

**Supporting Statement for Paperwork Reduction Act Generic Information Collection
Submissions for
Quantitative Survey Screener and W&I/Business Surveys for Internal Revenue Service (IRS)
Taxpayer Segmentation Study**

A. JUSTIFICATION

1. Circumstances Making the Collection of Information Necessary

The majority of tax administrations around the world, including IRS, use taxpayer segmentation to improve the performance of their examination, collection, and services functions. However, detailed and extensive segmentation research can also be a huge driver of performance, allowing the tax administration to vary the type of message, the particular tone of the message, or the method of communicating that message to particular taxpayer groups defined by the segmentation work. A broad study, such as the one performed for Her Majesty's Revenue and Customs, is an example of a broad-based segmentation study. While IRS already conducted a broad segmentation study, the data is over ten years old. As a result, an updated segmentation study, including both demographic and psychographics, is needed.

2. Purpose and Use of the Information Collection

In an effort to enhance and maintain future taxpayer services and compliance, IRS seeks to develop a broad segmentation study that would inform IRS of taxpayer behavior and provide a better understanding of their needs and preferences.

The goal is to drive the insight gained from segmentation through the agency so that it permeates IRS organization. Each Business Operating Division (BOD) may find that it will concentrate on specific groups and drill down into those segments.

This effort will begin by answering questions about taxpayers' behavior and their needs and preferences. Taxpayers are defined as individual taxpayers (W&I), large and mid-size businesses, small business/self employed, and tax exempt/government entities. For example:

1. How do taxpayers relate to taxes in general and view the importance of tax compliance?
2. What are taxpayers' needs and preferences in relation to interacting with IRS?
3. How do taxpayers prefer to communicate?

Through this engagement, IRS will get answers to these and other related questions. It can design, evaluate, and target services and compliance efforts in a manner that will result in a more effective communication with the taxpayer and drive compliance.

Forrester and Definitive Insights will design, program, and implement meta-segment specific (W&I, For-Profit Business, Tax Exempt) quantitative surveys. The survey will be fielded using both phone (W&I) and web-based (W&I, For-Profit Business, Tax-Exempt) platforms. We will use both phone and online modes of data collection to maximize the breadth of findings from the W&I taxpaying population. In essence, we will be able to capitalize on the strengths of both modes of data collection — speed and cost from

online methods, versus the representative diversity provided by phone-based data collection — while mitigating their individual weaknesses. Data weighting and statistical standardization procedures will be used to enhance the generalizability of findings. Data collection will focus on eliciting the proximal and distal perceptions, beliefs, preferences, barriers and facilitators for IRS interactions, with a particular focus on determining contextual, communications-based and interaction-based barriers and facilitators of compliance behaviors.

3. Consideration Given to Information Technology

In an effort to minimize burden on respondents, a majority of information will be collected using an online survey. Respondents in the online survey will be sent through a series of screening questions to ensure they qualify prior to being invited to take the survey.

Though a majority of the surveys (n=4750, including both W&I and business) will be conducted online, a total of n=1000 surveys will be conducted via telephone with W&I taxpayers, to help ensure data is balanced in terms of representing both online and offline populations.

4. Duplication of Information

The goal of the research is to both build upon the foundation already laid by previous research efforts and create a segmentation that is both current and salient to the current taxpayer population. While some similar questions and answer option lists may be used in the current research in order to ensure continuity of data across studies, the research design team has reviewed segmentation research conducted in the past by the IRS in order to avoid duplication of the research. The data and findings from this research are not currently available from other (internal or external) sources.

5. Reducing the Burden on Small Entities

In an effort to minimize the burden on respondents – both W&I and business – data will be collected using the simplest means available. For a majority of respondents, data will be collected via a short (~20 minute), easy-to-complete survey with an engaging online interface. In order to ensure a representative sample, a few W&I respondents (n=1000, or 20% of W&I respondents) will complete the same survey using a phone interface, during which questions are asked and responses recorded by a live operator.

The survey asks the fewest number of questions possible and is worded so as to be clear and concise. Questions pertain to readily available information, which respondents should have no trouble or objection responding to quickly and without the need to reference further materials.

6. Consequences of Not Conducting Collection

Without these data, IRS will not have accurate and timely information to adjust its services to meet customer needs.

7. Special Circumstances

There are no special circumstances. The information collected will be voluntary.

8. Consultations with Persons Outside the IRS

N/A

9. Payment or Gift

No payment or other form of remuneration will be made to survey respondents.

10. Confidentiality

No PII will be collected during the survey. Responses will only be used for research purposes, as part of the introductory language to the survey, prior to screening for qualification. We will apply fair information and record-keeping practices to ensure protection of privacy of all respondents. The criteria for disclosure, as specified in the Privacy Act, the Freedom of Information Act, and Section 6103 of the Internal Revenue Code, provide for the protection of taxpayer information as well as its release to authorized recipients. The feedback received will not institute new policy, yet enable the Service to meet taxpayer needs.

11. Sensitive Nature

No questions will be asked that are of a personal or sensitive nature.

12. Burden of Information Collection

A combination of online and phone surveys will be used to collect information from respondents. The total burden hours requested (2211 hours) are based on the number of collections we expect to conduct over the requested period for this clearance.

| Estimated Annual Reporting Burden | | | |
|--|---------------------------|---------------------------|--------------------|
| Type of Collection | No. of Respondents | Hours per Response | Total Hours |
| W&I Taxpayers - ONLINE | N=4000 | 20 minutes | 1333 hrs |
| W&I Taxpayers - PHONE | N=1000 | 30 minutes | 500 hrs |
| Business Taxpayers - ONLINE | N= 750 max | 20 minutes | 250 hrs |

We anticipate a 60% response rate among those contacted to complete this study. This assumes that 40% of those invited to complete the survey – either via email or via a phone call – will not complete the survey either because they:

1. Do not open email invitation
2. Open the email invitation or answer their phone, but opt not to participate in the survey
3. Do not qualify to take the survey after going through online or phone screener
4. Abandon the online or phone survey while taking it

Given that 40% of those contacted will not complete the survey, we estimate that the time burden for the individuals who do not complete the survey for the reasons above to average 2 minutes. The final burden hour estimates are thus:

- 4750 online respondents at 20 minutes each = 95,000 minutes = 1,583 hours
- 1000 phone respondents at 30 minutes each = 30,000 minutes = 500 hours
- 3833 non-completed online/phone respondents at 2 minutes each = 7,666 minutes = 128 hours
- **Total burden hour estimate: 2,211 hours**

13. Costs to Respondents

No costs are anticipated.

14. Costs to Federal Government

The anticipated cost to the Federal Government is approximately \$247,779. This includes the cost of: screener and survey development, refinement, and finalization, online and phone-based survey programming and testing, survey fielding, data collection and cleaning, segmentation creation, and delivery of findings from the survey and segmentation.

15. Reason for Change

Not applicable.

16. Tabulation of Results, Schedule, Analysis Plans

Once collected, the W&I data from both the phone and online surveys will be aggregated into a common database and analyzed using a series of latent class, factor, and variable techniques. The same approaches will be leveraged for the non W&I sample. The resulting models will be tested both statistically and, most importantly, logically. In essence, a viable segmentation has to do more than simply discriminate between segments; it has to inform real decisions and provide a framework for deriving strategic and tactical guidance. The procedure for vetting and testing the segmentations must show that the segments are large enough to matter, that they are identifiable and accessible, and, above all, that the structure of the segmentation itself tells us enough about the central tendencies to derive a compelling and meaningful segment persona or exemplar.

Note that the schedule below is approximate, and that programming and pre-testing survey instrument will proceed immediately following OMB approval.

| Phase | Summary | Week(s) |
|--------------|---------------------------------------|----------------|
| 1 | Design survey instrument | 1-4 |
| 2 | Refine and finalize survey instrument | 4 |
| | <i>OMB Process</i> | |
| 3 | Program and pretest survey instrument | 5 |
| 4 | Field survey | 5-8 |
| 5 | Data cleaning and initial data set | 9 |
| 6 | Perform segmentation and analysis | 10-16 |
| 7 | Prepare presentation material | 10-17 |
| 8 | Deliver findings | 18 |

17. Display of OMB Approval Date

We are requesting no exemption.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

These activities comply with the requirements in 5 CFR 1320.9.

B. STATISTICAL METHODS

Data collection methods and procedures will vary; however, the primary purpose of these collections will be for internal management purposes; there are no plans to publish or otherwise release this information.

1. Universe and Respondent Selection

Segmentation research tends to demand a high degree of statistical power for analysis and modeling purposes. This is particularly true in the current case, given the potential mix of demographic, behavioral, and psychographic segmentation drivers. This can be best achieved through ensuring large, robust sample sizes that will allow us to create and test multiple segmentation frameworks. In the current case, we recommend a total sample of 5,000 W&I respondents, with (n=) 4,000 collected online using a web-based survey, and the remaining (n=) 1,000 collected through phone-surveys. For the B2B sample, we recommend an additional N of 750 respondents, with a minimum of 200 Large and Midsize business completes, 200 small and self-employed business completes, and 100 tax-exempt respondent completes. The surveys will be designed to last approximately 20 minutes. At present, all surveys will be administered in English.

Respondents to the online portion (including all Business respondents and n=4000 W&I respondents) of this clearance are self-selected members of an online survey panel and have elected to receive invitations to complete surveys. Respondents will be sent through a series of screening questions to ensure they qualify prior to being invited to take the survey, as well as to ensure a balance of respondents in terms of their demographic background and prior experience with the IRS, including: type of tax form, schedule, company size, previous experience contacting the IRS, and previous experience with having received a notice from the IRS.

W&I phone respondents will be selected via RDD-B, a random digit dialing sample frame that excludes government banks of numbers and unpopulated exchanges. Phone respondents will answer the same series of screening questions as online respondents to ensure they qualify prior to being invited to complete the survey.

2. Procedures for Collecting Information

Data collection methods and procedures will be done via online and phone surveys with W&I and Business Taxpayers. Online and phone screeners will be used to target survey respondents. Data collection is scheduled to begin in October 2011.

3. Methods to Maximize Response

Forrester and Definitive Insights will strive to maximize response and cooperation rates among those selected in the sample. In addition to designing the study so as to be easy-to-complete both in content and in delivery method, online potential respondents will receive up to 3 reminder email invitations to participate in the research. Respondents who partially complete surveys will receive extra reminder emails in order to maximize responses.

4. Testing of Procedures

After finalization and approval of the survey instrument, both online and phone versions will be programmed and tested both by the programming team and by both Forrester and Definitive Insights - accuracy of text, layout, and programming logic will be thoroughly pre-tested. IRS may also review the programmed survey.

A 'soft launch' of the survey will then take place, during which a small number of completes are collected and data is checked for accuracy. After confirmation that the soft launch was successful, a 'full launch' will proceed.

5. Contacts for Statistical Aspects and Data Collection

OPERA consulted with statisticians from our contractors regarding the development, design, conduct, and analysis of the surveys. The contractors will be responsible for all data analysis for this survey. Contact information of persons consulted in the specific information collection requests is listed below.

Ben Kim-Gervey
Managing Partner
Definitive Insights, Inc.
Ben_kim-gervey@definitiveinsights.com
Cell: 917-207-3727
Office: 503-575-7630 ext 804

Lisa Albrecht
Director
Definitive Insights, Inc
Lisa_albrecht@definitiveinsights.com
Cell: 503-575-7851
Office: 503-339-2990 ext 812

Jeremy Sweeney
Senior Project Consulting Manager, Customer Experience
Forrester Research
jsweeney@forrester.com
Phone: 704-362-6777