

# Office of Management and Budget Clearance Package

Focus Group Testing  
Of  
Sales Tax Tables

**June 6, 2006**

Internal Revenue Service  
Tax Forms and Publications

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**Focus Groups**  
**Sales Tax Tables**

**Introduction**

Tax Forms and Publications (TFP) of the Media and Publications Division of the Internal Revenue Service is responsible for the development of the tax forms and instructions used by the public to fulfill their tax obligations. The division strives to make these materials as clear and “user friendly” as possible, while still reflecting all provisions of the highly technical and complex tax law. Gaining information about taxpayer reactions to tax forms and instructions, particularly to proposed changes to forms and instructions, is an integral part of the revision process. Studies of materials in which taxpayers seem to experience difficulty, and studies of proposed changes to those materials, enables us more effectively to the usefulness and ease of use of those materials. Conducting focus groups is one of the most effective means for gathering information and studying taxpayer reactions, and is therefore vital in improving tax forms and instructions, thereby increasing taxpayer satisfaction, reducing both taxpayer and processing errors, and decreasing taxpayer burden.

**Objective of the research**

The Director, Tax Forms and Publications, is the customer for this research project. TFP wishes to conduct focus group interviews with taxpayers who prepare their own returns and who file Form 1040, U.S. Individual Income Tax Return, to which they attach Schedule A, Itemized Deductions.

Because of legislative change effective for tax year 2004, persons who itemize their deductions may choose to deduct either sales tax they paid or state and local income tax they paid. Persons living in states with both a sales tax and an income tax will usually pay more in income tax. Therefore, the option to deduct sales tax will benefit primarily those persons in states without an income tax.

To reduce the recordkeeping burden that would be required to substantiate actual sales tax expenditures, persons may elect to use state and certain local sales tax tables provided by the IRS. (Additions to the sales tax tables can be made for the general sales tax paid on certain specified items, such as motor vehicles, aircraft, boats, and materials and services related to a substantial addition or major renovation of the taxpayer’s home.)

TFP wants to ensure that those portions of Schedule A and its instructions that relate to the sales tax deduction are as well-designed as possible. The relevant instructions include portions of the line by line instructions for Schedule A, a sales tax deduction worksheet, optional state and certain local sales tax tables (a separate table for each state with a

statewide sales tax, and the District of Columbia), and a separate optional local sales tax table applicable to a limited number of states.

The focus groups will help determine to what extent taxpayers are able to understand the rules for itemizing state and local sales taxes, whether claiming sales tax as a deduction is more advantageous than claiming state and local income taxes, and whether the taxpayer can compute the actual deductible amount using the worksheet and applicable sales tax tables.

TFP also expects to gain knowledge of the overall reaction to the schedule, instructions, worksheet and tables, discover what parts of these documents lead to error or misunderstanding, and determine what in these materials taxpayers find most useful or most troublesome. TFP also expects that taxpayers will provide specific suggestions for improvement to these materials.

Upon completion of this project, the moderator will submit a report of finding to the director. The report will assist in determining needed changes to the format and language of the materials.

## **Methodology**

TFP plans to use focus group interviews, a qualitative method, to collect data from taxpayers. Focus group interviewing is one of the most frequently used techniques of qualitative marketing research. As a type of group interview, focus groups use group interaction to stimulate relatively spontaneous response to the supplied topics. Focus groups provide insight and direction rather than quantitatively precise or absolute measures. They are useful for gathering information in a new field and generating hypotheses based on participants' insights. The main advantage of focus groups is the opportunity to observe a large amount of interaction on a specific topic within a limited period of time. Also, the focus group format will allow respondents to review and comment upon the documents being revised by TFP, which would prove difficult outside of a focus group setting.

## **Moderator's guide**

A moderator's guide imposes structure on the discussion. Our guide, contained in Attachment 1, addresses the research questions and provides a framework for the focus groups. The moderator's guide includes relevant probes that will be utilized during the focus groups.

## **Data collection and schedule**

Ten focus groups will be conducted for this project. Two groups will be held in each of five cities. On each date, there will be one group beginning at 6:00 PM, and a second group beginning at 8:00 PM. The focus groups will be conducted over a period of three weeks, beginning early to mid July. The metropolitan areas in which focus groups will be held are:

- Jacksonville, Florida
- Chicago, Illinois
- Dallas, Texas
- Seattle, Washington, and
- EITHER Las Vegas, Nevada OR Sioux Falls, South Dakota

The participants will be persons who have itemized in the past and presumably expect to do so in coming years. With the exception of Chicago, all of the cities listed are in states that have a sales tax but no income tax. Therefore, we expect all participants will have opted in the past and presumably will opt in the future, to claim the sales tax deduction. Illinois is the state in the country whose residents pay the highest sales tax per capita as compared to the per capita amount of state income tax. Therefore, Chicago will be an excellent location to test materials relating to the option to choose to deduct sales tax as opposed to deducting income tax. We plan to use Sioux Falls, South Dakota, since it is in a state without an income tax and is a location that TFP has not conducted focus groups in the past. However, at this time there is some doubt whether enough qualified participants can be located in this relatively small metropolitan area, and whether appropriate focus groups facilities are available. If TFP determines that Sioux Falls is not suitable, we will conduct focus groups in Las Vegas, Nevada instead; Las Vegas is in a state with a sales tax but no income tax.

## **Sample design**

Each focus group will have eight to ten participants. Research has demonstrated that this number of participants helps create the best group dynamics: the groups are sufficiently large to stimulate relatively spontaneous interaction and small enough to give everyone sufficient opportunity to speak.

Careful screening of participants is essential for the success of focus groups. Attachment 2 provides the screener to be used in this study. We propose two separate avenues of recruitment be used to ensure that an adequate number of eligible respondents be obtained for these ten focus groups. First, we suggest the use of internet panelists as the first and least expensive form of recruitment in each area for which there is a sufficient number of panelists to be effective. The e-mail invitations will be restricted to the geographic proximity of the focus group facility.

Data from previous IRS surveys indicates that online recruitment is a good mechanism for reaching this target population. Among self-preparing Form 1040 tax filers who use IRS instructions, nearly nine out of ten (87) percent report that they use the internet. The use of the internet recruitment will also permit us to try to increase the proportion of respondents with certain types of characteristics (e.g., having filed a joint return, income below certain levels) in a cost effective manner.

Second, we propose using the local facilities to assist in the recruitment of eligible focus group participants, if needed to supplement the online recruitment effort. Local recruitment may be required because of the limited size of online panels in some locations. Also, the databases of the local facilities would be helpful in recruiting participants with certain characteristics of interest to the IRS beyond the general eligibility requirements (such as income below certain levels).

All participants will receive a letter confirming the groups with directions to the facility (Attachment 3). They will also receive a reminder call one day prior to the group (Attachment 4.) Approximately 15 participants will be recruited for each group to ensure that eight to ten actually attend.

### **Honoraria**

Each individual taxpayer who participates in the focus groups will be paid an honorarium not to exceed \$75.

### **Burden Hours**

As indicated, the primary source of participant recruitment will be an online survey, which most respondents will be able to complete in a matter of two to three minutes. It is estimated that approximately 3000 panelists will complete the initial screener in an average of 3 minutes, for a total of 150 hours. Those who qualify will spend an additional ten minutes completing some additional questions, for a total of up to 150 initial recruits and a total burden of 25 hours. For participation in the focus group interviews themselves, the burden time estimate is three hours per participant (including travel time). The aggregate burden time for up to 100 taxpayers who actually participate in the groups is 300 hours.

Therefore, the combined burden time for this project is approximately 475 hours (150 plus 25 plus 300 hours).

### **Focus group arrangements**

The contractor will also handle all logistical arrangements for the focus groups to ensure that:

- Each participant receives directions to the focus group room
- Each participant is re-screened upon arrival at the facility to confirm eligibility;
- All materials are ready for use in the focus group session, including tables and chairs, flip charts, colored markers, note pads, pencils and audiotapes;
- Customary refreshments appropriate to the time of day are available for the focus group participants;
- Audio equipment is operating properly
- Honoraria to participants are distributed upon the completion of the session;
- Last names or other identifying information is NOT available to IRS personnel.

TFP will supply the moderator for all groups.

### **Transcripts and Reporting**

Verbatim transcripts of each group will be provided to TFP within fifteen days of the completion of each group. The transcripts will be prepared from the audiotapes of the sessions. No identifying information will be included in the transcripts.

TFP also will be provided with a final report that details the findings from the focus groups. The report will detail taxpayer reaction to the forms, instructions, and other material discussed.

In addition, results from the focus group recruitment effort will also be provided, including the final disposition of all efforts by the contractor to recruit any necessary additional respondents and a summary of the reasons for non-participation given by eligible respondents who decline to attend.

### **Privacy, Security, Disclosure and Confidentiality**

TFP will ensure compliance with the Taxpayer Bill of Rights II. All participants will be treated fairly and appropriately.

The security of the data used in this project and the privacy of taxpayers will be carefully safeguarded at all times. Security requirements are based on the Computer Security Act of 1987 and Office of Management and Budget Circular A-130, Appendices A & B. Physical security measures include a locked, secure office. Notes are stored in locked cabinets or shredded. Data security at the C-2 level is accomplished via the Windows NT operating system. Systems are password protected, users profiled for authorized use, and individual audit trails generated and reviewed periodically.

The IRS will apply and meet fair information and record-keeping practices to ensure privacy protection of all taxpayers. This includes criteria for disclosure—laid out in the Privacy Act of 1974, the freedom of Information Act, and Section 6103 of the Internal Revenue Code—all of which provide for the protection of taxpayer information as well as its release to authorized recipients.

Confidentiality will be safeguarded. During the focus group and data collection process, taxpayers will be identified to the IRS by their first names only. No taxpayer names will be mentioned in the focus group reports.

## **Attachment One**

### **Moderator's Guide Focus Groups**

#### **Sales Tax Tables**

##### **Introduction**

Hello, my name is George Freeland. I am a focus group moderator, and I work for the Internal Revenue Service. I work in the office that is responsible for producing the forms, instructions, and publications used to provide the information the IRS needs to fulfill its responsibility to inform the taxpayer and practitioners of tax law, and to enable them to report the information required by law.

We will be here for the next two hours to discuss a subject that you probably don't know a whole lot about. But that may be good – what we will try to do in the next few minutes is to see how well our forms and instructions can explain this area to you.

Our discussion will be in the form of a focus group discussion- which is simply a group discussion focused on a particular topic. So that we all can get as much as possible out of this discussion, let me go over some guidelines we will follow.

##### **Guidelines**

Since a focus group is considered information gathering, the IRS has secured permission from the Office of Management and Budget to hold this discussion. The approval number that office assigned is 1545-1349. We have estimated the time for this focus group, including time to get here, as about three hours per participant. If you have any comments regarding this time estimate, you may write: IRS Tax Products Coordinating Committee, SE:W:CAR:MP:T:T:S, 1111 Constitution Avenue, Washington, DC 20224.

To ensure your privacy, we will use only first names in this group. We have a note-taker, as you can see, who may record your first names, but when we report about this group, we won't tie any comments to any individual.

To ensure that we get full participation, I am asking that:



You speak one at a time

You don't engage in side conversations – we want to make sure we all get the benefit of your ideas and opinions

You work with me to be sure everyone shares with us – if you are a natural talker, hang back some of the time if someone else is not so quick to share. But if you tend to be quieter, we hope that you will open up a little more quickly than normally, and share your good ideas.

Speaking of ideas – we are after your ideas and opinions. Therefore, there won't be any right or wrong answers here. We truly want all your ideas – so that we can help IRS make products that will make life a little easier for you, other practitioners, and for taxpayers in general. We will get into some tax issues, but we are here to test particular forms and instructions, NOT to test you or your knowledge of one small area of tax law.

Also, please feel free to disagree or question each other. The more we get good discussions going, the more chances we have for getting ideas for improving our products.

We are not going to have a formal break, so if you need to leave for a moment, please feel free to do so. But please come back as soon as possible, since we want your input. If possible, please leave just one at a time. [Rest room, water fountain directions.]

If you have a cell phone, pager, or whatever, please shut off or set to vibrate.

I will be watching our time, and make sure we stick to our schedule.

### **Introduction of participants**

Let's begin. Please tell us your first name, and [ice breaker at moderator's discretion).

Have all of you filed the long form 1040, that looks like this **[hold up]**.

Did you attach a Schedule A that looks like this **[hold up]**.

What does the Schedule A do?

What are some of the items you can claim on the Schedule A?

Other than problems you have in finding all your records –receipts and all that – how would you describe the actual filling out of the Schedule A?

Has there been a tax law change in the last couple of years that affected what you can list as a deduction on the Schedule A? **[Probe for state/local income taxes.]**

What was your experience last year in claiming an amount of sales tax? Did all of you who itemized claim this?

What do you know about claiming the deduction? What are the rules? Did any of you keep track of actual sales tax paid? What did you do? **[Probe for tables]** Is there any amount you can add to the sales tax tables? Did any of you add an amount to the tables?

What about local table on top of the regular tables?  
Where did you here about this new deduction? Where did you get most of your information about it? Was this information accurate – provide all the details you needed?

What information did you get from IRS? Did you get it when you needed it?  
**[Probe – phone, mail, walk in, tax package, IRS website, Publication 600 (before 2005)]**

Did you use the Schedule A instructions? Was that helpful? Understandable? Make you want to get help in filing//use a preparer?

Did you remember using the tables? What was that experience like?  
Did you read text? Comments? What was that like?  
Did you use the worksheet? Why or why not? Worksheet easy/not easy, particular problems?

I am going to hand out the Schedule A, and also the Schedule A instructions, and just ask you to look over the state tax deduction portions. Please just look this over, to refresh your memory – to see if it brings back good memories or bad memories, or you think of something about this that you would like to mention about your filing experience.

**[Discuss based on participant contribution]**

Okay. I am now going to pass out one more thing. A little story – for you to pretend to be the person in the story. After you have read that, try to find the correct amount to claim on Schedule A. Use the instructions to answer any questions and fill out the worksheet if you need to.

I just want to remind you we are not testing YOU, we are testing the materials. Try to get the right answer, but don't worry about it if you don't. If you don't get the right answer, we are going to blame the materials and not you. So we will

see if people get confused and if so what we can do to try to make it better for next year.

I may have to stop you before everyone has a chance to get completely through this little exercise. Once again, don't worry about that.

[Participants do exercise]

[Begin discussion]

Did everyone make it through that exercise okay? Any overall reactions?  
[Probe]

After reading the story, what did you do first?

Ask about first steps – did they go to sales tax tables first? Then what?  
When someone mentions the worksheet, ask people to turn to the worksheet.  
How many went there?

Go line by line through the worksheet.

Line 1 – Was that clear what you were to enter here? Anything could have been worded better?

Line 2 – Did you check yes or no? Why? Was the wording okay here? Anything confusing?

Line 3 – Any problems here? Where did you go from here?

Line 4 – Anybody have an entry on this line? Any language here you did not understand?

Continue through each line similarly.

Line 7. What did people put here? What are “specified items.? Did you look anywhere to find out about specified items? Where? Any trouble finding that information? Suggestions for improvement?

Other comments about the instructions?

What about all the math? Any way for IRS to make this easier (or is it just math)?

What other comments do you have about any of the materials we have looked at today –the Schedule A, the instructions, the worksheet, the tables?

Have you looked for information about this on the website? How did that compare to the written materials? Suggestions for improvement?

Should IRS try to get information about sales tax and other matters to you in some other manner? When, in what format?

Again looking at the materials in front of you, any comments about things such as format, graphics, columns, other things about "look?" Did anyone notice the examples? Were they helpful? Should there be more of these?

What about the question and answer format?

What about the cautions – did you notice? Helpful?

Any other last thoughts?

Thank you for joining us here today. Your comments are going to be very helpful to use as we try to improve the materials we looked at tonight.

Hopefully, we will make some improvements, and so many taxpayers in this country in the future will owe you thanks for making things a little easier.

Thanks again. Have a safe trip home and a pleasant evening.

**ATTACHMENT TWO**

**Sales Tax Tables  
Focus Groups  
Screeners**

**INTRODUCTION**

Hello, I am \_\_\_\_\_ from the research firm of \_\_\_\_\_. We are working with the Internal Revenue Service on a research study. Could I speak with someone there who has filed a joint tax return with their spouse at least once in the last three years?

We are seeking people to participate in a focus groups discussion that will gather opinions about some IRS tax forms. The discussion will be held on \_\_\_\_\_, July \_\_\_\_\_ at \_\_\_ PM. It will last about 2 hours and participants will be paid \$75. This study has been approved by the U.S. Office of Management and Budget and the approval number is 1545-1349.

May I ask you a few questions to determine if you are eligible for this focus group? It should take no more than 5 minutes. Your name and other identifying information will not be given to the IRS.

1.) Did you file a joint tax return with a current or former spouse in at least one of the past three years?

Yes

No

Not sure/refused

**SCREEN OUT**

**SCREEN OUT**

2.) For the tax year 2005, did you file the long Form 1040, attaching a Schedule A listing itemized deductions such as state taxes, real estate taxes, mortgage interest, and certain other expenses?

Yes

No

Don't know, not sure/refused

**SCREEN OUT**

**SCREEN OUT**

3.) For the tax year 2005, how was your income tax return filed?

- Self-prepared using paper and pencil
- Self-prepared using software
- Using a preparer **SCREEN OUT**
- Not sure/refused **SCREEN OUT**

**[Attempt to get at least 8 participants who file using paper and pencil]**

4.) Have you participated in a focus group on any subject in the last year?

- Yes **SCREEN OUT**
- No

5.) Do you or anyone else in your immediate family work in the market research or survey research industry?

- Yes **SCREEN OUT**
- No
- Don't know/Refused **SCREEN OUT**

6.) I have just a couple more questions. Do you consider yourself to be...

- American Indian or Alaska Native
- Asian
- Black or African-American
- Hispanic or Latino
- Native Hawaiian or Other Pacific Islander
- White

7.) [IF NOT OBVIOUS, ASK] Are you male or female?

- Female
- Male

INVITATION TO PARTICIPATE: I would like to invite you to attend a focus group discussion with about ten other people. It will be held at [PLACE] on [DAY AND TIME] and will last about 2 hours. A light meal will be served. Will you be attending?

YES

NO – May I ask why not?

Thank you for agreeing to participate. We will be mailing you a letter and calling you the day before the discussion to confirm the time and location. Could I (get/confirm) your name and mailing address?

NAME:

ADDRESS:

PHONE:

(home)

(work) {Try to get two of these numbers}

(cell)

Thank you for your time. We look forward to seeing you on [DATE].

[IF ASKED: Comments regarding this study can be sent to the IRS, TPCC, Room 6406, Washington, DC 20224]

**ATTACHMENT THREE**

**CONFIRMATION LETTER  
OMB No. 1545-1349**

Contractor Letter Head

Dear [Name]

This letter confirms your agreement to be a participant in a focus group discussion about Internal Revenue Service forms. The focus group session is scheduled to take place on [date] at [time]. The focus group will be held at [name of facility] at [address]. The directions to our facility are enclosed.

We look forward to having you participate in this important research study. If for any reason your plans have changed and you will not be able to attend, please call us at your earliest convenience at [number] to let us know.

Thank you for your participation. We look forward to seeing you!

Sincerely,



## **ATTACHMENT FOUR**

### **REMINDER TELEPHONE CALL OMB No. 1545-1349**

Hello! This is [name] from [research firm] calling for [participant]. I am calling to remind you about the focus group discussion to take place on [date] at [time] at our facility, located at [address]. We look forward to seeing you there. Do you still plan to attend?"

- Yes. Great! We will see you there!
- No. I am sorry you won't be able to join us.

## ATTACHMENT FIVE

Dear Panelist:

We invite you to participate in an important and interesting focus group discussion to provide taxpayer input to the Internal Revenue Service (IRS).

Your opinions and experiences will provide valuable information into how to make its forms easier to use.

The focus group discussion will be held at [PLACE] on [DAY AND TIME] and will last about 2 hours. A light meal will be provided.

*[Please click below to accept this invitation.]*

Thank you for agreeing to participate. We will be mailing a letter and calling you the day before the discussion to confirm the time and location. Please confirm that your name and address is correct.

John Boyle  
Senior Partner  
SRBI