

OMB Supporting Statement
Financial Management Service/Treasury EFTPS 1040-ES Quarterly Payers Survey
Qualitative Survey

Background

Each year, the U.S. Department of the Treasury processes about 30 million 1040-ES (Estimated Tax) paper vouchers and accompanying checks. In FY2010, 1040-ES payments represented 42 percent of lockbox volume and 60 percent of dollars collected by the Financial Management Service (FMS) on behalf of the Internal Revenue Service (IRS). The cost of a non-electronic collection to the Federal government is \$3.28; the cost of an electronic collection, \$1.15.

Estimated taxes are paid on income that is not subject to employer withholding. The payments can be made in a single transaction in April or quarterly in April, June, September, and January. Sole proprietors—unincorporated businesses owned by a single individual, typically with no other employees—make about 42 percent of those payments. Others who make estimated tax payments include those for whom alimony, estates, or trust funds are the primary income source.

Electronic payment options available to these taxpayers include:

- Scheduling four payments via the IRS e-file option (using the taxpayer’s banking information when the prior calendar year’s return is filed via software or a tax professional; payments must be scheduled when the annual return is filed; they cannot be edited once scheduled)
- One of the IRS’s three approved credit and debit card vendors via the Internet or phone (fees apply)
- Treasury’s free Electronic Federal Tax Payment System (EFTPS), which offers Internet, phone, live operator and other channels, but requires enrollment

EFTPS, which launched in 1996, is part of the nation’s critical infrastructure. It has collected more than \$25 trillion in more than 1.2 billion transactions. To date, EFTPS outreach to sole proprietors has consisted of pre-enrolling e-file payers, a process that is being discontinued due to low uptake. IRS outreach to this population regarding payment options has been limited.

FMS desires to better understand what, if anything, would encourage sole proprietors to pay quarterly estimated taxes electronically rather than with a check.

Past Research

In 2008, we conducted quantitative and qualitative research about awareness and likely usage of EFTPS and key messaging within the 1040-ES population. We have not asked this audience about electronic tax payment options in general; how they would make payments if using a check were no longer an option; or what they would expect functionally in making such payments.

Research Objectives

FMS is interested in conducting market research to better understand sole proprietors who are currently mailing in checks and vouchers. These in-depth phone interviews will provide the basis for quantitative research to collect numerical data to forecast future behavior and patterns. That request will be submitted after the learnings from the qualitative research designed to learn about the 1040-ES's desire to move to electronic payment. Understanding the electronic payment preferences of this paper-paying target audience will help us develop EFTPS enhancements or the use of interventions to ease their transition, and will help us develop educational and marketing strategies to encourage use of electronic methods.

Key objectives and learnings will focus on:

- Awareness of electronic payment options
- The barriers to adoption of electronic payment
- Gathering a more in-depth understanding of the primary 1040-ES payer group, focusing on sole proprietors who file Schedule C (such as independent contractors, truck drivers, etc.; these sole proprietors represent an estimated 42% of the total population of check-with-voucher payers)
- Understanding which electronic channels would experience the greatest gains in usage if sole proprietors no longer had the option of making estimated payments via check
- Exploring the functionality this audience would expect when making electronic payments
- Understanding where sole proprietors receive or seek information on paying their taxes

Methodology

To meet these objectives, Harte-Hanks Market Research will conduct 20 in-depth phone interviews (IDIs) with sole proprietors who currently write checks for their estimated tax payments. The IDIs will be approximately 30 minutes long. Possible participants would be selected via a national random sampling of sole proprietors with listed business landlines.

FMS understands that these methodologies will under-represent sole proprietors who do not have a publicly listed business phone. We also understand that more and more people and small businesses are using only cell phones. A Harte-Hanks team that is devoted to obtaining lists for phone samples has consulted all its list sources, and has not found a source that can provide a cell sample for sole proprietors. Given that random sample telephone surveys continue to be the academically and commercially accepted method for collecting statistically valid random samples needed to accomplish the research objectives and that this limitation will not significantly skew this project's results. The search will continue and if a list of cell phone numbers for sole proprietors can be located before the survey goes into the field, the list will be acquired and used as part of the project.

Estimated Burden Hours

Completing 20 IDIs among a listed sample of sole proprietors is expected to take a total of 12 hours of time. This estimate is based on completing 20, 30-minute interviews (20 interviews x 30 minutes)/60= 10 hours.

We believe the incidence of sole proprietors making quarterly payments via checks will be approximately 25 percent. That is because of the uniqueness of this business segment. Some have day jobs themselves or have a spouse with a day job, and increase withholding there rather than make estimated payments. Others are sole proprietors only for a few months, then go to work for an employer. Others make payments electronically. Still others opt to pay penalties and interest and make an annual payment so that they have use of their funds all year. Because of the expected incidence rate, we anticipate making an additional 60 contacts with sole proprietors who will be asked screening questions but will not qualify for participation. Each contact should last approximately two minutes. Therefore, in addition to the 10 hours for interviewing respondents, there will be approximately two hours spent screening those who are contacted but do not participate:

60 contacts x 2 minutes/60 = 2 hours

Total for IDIs: 12 hours total burden

OMB and FMS have discussed the subject of incentives. FMS will have its contractor attempt recruitment and interviews without an incentive and stress the opportunity the respondent would have to influence potential changes to procedures for electronic payments, which would affect their business in the future. OMB understands that FMS' survey schedule is tight and has agreed on the call that if FMS follows this procedure for a week and monitored recruitment rates, FMS can recontact OMB if the contractor finds it too difficult to recruit any participants for the survey without the incentive. Although OMB believes that FMS contractor should be successful in recruitment without the \$100 incentive, OMB agreed to approve the use of a \$100 incentive if FMS provides documentation from its contractor that shows it is not feasible to proceed without an incentive. Under these conditions, OMB agreed it will approve this collection upon receipt of this revised supporting statement.

The incentive was proposed for several reasons:

- The contractor, which is experienced in research among sole proprietors, informed FMS there is no straightforward way to identify this group through specialized lists. Instead, the contractor will need to use directories or lists of general commercial entities to make screening calls. An incentive would encourage those qualified through screening to take time away from their one-person business operation and participate, meaning less time and money spent on recruitment.
- The contractor said \$100 is an appropriate amount based on dozens of similar projects involving small businesses it has completed in the past few years.

- Sole proprietors make estimated tax payments only four times per year—January, April, June, and September. We will be recruiting these small-business owners just as they are working on their annual tax return and estimating their April payments, so they may not be as receptive to a request to help the government regarding tax payments.
- This is the first of two pieces of research we need to develop a strategy for moving sole proprietors to electronic payments as per our tactical operating plan. The second phase of information gathering—quantitative research—cannot be undertaken until the IDIs are completed and analyzed. Additional delays in recruiting put meeting our tactical operating plan goal at risk.

For questions regarding the survey, contact:

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