

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

Employment Tax Outreach

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

April 23, 2010

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1. Introduction

1.1 Background/Overview

The National Taxpayer Advocate is required to make an annual report to Congress identifying what the Taxpayer Advocate Service (TAS) feels are the most serious problems (MSP) encountered by taxpayers and to make administrative recommendations to reduce these problems. Number four of the 20 MSP highlighted in the 2008 Report related to the Employment Tax program administered by SB/SE.¹

One suggestion TAS had for the SB/SE Employment Tax Program was to consider developing pilot outreach programs and utilizing cognitive learning labs to test the impact outreach initiatives have on employment tax compliance.

Testing the impact and effectiveness that outreach initiatives have on Employment Tax compliance will help determine the effectiveness of current messages and methods of delivery. The population will consist of tax professionals, as well as business owners and/or those with an employment tax filing requirement from various market segments that fall under the SB/SE division.

The research will address the IRS overall strategy of balancing enforcement and customer service in its interactions with taxpayers and aligns with the IRS initiative to measure the impact of service on compliance.² It is also an integral part of an overall strategy for increasing compliance levels in Employment Tax outlined by TAS in their report to Congress. The participants of this project are SB/SE Research, the Ogden Usability Lab (OUL), Communications & Liaison Division (CLD), Employment Tax, and a marketing research firm.

1.2 Objectives of Data Collection

The Employment Tax Program would like to test the impact and effectiveness that current outreach initiatives have on compliance. Tax professionals and others with an employment tax filing requirement will be tested using a set of questions and IRS outreach methods. The results will be collected on a data collection instrument. The objectives of this project are to:

- Evaluate and measure how outreach initiatives impact the understanding of employment tax, an important component of ability to comply.
- Provide input to the IRS to help educate taxpayers and tax practitioners in complying with their employment tax responsibilities.
- Explore forms and methods of communication.
- Develop a repeatable methodology to test the impact and effectiveness of outreach on compliance.

2. Methodology

SBSE Research's goal is to measure how outreach initiatives impact the understanding of employment tax and determine alternative forms and methods of communication. This will enable us to begin developing a method to test the impact of outreach for future projects. Our initial project will be divided into two phases – first measuring how existing outreach impacts

¹ National Taxpayer Advocate 2008 Annual Report to Congress, Volume One, Page 54

² The IRS Strategic Plan 2009 - 2013

understanding of employment tax requirements and second to explore alternative outreach messages and methods of delivery.

During the two phases, SB/SE Research will be working closely with the Ogden Usability Lab (OUL), a market research firm, and CLD. The OUL and market research firm will assist us in making comparisons of taxpayer behavior while performing targeted tasks and exercises. This will also allow us the ability to compare behavior between each of the three groups and two different geographic locations. CLD will participate for reference and consistency when exploring alternative messages and assessing delivery options.

2.1 Sample Design

The project will utilize a purposive sampling plan which means the samples will be chosen based on who we think should participate in the project. The participants will be selected from the market segment population that meets our criteria for participation. The participants will be selected by the recruiters using our screening questionnaire. The test questions and experiments are all designed to measure one basic goal, understanding and ability to comply with employment tax requirements.

Our market segment population will be divided into three groups – tax professionals, existing business owners, and new business owners and/or those with an employment tax filing requirement.

2.2 Data Collection Date

The data will be collected during the time period of May through July of 2010.

2.3 Data to be collected

The data for this project will be gathered from the test participants and collected during the recruitment process (Attachment 1), data collected manually and electronically during the testing and experiment sessions (Attachment 2 & 3), and additional comments provided as part of the debriefing exit interview. The debriefing portion will solicit feedback and comments regarding their experience as well as suggestions for improvement in IRS practices.

2.4 How Data will be Used

The data will initially be used to measure the participants understanding and ability to comply with employment tax requirements. The pre-test results will measure current understanding and after exposure to targeted outreach, the post-test will measure whether understanding and ability to comply increased with additional knowledge. Improvement will be measured by increased scores indicating improved understanding of the test questions and the composite score assigned to each test. This will most likely be identifiable by more correct answers between pre-test and post-test.

2.5 How Data will be Analyzed

The test questionnaires and experiments are designed to produce results that will be used in exploring alternative messages and methods of delivery to small business owners to increase compliance. The outside marketing research firm will use the report along with observation on their part to analyze and evaluate the results. The analysis will assist the market research firm in identifying types of messages and delivery methods. As a result of that identification, targeted outreach messages and delivery methods may be developed collaboratively between the market research firm, the customer, SBSE Research, & CLD.

2.6 Who is conducting the research?

Consumer Opinion Services will be recruiting our participants and the Ogden Usability Lab will be conducting the testing with assistance from SBSE Research, Employment Tax, and Communications & Liaison Division. A report with the findings will be provided to SBSE Research and a market research firm for complete analysis.

2.7 Location - region/city and facilities

Two locations in different regions have been selected for testing. This will allow us to determine if geographical locations are skewing the results.

- West (Seattle, WA)
- East (Philadelphia, PA)

The facilities will be either government space, contract leased space or hotel meeting rooms that will accommodate four simultaneous private labs and one larger debriefing area.

2.8 Stipend

The tax professionals will receive a stipend of \$125 and the business owners will receive a stipend of \$100 for participating in our testing study. The stipend is to mitigate the cost of being away from their business for a period of time and travel costs incurred. The values assigned are recommended by our recruiting contractor as consistent values in the areas we have chosen to test.

2.9 Recruitment Efforts

The participant groups will be recruited by Consumer Opinion Services (COS) using targeted purchase lists for the market segment of small business and employment tax requirements. COS will select 35 participants for each group anticipating a no-show rate of 10-15%, so we will over-sample in order to hit our target of 30 participants. The sample size was largely dictated by limited financial resources, and is too small to make any inference to the entire filing population. However, a sample size of 30 is generally considered large enough to use statistical methods that utilize normality assumptions.

2.10 Test Structure/Design

The participants will come to our designated locations at scheduled times and complete a pre-test questionnaire and a learning scenario experiment. The experiment will make use of existing IRS outreach for the employment tax program. The process will involve observing and recording as participants demonstrate their employment tax knowledge. The learning scenario will be followed by a post-test. The goal is to determine whether targeted outreach will improve their understanding and ability to comply with employment tax requirements.

2.11 Efforts to not Duplicate Research

A literature search was performed to ensure that the specific type of experiment and testing for this market segment and the objectives of this study has not previously been conducted by IRS Research.

3. Participant Criteria

The most general aspect or characteristic of our market segment is small business ownership and others with an employment tax filing requirement. The compliance characteristics of our market segment can be categorized as follows:

- Employers that are required by law to withhold employment taxes from their employees such as federal income tax, social security tax, and Medicare tax.
- Self-employment tax is social security and Medicare tax primarily for individuals who work for themselves and those individuals with household help subject to Social Security requirements.
- Income tax liabilities withheld that must be deposited.
- Employers that must report federal income taxes withheld using Form 941 Employers Quarterly Federal Tax Return or Form 943 Employers Annual Federal Tax return.
- At the end of the year employers that must complete Form W-2 Wage and Tax Statement reporting wages, tips, and other compensation paid to each employee. These forms are given to the employee and the Social Security Administration.

4. Privacy, Security, Disclosure and Anonymity

The project will use data collected from individuals using a series of questionnaires and experiments which are not subject to the disclosure provisions of Internal Revenue Code Section 6103 because no tax return data will be collected. However the data we collect is subject to the provisions of the Privacy Act and IRS policies for UNAX and Sensitive But Unclassified (SBU) data.

5. Burden Hours

The two locations chosen for testing are Seattle and Philadelphia. Each site will have 105 participants confirmed which will total 210 participants in all. It is assumed that COS will have to contact up to three times the number of participants required to reach 105 potential participants in Seattle and four times the number of participants required to reach 105 in Philadelphia. This would require the contractor to contact as many as 315 and 420 potential participants respectively. Each contact would average 25 minutes per call.

The total burden resulting from the screening process for each location would be approximately 131.25 hours and 175 hours respectively for Seattle and Philadelphia (315 x 25 minutes per call divided by 60 minutes = 7,875 minutes or 131.25 hours and 420 x 25 minutes per call divided by 60 minutes = 10,500 minutes or 175 hours). The combined re-screening process will be 105 hours (105 x 2 locations x 30 minutes per call = 6,300 minutes or 105 hours).

To arrive at our target goal of 90 participants, we oversampled (recruited) 105 expecting a no show rate of approximately 15%. The testing process is designed to test four participants at a time in each session. The sessions will require a commitment of two hours which includes one half hour of travel. It will be necessary to have 22.5 sessions conducted to test the 90 participants (22 x 4 = 88 participants and .5 x 4 = 2 participants). The estimated burden for testing would be 360 hours (4 participants per session x 22.5 sessions x 2 hours x 2 locations = 360 hours). However, if all 210 participants were to attend additional time is available for testing.

	<u>Estimated Burden Hours</u>
Screening and recruiting participants	411 hours (rounded down)
Testing participants	360 hours
Total estimated burden	771 hours

6. Research Cost

The IRS funding allocated for this project is \$310,000.

7. Attachments

The attachments include:

- Attachment 1 – Telephone Screener’s Guide
- Attachment 2 – Test Questionnaire
- Attachment 3 – Learning Scenario