

OMB Supporting Statement EFTPS Research Among 1040-ES Paper Payers

Background

Each year, the U.S. Department of the Treasury receives approximately 30 million 1040-ES (Estimated Tax) paper payments. Estimated tax is the method used to pay tax on income that is not subject to withholding (earnings from self-employment such as for a sole proprietorship, interest, dividends, rents, alimony, and so on). Estimated tax payments can be made in a single transaction in April or in quarterly payments in April, June, September, and January.

Those required to make estimated tax payments typically expect to owe at least \$1,000 in taxes after subtracting withholding and credits, and expect their withholding and credits to be less than the smaller of either 90 percent of the tax paid the previous year or 100 percent of the tax paid two years earlier.

According to the Internal Revenue Service (IRS), 21.5 million individual income tax returns reported non-farm sole proprietorship activity in tax year 2005. Profits from these sole proprietorships totaled \$269.9 billion, up 9 percent from the previous year. IRS data also show that unpaid balances for tax returns with sole proprietorship activity are increasing.

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest business organization to start and maintain, and has no existence separate from the owner. The owner undertakes the risk for all assets owned and includes the business income and expenses on his or her personal tax return. A short survey conducted by FMS in January 2008 found that 35 percent of sole proprietors make 1040-ES estimated tax payments.

The IRS encourages 1040-ES filers to make their payments electronically via the Electronic Federal Tax Payment System (EFTPS), electronic funds withdrawal, or credit card. EFTPS is a free service of the IRS and the Financial Management Service (FMS), sister Treasury bureaus, that allows payment of any federal tax by phone or Internet. As of the 2005 tax year, those who made an electronic estimated tax payment no longer receive paper vouchers from the IRS and instead are encouraged to continue paying electronically.

In general, an electronic payment transaction costs the Federal government 53 cents less than a paper transaction. A key goal for FMS is timely collection of Federal government receipts, at the lowest cost, through an all-electronic Treasury.

FMS and the IRS are very interested in learning the reaction of 1040-ES sole proprietor filers to possible operational strategy initiatives and to determine whether techniques similar to those used among businesses with employees would encourage sole proprietors to move to electronic payment.

Businesses with employees pay employment taxes using Federal Tax Deposit (FTD) coupons. If a business's aggregate deposits for a year total more than \$200,000, it is required to use EFTPS. FMS and IRS in the past two fiscal years have aggressively sought to reduce the number of FTD coupons and encourage electronic deposits by:

- Express Enrolling into EFTPS new businesses and a percentage of businesses currently using paper Form 8109 (FTD coupon);
- Enhancing the batch provider software used by tax professionals to pay taxes for their clients; and
- Marketing the advantages of EFTPS to small businesses, tax professionals, and financial institutions.

Through these efforts, FMS and IRS have achieved a 16.8 percent reduction in FTD coupon processing.

Past Research

In January 2008, we conducted a short survey among sole proprietors who make paper 1040-ES payments to determine the cost and feasibility of conducting more extensive research among this audience. We found that using commercially available list samples that we could expect an incidence of 35 percent of sole proprietors who make 1040-ES paper payments, making it feasible to conduct more extensive research.

Research Objectives

The primary of objectives of this research are to:

- Assess awareness, familiarity, and likely usage of EFTPS;
- Test messages designed to promote EFTPS usage;
- Determine in what ways these sole proprietors' attitudes and needs differ from or are similar to those of employers;
- Examine patterns of 1040-ES usage, such as how frequently payments are made;
- Estimate the prevalence of using a tax preparer, accountant, or bookkeeper to prepare tax payments; and,
- Gauge level of computer usage and comfort with electronic financial transactions to use in developing messaging.

Given no research has been done among this specific tax paying audience, the findings will be very valuable in developing operational, policy, and marketing strategies to encourage sole proprietors currently making paper 1040-ES payment to use electronic methods.

This short, voluntary survey will have minimal impact on the sole proprietors who are given the opportunity to participate.

Methodology

To meet these objectives, KRC Research will conduct a national random sample telephone survey of 300 sole proprietors using a list sample. The survey would be approximately fifteen minutes long.

Estimated Burden Hours

Completing 300 interviews among a listed sample of sole proprietors is expected to take a total of 89 hours of time for those who are contacted and participate in the survey or screening process.

This estimate is based on completing 300, 15-minute interviews ($300 \text{ interviews} \times 15 \text{ minutes} / 60 = 75 \text{ hours}$).

We are assuming that the incidence of 1040-ES users among all sole proprietors will be approximately 35 percent based on the recent incidence test. Therefore, we anticipate making an additional 857 contacts of individuals who will be asked screening questions to determine qualification to participate in the survey but do not qualify. Each contact should last approximately one minute. Therefore, in addition to the 75 hours for interviewing respondents, there will be approximately 14 hours spent surveying those who are contacted but do not participate:

$187 \text{ contacts} \times 1 \text{ minute} / 60 = 14 \text{ hours}$

Contact

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