rate is likely dampened in the current year from inflation.

AGI and Filing Behavior

Those who file their taxes early tend to have lower incomes. This makes intuitive sense. For many Americans, their tax refund is the biggest check of the year and is used to [make ends meet](#). The median AGI in Tax Year 2021 was \$46K. However, as the chart below shows, early filers (before April) had a median AGI of \$40K, and those who filed after April 1st had a median AGI of \$61K (Figure 1). Analysis of income data before the tax deadline is an opportunity to understand how incomes are shifting for this population.

Median AGI for Tax Year 2021 tax filers who filed before/after April 2022



Figure 1. Median AGI for Tax Year 2021 (TY21) tax filers who filed before/after April 2022

AGI and How It's Changing by Generation

The chart below shows median AGI by generation and filing status from Tax Year 2020 to Tax Year 2022 (Figure 2). To control for seasonality in filing behavior, only those tax filers who filed their taxes up to the prior-year date corresponding to the cutoff date for this analysis (March 28th, 2023) are included. And as mentioned above, this group of tax filers tend to be lower income.

For tax filers to-date, the median AGI is \$46,950, an 11.14% increase for those who had filed up to this point in the tax season last year. As reported in our January 2023 [Tax Trends Report](#), which looks back at the most recent tax season, there is observed growth that varies intuitively by life stage, and which is likely to be dampened due to inflation.

Median AGI

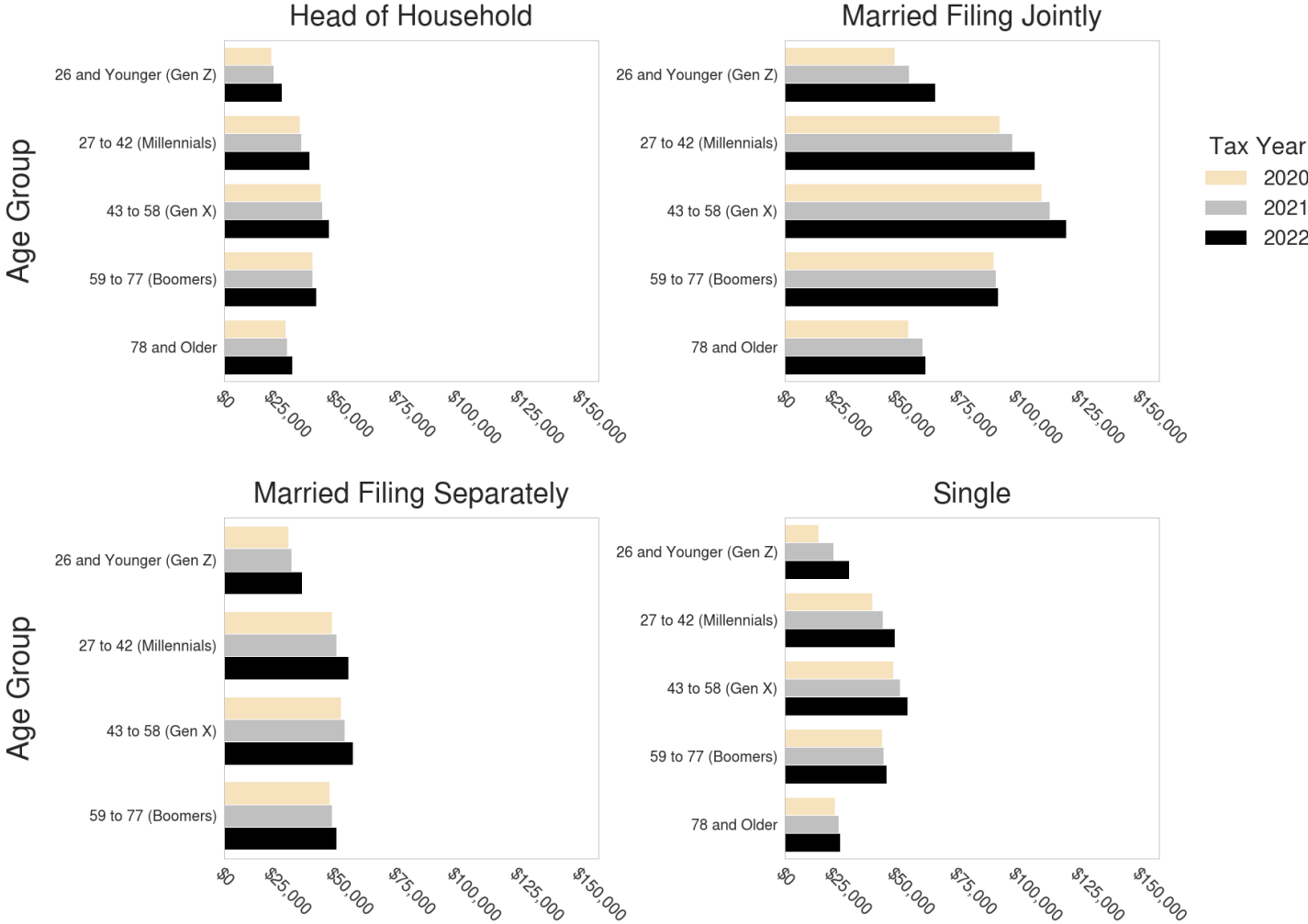


Figure 2. Median AGI by age group and filing status

Who is Experiencing the Most Growth?

While AGI growth for returns filed to-date indicates an increase across generations and filing statuses, not all generations are experiencing growth the same way. The blue bars in the chart below show the percent of tax filers who saw an increase or decrease in AGI of 10% or more according to returns filed in Tax Year 2022 so far (Figure 3). The black lines represent AGI change in Tax Year 2021 when compared with the prior year. For tax filers who have submitted their returns to-date, those in Gen Z are most likely to experience volatility, with only 17.55% not experiencing a 10% or more change year-over-year. 63.29% of single Gen Z tax filers have seen an AGI increase of 10% or more so far in TY22, and 19.16% have seen a decrease. For Gen Z, this is expected, as this generation is younger and making bigger strides when it comes to employment. However, the percent of tax filers with an AGI increase of 10% or more has declined slightly when compared with the prior year's trend. This is in contrast to early data from Millennials and Gen X, which suggests that these generations have a higher proportion of tax filers with income growth year-over-year.

Percent of Tax Filers with a Change in AGI of 10% or More

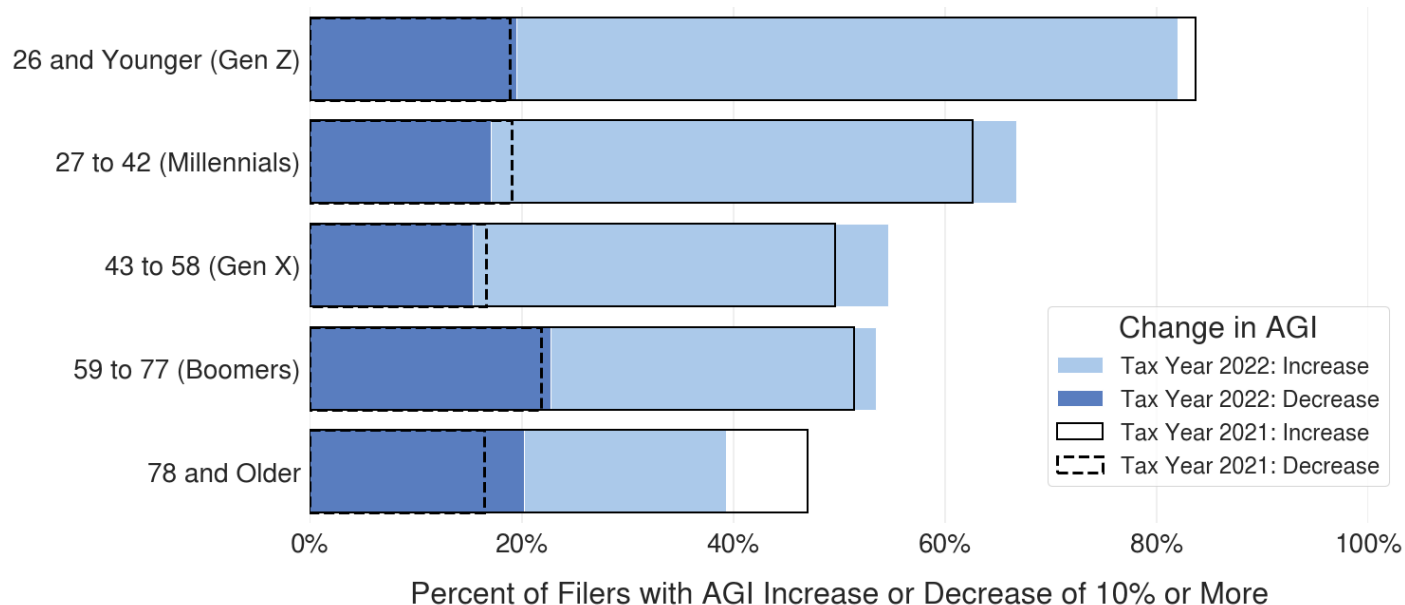


Figure 3. Percent of tax filers with a change in AGI of 10% or more

In this analysis Gen Z is considered anyone that's between 16 (while it's possible younger ages may work and earn an income they may not file taxes if they don't make the IRS income filing threshold) and the upper end of the Gen Z age group, 26 as of 2023. It's important to keep in mind that many Gen Z'ers are not yet working age, are claimed as a dependent on another's return, or may not earn enough to need to file a Federal tax return. Because of this, changes in AGI may not be a direct reflection of financial circumstances within the Gen Z cohort inclusive of those who both did and did not file taxes.

Gen Z AGI Change and What it Means to Their Taxes

According to our analysis, tax returns filed as of March 28, 2023 showed an increase in AGI across generations and filing statuses, however for those tax filers who submitted their tax returns, Gen Z showed the most income growth year to date. We also saw this trend in the January 2023 [Tax Trends Report](#) (looking back at the most recent filing year) which revealed that younger filers were more likely to switch jobs. Our analysis found that 62% of those with an AGI between \$20 - \$30K had at least one change of employer in 2021.

With fluctuations in income come new tax implications that Gen Z should know about to help them plan and save money when filing their taxes this tax season and year round.

When experiencing growth in income tax filers should make sure they claim the deductions and credits they are eligible for at tax time. There are two little known tax credits that are often missed. The [Earned Income Tax Credit](#) and the Saver's Credit. The IRS states that 1 out of 5 tax filers miss both these tax credits every year. The Earned Income Tax Credit is a credit that workers can claim if they earned an income and it is up to \$6,935 for a family with three kids in 2022 (up to \$7,430 in 2023). Workers without kids can claim up to \$560 (up to \$600 in 2023). The Saver's Credit is another credit that Gen Z and other filers should keep in mind since this is a credit that tax filers may automatically get just for investing in retirement and is up to \$1,000 for single filers and up to \$2,000 married filing jointly. Credits can really boost tax savings and help Gen Z financially since they are a dollar for dollar reduction of taxes owed. These are just a few examples of tax benefits available to help all generations of tax filers save on their taxes.

There are few moves that filers can make at tax-time that will help them save in the same filing year; however, there is one that will help build their nest egg and save on taxes. Tax filers can make a 2022 contribution up to \$6,000 (\$7,000 age 50 plus) to their IRA up until the April tax deadline and lower their taxes since they may be able to deduct their contribution. Although Gen Z may not be thinking about retirement, now that they are earning an income and filing taxes it is a good time to think about this tax saving strategy.

After tax-time, Gen Z may want to re-evaluate their withholdings from their paychecks if they are expecting another boost in income or they are considering working a side hustle while working for an employer. They can use a [W-4 withholding calculator](#) to help them adjust their withholdings if they did not have the tax outcome they were expecting or if they are expecting more income in 2023.

Combined Employment & Self-Employment Income What We See So Far in Tax Year 2022

- Tax filers are increasingly reporting income from employment (Form W-2) as well as nonemployee compensation such as self-employment income (1099-NEC) and payments made through digital platforms.
- There's a small but growing population within Gen Z that combines income from traditional employment and taxable income from gig work, contract labor, and other non-employee or self-employment sources. In 2022 so far, 3.19% of Gen Z reported combined income, an increase of 25.57% year-over-year.
- Gen Z filers with combined income sources have a lower AGI on average than those with traditional employment income only. The median AGI for single Gen Z filers with combined income was \$22,200. For W-2 only filers, it was 16.6% higher at \$25,900.
- The top 10 metropolitan areas where tax filers report both income from a W-2 employment and self-employment income (1099-K or 1099-NEC) are concentrated in the [South and in the Mountain sub-region of the West](#).

The Side Hustle Phenomenon

There has been an influx in recent years in reports about Gen Z and their attitudes towards finances and financial health. One hot topic is growth in the side-job workforce, or "side hustles." According to [Fortune](#), Gen Z makes up the majority of the side job workforce, followed by Millennials and Gen Xers.

Why are Americans taking on more work? Based on a [QuickBooks survey](#) of adults who want to start their own businesses, 66% cite boosting their income in the face of inflation as a core reason for starting their own business, and 65% intend to continue working for another employer while they do it. When it comes to financial pressure due to economic trends and inflation, Gen Z is no exception. According to a recent [survey conducted by Intuit](#), quality of life is being held hostage by poor finances, especially for Gen Z Americans, the generation that values quality of life the most. According to the survey, 67% of Gen Z feel like they will never have the things they want in life because of their financial situation.

What can we learn about side jobs from tax data? Anyone who received income as an employee will receive a W-2 form from their employer. The January 2023 [Tax Trends Report](#), which looked back at the most recent tax season, looked at how employment has been changing over the past few years based

on what we learned using W-2 data. To understand how many Americans are bringing in income from other sources in addition to W-2 income, we looked at two additional tax forms:

1099-NEC

Form [1099-NEC](#) is used to report nonemployee (self-employment, gig work, contract labor, etc.) compensation.

1099-K

Form [1099-K](#), Payment Card and Third-Party Network Transactions, is an IRS information return used to report certain payment transactions, including those from payment cards (e.g., debit, credit, or stored-value cards) and third-party payment network transactions above the minimum reporting thresholds.

The Pro's and Con's of Using Tax Data to Understand Side Hustles

Using tax data to understand side jobs has its pros and cons. As a pro, it's highly reliable, validated, and presented in a consistent format. Anyone in the U.S. who met the criteria to receive one of these forms should receive one. Results do not rely on an individual's memory or self-reported information, as in the case of surveys. As a con, these forms won't always capture forms of small jobs, gigs, or tasks that could be considered side hustles, such as extra cash earned babysitting, selling goods on Craigslist, or bringing in amounts from online commerce sites under the IRS reporting threshold. Because of this, a combination of tax data and survey data will provide a more holistic view of side hustles on and off the books.

Combining Income Sources is On the Rise

Whether due to economic uncertainty, financial need, or more leeway to pursue passion projects for those in hybrid and flexible work environments, tax filers are increasingly reporting income from employment (Form W-2) as well as nonemployee compensation such as self-employment income (1099-NEC) and payments made through digital third party platforms (1099-K). While early data shows that Millennials have seen the most growth year-over-year, Gen Z is no exception, with 3.19% of Gen Z tax filers reporting income from both employers and self-employment, an increase of 25.57% year-over-year (Figure 4).

Percent of Tax Filers with a W-2 and 1099-NEC or 1099-K

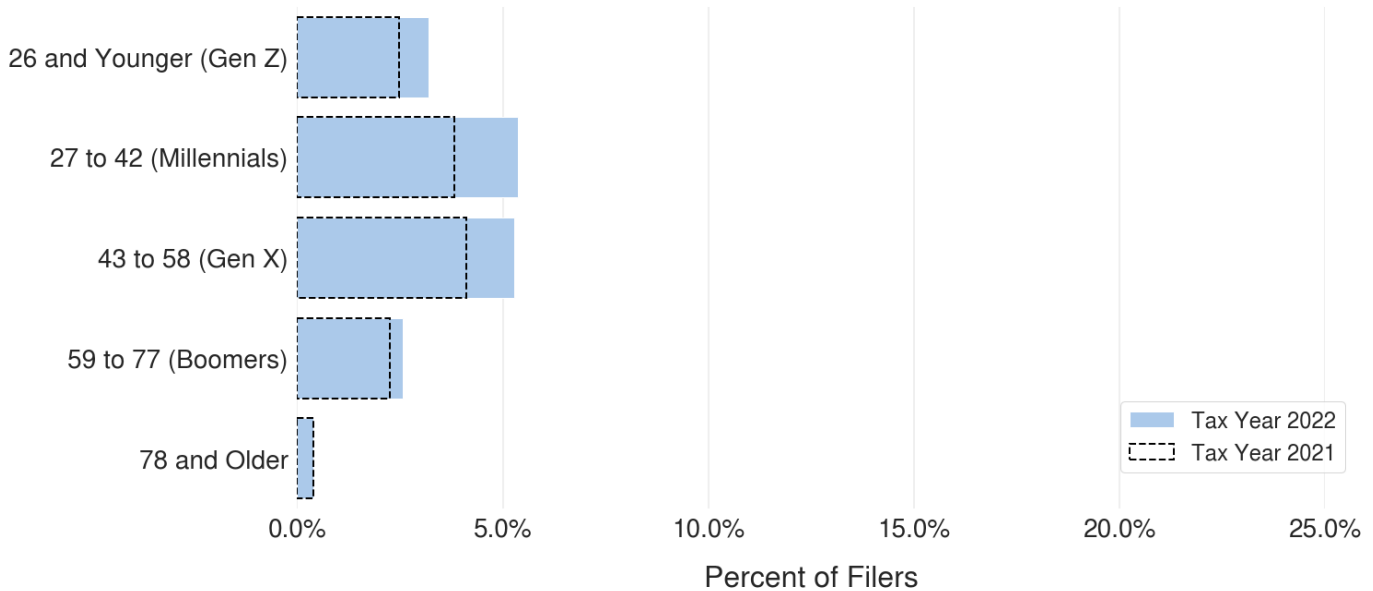


Figure 4. Percent of tax filers with a W-2 and 1099-NEC or 1099-K by age group

Single Gen Z filers with combined employment and self-employment income have a lower median AGI in comparison to those who have a W-2 but no self-employment income. Median AGI drops significantly for those who do not have a W-2, but do have self-employment income, and is lowest for those who report income from neither source (Figure 5).

Median AGI by Income Source: Single Filers 26 or Younger (Gen Z)

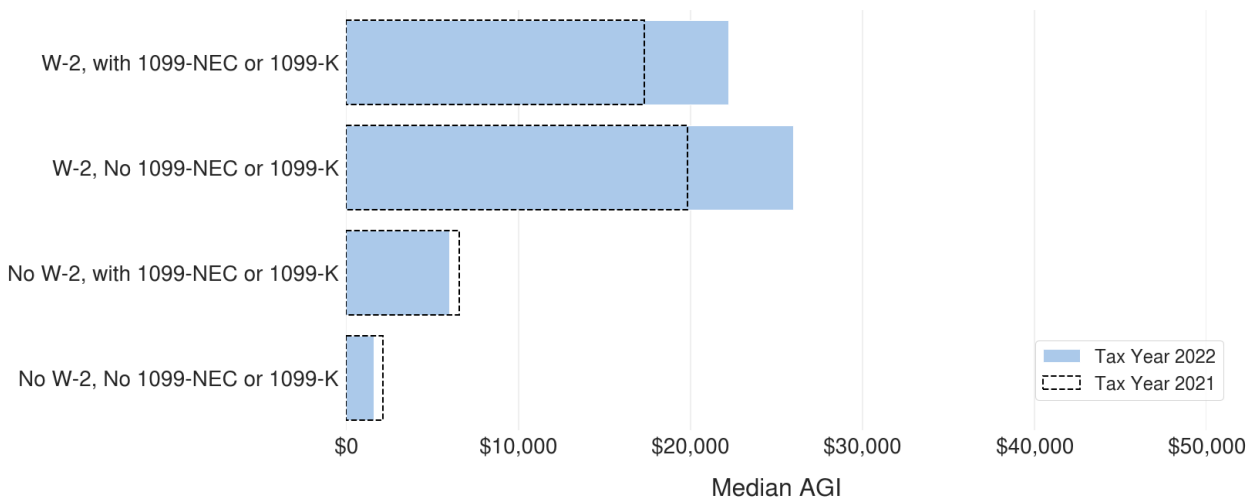


Figure 5. Median AGI by income source for single filers 26 and younger (Gen Z)

While they represent only a small proportion of the tax filer base, tax filers are combining sources of income across the US. The map below shows the top 10 Metropolitan Statistical Areas (MSA's) based on the percent of tax filers who include at least one W-2 in addition to either a 1099-NEC or 1099-K form in Tax Year 2022 to-date (Figure 6).

Top 10 Metropolitan Areas: Combined Employer and Self-Employment Income



Figure 6. Top 10 Metropolitan Statistical Areas with combined employer and self-employment income

Tax Implications of Side Hustle Income

With the trend in Gen Z and Millennials supplementing their income by working a side-gig, working on a passion project, or joining the creator economy, our analysis indicates that tax filers are increasingly receiving income from an employer (W-2) as well as self-employment income - Gen Z is no exception.

Gen Z and Millennials may not be thinking about how earning a combination of employment income and self-employment income impacts their taxes, and depending on what type of self-employed work they do, they may not even realize that they are now considered self-employed by the IRS. When receiving both income streams in one tax year, tax filers need to be aware of the tax implications and the ways that they can save on their taxes.

Each type of income has very different tax implications when evaluated on its own and another set of tax implications can arise when looking at earning a combination of W-2 income and self-employed income. By itself, W-2 income typically has taxes withheld by employers every pay period based on the tax filer's tax rate related to their income tax bracket. Income from self-employment or side hustles, on the other hand, does not have any taxes withheld so self-employed tax filers are responsible for making sure they set aside enough money to pay their taxes. In addition, self-employed people expecting to owe \$1,000 or more need to pay estimated taxes to avoid owing more taxes and penalties. When tax filers have both income from employment and self-employment they will have more documents to gather at tax time since they will need their W-2 form that reports their employment income and withholdings. They will also need forms that report their income from self-employment like Form 1099-NEC and Form 1099-K if they had more than 200 transactions and more than \$20,000 processed by a third party provider like Venmo or PayPal. In tax year 2023 (filing year 2024), the [reporting threshold for income on Form 1099-K](#) will decrease from a \$20,000 threshold to an aggregate amount of over \$600 processed by third party providers, regardless of the number of transactions. Tax filers with at least \$400 in net self-employment income will also need to file their self-employment taxes and pay 15.3% in taxes when they file their personal taxes.

Tax filers who have both employment income and self-employment income may be worried that combined income will increase their taxes, but there are tax benefits available to lower their taxes. Because this group of tax filers is self-employed they can deduct expenses directly related to their self-employed work and lower their overall taxes. Examples of directly-related business expenses that can be deducted include marketing fees, equipment, car expenses, and a home office. Self-employed people who put an SUV in service for their business in 2022 are even surprised to find that they can deduct up to \$27,000 if the vehicle is used at least 50% of the time for business.

Although tax filers with self-employed income may need to pay estimated taxes, those who also have a W-2 income can adjust their W-2 income withholding to reflect what they need to withhold from their self-employed income. Self-employed can also take advantage of a tax break that allows tax filers to annualize income to avoid penalties on any quarters they did not make estimated tax payments. When annualized, income is recognized in the actual quarters earned instead of divided over four quarters. For instance, someone who earned most of their self-employed income in the last two quarters of the

year could annualize and show their income in the last two quarters when they earned it so they could avoid penalties in the first two quarters.

Our analysis reveals that tax filers reported both W-2 income and 1099 income across the U.S., with the top 10 metropolitan areas where tax filers report both, being concentrated in the [South and in the Mountain sub region of the West](#). With regard to tax considerations of earning income in different states, self-employed income is taxed at 15.3% regardless of where it is earned. State taxes on the W-2 income will be based on the state tax rates where a tax filer's principal residence is located.

Gen Z Tax Refunds and Filing Behavior

- Gen Z filed their taxes earlier on average than other generations in Tax Year 2021.
- 53% of Gen Z tax filers started and completed their returns on the same day in Tax Year 2021.
- Gen Z has a particularly high rate of refund receipt, 91.3% of Gen Z tax filers received a refund in Tax Year 2021.

When does Gen Z file their taxes?

Gen Z filed their taxes earlier on average than other generations in Tax Year 2021 (Figure 7). While this may seem to be a unique generational trend, it's more likely to be due to differences in stage of life.

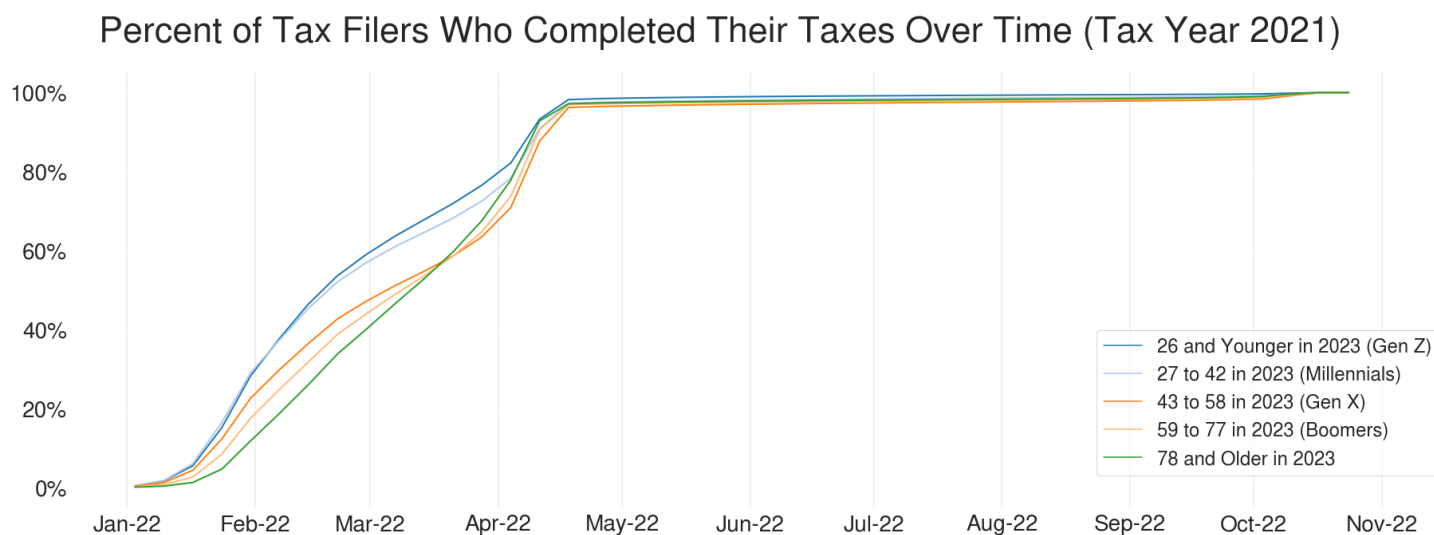


Figure 7. Percent of tax filers who completed their taxes over time (Tax Year 2021)

The complexity of taxes increases with age, adding time to the tax filing process. Because they're at an earlier life stage, Gen Z's taxes tend to be simpler than those of other generation cohorts. They have fewer forms on average, both in terms of number and type. 53% of Gen Z tax filers started and completed their returns on the same day in Tax Year 2021 (Figure 8).

Same-Day Filers by Generation (Tax Year 2021)

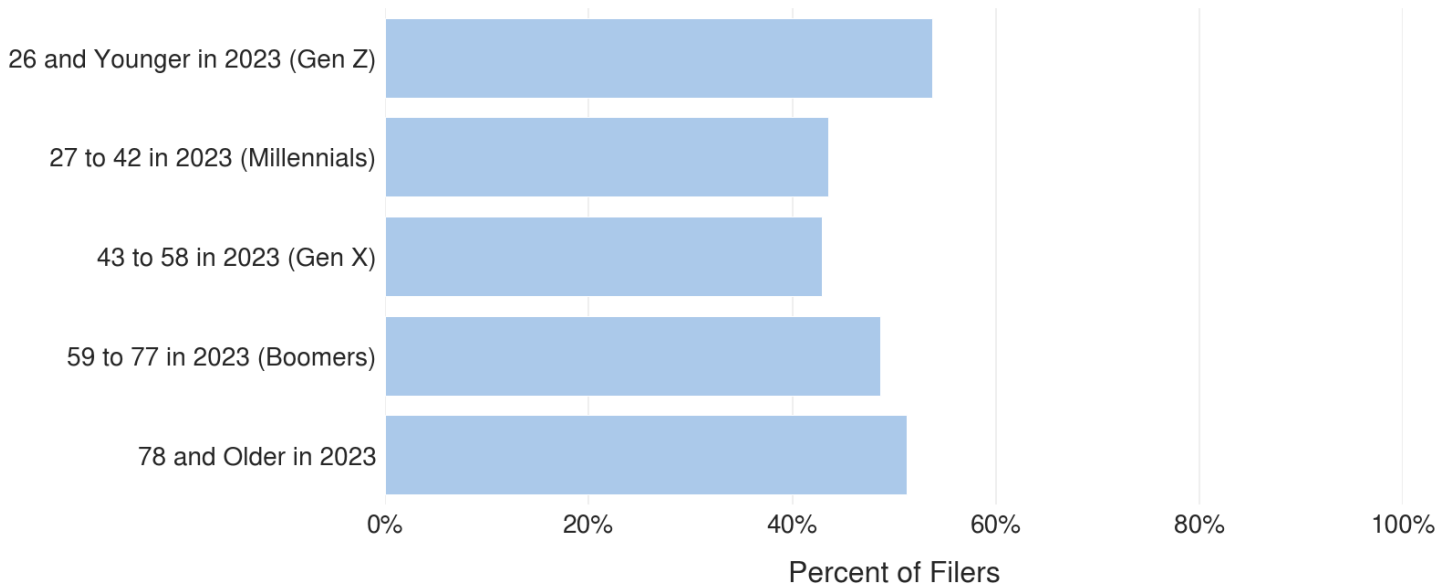


Figure 8. Same-day filers by generation (Tax Year 2021)

Some tax forms are not immediately released at the beginning of the calendar year, delaying some tax filers’ ability to complete their returns. Furthermore, factors such as availability of refund may incentivize tax filers to submit their returns earlier (Figure 9). For many Americans, their tax refund is the biggest check of the year and is used to [make ends meet](#).

Percent of Tax Filers Who Completed Their Taxes Over Time (Tax Year 2021)

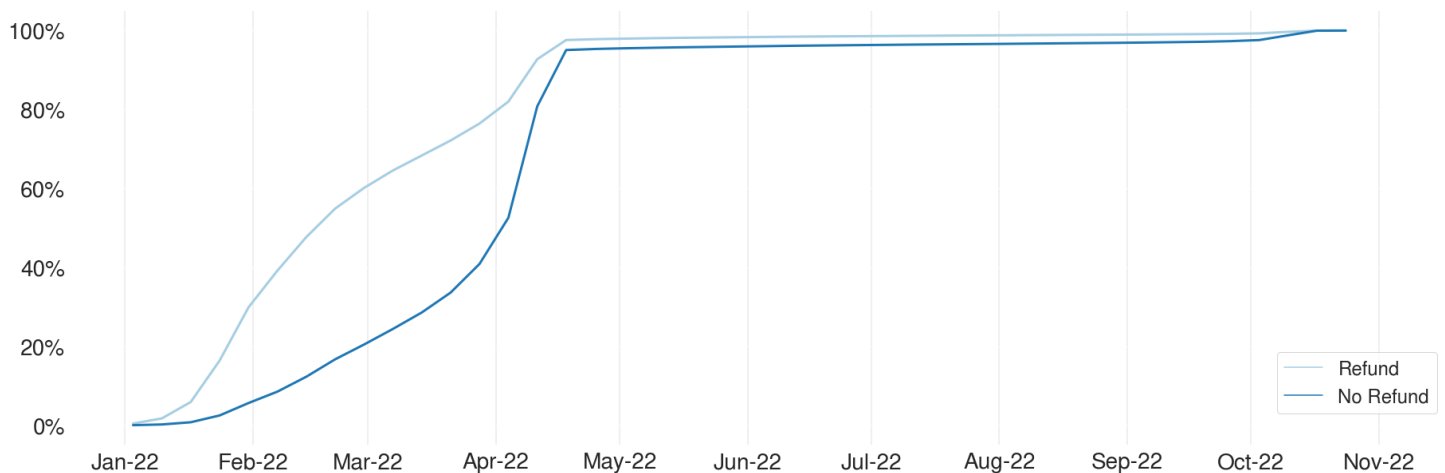


Figure 9. Percent of tax filers who completed their taxes over time by refund status (Tax Year 2021)

Gen Z has a particularly high rate of refund receipt. This is to be expected considering that many who fall into this group may not be required to file taxes yet. When they begin working for an employer or bringing in income from other sources, they are at the very beginning stages of income growth and more likely to be eligible for a refund. 91.3% of Gen Z tax filers received a refund in Tax Year 2021 (Figure 10).

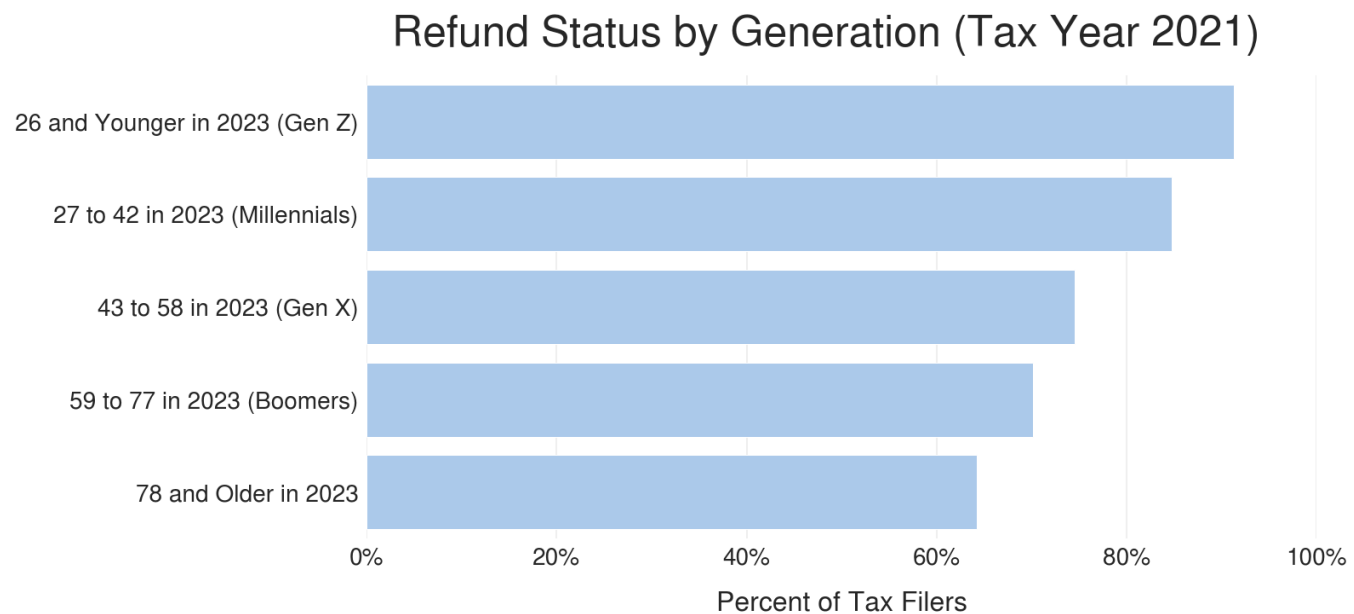


Figure 10. Refund status by generation (Tax Year 2021)

Given the refund findings in tax year 2021, what’s expected for tax year 2022?

Our analysis finds that younger tax filers typically have more simple tax situations and tend to file their taxes earlier in the tax season, most likely because they are motivated by the tax refund and have a less involved tax return. Last year, close to 75% of tax filers received a tax refund and the [average tax refund](#) was \$3,252. Our analysis revealed that 91.3% of Gen Z tax filers received a refund in tax year 2021. Like Tax Year 2021, we would expect to see younger tax filers receive tax refunds as most young tax filers with a simpler tax situation tend to get back any federal withholdings, but they have to file in order to get their tax refund. Many Gen Z don’t file their taxes, because they earn under the IRS income filing threshold (\$12,950 for single filers in 2022), but they could be leaving money on the table. Every year the IRS reports that they have over [\\$1 billion in unclaimed tax refunds](#) and the average unclaimed refund is over \$800. [Some of the unclaimed refunds belong to young filers](#). Even if earning under the IRS income filing requirement, people should file when they have federal taxes withheld especially since they also may be able to claim refundable credits like the Earned Income Tax Credit or Education Credits.

Anecdotal evidence suggests that some young tax filers who fall into the Gen Z age range filed taxes

in order to claim credits under the [American Rescue Plan](#) that were only available in 2021, such as the recovery rebate credit. They may experience lower refunds in Tax Year 2022 due to [credits expiring in Tax Year 2022](#), such as the recovery rebate credit.

Whether Gen Z tax filers see a lower tax refund this tax season or not, tax season is a good time to make strides with your finances if you receive a tax refund or evaluate your tax situation if your outcome is not what you expected.

Appendix

This report applies the same [Methodology](#) used in the January 2023 Tax Trends. Please visit the link for more detailed information about sampling, metrics, and dimensions. New metrics and dimensions included in this report are described below. Note that because the report was compiled before the end of the tax season, differences in the composition of the tax filer base (e.g., filing status, age group, income group) are expected.

Metrics

W-2, 1099-NEC and 1099-K

Form W-2 provides tax information from employers related to earnings, tax withholding, benefits, and other details. A tax filer who worked as an employee in a given year will receive a W-2 from their employer. Form [1099-NEC](#) is used to report nonemployee compensation, such as money earned from self-employment. Form [1099-K](#), Payment Card and Third-Party Network Transactions, is an IRS information return used to report certain payment transactions, including those from payment cards (e.g., debit, credit, or stored-value cards) and third-party payment network transactions above the minimum reporting thresholds.

Percent of Tax Filers with a 1099-NEC or 1099-K form in addition to a W-2 Form

The percent of tax filers with a 1099-NEC or 1099-K in addition to a W-2 is calculated by dividing the total number of tax filers with a combination of forms W-2 and 1099-NEC or 1099-K by the total number of filers overall.

Refund

If a tax filer's total tax payments are greater than the total tax, they may receive a refund.

Percent of Tax Filers with a Refund

The percent of tax filers with a refund is the total number of tax filers who received a refund divided by the total number of filers overall.

Dimensions

Generation (Age Group)

Tax data is presented by age group according to the following generational cohorts:

- Gen Z: 26 and Younger as of 2023
- Millennials: 27 to 42 as of 2023
- Gen X: 43 to 58 as of 2023
- Boomers: 59 to 77 as of 2023

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