

OMB Clearance Package
**2006 Focus Group Interviews of Taxpayers Who
Respond and Do Not Respond to the Initial Audit Notification Letter**
Small Business/Self-Employed Examination Division

Introduction

The Small Business/Self-Employed (SB/SE) program letter for fiscal year (FY) 2005 communicates the Examination Director's commitment to define and support operational goals as outlined in the compliance work plans for revenue agents and tax compliance officers (TCO). Specifically, it states:

- Emphasize top quality service to each taxpayer in every interaction and to all taxpayers through fair and uniform application of the law and conducting examinations as expeditiously as possible.
- Improve business results by revamping our operational practices and processes through re-engineering projects.
- Promote employee satisfaction by directly engaging frontline personnel in achieving SB/SE objectives and by improving practices that maintain a quality workforce.

The Small Business/Self-Employed (SBSE) Laguna Niguel Research office set forth to study the market segment of "Unagreed closures" from the Tax Compliance Officer (TCO) program in Southern California. Any significant root causes identified might be useful in the development of treatments to reduce the number of Unagreed TCO cases in California.

The Unagreed closures for this study consist of individuals who did not respond to the initial audit letter but responded to the statutory notice of deficiency (SNAD). Several steps have been implemented to reduce the number of Unagreed closures; however, no one has ever recorded the outcomes or successes of those procedures.

Background

The Internal Revenue Service (IRS) mission is to provide all taxpayers top quality service by helping them understand and meet their tax responsibilities. To accomplish this, the Laguna Niguel Research office is conducting this study and proposes to determine WHY people do not respond to the initial audit letters. The Laguna Niguel Research office will conduct this study in four phases: (I) Profile the tax return characteristics for the Unagreed cases in the TCO program, (II) Profile the tax return characteristics for the Agreed cases in the TCO program, (III) Conduct focus groups with taxpayers who did and did not respond to the initial audit notification letter, and (IV) Administer a survey to taxpayers who do not respond to the audit notification letters and do not appear for their audit.

The Laguna Niguel Research office has completed Phase I and is in the process of completing Phase II. To accomplish Phase III, the Laguna Niguel Research office will be conducting a series of four (4) focus group interviews in Southern California, two (2) in each of two (2) cities – Marina Del Rey and Irvine. Two (2) of the groups will consist of taxpayers who did not respond to the audit notification letter and the other two (2) groups will consist of taxpayers who responded to the audit notification letter.

Research Objectives

The objective of Phase III of this project is to:

- Uncover the reasons why taxpayers did or did not respond to the audit notification letter.
- Develop survey questions for Phase IV of this study.

Efforts Not to Duplicate Research

This effort is the first time focus groups will be conducted to obtain qualitative data from taxpayers who respond or do not respond to the IRS audit notification letters. These focus groups will help the SB/SE Examination Division to develop operational priorities and improvement projects to better assist the IRS in meeting the needs of taxpayers and reduce the number of unagreed closures.

Methodology

SBSE Laguna Niguel Research will conduct focus group interviews with several groups of taxpayers who respond and do not respond to the IRS audit notification letter. Focus group interviews are qualitative research, which means that there is no representative or random sample and no statistical differences between the groups can be determined. Specifically, focus groups are a directed discussion with a small group of six to ten people on a specific topic. The goal of a focus group is to explore the feelings, opinions and beliefs people hold, and to learn how these feelings shape overt behavior. An important aspect of focus groups is that they give rise to insights and solutions that may not come about using another method.

SBSE Laguna Niguel Research will conduct two focus groups in each of the following areas: Marina Del Rey, CA and Irvine, CA. Our focus group target dates are during the week of July 17, 2006. An outside contractor will secure the focus group facility, contact possible participants (from an IRS supplied list), and pay the participants (a maximum of \$100) at the conclusion of each session. The contractor will recruit and schedule ten to twelve participants for each group allowing for last minute cancellations, no-shows, and on-sight disqualification of participants. The qualifying participants will be asked to sign a “Consent to Disclose Tax Return Information” statement prepared and approved by the local Disclosure Manager. Failure to sign this statement will disqualify the focus group participant. Two trained focus group moderators from SBSE Laguna Niguel Research will facilitate the focus group sessions. They will use a Moderator’s Guide (Appendix B) that covers all questions that will be discussed during the focus group interviews.

Data to be Collected and Data Collection Date:

Respondents: SBSE Research designed a data collection instrument and is sampling closed agreed TCO cases for Phase II of this study. The taxpayer names from this sample will be the source of our list of taxpayer's who responded to the audit notification letter.

Non-Respondents: SBSE Examination Technical Services Unit is collecting taxpayer names that did not respond to the audit notification letter but responded when they received the 90-day letter.

The data collection period for the taxpayer lists is October 2005 through June 2006.
The data collection period for the focus groups is July 2006.

Target Group

SBSE Research will identify potential focus group participants by extracting only those taxpayers living within a 25 mile radius of one of the two interview sites (based on their five-digit ZIP code). SBSE Research will then compile them into a list for each interview and provide this list to the contractor who will contact and screen potential participants. This way we will secure participants that meet our criteria, live within the commuting area of the focus group city, and have an interest in sharing their experiences and perceptions with us. In addition to a list of potential participants, we will provide the contractor with a Screener's Guide (Appendix A), which specifies the type of people that should be recruited for each focus group.

How Data Will Be Used

Upon completion of all of the focus group sessions, the contractor will provide SBSE Laguna Niguel Research with audiotapes and written transcripts of each session. SBSE Laguna Niguel Research will summarize in a Focus Group Report all observations and issues discussed in the focus group sessions. SBSE Laguna Niguel Research will measure project success by whether we collect information to address the two objectives of this project.

SBSE Examination Division did not specify formal action standards for this qualitative research project; however, they will use ideas and suggestions from the focus group participants as outlined in the final report to assess their operational priorities and procedures to influence behaviors of taxpayers receiving an audit notification letter and reduce the number of unagreed closures.

Justification for Nonstandard Honoraria

SBSE Laguna Niguel Research plans to conduct four focus groups in two different geographical locations to gain feedback from a variety of taxpayers. The standard honorarium rate for the Southern California area is between \$75 - \$150. Because our target group has already been through the audit process, it may make it difficult to recruit participants. Therefore, we request that the contractor shall pay an honorarium of \$100.00 to each participant.

Expected Response Rate

SBSE Laguna Niguel Research will provide the contractor with approximately 800 taxpayer names, addresses and some telephone numbers. Over two-thirds (560) of the names will be taxpayers that responded to our audit notification letter. Conversely, the remaining one-third (240) will be taxpayers who did not respond initially but responded to the 90-day letter. SBSE Research expects a 50% response rate for the respondents and a much lower response rate for the non-respondents.

Methods to Maximize Response Rate

SBSE Laguna Niguel Research requested that the Examination Division and the Technical Services Unit secure telephone numbers and update the address information in order to provide the contractor with current information. In addition, we are requesting a higher honorarium amount as an incentive to encourage participation.

Estimated Burden Hours

In coordinating the focus groups, the contractor will contact approximately 800 people, ten times the number needed, by telephone to determine eligibility and interest in focus group participation. Each telephone screening will take approximately five minutes. Therefore, the total burden time for telephone screening is estimated to be 67 hours (800 people x 5 minutes). The focus group interviews are designed to last approximately two hours, and travel time is estimated at one hour. Therefore, the total focus group burden time for forty participants is estimated to be 120 hours [(2 hours + 1 hour) x 40 participants]. Combined burden time for the telephone screening and focus groups is calculated at 187 hours (67 hours + 120 hours).

Security, Confidentiality and Disclosure

A confidentiality statement that each participant reads and signs will be distributed. (Appendix D). We will inform each participant that participation is voluntary and explain how their confidentiality is maintained (Appendix B – Page 1).

Confidentiality will be safeguarded. During the data collection process and focus group, participants will be identified to IRS personnel by the first names only. In addition, no participant's names will be mentioned in the focus group report. Participants will be advised that observers from the IRS may be behind the one-way mirror and that their comments will be audio taped. Participants will also be given the OMB Control number for this collection of data, which is 1545-1349 and will be given an address in which to direct their comments.

We will limit and control the amount of information we collect to those items that are necessary to accomplish the research objectives. We will carefully safeguard the security of data utilized as well as the privacy of the focus group participants. We will apply the fair information and record-keeping practices to ensure protection of all focus group participants.

The criterion for disclosure explained in the Privacy Act, the Freedom of Information Act, and section 6103 of the Internal Revenue Code provides for the protection of information as well as its releases to authorized recipients.

Special Tallies and Other Information

Within 60 days after the focus groups are completed, SBSE Laguna Niguel Research will provide the following information:

- 1) Findings.
- 2) Actions taken or lessons learned.
- 3) Number of requests or attempts for taxpayer participation.
- 4) Number of focus group participants.
- 5) Date the data collection began.
- 6) Date the data collection ended.
- 7) Actual Burden Hours
- 8) Cost.

Attachments

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Appendix A – Telephone Screener’s Guide

Telephone Screener’s Guide for Response to the Audit Notification Letter Focus Group

Group 1	Taxpayers Who Responded to the Audit Notification Letter
Group 2	Taxpayers Who Did Not Respond to the Audit Notification Letter But Responded to the 90-day Letter

Hello, I’m _____ with the research firm of _____, and we are assisting the Internal Revenue Service in a research study. Can we please speak to the person who is most responsible for dealing with Federal Income tax issues?

The objective of this study is to gather the opinions of taxpayers who receive an audit notice. The results of this study will help the IRS identify what they can do to help better serve taxpayers.

Note: Please record the number of individual contacts, even if they refuse before you have had an opportunity to explain anything about the project. See last page.

Participants will be requested to attend a two hour discussion session, called a focus group, conducted at our research site. All information will remain completely confidential and will be used only for research purposes. We are not trying to sell anything. Participation in the focus groups is voluntary, and you will be paid a nominal fee for your time.

We are arranging the focus groups to discuss the audit notification letter. If you are interested in participating, I need to ask you some qualifying questions. These questions should take no more than five minutes of your time. If you are eligible and wish to participate, the focus group will take approximately two hours with your total involvement requiring an estimated three hours which includes your travel time.

This research study has been cleared by the U.S. Office of Management and Budget. If you would like, I can give you a name and address where you can send your comments and questions regarding these time estimates. We are required by law to report to you the OMB control number for this public information request. That number is 1545-1349.

Note: Only read if the respondent requests the address of where to send comments:

Send comments to: Internal Revenue Service
Tax Products Coordinating Committee
SE:W:CAR:MP:T:T:SP

If the respondents ask how their name was obtained, tell them their name was on a list provided to you by the IRS based on the mailing of an audit notification letter.

If the respondents are concerned about participating, tell them that your contract with the IRS specifically states that although they gave you a list, it has several hundred names on it, and you are prohibited from revealing their name or any information about them to the IRS or to anyone else.

Qualifying questions:

1. Who is the person most responsible for handling your federal income tax issues in your household?

<input type="checkbox"/> Self	Continue
<input type="checkbox"/> Spouse	Continue
<input type="checkbox"/> Don't know	Thank and Terminate

2. Did you receive an audit notification letter from the IRS within the last two years?

<input type="checkbox"/> Yes	Continue
<input type="checkbox"/> No	Skip to Question 4
<input type="checkbox"/> Don't remember	Skip to Question 4

3. Did you contact the IRS after you received the audit notification letter?

<input type="checkbox"/> Yes	Extend invitation to Group 1
<input type="checkbox"/> No	Continue
<input type="checkbox"/> Don't remember	Thank and Terminate

4. Did you receive a 90-day letter from the IRS within the last two years?

<input type="checkbox"/> Yes	Continue
<input type="checkbox"/> No	Continue
<input type="checkbox"/> Don't remember	Thank and Terminate

5. Did you contact the IRS after you received the 90-day letter?

<input type="checkbox"/> Yes	Extend invitation to Group 2
<input type="checkbox"/> No	Extend invitation to Group 2
<input type="checkbox"/> Don't remember	Thank and Terminate

Extend Invitation to Eligible Respondents:

We would like to invite you to attend a focus group with about 10 other people to discuss taxpayer needs and ways to improve IRS services. Once again, we are not trying to sell you anything. You will only be asked to express your ideas and opinions. This discussion will last approximately two hours. You will receive \$100 for participating in this research study and light refreshments will be served.

The focus groups will be held at LA County location on:

Group 1 (Respondents) = Tuesday, July , 6 pm to 8 pm

Group 2 (Non-Respondents) = Tuesday, July , 8 pm to 10 pm

The focus groups will be held at Orange County location on:

Group 1 (Respondents) = Wednesday, July , 6 pm to 8 pm

Group 2 (Non-Respondents) = Wednesday, July , 8 pm to 10 pm

If accept: Yes Extend Invitation
 No Thank and Terminate

If Yes: Thank you for agreeing to participate. We will be mailing you a letter and calling you the day before the focus group to confirm the time and location.

Group #:	Date:	Time:
	Name:	
	Address:	
	Home Phone #:	Alternate Phone #:

In case you need to cancel, the phone number of _____ is (xxx)xxx-xxxx.

Appendix B – Moderator’s Guide

Moderator’s Guide Response to the Audit Notification Letter Focus Group

Hi! My name is _____ and I’m a focus group moderator from the Internal Revenue Service. This is my co-moderator _____.

The IRS continuously strives to improve the way it deals with people. The Examination Division in our Small Business/Self-Employed (SBSE) operating division would like to gather your opinions on audit notification letters you have received from the IRS to help better serve you and the small business taxpayer.

Before we start, let me ask how many of you have ever participated in a focus group before? **(Ask for a show of hands. State the number for recording).** For those of you who have not, let me explain. A focus group is a research tool used to gather ideas and opinions from a group of individuals with a common characteristic or experience by means of directed discussion. The common characteristic that you have is that all of you received a notice for audit.

There are no **right or wrong answers**. Everyone’s opinion is valuable so I’d like everyone to participate. If you find yourself having a totally different opinion from the rest of the group, I need to hear it, because you represent a sizable portion of people in the real world who don’t happen to be here to support your view.

We have some **ground rules** that I would like to go over.

We will be here about two hours. I will be watching our time and directing our conversation. Please speak one-at-a-time, loudly, and clearly. There will be no formal break; however, if you need to stretch, go to the restroom, or walk around a little, please feel free to do so but please come back quickly. Your comments are very important to us. Please turn off any cell phones and/or beepers.

We have some **disclosures** that I would like to go over. One of the requirements for participating in this focus group was to have you sign a consent form. If you signed a consent form, please raise your hand.

The IRS has reserved this room for you to speak with us. The research facility that contacted you about participating in this focus group gave us your first name only. We only need to know your first name in order to keep the discussion moving.

There are microphones, mirrors, and observers. Because it’s hard to listen to your comments and capture everything, we will also tape this session. The tape will only be used to refresh our memory and to ensure that we convey your ideas and opinions

accurately in the report. My co-moderator will be the note taker. **(No Names Will Be Used In the Report)** Once the report is written, the tape is destroyed.

The Paperwork Reduction Act (PRA) requires that the IRS display an OMB control number on all public information requests. The OMB Approval Number for this study is 1545-1349. Also, if you have nay comments regarding the time estimates associated with this study or suggestions on making this process simpler, please write to the:

Internal Revenue Service
Tax Products Coordinating Committee
SE:W:CAR:MP:T:T:SP
1111 Constitution Ave. NW
Washington, DC 20224

Warm Up

As we go around the room, please only tell me your first name and answer the following question: If you could have any car of your choice, what would it be? Why?

Note: Go around the table.

Audit Notification Letters

The IRS Mission is to provide taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

When a tax return is selected for audit, it does not mean that an error was made or the taxpayer was dishonest. The IRS audits tax returns to determine if income, expenses, and credits are being reported accurately. The tax returns are chosen by random sample, computerized screening, or by an income document matching program.

How do taxpayers know that their tax return was selected for audit? The IRS will send them an audit notification letter.

The purpose of this focus group is to gather your thoughts and opinions on the audit notification letter (Letter 3572 (Rev. 10-2203) Catalog Number 34402C) that all of you received.

When you received your audit notice, tell me what you remember.

Probe for specifics: Didn't understand, fear

- Were there specific words, sentences or sections on the letter that were ambiguous, unclear, or just difficult to understand?
- What was your reaction when you received the audit notice?

HAND OUT THE AUDIT NOTIFICATION LETTER (Let the participants review it)

Tell me in your opinion,

- What is good about this letter?
- What is bad about this letter?
- What stands out?
- What is the main purpose of this letter?

Is there anything that you would change on this letter?

Probe for specifics:

- Are there specific words, sentences or sections on this letter that are ambiguous, unclear, or just difficult to understand?
- What would you like to see different? (Probe: suggestions to make the wording clearer)
- Give me your ideas on how we can make this letter better for you. (Layout, reduce to one page, use a different font, make font larger)

In your opinion, why don't people want to respond to IRS letters?

Probe for specifics: Do not understand, Fear, Procrastinate, Financial hardship

When you received the audit notification letter, with a show of hands, how many of you called the telephone number on the letter (audit group)? (State count out loud for recorder)

Probe for specifics:

- Why did you or did you not respond to the audit notification letter?
- If you did not contact the audit group, did you contact anyone else? Who?
- What was your reaction when you received this letter? (Ask again since the participants have had a chance to review the letter).

On a scale of 1 to 5, with 1 being not important and 5 being very important, how would you rate the audit notification letter (Letter 3572)? (Go around the room and take a count)

Probe for specifics:

- Why would you rate it not important?
- Why would you rate it very important?

Now I am going to ask you some questions about another notification letter taxpayers might receive from the IRS during the audit process.

When a tax auditor has exhausted all efforts to make contact with a taxpayer regarding an audit, he/she is allowed to close the case. When this happens, a 90-day letter is sent to the taxpayer which gives them 90-days to petition the United States Tax Court.

If you received a 90-day letter, tell me what you remember about this letter.

Probe for specifics: Didn't understand, fear

- Were there specific words, sentences or sections on the letter that was ambiguous, unclear, or just difficult to understand?
- What was your reaction when you received the 90-day letter?

HAND OUT A 90-DAY LETTER (Let the participants review it)

Has anyone seen this letter prior to today?

Tell me in your opinion,

- What is good about this letter?
- What is bad about this letter?
- What stands out?
- Is there anything that you would change?
- Give me your ideas on how we can make this letter better for you. (Layout, reduce to one page, use a different font, make font larger)

If you received this letter, who would you call? (List on flip chart) Why?
(Probe: IRS, accountant, lawyer, person who prepared their return)

In your opinion, how do you feel the frequency of the letters, sent by the IRS, impacts the response rate?

Probe: Not at all? Greatly?

AUDIT NOTIFICATION LETTER SURVEY

The IRS will be surveying taxpayers who did not respond to the initial audit letter. In your opinion, what questions should the IRS ask on a survey to get their honest feedback as to why they did not respond? (List their responses on a flip chart)

What ideas do you have on how the IRS can get taxpayers to respond to our survey? (Increase the response rate)

The last few questions have been specific questions about our audit notification letter. Now I have a few general questions about your IRS experiences.

Interactions With the IRS

Within the last 12 months, how many contacts with the IRS have you had? (list on chart)

On a scale of 1 to 5, with 1 being the lowest and 5 being the highest, how comfortable are you in dealing with the IRS? (Go around the room and take a count)

Probe for specifics:

- What makes you feel uncomfortable?
- What makes you feel comfortable?
- What could the IRS do to make you feel more comfortable?

What was your last experience with the IRS? (List on chart)

Probe for specifics: (audit, correspondence, telephone, walk-in, VITA)

- How responsive was the IRS to your tax concerns?
- Was the response timely?
- How satisfied were you with your experience? If you were not satisfied, do you have any suggestions for improvement?

Summarizing Questions

If you were the Commissioner of Internal Revenue Service, what is the one thing you would do to encourage taxpayers to respond to the initial audit letter?

Note: List on flip chart

Conclusion

Are there any other issues you'd like to discuss?

Thank you for all your help. Your participation here today is extremely valuable and greatly appreciated. We hope that by working together we can both become more effective. Please remember to see the hostess (host) on your way out. Goodnight!

Appendix C – Disclosure Consent Form

**Consent to Disclose Tax Return Information
Tax Compliance Research Project Focus Group**

I, _____, have agreed to participate in a focus group interview conducted by the Internal Revenue Service to study tax audit procedures. I am aware that this focus group will consist of other participants, in addition to me, who have previously been the subject of tax audits. In agreeing to participate, I authorize officers and employees of the Internal Revenue Service to disclose the fact that I have been the subject of a previous tax audit to the other focus group participants. I am also aware that I will be asked to discuss facts and circumstances about my participation or non-participation in the audit. Any and all information I disclose about my participation or non-participation in the audit, or any other personal tax return information I disclose, is completely voluntary on my part, as a condition of participating in the focus group interview.

Signed

Date