

**Supporting Statement**  
**Information Collection (ICR) Approval Request to Conduct Cognitive-Psychological**  
**Research (OMB# 1545-1349)**

**Title: 2015 IRS Nationwide Tax Forum Focus Group: EITC Eligibility Instructions**

**Wage & Investment Division**  
**Wage & Investment Research & Analysis (WIRA)**

**A. JUSTIFICATION**

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

The Earned Income Tax Credit (EITC), originally enacted in the 1970's, is a refundable tax credit that supplements the earned income of low-income workers. As a work-oriented credit, the amount of the credit received by a taxpayer initially increases as earning increase, then, after reaching a plateau, begins to decrease as earnings increase. Unfortunately, while designed to help working taxpayers with children keep themselves out of poverty, the "lucrative" nature of the credit has resulted in the EITC becoming a credit rife with fraud, both from taxpayers and unscrupulous tax preparers. Compounding the issue beyond the number of fraudulent EITC claims, the process for determining credit eligibility and completing the steps to claim the credit can be confusing and burdensome to the taxpayer, resulting in additional erroneous, but non-fraudulent, claims.

IRS estimates the EITC improper payment rate is 27% or \$17.7 billion annually, making it the program with the third highest improper payments in the federal government. The high error rate also requires significant oversight and reporting under the following:

- Improper Payments Information Act of 2002 (IPIA; Pub. L. No. 107-300), as amended;
- Improper Payments Elimination and Recovery Act of 2010 (IPERA; Pub. L. No. 111204);
- Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; Pub. L. No. 112-248)1; and
- Executive Order 13520-Reducing Improper Payments-issued November 20, 2009.

Rather than a single determinant of eligibility, such as income, EITC eligibility is determined by three "tests;" income, qualifying children and filing status, all of which must be "passed" in order for the taxpayer to receive the EITC. An August 2014 report on compliance estimates for EITC overclaims reported:

- 67% of overclaim returns had income misreporting, and
- 30% of overclaim returns had a qualifying child error

Further, the report indicated that the three most common types of EITC errors, with the percentage responsibility for total overclaimed EITC amount, were:

- 1) Qualifying child errors (42-54%)
- 2) Income misreporting (24-32%)
- Self-employment income (15-23%)

- AGI and investment income (5-8%)
- Wage income misreporting (3-6%)
- 3) Filing status errors (9-17%)

The Internal Revenue Service (IRS), of course has employed numerous strategies to identify fraudulent and erroneous EITC claims from both preparers and individuals. IRS identifies and stops many fraudulent EITC returns before processing. One key tool, the Dependent Database (DDb) has been effective in scoring and selecting the right EITC cases for audit. However, there are segments of the DDb identified population that claim EITC erroneously, for which the IRS is currently unable to treat due to limited audit resources.

In an effort to reach taxpayers who IRS is unable to treat due to budget restraints, and correct erroneously filed EITC claims, Wage and Investment Research and Analysis (WIRA) has partnered with the Return Integrity and Compliance Services (RICS) office to conduct focus groups with tax preparers to develop suggestions for more robust EITC instructions which would better inform taxpayers regarding credit eligibility. Findings will provide greater specificity to help taxpayers determine whether they qualify to take the credit based on income, qualifying child, and filing status criteria, and allow tax preparers more assistance toward determining the EITC eligibility of their clients. Findings will also be used to make changes to existing EITC questionnaires within tax-preparation software, and updates to the EITC Assistant on IRS.gov.\_\_\_\_

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

The purpose of this project is to gather information from tax professionals about how to improve the instructions used by taxpayers to assess their qualification to receive the EITC. Specifically, data will be collected to improve taxpayers' understanding of the income, qualifying child, and filing status requirements for receiving the credit.

Focus group findings will be utilized and distributed by RICS to the EITC Software Developers Working Group, in an effort to improve the instructional information contained within tax preparation software, and improve the EITC questions used to guide taxpayers and preparers to the correct answer. Additionally, findings will be applied to making changes to the EITC Assistant found on IRS.gov, and may be shared with the Tax Forms and Publications division of the IRS.

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

Data collection for this project will be completed during in-person focus groups coinciding with the IRS Nationwide Tax Forums.

## **4. Duplication of Information**

This focus group project will provide valuable information that has not been collected during previous focus group projects, and is not available in any internal IRS data source.

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

Not applicable.

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

If the requirement is not approved, RICS will not have the information necessary to make improvements to the EITC instructions. As a result, taxpayers will continue to make costly errors in EITC filing, costing the service resources in the areas of auditing and collection.

## 7. Special Circumstances

There are no special circumstances. The information collected will be voluntary. The findings from this project could be used in making management decisions regarding the inclusion of additional information within the instructions used to complete IRS tax forms.

## 8. Consultations with Persons Outside the Agency

Not applicable.

## 9. Payment or Gift

Not applicable.

## 10. Confidentiality

The IRS will apply and meet fair information and record-keeping practices to ensure privacy to the extent allowed by law protection of all taxpayers to the extent allowed by law. This includes criteria for disclosure—laid out in the Privacy Act of 1974, the Freedom of Information Act, and Section 6103 of the Internal Revenue Code—all of which provide for the protection of taxpayer information as well as its release to authorized recipients.

Focus group participants will not be identified in any of the documents or files used for this project. We will limit and control the amount of information we collect to those items that are necessary to accomplish the research questions. We will carefully safeguard the security of data utilized as well as the privacy to the extent allowed by law of the focus group participants.

## 11. Sensitive Nature

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

## 12. Burden of Information Collection

The focus group is designed to minimize burden on the participants, with each session lasting 60 minutes.

Participant recruitment will take place among attendees at the IRS Nationwide Tax Forums. We anticipate a 25% recruitment acceptance rate, thus we will talk to 240 Tax Forum attendees, to fill 60 total participant spots (12 attendees at each of five IRS Tax Forums).

The contact time needed to recruit participants could take up to two minutes, with the resulting burden being  $240 \times 2 \text{ minutes} = 480/60 \text{ minutes} = \underline{8.0 \text{ burden hours}}$ .

For participants, total time to participate in the focus group is 60 minutes. The time burden for participants is  $60 \times 60/60 \text{ minutes} = \underline{60 \text{ burden hours}}$ .

The total burden hours for the focus group is  $(8 + 60) = 68$  burden hours.

Type of Collection	Participation	Response Time (minutes)	Total Burden (Hours)
Potential Participants	240	2	8
Expected Participants	60	60	60
<b>Grand Total Burden</b>			<b>68</b>

### 13. Costs to Respondents

Not applicable.

### 14. Cost to Federal Government

The estimated cost is \$12,000.

### 15. Reason for Change

Not applicable.

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

This project will use a constant comparison analysis to analyze focus group data. This analysis initially groups data into smaller units, and identifies each with a unique descriptor or code. Next, codes are placed into broader categories with the final goal of uncovering overall themes.

### 17. Display of OMB Approval Date

Not applicable.

### 18. Exceptions to Certification for Paperwork Reduction Act Submissions

Not applicable.

### 19. Dates collection will begin and end

July 7, 2015 through September 3, 2015

## B. STATISTICAL METHODS

### 1. Universe and Respondent Selection

Focus group participants will be solicited in-person from individuals attending the IRS Nationwide Tax Forums.

### 2. Procedures for Collecting Information

A WIRA researcher will serve as the moderator for the focus group sessions. An additional WIRA researcher will serve as a note taker/scribe for the sessions.

### 3. Methods to Maximize Response

The focus group sessions will be limited to one hour in length, and the session topic will be clearly communicated to potential participants in order to maximize participation. Participants will be assured anonymity of their responses, thus being free to express their thoughts and opinions.

### 4. Testing of Procedures

Focus groups are an established and tested qualitative research method. Questions contained within the moderator's guide will be reviewed by the RICS program office to assure the included topics meeting the stated project goals. Only minor changes to the moderator's guide are expected following submission of this supporting statement. **The minor changes may include rearranging the order of questions, swapping out an existing question for one that provides more clarity, or possibly dropping questions to keep a session within the one hour allotted time.**

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

For questions regarding the study or the research and statistical methodology, contact:

Howard Rasey  
Social Scientist  
Wage & Investment  
Strategy & Finance  
Research  
Research Group 3  
404-338-8571  
[Howard.W.Rasey@irs.gov](mailto:Howard.W.Rasey@irs.gov)