

Supporting Statement  
Approval Request to Conduct Cognitive and  
Psychological (or Customer Satisfaction) Research  
Generic OMB Submission  
OMB # 1545-1349

**“Linking Bounded Rationality Theory to Taxpayer Decisions-Why Do Nearly 18 Million Taxpayers Opt for a Refund Anticipation Check (RAC)?” (RAC Decision-Making Process Interviews)**

**A. JUSTIFICATION**

**1. Circumstances Making the Collection of Information Necessary**

Refund anticipation checks (RACs) are temporary bank accounts established on behalf of a taxpayer into which a direct deposit refund can be received. With refund anticipation checks (RACs), the bank opens a temporary bank account into which the Internal Revenue Service (IRS) directly deposits the refund check. Once the IRS directly deposits the taxpayer’s refund into the account, the bank deducts tax return preparation fees, loan interest, and additional product preparation fees from the refund, and subsequently issues the taxpayer a paper check or debit card for the remaining amount. RAC users do not receive their money earlier than other filers using direct deposit. For e-filed returns, 69 percent of refunds granted via direct deposit are issued within 14 days and 55 percent via paper checks are issued within 15 days (91 percent are issued within 21 days).<sup>1</sup>

Controversy surrounding these financial products stems from the debate over whether RACs or refund anticipation loans (RALs) are driven by client demand, tax preparers, or banks partnering with the preparers. Proponents assert these financial products provide an inexpensive option for low-income taxpayers to pay their tax preparation fees and to receive their refunds as quickly as possible. Opponents claim that providers take advantage of unwary tax filers,<sup>2</sup> offering unneeded products at considerable cost relative to the marginal benefit of receiving money a little earlier.

Bounded rationality theory lends support to the decision being most influenced by the taxpayer’s individual decision-making process. Herbert Simon (1956 and 1982) proposed a non-rational theory known as satisficing, in which an agent is characterized by an aspiration level and chooses the first alternative that meets or exceeds this aspiration level. The aspiration level (i.e., characterization of what would constitute a “good-enough” outcome) allows the agent to make a decision without evaluating all the alternatives. Are taxpayers who receive RACs happy enough with the amount of

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<sup>1</sup> WIRA Refund Time Lapse Research, Project #4-12-06-A-036, March 2012.

<sup>2</sup> Among the most important characteristics influencing RAL/RAC use were lower income, young adulthood, single head-of-household filing status, receipt of the Earned Income Tax Credit (EITC), and use of a paid preparer – Urban Institute, November 2010.

their refund remaining after RAC fees to not bother investigating alternatives or to allow RAC fees to dissuade their decision? Non-rational behavior theorists would likely say “yes,” especially if the taxpayer perceives their refund as merely *free* money, rather than *their* money.

In a recent study by the Urban Institute, researchers conducted interviews with 11 organizations including tax preparers, RAL/RAC lenders, RAL/RAC tax form software developers, low-cost RAL lenders, and Volunteer Income Tax Assistance (VITA) program sites that provide free tax preparation services and partner with low-cost RAL lenders.<sup>3</sup> However, the one missing link in this study as well as in other RAL/RAC literature remains direct feedback from actual RAL/RAC recipients.

## **2. Purpose and Use of the Information Collection**

The objective of this study is to examine the decision-making process and the factors influencing taxpayers’ decision to receive a RAC for those taxpayers who received a RAC in the most recent tax year.

On August 5, 2010, the Internal Revenue Service (IRS) announced that beginning with the 2011 Filing Season it would no longer provide a debt indicator to tax preparers and other associated financial institutions. The debt indicator is used by tax professionals to minimize risk when granting a Refund Anticipation Loan (RAL). Consequently, the RAL market decreased from 6.9 million in 2010 to just over 1 million in 2011. However, the decline in the RAL market has been offset with a 38 percent spike in RACs from 2010 to 2011 as nearly 18 million RACs were issued this past filing season.

Through the proposed interviews, the IRS will gain direct insights from taxpayers who received RACs regarding their knowledge of this product and the associated fees as well as their motivations. The IRS can then use this data and feedback from taxpayers to issue clear, concise guidance regarding these products, alternatives, and refund processing times. Additionally, targeted communication and outreach can be developed to actively communicate service options that bring value to taxpayers. Lastly, with several interview questions designed around non-rational behavior, the IRS can use the lessons learned from this project to inform future non-rational behavior research.

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<sup>3</sup> “Who Needs Credit At Tax Time and Why: A Look At Refund Anticipation Loans and Refund Anticipation Checks,” Urban Institute – Theodos, Brash, Compton, Pindus, and Steuerle. November 2010.

### **3. Consideration Given to Information Technology**

W&I Research & Analysis (WIRA) will not collect information electronically and/or use online collaboration tools.

### **4. Duplication of Information**

Direct interaction with taxpayers through one-on-one interviews has been a research design used by the IRS for a number of years. Our research questions have not been studied previously and therefore there is no duplication of research.

### **5. Reducing the Burden on Small Entities**

Small business or other small entities will not be involved in these efforts.

### **6. Consequences of Not Conducting Collection**

Without these types of feedback, WIRA will not have timely information to adjust its services to meet customer needs.

### **7. Special Circumstances**

There are no special circumstances. The information collected will be voluntary and will not be used for statistical purposes.

### **8. Consultations with Persons Outside IRS Wage & Investment**

Not applicable.

### **9. Payment or Gift**

Participants will be paid \$75.00 for their participation in this study. The purpose of the stipend is to encourage participation, and to thank participants for sharing their time and contributions to the discussion. Participants will each receive \$75.00 for a 1-hour session. These stipends are typical for the locations of the groups, type of individuals recruited, and in line with the industry standard.

### **10. Confidentiality**

No PII will be collected during the interviews. Moderators will indicate that no names will be used in the final report. Also, the data returned to IRS will have no identifying information relating specific records to individual taxpayers. Nonetheless, IRS will ensure that privacy to the extent allowed by law and security of the aggregated results will receive the utmost attention. Public and official access to the information will be tightly controlled. The computer files containing this tabulated information will remain password protected at all times. Data security approaching level C-2 will be accomplished using the Windows XP operating system. Audiotapes used to record testing sessions will be destroyed when the project is completed and there is no further need for the data. We will apply fair information and record-keeping practices to ensure protection of all taxpayers. 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 taxpayer information as well as its release to authorized recipients.

### **11. Sensitive Nature**

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

## 12. Burden of Information Collection

The estimated time to complete the participant screening is 5 minutes. The estimated time for each reminder call is 1 minute, with each interview session lasting 1 hour. We estimate that 10 percent of the taxpayers contacted for the study will qualify and be willing to participate. Using this percentage, a total of 960 individuals will need to be screened to recruit the needed 96 participants. We estimate that 16 people will be sent home because we will only need 64 to stay for the interviews. Of those being sent home, we estimate 30 minutes of travel time.

Estimated Study Burden				
Type of Collection	No. of Respondents	Annual Frequency Per Response	Hours Per Response	Total Hours
Participant Screening	960	1	.083	80
Recruited Participant Reminder Calls	96	1	.016	1.6
Completing Informed Consent	64	1	.016	1.1
Study Participation (including 30 minutes for travel)	64	1	1.5	96
Travel for People Sent Home	32	1	.500	16
<b>Total estimated burden hours:</b>				<b>194.7</b>

## 13. Costs to Respondents

No costs are anticipated.

## 14. Costs to Federal Government

The anticipated cost to the Federal Government is a one-time cost of approximately \$59,467.69. This includes payments to the contractor (project planning, recruiting participants, transcripts) and a participant stipend (\$75).

## 15. Reason for Change

Not applicable.

## 16. Tabulation of Results, Schedule, Analysis Plans

WIRA will collect data about taxpayer experience getting a RAC. The main focus will be on the decision-making process around choosing to get a RAC for tax year 2011, including what information the taxpayer had prior to choosing the RAC, sources of information, reasons for choosing a RAC, when the decision was made, and post-choice thoughts on getting a RAC.

This feedback gained from the interviews will provide useful information, but will not yield data that can be generalized to the overall population. As such, the findings will be used for general service improvement, but are not for publication or other public release. Although WIRA does not publish its findings, WIRA will disseminate the findings when appropriate to other organizations within the IRS, and will include specific discussion of the limitation of the data as discussed above.

**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.

**19. Dates collection will begin and end**

Data collection will begin on May 15, 2012 and end on July 30, 2012. However, the Period of Performance will end September 30, 2012 to accommodate final reporting.

**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**

To participate in this study, participants must have the following characteristics:

- Taxpayer who filed Form 1040 or 1040A in Tax Year 2011
- Taxpayer who received a RAC in Tax Year 2011
- At least 18 years old
- Diverse in terms of age, gender, race/ethnicity, household income, and education.

The screener guide will be used to qualify and select focus group participants. Only qualitative data will be gathered, which will not be, nor presented to be, representative of the population.

**2. Procedures for Collecting Information**

Each interview will take no more than 1 hour. Prior to the interview, participants will be asked to read and sign a Consent Form. An outline of the areas of discussion is below.

**Introduction**

- Moderator introduces self and discussion topic

**Section 1: *Decision to Receive a RAC for TY 2011***

- Taxpayer previous experience with a RAC
- Information obtained about RACs prior to receiving the RAC
- Sources of information
- Primary reasons for choosing to receive a RAC
- Knowledge of other options

**Section 2: *Reflections Post-RAC\_***

- Did it meet the taxpayer's expectation?
- Would the taxpayer choose to receive a RAC in future?
- Primary reasons for choosing/not choosing a RAC in the future

## Closing

- Elicit any final comments from interview participant

WIRA staff will conduct the interviews. The interview guide was developed by WIRA.

### **3. Methods to Maximize Response**

Information collected will not yield generalizable quantitative findings; it can provide useful customer input, but it does not yield data about customer opinions that can be generalized.

### **4. Testing of Procedures**

Pretesting of the interview guide and other materials used during the interview project will be done with internal staff.

### **5. Contacts for Statistical Aspects and Data Collection**

The statistical expertise of Social Scientists within WIRA will be sufficient for the needs of the data collected from this project.