

**OMB SUPPORTING STATEMENT**  
**IRS BUSINESS TAXPAYER BURDEN SURVEY**  
**JUNE, 2010-SEPTEMBER, 2011**  
**TIRNO-09-K-00569**

## **Introduction**

### **Background/Overview**

The IRS Business Taxpayer Burden (BTB) Survey is a multimode establishment survey of small, medium, and large businesses whose purpose is to assess their burden in complying with tax regulations. The majority of the sample will be small businesses and the overall sample size across four waves of data collection is estimated to be about 24,000 cases.

The modes of data collection will be web, mail, and telephone. The IRS BTB Survey will be administered in four waves over the course of a year, with no significant changes to the instrument across the waves of data collection. Respondents will be asked to report burden estimates for complying with tax filing regulations. The information requested includes:

- Tax preparation methods and activities
- Tax-related recordkeeping
- Gathering materials, learning about tax law, and using IRS taxpayer services
- Tax form completion
- Tax department personnel and budget
- Time associated with tax compliance
- Allocation of time burden across tax compliance activities
- Allocation of time burden across type of employee
- Fees associated with tax compliance
- Company demographics

### **Objectives of Data Collection**

The purpose of the IRS BTB survey is to provide Congress and the President with accurate estimates of the costs incurred by business taxpayers in complying with federal rules and regulations. The survey results will be used to:

- Assist the IRS in its efforts to provide taxpayers with improved services
- Help policymakers understand the full impact of changes in tax law
- Provide information to the Executives and Operating Divisions for assessing the impact of programs on taxpayer burden
- Assess the role of burden in tax administration
- Fulfill the IRS' obligations to OMB and Congress for information required by the Paperwork Reduction Act, and
- Provide data to be used in microsimulation models to allow estimation of the impact of proposed legislation on taxpayer burden before the legislation is enacted.

## Methodology

### Sample Design

The population of interest for this survey is all tax year 2009 business taxpayers who file a return by the end of June, 2011. Business taxpayers are taxpayers that filed form types 1065, 1066, and all of the 1120 series. The sample frame is all 2009 business tax returns from the IRC's Compliance Data Warehouse (CDW). Three different stratification schemes will be employed. Businesses filing forms 1065 (including 1065-B), 1120S, and 1120 (including 1120C, 1120H, 1120ND, 1120POL, 1120SF returns) will be selected using Neyman allocation. The sample strata will be based on return type, preparation method, a modified definition of total receipts, and type of business. The rest of the 1120 form types (Forms 1120L, 1120REIT, 1120RIC, 1120PC, 1120F, 1066) will be selected separately using a simple random sample.

The sample will be stratified based on the following variables:

#### Form Type Strata:

1. Form 1065 (includes Form 1065B)
2. Form 1120S
3. Form 1120 (including 1120C, 1120H, 1120ND, 1120POL, 1120SF returns)

#### Preparation Method Strata: (defined as presence of a paid preparer)

1. Self Prepared
2. Paid Prepared

#### Total Receipts Strata:

##### Self Prepared:

1. Less than \$5,000
2. \$5,001 - \$100,000
3. \$100,001 - \$1,000,000
4. \$1,000,001 or more

##### Paid Prepared:

1. Equal to zero
2. \$1 - \$5,000
3. \$5,001 - 50,000
4. \$50,001 - \$100,000
5. \$100,001 - \$500,000
6. \$500,001 - \$1,000,000
7. \$1,000,001 - \$5,000,000
8. \$5,000,001 - \$10,000,000
9. \$10,000,001 or more

Type of Business as defined by NAICS code: (for Form 1065/1065B only)

1. Real Estate (2 digit NAICS code=53)
2. Non- Real Estate (all 2 digit NAICS codes except 53)

The specifications of the sample design were developed to balance two main issues. The first and most important is to ensure that there are a sufficient number of cases to meet the needs of the modeling tool to identify the determinants of burden. The second issue is that the sample design must be efficient in the way the sample is distributed so that estimates from the sample are reliable (i.e., meet confidence range requirements).

As defined above, the four variables that will be used for stratification are: tax form type, tax preparation method, total receipts, and type of business. These variables were chosen for stratification because of their importance to the modeling of taxpayer behavior activities. Tax form type is included to ensure that an adequate number of different form types are included. The tax preparation method ensures both a proper balance and an adequate representation of paid preparers versus self-preparers. Stratifying on total receipts will ensure that an even distribution of different business sizes will be included. The business type (real estate versus non-real estate) allows us to under-sample real estate partnerships as these businesses are over-represented in the population. Further, there is no reason to believe there is great variation in the way real estate partnerships conduct business with respect to their tax compliance activities.

For each stratification variable, category breaks were chosen to increase the precision of sample estimates. This is accomplished by choosing breakpoints that segment taxpayers into groups whose burden is homogeneous – or alternatively, breakpoints that create separate estimation strata for groups whose burden is highly variable. Sample size can then be concentrated on taxpayer segments with heterogeneous burden, thus increasing the precision of population estimates.

The rest of the 1120 form types (Forms 1120L, 1120REIT, 1120RIC, 1120PC, 1120F, 1066) will be selected separately using a simple random sample. The reason behind this is that we have no prior information that would inform the sample design for these groups and the sample sizes within each of these form type groups are relatively small.

**Data to be Collected**

The critical items on the survey concern respondents' time and cost burden estimates for complying with tax filing regulations. Additional items on the survey will serve as contextualizing variables for interpretation of the burden items. These items include information regarding, tax preparation methods and activities, tax-related recordkeeping, gathering materials, learning about tax law, and using IRS taxpayer services, tax form completion, and company demographics.

**How Data Collected & Used**

The data will be collected via three modes: web, mail, and telephone. As described above, the data will be used to provide Congress and the President with accurate estimates of the costs incurred by business taxpayers in complying with federal rules and regulations. The results will be generalizable to the business taxpayer population.

**Dates of Collection Begin/End**

Data collection will begin June 2010, and end in July 2011.

**Who is Conducting the Research/Where**

The survey will be conducted by Westat at its facilities in Rockville, MD.

**Cost of Study**

The estimated cost for this survey is \$717,283.

**Stipend**

No stipend will be offered for participation in the study.

**Recruitment Efforts**

The recruitment of respondents will follow a step-wise progression:

**Step 1: Invitation to the web survey.** A hardcopy letter will be sent to the targeted respondent inviting him or her to go to the web site URL to complete the online survey. The invitation will include information about the survey, assurances that there is no risk or costs associated with participation, and web access information. This mailing will also include a letter from the IRS commissioner (or other IRS authority) endorsing the survey and emphasizing the importance of the data collection effort.

**Step 2: Thank you/Reminder postcard.** Approximately 10 business days after the initial mailing, a thank you/reminder postcard will be mailed to all respondents. The postcard will thank those who have already submitted a completed web survey and ask those who have not to please do so. The postcard will include access information for the web survey.

**Step 3: Mail survey sent.** A paper questionnaire will be mailed to those establishments who have not responded to either the initial letter invitation or the reminder postcard. The paper-and-pencil mail survey will include a return envelope and an option to Fax the completed survey back to Westat.

**Step 4: Telephone nonresponse follow-up.** If no completed survey is received either by mail (including the Fax-back option), or web, telephone nonresponse follow-up will begin. Telephone interviewers will be prepared at this stage to administer the interview over the telephone.

**Location- Region/City and Facility**

Data will be collected at the Westat facility located in Rockville, MD.

**Expected Response Rate**

The expected response rate is 50%.

**Methods to Maximize Response Rate**

We offer multiple modes of response to enhance response rates as well as a Spanish language option for those who need it. In addition, the questionnaire length has been minimized. Lastly, respondents are assured that their responses will be used for research and aggregate reporting purposes only and will not be used for other non-statistical or non-research purposes such as direct enforcement activities.

**Test Structure and Design**

The IRS BTB survey is a survey with multiple choice items, check all that apply items, items reporting hours, items reporting costs, open-ended items, and a few skip instructions.

**Efforts to not Duplicate Research**

The only way to obtain information about the amount of time and out-of-pocket expenses associated with complying with the U.S. tax system is to ask taxpayers directly. Before developing the survey instrument, attempts were made to eliminate duplication of information available within the agency wherever possible. This collection request reflects the fact that a substantial amount of the data required to update the model to measure burden is available from the IRS. Only those items that are not available in IRS administration databases (e.g., measures of time and out-of-pocket burden) are included in the survey instrument.

**Participants Criteria**

The population of interest for this survey is all tax year 2007 business taxpayers who file a return by the end of June, 2011. Business taxpayers are taxpayers that filed form types 1065, 1066, and all of the 1120 series. The sample frame is all 2007 business tax returns from the IRS' Compliance Data Warehouse (CDW). Two different stratification schemes will be employed. Businesses filing forms 1065, 1120S, and 1120 (including 1120C, 1120H, 1120ND, 1120POL, 1120SF returns) will be selected using Neyman allocation. The sample strata will be based on return type, preparation method, a modified definition of total receipts, and type of business. The rest of the 1120 form types (Forms 1120L, 1120REIT, 1120RIC, 1120PC, 1120F, 1066) will be selected separately using a simple random sample.

**Privacy, Disclosure and Security Issues**

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 participants will be carefully safeguarded at all times. Security requirements are based on guidance issued by Department of Treasury (TDP 15-71), Internal Revenue Service (Internal Revenue Manual 10.8.1 Information Technology Security Policy and Guidance), Office of Management and Budget (Circular A-130), and National Institute of Standards and Technology (Special Publication 800-53 Recommended Security Controls for Federal Information / NIST 800-53A and Revision 1, and FIPS 200 Minimum Security Requirements for Federal Information and

Information Systems). Physical security measures include a locked, secure office. Data security at the appropriate levels has been accomplished. Systems are password protected, users profiled for authorized use, and individual audit trails generated and reviewed periodically. The IRS will apply and meet fair information and recordkeeping practices to ensure privacy protection of all participants. This includes criterion for disclosure—laid out in the Privacy Act of 1974 and agency rules and regulations issued under the act—all of which provide for the protection of taxpayer information as well as its release to authorized recipients. Privacy is assured by virtue of agency policy.

Pursuant to the Federal Information Security Management Act (FISMA), Title III of the E-Government Act of 2002, P.L. 107-347, the contractor shall provide minimum security controls required to protect Federal information and information systems. The term ‘information security’ means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide confidentiality, integrity and availability.

The contractor shall provide information security protections commensurate with the risk and magnitude of the harm resulting from the unauthorized access, use, disclosure, disruption, modification, or destruction of information collected or maintained by, or on behalf of, the agency; or information systems used or operated by an agency or by a contractor of an agency. This applies to individuals and organizations having contractual arrangements with the IRS, including employees, contractors, vendors, and outsourcing providers, which use or operate information technology systems containing IRS data. The contractor shall comply with Department of Treasury Security Manual TDP 15-71, and Internal Revenue Manual 10.8.1 Information Technology Security Policy and Guidance. The contractor shall comply with IRS Internal Revenue Manuals (IRM) and Law Enforcement Manuals (LEM) when developing or administering IRS information and information systems. The contractor shall comply with the Taxpayer Browsing Protection Act of 1997 - Unauthorized Access (UNAX), which amends the Internal Revenue Code 6103 of 1986 to prevent the unauthorized inspection of taxpayer returns or tax return information. Contractors’ systems that collect, maintain, operate or use agency information or an information system on behalf of the agency (a General Support System (GSS), Major or Minor Application with a FIPS 199 security categorization) must ensure annual reviews, risk assessments, security plans, control testing, a Privacy Impact Assessment (PIA), contingency planning, and certification and accreditation, at a minimum meet NIST guidance, if required by the IRS.

The contractor shall be subject to at the option / discretion of the agency, to periodically test (but no less than annually) and evaluate the effectiveness of information security controls and techniques. The assessment of information security controls may be performed by an agency independent auditor, security team or Inspector General, and shall include testing of management, operational, and technical controls of every information system that maintain, collect, operate or use federal information on behalf of the agency. The agency and contractor shall document and maintain a remedial action plan, also known as a Plan of Action and Milestones (POA&M) to address any deficiencies identified during the test and evaluation. The contractor must cost-effectively reduce information security risks to an acceptable level within the scope, terms and conditions of the contract.

The contractor shall maintain procedures for detecting, reporting, and responding to security incidents, and mitigating risks associated with such incidents before substantial damage is

done to federal information or information systems. The contractor shall immediately report all computer security incidents that involve IRS information systems to the IRS Computer Security Incident Response Center (CSIRC). Any theft or loss of IT equipment with federal information / data must be reported within one hour of the incident to CSIRC. Those incidents involving the loss or theft of sensitive but unclassified (SBU) data (i.e. taxpayer, PII) shall be reported to CSIRC, first-line manager, and Treasury Inspector General for Tax Administration (TIGTA). Based on the computer security incident type, CSIRC may further notify the Treasury Computer Security Incident Response Capability (TCSIRC) in accordance with TCSIRC procedures.

### **Burden Hours**

The sample will contain 5,000 large businesses that will be screened to locate a knowledgeable respondent. We estimate that the screening process will take approximately 5 minutes per case. We expect to contact all 5,000 large businesses during this screening effort.

An advance letter describing the survey effort, providing access information for the web survey, and encouraging participation will be sent to all participants and therefore will be counted as part of overall participant burden.

Based on a sample of potential survey respondents of 24,000 (across four waves of data collection) and a response rate of 50%, we expect to complete surveys with 12,000 participants. The time to complete the survey is approximately 20 minutes.

Thus, the time burden for participants can be calculated as:

<b>Phase</b>	<b>Number of participants</b>	<b>Time</b>	<b>Burden</b>
Screening for Large Businesses	5,000	5 minutes	417 hours
Reading the advance letter	24,000	1 minute	400 hours
Survey Participation	12,000	20 minutes	4,000 hours
<b>Total</b>			<b>4,817 hours</b>

### **Attachments**

- IRS BTB Survey
- Invitation to the survey from contractor
- Cover letter from IRS official
- Thank you/Reminder postcard
- Screener text for large businesses
- Text for telephone nonresponse follow-up