

**Office of Management and Budget (OMB)
Clearance Package**

CLD Outreach – Small Business Market Segments

**Internal Revenue Service (IRS)
Small Business/Self-Employed Research and Analysis**

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1. Introduction

1.1 Background/Overview

The Internal Revenue Service (IRS) Communication, Liaison and Disclosure (CLD) requested assistance from IRS Small Business/Self-Employed (SB/SE) Research to research ways to identify and connect with newly evolving and growing segments of the small business community that are not being reached through traditional points of contact and mainstream messaging.

In 2008, Congress mandated that the IRS research the impact of taxpayer services, including outreach efforts on voluntary taxpayer compliance. A report titled “Measuring the Indirect Effects of Services and Enforcement on Taxpayer Compliance” was produced for IRS in December 2008 and provides the following information:

- *“Given the range and scale of IRS service offerings, it is a considerable challenge to measure and monitor their ultimate compliance outcomes. While there is a general consensus among tax administrators that taxpayer services are beneficial to compliance, little more than anecdotal evidence exists to guide judgments about the relative impacts of different services or to make an informed decision on the optimal overall level of service.”*
- *“IRS is beginning long-range research to measure the marginal impact of services on voluntary taxpayer compliance.”*
- *“There was broad consensus that segmentation analysis would serve as a useful tool for identifying and understanding the sources of heterogeneity among taxpayers with respect to their motivations and compliance behavior. Segmentation analysis was proposed as a means of dividing taxpayers into separate groups according to their apparent motivations and behaviors.”¹*

Segmentation analysis refers to the division of a market or customer base into uniform groups that react differently to various activities, such as outreach. Rather than treating taxpayers as one uniform group, segmentation analysis means not treating taxpayers as one unified market with identical needs, desires and motives. Effective segmentation analysis can lead to improved outreach strategies by creating targeted messages based on certain characteristics that resonate with an identified segment. As it applies to the IRS, “segmentation analysis can be used to generate insights into the underlying reasons that service and enforcement activities impact compliance.”²

In IRS testimony before the Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies Committee on Appropriations United States Senate, April 27, 2006, the following statements were provided:

- *The IRS is facing a challenge. It has a responsibility to serve all taxpayers with limited resources. Thus, it must decide by taxpayer segment how to deliver needed services in the most effective and efficient manner possible, and in a way that does not negatively impact taxpayers’ ability to comply with the tax laws.*

¹ Measuring the Indirect Effects of Services and Enforcement on Taxpayer Compliance: Final Report, December 3, 2008. Produced by IBM for the IRS under contract TIRNO-08-K-00292.

² Measuring the Indirect Effects of Services and Enforcement on Taxpayer Compliance: Final Report, December 3, 2008. Produced by IBM for the IRS under contract TIRNO-08-K-00292.

Toward this end, the IRS must gather data and develop criteria to make those decisions.

- *We must collect more primary source data about taxpayer service needs. We must then identify the gaps between taxpayer service needs and our present service offerings by analyzing how well our current level and type of service is actually serving different taxpayer segments³*

In support of other compliance activities, the IRS is trying to identify and connect with newly evolving and growing segments of the small business community that are not being reached through traditional points of contact and mainstream messaging. The information gathered can be used to evaluate the efficacy of existing outreach programs for those segments. The results can be used to identify processes for developing and delivering new outreach approaches and messages to growing audiences within the small business community. In addition, the results can be used gain insights into the tax-related behaviors of business owners in new segments of the small business community and how they can be influenced toward increasing compliance.

Getting feedback from this large market segment will enable the IRS to determine:

- Preferred method of receiving business information
- Attitudes and business practices that influence compliance
- Trusted and most common sources of information

The IRS has engaged its Federally Funded Research and Development Center (FFRDC), the MITRE Corporation, to review small business population statistics and trends to determine ideal market segments to conduct the focus group sessions and online web survey. MITRE will also document and analyze the results to provide recommendations for reaching newly evolving and growing small business market segments.

1.2 Objectives of Data Collection

The primary project objective is to gather data that can be analyzed to determine outreach preferences and compliance behaviors for small business market segments. Effective segmentation analysis can lead to improved outreach strategies by creating targeted messages based on certain characteristics that resonate with an identified segment.

Based on the analysis of focus groups and online survey data, the project will provide the IRS Small Business/Self-Employed Communications, Liaison and Disclosure (CLD) organization with recommendations on developing ways to improve tax education and outreach in order to improve overall taxpayer compliance.

2. Methodology

The research project includes a literature survey of the small business population and focus groups. The literature survey will identify newly evolving and growing segments of the small business community. The project will use focus group interviews, a qualitative method, to collect data about communication barriers, outreach preferences, and compliance attitudes and behavior from small business owners in the identified segments. Focus group interviews use interview and discussion techniques in a small group setting to capture qualitative information.

³ Nina E. Olson, "Written Statement of Nina E. Olson, National Taxpayer Advocate Before the Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development, and Related Agencies Committee on Appropriations United States Senate, April 27, 2006, <http://www.irs.gov/pub/irs-utl/ntatestimonysenateapprop042706.pdf>

The outcome of focus group sessions will help shape questions to be used in a subsequent web-based survey.

The intended outcome of research project is to determine more appropriate ways to deliver new outreach approaches and messages to emerging small business communities to help increase voluntary tax compliance.

2.1 Sample Design

The focus groups will include voluntary participation of taxpayers from emerging small business market segments as identified in the literature survey. The recruitment of these segments of the taxpayer population will be supported through market segment partners' of the IRS CLD organization.

The sampling frame for focus group participants includes small business owners of the relevant segment, as identified in the literature survey, who file an IRS Form 1040 Schedule C and work within commuting distance of the focus group location.

The **Sample Telephone Screener (Attachment 1)** will provide the FFRDC and IRS CLD partner organizations with the type of small business owners that should be recruited for the focus groups.

2.2 Data Collection Date

Data will be collected during the time period February through May of 2010.

2.3 Data to be collected

The study will collect data about the outreach preferences and compliance attitudes and behaviors of taxpayers, within identified market segments, who file IRS Form 1040 Schedule C(s).

The study plans to collect data by conducting focus group interviews in four cities. Three focus group sessions will be conducted in each of the four cities. The specific states and cities will be selected based upon the results of the literature review of the emerging small business population.

2.4 How Data will be Used

The data, findings and recommendations will be used to develop tax outreach and education strategies to more effectively influence voluntary tax compliance of taxpayers similar to those in the focus groups studied.

2.5 How Data will be Analyzed

The FFRDC will use the data collected via focus group session notes and audio recordings as a source for analysis. Themes will be extracted and summarized from the data, with an emphasis on understanding outreach preferences and compliance attitudes and behavior by the taxpayers in the market segments under study. The FFRDC will document its findings, develop qualitative conclusions based on the findings, and create recommendations for IRS CLD. These recommendations will consist of suggestions for devising outreach and tax education strategies to more effectively address the preferences and behaviors in the identified small business market segment.

The following information will be provided within 30 days after the close of the focus group data collection operations:

- Findings: A brief summary of significant behavioral and attitudinal themes that were evidenced in the data collected.
- Qualitative conclusions based on the documented findings.
- Recommendations to IRS CLD for developing outreach and tax education strategies to address the findings.
- Number of requests for taxpayer participation in the focus groups.
- Number of taxpayers that participated in the focus groups.
- Date the focus group data collection ended.
- Cost: FFRDC expense, travel, and any other costs incurred as a direct result of the focus groups.

2.6 Who is conducting the research?

The IRS Federally Funded Research and Development Center, or FFRDC (The MITRE Corporation), will conduct the interviews and will develop a report of the interview findings in support of the IRS Small Business/Self-Employed Research Program and CLD.

2.7 Location - region/city and facilities

The results of the literature survey to determine emerging small business market segments will determine the final focus group locations. It is anticipated that the focus group sessions will be located in the following general regions:

- West Coast (California)
- East Coast (New York)
- South (Florida)
- Gulf States (Texas)

The facilities to be used will be government-leased, or library, meeting room spaces designed to accommodate focus group sessions of the type planned for this research study.

2.8 Stipend

Each of the focus group members will be given a stipend of \$100 for participating in the discussion. The stipend is to mitigate the cost of small business owners for being away from their business for a period of time and for any travel costs incurred.

2.9 Recruitment Efforts

The focus group members will be recruited by working through points of contact with whom IRS has previously interacted, via the U.S. Chamber of Commerce, Small Business Forums, and other small business partner organizations (e.g., National Women's Business Council), as provided by the IRS CLD organization to the FFRDC.

IRS CLD has developed strong relationships with its partners in the small business community. Since the IRS is using known small business partners to identify and reach prospective participants, CLD anticipates that the interest in participating in this research will be sufficient to allow recruitment of adequate numbers of focus group members to conduct the study, while minimizing respondent burden.

2.10 Test Structure/Design

The test structure will consist of a series of probing questions designed to engender discussion about IRS tax services, outreach, preferences and attitudes and behavior of the focus group participants toward meeting their tax obligations and reporting requirements.

A moderator's guide imposes structure on the discussion. Attachment x shows the sample moderator's guide planned for this research study which provides a framework for the focus groups.

2.11 Efforts to not Duplicate Research

A literature survey was performed to ensure that this specific kind of focus group research study, targeting small business owners by specific small business market segment, has not previously been conducted by IRS Research.

3. Participant Criteria

The criteria for focus group participants include small business owners who file IRS Form 1040 Schedule C(s), work within commuting distance of the focus group location, and are from an identified emerging small business market segment, as determined from the results of the literature survey.

4. Privacy, Security, Disclosure and Anonymity

The IRS 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. Anonymity will be safeguarded. During the focus group and data collection process, taxpayers will be identified to IRS and FFRDC personnel by their first names only, if given voluntarily. In addition, no taxpayer names or business names will be mentioned in the focus group reports.

5. Burden Hours

Each focus group session will have 8 participants confirmed for each focus group session. It is assumed that the FFRDC will have to contact up to three times the number of participants required to get 8 participants for each session. This would require the contractor to contact as many as 288 potential participants (8 confirmed participants x 3 times the number required x 12 focus group interviews = 288). Each contact would average 5 minutes per call.

The total burden resulting from the screening process would be approximately 24 hours (288 x 5 minutes per call divided by 60 minutes = 1,440 minutes or 24 hours).

The focus group sessions are designed to consist of approximately 8 participants each. The sessions will require a commitment of 2 hours from each participant plus one half hour for travel. The total burden for the session and travel time is approximately 240 hours (8 participants x 12 groups x 2.5 hours).¹² focus group sessions is 264 hours.

Estimated Burden Hours	
24 hours	For screening participants
240 hours	For interview sessions plus travel
264 hours	Total estimated burden

6. Research Cost

The IRS funding allocated for this project is \$150,000.

7. Attachments

The attachments include:

- Attachment 1 – Telephone Screener's Guide
- Attachment 2 – Moderator's Guide
- Attachment 3 – Focus Group Discussion Questions

