

Office of Management and Budget Clearance Package

2010 Communications Research among Small to Mid-Sized
Charities:

Exempt Organizations Services and Assistance

Internal Revenue Service
Tax Exempt and Government Entities Division

July 13, 2010

Introduction

Background

The U.S. tax-exempt sector consists of over 1.8 million organizations. These organizations are diverse in size, ranging from small volunteer-run charities to large hospitals and universities.

There are numerous tax laws and filing requirements applicable to obtaining and maintaining an organization's exempt status. Recently, there have been significant changes to exempt organization federal tax filing obligations that affect all exempt organizations, but particularly the smallest organizations in terms of asset size and revenue base. Some of these major changes include a complete redesign of the Form 990, revisions to the Form 990-EZ, and the introduction of the Form 990-N/e-Postcard—the forms that most tax-exempt organizations are required to file yearly to maintain their tax-exempt status. In 2008, Congress mandated that IRS change the filing thresholds for each of these forms. In addition, the IRS implemented a new requirement mandating that tax-exempt organizations with less than \$25,000 in gross receipts—organizations that were previously not required to file—must now file the e-Postcard annually. As the name suggests, the e-Postcard must be filed electronically. And, the IRS' primary means of communication regarding these filing changes, and all other issues related to tax-exempt status, is through the Internet. Previous IRS research has shown that many of these organizations have less of a preference to use the Internet or receive information via this means.¹

An inability to effectively reach and provide information about changes in filing requirements is critical because failure to file can have serious consequences for organizations seeking to obtain or maintain their tax-exempt statuses.

To that end, it is paramount that the Tax Exempt & Government Entities Division (TEGE) develops and delivers programs and products designed to assist these exempt organizations, especially those who had not previously been mandated to file to obtain tax-exempt status, in understanding and fulfilling their tax responsibilities.

To meet this need, TEGE has partnered with Porter Novelli Public Services (PNPS) to conduct formative research among members of the exempt community, and in particular, small-to-mid-sized exempt organizations, to better understand the following:

- Where they go for information about tax compliance for exempt organizations,
- what information or guidance they would like to see developed,
- how they would like to receive such information,
- how aware they are of existing IRS' outreach programs/materials, and
- How the IRS' communications materials designed to explain the acquisition and maintenance of tax-exempt status could be improved.

¹ e-Postcard Survey Report (January 2008)

The results of this formative research will inform a quantitative survey instrument, developed to glean statistically-representative information on these issues from this population.

Objectives of Data Collection

The objectives of this data collection effort include collecting information from small-to-mid-sized 501(c)(3) charities, who filed a 990-series federal tax form in 2008, specific to the following:

- Where do organizations go for information about obtaining/maintaining their tax-exempt statuses?
- Why or why not do they use IRS' programs/tools?
- Through what mediums do they most prefer to receive information?
- In what ways can IRS resources be improved
- What causes some organizations eligible to file Forms 990-EZ or 990-N to file a higher level form (e.g., the potentially more burdensome Form 990) than they were required?
- How do their organizations' handle tax-compliance, specifically, and
- Do IRS' programs/tools increase their confidence in completing the appropriate forms?

The project will encompass: recruiting participants, moderating focus groups, analyzing qualitative data, and preparing a report for TEGE summarizing the findings gleaned from participants. Comments will be used to develop a questionnaire that will assess these issues, prioritize methods, and to improve outreach methods and materials to help organizations become better prepared to apply for and maintain their tax-exempt statuses.

Methods

To accomplish the objectives of this project, PNPS will conduct a total of ten focus groups—eight in-person focus groups and two telephone focus groups. The in-person focus groups discussion sessions will be held in the Washington DC Metro Area and Des Plaines, IL (suburb of Chicago), two large metro areas where EOs have large pools of potential volunteers and employees. In addition to these sessions, we will convene two telephone focus groups to include participants who represent smaller organizations from geographically disparate areas throughout the U.S.

All focus groups will be designed as directed discussions of respondents' awareness and use of TEGE resources, other sources they turn to for information when filing for and maintaining exempt status, what needs have yet to be filled by IRS tools/resources, and their preferred mediums of communication about issues relating to tax compliance of exempt organizations. They will also assess comfort levels in dealing with tax issues and how IRS efforts impact their level of comfort. Focus groups employ group interaction to stimulate relatively spontaneous responses to the supplied topics and materials. This

methodology provides insight and direction, not quantitatively precise or absolute measures. As such, focus groups are useful for gathering information and testing hypotheses based on participants' opinions. The main advantage focus groups offer is the opportunity to observe considerable interaction on a topic in a limited period of time, with the ability to ask follow-up questions to ensure a clear understanding of respondents' preferences. In fact, the number of individuals per session affords considerable reaction and subsequent probing on a given subject matter and increases the opportunity for multiple reactions to be gleaned. An important aspect of these groups is that they give rise synergistically to insights and solutions that may not come about without them, and they serve as a useful check for unintended interpretations of materials. Focus groups are also a useful methodology in that they create a comfortable environment in which respondents from similar backgrounds can interact openly and share their thoughts and opinions.

Step 1 – TEGE met with PNPS to discuss previous research findings to determine the objectives for this follow-up project. After clarifying objectives for the qualitative sessions, PNPS developed a screening questionnaire (see Attachment 1) to recruit participants and a moderator's guide (see Attachment 2) to be used during the focus groups.

Step 2 – To obtain a diverse group of participants, TEGE collaborated with PNPS to determine segments of the target population who meet the specified recruitment criteria for this research effort. (See "Sample Design" section, below, for more information on participant identification.)

Step 3 – A professional moderator contracted by PNPS will conduct the discussion sessions. The in-person and telephone focus groups will be audio taped and the former will be DVD recorded (with participants informed in advance). All respondents' identities will be kept private.

Step 4 – Notes taken while watching all focus group sessions and on-site recordings will serve as the data collection and the foundation of the analysis. PNPS will review each set of data and summarize findings identified during the group discussions. Study analysts will examine recordings to summarize findings and identify patterns where possible in participants' answers to the questions in each segment of the discussion guide. Notes will be reviewed to explore additional themes and to confirm results. Differences across group location and segment will be noted when appropriate, but given the qualitative nature of this research, findings will be considered descriptive and directional but not definitive. No names will be associated with individual respondents' comments in the final report. No attempt will be made to generalize the findings to a larger population. Upon conclusion of the research, PNPS will submit a summary report of findings. In addition, TEGE will be provided recordings of all in-person sessions and transcripts from the telephone focus groups.

Sample Design

The sample will be comprised of 501(c)(3) charities with < \$200K in gross receipts and <\$500K in assets (per Tax Year 2010's filing requirements), identified via their 2008 tax returns. This umbrella audience will be further segmented to better understand the following sub-audiences:

- Those who filed appropriately (e.g., eligible to file 990-N in 2008 and did so, eligible to file 990-EZ in 2008 and did so); “Appropriate Filers.”
- Those who filed a more complex form than needed (e.g., eligible to file 990-N in 2008, but filed 990-EZ or 990, eligible to file 990-EZ in 2008 but filed 990); “Over-Filers.”

To focus the analyses on the small-to-mid-sized organizations, the above audiences would then be further segmented as listed below, to the extent possible:²

- “Small” Appropriate Filers (gross receipts less than \$50K)
- “Mid-sized” Appropriate Filers (gross receipts greater than or equal to \$50K)
- “Small” Over-Filers (gross receipts less than \$50K)
- “Mid-sized” Over-Filers (gross receipts greater than or equal to \$50K)

Data to be Collected

Attachment 2, *Moderator’s Guide*, contains topics for discussion and outlines the information that will be collected from participants who have the responsibility of filing for/maintaining the tax-exempt status at their respective organizations. Primarily, TEGE seeks to obtain information about the different charities’, knowledge of/familiarity with tax-exempt issues and the processes for maintaining their tax-exempt statuses and current use of/preferences/comfort with various communication channels through which the IRS can keep them informed. PNPS is working with TEGE to identify which examples of current IRS educational materials to have respondents review (e.g., *EO Update*, the IRS’ Exempt Organization e-newsletter). The crux of the groups will focus on how TEGE can best communicate with/reach these audiences.

How Collected and Used

All focus groups will be audio-taped, and the in-person groups will be DVD-recorded as well using professional equipment. Transcripts of the telephone focus groups will also be provided. The collected data will inform the final report. Respondents will be informed that the sessions are recorded. Notes taken while watching all focus group sessions and video and audio recordings will serve as the primary methods of data collection. Specifically, focus group notes and recordings will be reviewed for recurring themes stated across multiple focus groups and respondents.

² Actual segmentation of audiences will depend on the extent to which respondents agree to participate in the discussion sessions.

The findings will be reviewed by TEGE. Once the report is deemed final, findings will be used to develop a questionnaire that will assess these issues, prioritize methods, and to improve outreach methods and materials to help organizations become better prepared to apply for and maintain their tax-exempt statuses.

Dates Collection Begin/End

PNPS will begin recruiting for participants for qualitative research efforts beginning September 16th. Qualitative research will be conducted October 4th-7th. For in-person focus groups, two groups will be conducted per day, with a ½ day – 1 full day allowing for travel between focus groups, depending on the location. Telephone focus groups will be completed in one day, after the in-person groups have concluded.

Who is Conducting the Research

PNPS is responsible for managing the recruitment and screening of participants by professional focus group facilities, preparing screener and moderator guides, moderating the groups, and compiling and summarizing the results. They have research analysts trained in all aspects of qualitative research, including moderating the focus groups, analyzing the qualitative data, and preparing report findings. PNPS has conducted similar work for many government entities, including some recent qualitative research for the Taxpayer Advocate Service.

Cost of Study

The estimated cost of this study is \$72,500. This amount includes costs to perform a telematch of potential participant phone numbers from which to recruit (see below), travel expenses for PNPS research staff and moderators to travel to two U.S. locations; costs to recruit participants and conduct a total of 8 in-person focus groups (4 in each location) and 2 telephone focus groups, with six participants per session; and costs to analyze and report on the focus group results.

Stipend

Participants will receive a cash stipend for their participation, intended to reimburse for expenses such as transportation and child-care, ranging from \$110.00 - \$150.00. The selection of these amounts comes from the recommendations received directly from the focus group facilities that are recruiting and hosting the groups in each city. There are several factors that determine the amount offered to participants. As background, amounts are determined by a facility's ability to guarantee show rates. These show rates, or the rates at which respondents will "show" for research events, are tracked over time. Once show rates fall beneath the accepted industry average, facilities are forced to increase the amount. Further, these amounts are necessary given the highly selective nature of the population under exploration.

Recruitment Efforts

To identify potential respondents for these focus groups, TEGE supplied PNPS three datasets with information from charities' 2007 and/or 2008 Form 990/990-EZ/990-N tax returns. Using these data, PNPS segmented the charities using a number of criteria, including whether charities filed "appropriately" or "over-filed" (i.e., whether they filed the Form 990 they were eligible to file based on their assets and gross receipts or whether they filed a higher level form in the 990 series instead). Although the information within the datasets vary, they include some combination of the following information: charity's name, a contact's name at that charity, which year they filed a return (2007 and/or 2008), what their assets and gross receipts were in 2007 or 2008 (whichever the most recent year was that they filed a return), which of the Forms 990 they filed that year, and their address (city, state, and zip code).

With this information, PNPS sorted the datasets to identify geographic locations that contained a large number of potential participants for in-person focus groups for each of TEGE's desired target audiences for this research. This review resulted in the selection of Washington, DC and Des Plaines, IL. To ensure greater geographic diversity among participants without significantly increasing the costs of this research, and to reach very small 501(c)(3) charities, respondents from organizations with gross receipts at the lower end of the spectrum will be recruited from across the U.S. to participate in the two telephone focus groups.

It is important to note that the TEGE databases do not include phone numbers. As a result, PNPS obtained permission from the TEGE to conduct a "telematch" to garner this information. Once these telephone numbers are obtained, PNPS will then be distributed this information to professional focus group facilities so they may reach potential participants for the research. All additional vendors (e.g., those who conduct the telematch and the professional focus group facilities in each city) will adhere to the data use stipulations set by the IRS.

A Screener Guide (Attachment 2) will be used to ensure that participants are currently responsible for maintaining tax-exempt status at their given charity. This Screener Guide covers all questions to be used in the selection process.

Location and Facility

Research will be conducted at focus group facilities in two cities—the Washington, DC Metro Area and Des Plaines, IL. These sites were chosen because they represent two geographically different areas of the country (East and Mid-West), and they represent significant concentrations of target audience representation, to assist with recruiting.

The telephone focus groups allow for more flexibility in recruitment. Since individuals participate via telephone, PNPS will recruit individuals from various areas of the country.

Each focus group, including those conducted by telephone, will last 90 minutes. In all sessions, a trained moderator will facilitate discussion as described in the Moderator's Guide (see Attachment 1).

Expected Response Rate

The expected response rate is approximately 1-in-12. This is based upon prior experience in conducting similar research. With regard to the low response rate, the IRS will assume that all data collected from this survey is qualitative in nature, and that no critical decisions will be made by TEGE solely from the analysis of data from this research.

Methods to Maximize Response Rate

Up to nine participants will be recruited to attend each in-person focus group. This will increase the likelihood that focus group discussions can be held with at least six individuals. Up to eight participants will be recruited to attend each telephone focus group, increasing the likelihood that each telephone focus group discussion can be held with six individuals. A stipend will also be provided to all participants who show up (either in person or over the phone) for the focus groups, regardless of whether they are selected to participate. This practice has proven itself as a valuable tool for increasing participation rates.

Test Structure/Design

The moderator's guide (Attachment 1) serves as a road map to the focused discussion. The moderator has a clear understanding of TEGE's true purpose and can direct the discussion through the key issue areas. The guide has been approved by TEGE staff.

Members of PNPS' research staff will attend each focus group—members of TEGE's staff will attend the local groups and listen to the telephone focus group as they happen—and meet with the moderator after each group to debrief and compare notes. If problems arise, modifications can be made to the moderator's guide for subsequent groups. TEGE will be able to view the focus groups they do not attend via the DVD recordings.

Efforts to not Duplicate Research

The majority of research on exempt organizations either consists of statistical data or was conducted prior to 2008, and is therefore outdated for a number of reasons. As stated previously, in 2008, Congress mandated that the IRS implement a number of changes related to filing for tax-exempt status, including revising Forms 990/990-EZ for the first time in 30 years and adjusting the filing thresholds for each of these forms, with adjustments to be made yearly until tax year 2010. In addition, the IRS introduced the Form 990-N/e-Postcard in conjunction with a new filing requirement affecting most small tax-exempt organizations (those with normal gross receipts of \$25,000 or less), which were not previously required to file the Forms 990. As a result of these changes, research that applies to the old Forms 990/990-EZ is no longer relevant because the organizations that qualify to file each are now different, as are the information available about these forms, how to file them, and organizations' experiences in doing so.

TEGE's previous research efforts have included some useful explorations into exempt organizations' awareness of tax issues, as well as their awareness of IRS' resources for

exempt organizations, and preferred means of communication. Those projects most similar to this effort are summarized below.

e-Postcard Survey Report (January 2008)— Russell Research conducted telephone interviews among small organizations identified as potential filers of the new e-Postcard on behalf of the IRS. Specifically, following an IRS mailing of letters with information about the new requirement, Russell Research conducted 1,011 follow-up interviews with “990-N decision-makers” at organizations who received this letter and were otherwise determined to qualify to file the e-Postcard. The research revealed that the organizations in the study tended to be extremely small and often run primarily or entirely by volunteers. As such, they have high turnover rates, few resources, and little familiarity with finances/taxes or access to someone with such familiarity, and therefore, are in greater need of IRS communications and counsel. The research also demonstrated that this audience is highly mail-oriented—and not email- or Internet-oriented, and that the IRS’ online communications and resources are not reaching or being utilized by them.

990-990-EZ Customer Satisfaction Study by Russell Research (June 2007)— Starting in 2004, Russell Research and the IRS have conducted a Form 990-990-EZ Customer Satisfaction Study to evaluate the experiences of organizations who file Forms 990/990-EZ electronically. With some exceptions, most exempt organizations that are required to file Forms 990/990-EZ have the choice of filing them electronically or through other methods. The 990-990-EZ Customer Satisfaction Study, conducted via telephone, tracks and evaluates the experiences of organizations that already file electronically (“Users”), regardless of whether they are required to file electronically (“Mandated Users”), and to better understand how to motivate organizations that file using other methods (“Non-Users”) to start filing electronically.

The 2007 Customer Satisfaction Study revealed a number of differences between Users, Non-Users, Form 990 filers, and Form 990-EZ filers, including differences in size, amount of assets, number of returns/forms filed each year, likelihood of using an internal versus external preparer, and number of employees.

Findings are consistent with data from the e-Postcard Survey, suggesting smaller organizations with low assets are less receptive to electronic forms of communications, even though the organizations in this study are larger than those in the e-Postcard Survey.

2008 IRS Nationwide Tax Forum Focus Groups Report: Improving IRS Service to Exempt Organizations (December 2008)—TEGE’s Office of Research & Analysis (Research), with the assistance of TEGE Planning, conducted informal focus groups at the 2008 Nationwide Tax Forums, which were held in six U.S. cities during July, August, and September. The attendees of the Tax Forums are primarily practitioners, or those who prepare returns, the majority of whom are enrolled agents or sole practitioner Certified Public Accountants (CPAs) that may have served exempt organizations as part of their normal tax practice. The stated objectives of this data collection effort include obtaining preparers’ and Circular 230 practitioners’ feedback related to current Customer

Education & Outreach (CE&O) products, including how the products are currently used, how the products can be improved, and how the educational materials could be better disseminated to reach as many exempt organizations as possible.

Contextual Inquiries (July 2009)—As part of their project to rebuild IRS.gov, MITRE Corporation conducted contextual inquiries, or informal interviews, with members of the tax-exempt community to discover how they get information about tax law. Interview respondents include a tax lawyer, a tax principal and CPA, the CFO of the American Society of Association Executives (ASAE), and an IRS employee who is the treasurer of his church group and his daughter’s soccer team. The data from these interviews are primarily about the usability of IRS.gov, rather than about exempt organizations or IRS resources or communications.

The research program proposed in this OMB submission will differ from previous efforts because of its unique focus on small to mid-sized exempt organizations (< \$200K in gross receipts and <\$500K in assets, in accordance with 2010 requirements) as a group, and exclusively on 501(c)(3) charities. Additionally, this research will be conducted only among internal representatives of the organizations as compared to previous research that included or focused solely on external preparers.

Furthermore, this study will be the first that segments the target audience by “appropriate filers” and “over-filers” (as well as by the size of the charity), to explore reasons why an organization files a higher level form than they are required to.

Participants Criteria

The sample will be comprised of 501(c)(3) charities with < \$200K in gross receipts and <\$500K in assets (per Tax Year 2010's filing requirements), identified via their 2008 tax return. When recruiting, professional recruiters will aim to obtain an equal mix of the following audiences:

- “Small” Appropriate Filers (gross receipts less than \$50K)
- “Mid-sized” Appropriate Filers (gross receipts greater than or equal to \$50K)
- “Small” Over-Filers (gross receipts less than \$50K)
- “Mid-sized” Over-Filers (gross receipts greater than or equal to \$50K).

Potential participants will be further screened using a Screener Guide (Attachment 2) to ensure that participants are currently responsible for maintaining tax-exempt status at a charity listed in the dataset provided by TEGE.

Privacy/Disclosure/Anonymity/Security Issues

TEGE will ensure that the utmost scrutiny is given to privacy, security, and disclosure when reporting the comments from the research. Only first names will be used in both recruiting and group conduct (first initial of last name will be used if there are duplicate names). No individual taxpayer data will be used for this project. Only qualitative data derived from discussions will be used in the report. We will limit and control the amount of information that we collect to those items that are necessary to accomplish the research objectives.

PNPS will be responsible for recruiting and screening participants, preparing screener and moderator guides, moderating the groups, and compiling and summarizing the results. The interviews will be conducted at professional testing facilities in two cities and will be conducted via a telephone conferencing service. We will protect the privacy of the participants by not using names in the report. We will also control official access to the information and will not allow public access to the information.

We will apply fair information and record-keeping practices to ensure protection of all participants. The criterion for disclosure laid out in the Privacy Act, the Freedom of Information Act, and section 6103 of the Internal Revenue Code provides for the protection of information as well as its release to authorized recipients.

Burden Hours

The estimated time to complete the participant screening is 5 minutes and the estimated time for each in-person focus group attendee is 2 hours (i.e., 1.5 hrs. to attend and .5 hr. of travel to/from focus group) and 1.5 hrs for each telephone focus group attendee. We will assume a 1-in-12 success rate in soliciting qualified participants.

Screening Burden		
In-person groups: Total number of potential participants screened (to include 3 alternates per focus group for a total of 9 participants recruited per group) for 8 in-person groups is: (12 attempts x 9 recruits = 108 screenings per focus group; 108 screenings x 8 in-person focus groups = 864 people)	864	People
Telephone focus groups: Total number of potential participants screened (to include 2 alternates per focus group for a total of 8 participants recruited per group) for 2 telephone focus groups is: (12 attempts x 8 recruits = 96 screenings per focus group; 96 screenings x 2 in-person focus groups = 192 people)	192	People
Estimated time to complete screening	5	Minutes
Estimated participant screening burden ((864 + 192) x 5 minutes = 5,280 minutes / 60 minutes = 88 hours)	88	Hours
Focus Group Participation Burden		
Estimated number of participants: In-person groups: 48 participants, total Washington, DC – 4 groups, 6 participants, each (4 groups x 6 participants = 24 participants) Des Plaines, IL – 4 groups, 6 participants, each (4 groups x 6 participants = 24 participants)	48	People
Estimated number of participants: Telephone groups: 12 participants, total 2 groups, 6 participants, each (2 groups x 6 participants = 12 participants)	12	People
Time to conduct the focus group (1.5 hours)	1.5	Hours
Time to travel to/from in-person focus group (.5 hours)	.5	Hours
Estimated in-person focus group participant burden: 48 participants x (.5 hours travel + 1.5 hours participation) = 96 hours 24 alternates x .5 hours travel = 12 hours	108	Hours
Estimated telephone focus group participation burden 12 participants x (1.5 hours participation) = 18 hours	18	Hours
Total burden (screening and focus group participation)	214	Hours

(screening 88 hours + focus group burden 108 + 18 hours = 214)		
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