

**OMB Supporting Statement**  
**Electronic Federal Tax Payment System (EFTPS) Small-Business Survey**

**Background**

U.S. employers are required to make withholding tax (income tax and Federal Insurance Contributions Act taxes) and Federal Unemployment Tax Act payments on behalf of their employees. Employers with annual federal tax liability of \$200,000 or more are required to pay via the Electronic Federal Tax Payment System (EFTPS), a free service of the U.S. Department of the Treasury. EFTPS features Internet and phone channels as well as special software for tax professionals and payroll services.

EFTPS was launched in 1996 and to date has collected more than \$17 trillion in more than 740 million transactions. Based on dollar volume, 96 percent of all employment taxes are paid by electronic funds transfer. However, that represents only 38 percent of transaction volume.

Businesses with federal tax liability under \$200,000 have the option of using EFTPS; mailing Federal Tax Deposit (FTD) coupons and payments to an IRS lockbox; or taking the coupons and payments to their financial institution. The overwhelming majority of these businesses opt for the third choice. In fiscal year 2007, 34.3 million coupons were processed. Employers with federal tax liabilities below \$20,000 accounted for 69 percent of businesses that used FTD coupons in calendar year 2006. Through the first half of calendar year 2007, businesses with tax liabilities below \$20,000 accounted for 83 percent of employers using FTD coupons; 96 percent of FTD coupon users had tax liabilities below \$50,001.

On average, a paper transaction costs the Federal government 53 cents more than an electronic transaction.

The Financial Management Service (FMS) and the Internal Revenue Service (IRS), owners of EFTPS, in the past two fiscal years have strongly encouraged employers to move to electronic tax payment by:

- Express Enrolling into EFTPS new businesses and a percentage of businesses currently using paper FTD coupons;
- 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 with a \$6 million professional campaign as well as free marketing materials for tax professionals and financial institutions to distribute to their customers.

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

FMS is very interested in determining what actions short of a mandate that all employers use EFTPS could be taken to persuade small businesses that still make paper tax payments to move to electronic payment. To that end, in fall 2007, FMS conducted six focus groups among small

businesses with tax liabilities below \$20,000 that pay employment taxes via paper. Key findings included:

- Inertia is a major factor. These businesspeople have used FTD coupons for years and see no reason to change;
- Allowing banks to charge for processing coupons would drive some employers to use EFTPS as a free alternative; and
- Allowing banks to accept federal tax payments via online business services suites was attractive to many.

FMS desires to conduct quantitative research among this population to determine its programmatic, policy, operational, and marketing strategies for moving these small businesses to electronic tax payments as part of the overarching goal of an all-electronic Treasury.

### **Research Objectives**

The primary objective of the research is to explore reactions to possible operational changes designed to discourage use of FTD coupons.

We will conduct additional interviews in Illinois and New York to determine the effect state tax payment functionality has on interest in EFTPS. Treasury and the Illinois Department of Revenue on December 14, 2006, began a pilot program through which businesses are able to make state withholding tax payments via the EFTPS Internet channel. To date, the state has received more than \$550 million in payments via EFTPS, the lion's share of which Illinois says has come from businesses that previously paid via check. However, the Treasury goal of reducing FTD coupons in Illinois beyond the national rate of decline has not been realized.

The top FTD coupon-processing states in order are California, Texas, Florida, and New York. (Illinois is No. 5.) California collects these taxes at the county level; Texas and Florida have no state income tax. Therefore, FMS desires to survey New York businesses to determine whether their interest in moving to EFTPS would be increased by state tax payment functionality.

This short, voluntary survey will have minimal impact on small businesses given the opportunity to participate.

### **Methodology**

To meet these objectives, KRC Research will conduct a random sample telephone survey of 400 small-business owners nationally as well as 200 in Illinois, and 200 New York using a list sample. The survey would be approximately 15 minutes long for the national survey with an additional 1 minute of questions for the oversampling in Illinois and New York. Screening questions would be included to ensure we are talking to small businesses that use FTD coupons and have a tax liability of \$50,000 or less.

### **Estimated Burden Hours**

Completing 400 interviews among a listed sample of small businesses is expected to take a total of 216 hours.

This estimate is based on completing:

400, 15-minute interviews (400 interviews x 15 minutes)/60 = 100 hours.

400, 16-minute interviews (400 interviews X 16 minutes)/60= 107 hours

We are assuming an incidence of 60 percent. Therefore, we anticipate making an additional 533 contacts who will be asked screening questions but will not qualify for the full survey. Each contact should last approximately one minute. Therefore, in addition to the 207 hours for interviewing respondents, there will be approximately 9 hours spent surveying those who are contacted but do not participate.

533 contacts x 1 minute/60 = 9 hours

### **Contact**

For questions regarding the focus groups, contact:

Doug Baker  
KRC Research  
700 13<sup>th</sup> Street, NW, Suite 800  
Washington, DC 20005  
(202) 585-2829

E-mail address: [dbaker@krcresearch.com](mailto:dbaker@krcresearch.com)