

OMB SUPPORTING STATEMENT
INTERNAL REVENUE SERVICE
IRS INDIVIDUAL TAXPAYER BURDEN SURVEY
TIRNO-10-Q-00152
PART A – JUSTIFICATION

A. Justification

1. Circumstances Making the Collection of Information Necessary.

Each year, individual taxpayers in the United States submit more than 140 million tax returns to the Internal Revenue Service (IRS). The IRS uses the information in these returns, recorded on roughly one hundred distinct forms and supporting schedules, to administer a tax system whose rules span thousands of pages. Managing such a complex and broad-based tax system is costly but represents only a fraction of the total burden of the tax system. Equally, if not more burdensome, is the time and out-of-pocket expenses that citizens spend in order to comply with tax laws and regulations.

The IRS has conducted prior surveys of individual taxpayers in 1984, 1999/2000, and 2007. Changes in tax regulations, tax administration, tax preparation methods, and taxpayer behavior continue to alter the amount and distribution of taxpayer burden. To update our understanding of this burden, the IRS contracted Westat to survey individual taxpayers regarding the time and money taxpayers spend in response to their federal income tax obligations. We intend to conduct an updated survey to better reflect the current tax rules and regulations, the increased usage of tax preparation software, increased efficiency of such software, changes in tax preparation regulations, the increased use of electronic filing, the behavioral response of taxpayers to the tax system, the changing use of services, both IRS and external, and related information collection needs.

Updated information from this survey is necessary for several reasons. It would help IRS:

- Better understand taxpayer time and out-of-pocket burden
- Gain insights into the impact of tax law and tax administration changes on taxpayer burden
- Enhance the accuracy of the information collection budget estimates it provides under the Paperwork Reduction Act (44 U.S.C. 3501 et seq.)
- Fulfill its mission to provide top quality service to taxpayers

2. Purpose and Use of the Information Collection.

The IRS is developing improved methods for measuring, estimating, and modeling taxpayer burden. The data collected from this survey of individual taxpayers will be used as an input to a micro-simulation model that estimates taxpayer burden. The IRS will also publish the relevant updated burden estimates in tax form instructions to inform taxpayers. Three types of questions will be asked: questions framing the activities to be measured, burden measurement questions, and questions to better inform taxpayer needs related to

their compliance burden.

The information collected via this study will be used by IRS to achieve several important goals:

1. Measure individual taxpayer burden more comprehensively and accurately
2. Provide policymakers with a tool to help guide efforts to reduce taxpayer burden
3. Allow IRS to determine the effectiveness of its programs in reducing taxpayer burden
4. Provide policymakers with a tool to explain taxpayer burden
5. Complement existing customer satisfaction measures
6. Support tax analysis in the Treasury Department Offices
7. Assist the IRS in evaluating the effectiveness and associated impact on taxpayer costs and behavior of the following IRS initiatives:
 - a. Return preparer e-file initiative
 - b. Return preparer regulation initiative
 - c. Tax package mailing cost reduction initiative
8. Support ongoing analysis of the role of compliance costs in influencing taxpayer behavior and identifying taxpayer needs.

3. Consideration Given to Information Technology.

Data will be collected by using a mixed mode (i.e., mail, web-based, and telephone) data collection methodology. The primary method of collecting the survey data will be via mail or web. Taxpayers for whom a working telephone number is not available or who are not reached via telephone will be able to complete a self-administered mail or web-based questionnaire. The secure web survey will be posted online using a proprietary web survey delivery system developed by our contractor, Westat. The software allows participants to skip questions and complete the survey in more than one session (i.e., the respondent can leave the web survey and come back to finish it at a later time). Participant responses will be captured, stored and tracked in a response database which can then be used to update the Individual Taxpayer Burden Model (ITBM).

The mail survey will be created using TeleForm technology, a software system for intelligent data capture and image processing. The software extracts indexing information automatically from any document type through the use of multiple recognition engines. TeleForm reads hand print, machine print, optical marks, bar codes, and signatures. This will expedite the collection of responses from the mail survey and minimize error.

Follow-up prompting will make use of automated software that will manage telephone calls (both pre-recorded messages and prompts delivered by live interviewers) to respondents. A tailored survey management system will track cases throughout all modes of contact, including the survey invitation, prompting reminders, and data retrieval.

4. Duplication of Information.

To our knowledge, there is no duplication of information. This survey asks for information regarding how a taxpayer prepares and submits their tax return. Information regarding the preparation method (use of a paid preparer, use of tax software, self preparation without assistance) and submission method (electronically filed, mail) are available from tax return data, but are asked on the survey in order to target questions about specific methods to respondents using those methods, thus reducing respondent burden.

5. Reducing the Burden on Small Entities.

This survey effort will impact small businesses to the extent that they are self-employed sole proprietors. Collecting information from these small businesses will enable the IRS to better understand what processes or tax items are particularly burdensome for small business and will support IRS efforts to target those items for burden reduction administratively, as well as in coordination with policymakers.

The survey is being conducted as either a mail-first or web-first survey. At the second contact, all respondents, including those that are self-employed small businesses, will be given the option to take the survey using the mode that is the most convenient and least burdensome to them (i.e., mail or web). We anticipate that providing the option to complete the survey using the web-based survey (as opposed to a CATI/telephone survey) will reduce the burden of completing the survey by allowing small businesses and other taxpayers to complete the survey at a time and place of their convenience.

Entity-level small businesses such as small corporations or partnerships are excluded from this study.

6. Consequences of Not Conducting Collection.

The IRS compliance burden surveys are instrumental to estimating and tracking approximately 75% of the total information collection budget of the federal government. Results from the surveys also support program evaluation and policy design for IRS and other Offices of the Department of the Treasury. These surveys are sent to taxpayers shortly after they submit their tax returns in an effort to minimize recall bias about this information filing process. Periodic updates of the survey are necessary in order to identify changes in the impacts of different drivers of taxpayer burden, allowing us to adjust the model and associated estimates appropriately over time.

Issue: Unless an alternative expedited review process can be arranged, this survey will almost certainly need to be delayed a year, wasting government resources and hindering evaluation of major Department of the Treasury program changes.

Impacts:

Hinder efforts to quantify burden reductions from technology investments – A major program evaluation question for the Department of the Treasury specifically, and OMB

generally, is estimating the extent to which federal agency partnerships with third parties in the area of Electronic Tax Administration have generated productivity gains which in turn lower burden. A cross-sectional analysis can inform estimation of the impact of more taxpayers using technology-assisted methods but cannot speak to the extent to which such methods have become more productive over time as a result of government and third-party investments. Such an analysis critically depends on time-series data, as the point of the analysis is to estimate how productivity of a given information collection method changes over time. Qualitative evidence discussed in the FY2010 Information Collection Budget point to the likely existence of significant burden reductions over the past decade from Treasury Department technology investments and partnerships. Timely collection of a new individual compliance burden survey is critical to quantifying and reporting those burden reduction benefits.

Hinder efforts to evaluate effects of IRS Paid Preparer Registration Initiative and Preparer e-file mandate – Key questions in the evaluation of the paid preparer registration initiative and the preparer e-file mandate involve determining the impact of registration and mandatory e-filing on compliance burden and return quality. Delaying the individual burden survey a year will not merely delay, but will actually limit, effective cost-benefit analysis of these transformative programs in tax administration.

Hinder compliance burden reduction research – The IRS seeks to better understand taxpayer needs and how unmet needs affect tax preparation and filing behavior. A better understanding of compliance burden is foundational to this research because the costlier it is to submit information properly, the less likely it is to be submitted properly. Improperly submitted information is a major driver of IRS administrative costs. Better understanding this relationship informs both prioritization of information collection and identification of communications, services, and technology to lower the cost of a given information collection. The Tax Year 2010 individual taxpayer burden survey is a key component of this research plan.

7. Special Circumstances.

There are no special circumstances. The collection of information is conducted in a manner consistent with the guidelines in 5 CFR 1320.6.

8. Consultations with Persons Outside the Agency.

Based on our prior compliance burden survey information collections, we expected that we would again be using generic clearance (OMB #1545-1432), which would not require the same level of prior public and stakeholder commentary. We now face an unanticipated change to this generic clearance whereby it is no longer an appropriate clearance vehicle for this survey. Our methodology depends on sampling and surveying taxpayers close to their filing date so as to minimize recall bias regarding their associated activity. We are scheduled to begin fielding the survey in mid-July so as to use the end of May posting of tax returns filed through the April 18th filing deadline, with minimum recall bias. As such,

we are requesting an exception to the 60-day public review process as it would jeopardize the study.

Our survey contractor has conducted cognitive testing of the draft survey both to help identify and remove potential causes of response error and to identify the amount of burden typically imposed by the data collection.

In addition, findings from the previous survey (for Tax Year 2007) were presented and discussed at the 2009 Annual Meetings of the National Tax Association, the 2010 Urban-Brookings Tax Day Roundtable, and the 2010 IRS Research Conference. Feedback from these presentations emphasized the importance of the frequent collection of these data to support a broad range of program evaluation needs and to better estimate the role of changes in technology in reducing compliance costs and increasing information collection productivity.

Although the project is managed by the IRS, the IRS did consult external stakeholders and survey research experts that provided input to the project at key decision points. The non-IRS members of the working group include:

- Allen Lerman (Department of the Treasury, Office of Tax Analysis)
- Susan Nelson (Department of the Treasury, Office of Tax Analysis)
- Michael Brick (Westat)
- Kerry Levin (Westat)
- Jocelyn Newsome (Westat)
- Jennifer O'Brien (Westat)

9. Payment or Gift.

In the past fifteen years, the survey industry has experienced a steady decline in response rates (e.g., Groves, Dillman, Eltinge, and Little, 2002). In order to decrease non-response, incentives are often one technique used to encourage participation.

Studies have consistently shown the inclusion of an incentive increases response rates, and that prepaid incentives are more effective than incentives that are contingent upon completion of the survey (e.g., Church, 1993; Petriola and Bhattarcharjee, 2009; Dillman, 2009). Shettle and Mooney (1999) concluded that incentives in government surveys provide a “decided cost advantage” in improving response rates, without negatively impacting non-response bias, data quality, or respondent good will.

While studies have shown that the marginal returns diminish as the incentive amount increases (James and Bolstein 1990; Shaw et. al. 2001; Teisl et. al. 2009), there is still no agreement on an “optimal” incentive amount. In fact, a study by Trussell and Lavrakas (2004) suggests that the optimal amount is variable and dependent upon an individual’s previous interactions with the organization sponsoring the survey.

Given the unique relationship that individuals have with the IRS, we were uncertain

whether an incentive would serve to significantly increase response rates in a cost effective manner. Consequently, for this fielding of the Individual Taxpayer Burden survey (ITB), we are proposing that half of the respondents receive a \$2 incentive, while the other half receives no incentive. This will allow us to examine the efficacy of providing an incentive for future administrations of this survey instrument.

A \$2 incentive amount was chosen based on past studies. For example, Shaw et. al. (2000) found that a \$2 incentive with multiple mailings, when compared with a \$5 incentive, was effective in improving response rates in a cost-efficient fashion. In addition, a very recent study by Millar and Dillman (2011) found that a token cash incentive of \$2 was effective in improving response rates in a mixed mode survey with a format similar to that being proposed for the ITB survey (e.g., multiple contacts, modes offered sequentially). Finally, Westat is currently involved in several methodological tests examining ways to improve survey non-response for the National Household Education Surveys (NHES) Program. Most relevant to the current study is one where Westat compared a \$2 and \$5 prepaid incentive. Initial results are not available at the current time. However, based on his experiences with NHES, Dr. Michael Brick advised further experimentation with the \$2 incentive, including adding a condition with no incentives.

References:

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and Survey Administration Costs”, *International Journal of Public Opinion Research* 18 (2005).

Trussell, N. and Lavrakas, P.J., “The Influence of Incremental Increases in Token Cash Incentives on Mail Survey Response: Is there an Optimal Amount?” *Public Opinion Quarterly* 68: 349-367 (2004).

10. Confidentiality.

Confidentiality is not provided to respondents, however, they are reminded that participation is voluntary and that the information collected will be used for research purposes only.

11. Questions of a Sensitive Nature.

The survey itself does not include questions that would commonly be considered private or sensitive in nature.

12. Burden of Information Collection.

The total number of potential respondents will be approximately 20,000. Each of them will receive either a letter and survey (mail-first) or a letter with instructions to complete the survey (web-first), which they may spend about one minute reading. Of the 20,000 potential respondents, approximately 10,000 will complete the entire questionnaire. Each potential respondent will participate only once. We estimate it will take approximately 18 minutes to complete the survey, based on results from cognitive interviews. We estimate that it will take approximately the same time to complete the mail, web and phone versions of the questionnaire. The content included in each instrument will be the same.

We, therefore, estimate that the main portion of the study will take approximately 3,000 hours (itemized in the table below).

Activity	Number of Respondents	Frequency of Response	Average Time	Annual Hour Burden
Reading invitation letter & reminder postcards	20,000	1	1 minute	333 hours
Survey Completion	10,000	1	18 minutes	3,000 hours
Total				3,333 hours

The annual burden cost to respondents is estimated to total \$71,160. This estimate is derived using the 2010 average wage rate from the Bureau of Labor and Statistics Occupational Employment Statistics Survey.

13. Annual Cost to Respondents.

There are no capital/start-up or ongoing operation/maintenance costs associated with this information collection.

14. Cost to the Federal Government.

The estimated annualized cost to the Federal government for administering this survey is: \$1,465,000. This can be itemized as follows:

- Employee labor and materials (for developing the survey, including developing, printing, storing forms, developing computer systems, screens, or reports to support the collection, travel costs, labor and materials for collecting the information, analyzing, evaluating, summarizing, and/or reporting on the collected information): \$400,000.
- Cost of contractor services: \$1,065,000.

15. Reason for Change.

Not applicable. There are no program changes or adjustments.

16. Tabulation of Results, Schedule, Analysis Plans.

The ITB survey will be administered at three different intervals. Each group will be assigned a wave based on the time the taxpayers' return posted to the IRS' data management systems, notionally referred to as on-time, extension, and late filers.

Table 1 presents the data collection schedule for the first wave (on-time filers). The second wave (extension filers) will be in the field in December 2011, and the third wave (late filers) will be in the field in February 2012. Each wave will have

an eight week fielding period and will follow a schedule similar to the schedule listed below in Table 1 for the first wave.

Table 1: Data collection: First Wave	
1 st contact: mailing	7/25/11
2 nd contact: mailing	8/8/11
2 nd contact: IVR	8/11/11 to 8/12/11
3 rd contact: mailing	8/22/11
4 th contact: phone & IVR	9/6/11 to 9/16/11
4 th contact: mailing	9/6/11

Assuming a timely data collection start, all data collection will conclude in April 2012. IRS staff will then use the results to develop updated estimates of compliance burden. Detailed results from the survey will be used to update the estimated relationships between taxpayer burden and taxpayer filing attributes. These estimates will then be used to update the micro-simulation model that provides taxpayer burden estimates and other tax-related information. In addition, the IRS uses the survey results and micro-simulation model to estimate the changes in taxpayer burden resulting from changes in tax law and/or administrative regulations. IRS will use the results of the model to update our model producing annualized burden estimates, which are necessary for compliance with the information collection budget associated with all IRS forms (OMB No. 1545-007). These estimates of compliance burden will be published in the 2012 1040-series tax form instructions and as part of the associated Information Collection Budget submission. Further publication of results is planned in tax research publications, internal IRS program evaluation documents, and Department of Treasury tax policy analysis.

17. Display of OMB Approval Date.

Response - The bureau plans to display the expiration date for OMB approval of the information collection on all instruments.

18. Exceptions to Certification for Paperwork Reduction Act Submission.

Not applicable. No exceptions are believed to exist.