

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

**Affordable Care Act (ACA) Noncompliance among Self Preparers and Paid Practitioners
Understanding Circumstances Leading to Premium Tax Credit Errors**

A. JUSTIFICATION

1. Circumstances Making the Collection of Information Necessary

Provision § 36B, a refundable credit for coverage under a qualified health plan (also known as the Premium Tax Credit (PTC)), is a major provision under the Affordable Care Act legislation which went into effect in tax year (TY) 2014. Filing season 2015 was the first time taxpayers claimed the credit. Due to the complex nature of the legislation, the IRS anticipated that taxpayers and practitioners would experience difficulty with ACA compliance and proactively planned to monitor compliance through analysis of PTC error rates. During and after the 2015 filing season, the IRS conducted analysis of PTC returns and the associated error rates on a weekly basis. To date (through processing cycle 24), there have been over 3.5 million PTC returns filed, with nearly two million PTC errors assigned.

As outlined in the IRS Strategic Plan for 2014-2017, Goal 1 states that the IRS will “deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance.” Additionally, Objective 1 of the first goal states the IRS will “deliver clear and focused outreach, communications and education programs to assist taxpayer understanding of tax responsibilities and awareness of emerging tax laws.” Whether intentional or not, returns with errors are noncompliant. A key strategy under Objective 1 in support of Goal 1 is to identify top compliance risks and develop proactive communications and education campaigns to help taxpayers understand and comply with tax responsibilities and reduce errors.

The first goal of the strategic plan concerns both self-preparing individuals and tax preparers. Objective 7 of the plan commits the IRS to “enhance the quality of tax services by strengthening the outreach, education and tools provided to the tax professional community.”

The IRS is currently engaged in numerous research efforts to anticipate the needs of taxpayers, tax professionals, and various government agencies for understanding how to comply with the new, complex ACA legislation and how to plan for its administration in subsequent years. The IRS is closely monitoring and compiling tax data to identify trends and issues; but additional research is being conducted, in support of the *IRS Strategic Plan*, to take “proactive steps to better understand issues from the taxpayer’s perspective” through techniques such as focus groups, surveys, and individual interviews.

Throughout the first filing season in which Provision § 36B was in effect, IRS researchers performed a weekly data analysis on tax return errors flagged by two systems -- ACA Verification System (AVS) and Dependent Database (DDb). While this provided the IRS with counts of the types of mistakes, it shed little light on their causes.

The IRS proposes to conduct both qualitative and quantitative research to learn the causes for the errors, in a phased approach. This OMB Supporting Statement is intended to cover Phase 1 of the project, which is a qualitative, interview-based study.

2. Purpose and Use of the Information Collection

At the conclusion of Phase 1 of this study, the IRS will have an understanding of causes of non-compliance with PTC. The findings from interviews conducted with self-preparers and practitioners will help the IRS identify patterns and circumstances contributing PTC-related errors on returns. While the Phase 1 results will not be statistically valid and applicable to the entire population, the IRS will be able to use the findings to enact strategies and/or develop messaging to correct common behaviors causing errors on PTC returns.

The IRS will use the data collected from this first phase of the research to develop a survey with a large sampling frame; the survey results will then be used to quantify the population inferentially.

The IRS will use the findings from this research to plan, develop, and implement communication strategies and educational materials based on taxpayers' and tax professionals' experiences. This application of the research findings will:

1. Inform recommendations for improvements to communication with and education of self-preparers and tax professionals
2. Reduce self-preparers' and tax professionals' compliance burden by providing them with more helpful information to prepare returns accurately
3. Reduce IRS downstream costs and workload by mitigating the occurrence of errors

The IRS will conduct exploratory research to better understand self and paid preparers' experience while preparing PTC returns, specifically what issues or circumstances led them to make a PTC-related error. To achieve this objective, the IRS will conduct 130 phone interviews. The relatively small number and geographic distribution of returns with these errors makes concentrations of these taxpayers or tax preparers unlikely and therefore face-to-face data collection impractical. As such, the IRS plans to conduct one-on-one interviews by phone.

Interviews allow researchers to get in-depth information about the participants' experience with whatever issue is being discussed. The hour-long interviews will follow a semi-structured interview approach. IRS researchers have developed and submitted for review, as part of this OMB package, an interview guide that will ensure that the same general areas of information are collected from each interviewee. This approach provides more focus than the conversational interview, but still allows a degree of freedom and adaptability in obtaining information.

The qualitative information from these interviews will provide insight into the causes of PTC noncompliance and later be used to inform the development of a qualitative survey in Phase 2 (for which the IRS will submit a separate OMB package).

3. Consideration Given to Information Technology

Potential participants will be directed to the [Tax Stats website](#) which explains the research and reiterates the fact that the participation is voluntary. Taxpayers will be recruited by contractors by telephone to invite them to participate after recruiters consider their answers to a series of screener questions. If they agree to participate, participants will call a provided phone line to speak with an IRS researcher.

4. Duplication of Information

The IRS has used direct interaction with taxpayers through interviews as a research design for a number of years. This is the first year of implementation for Provision § 36B and the first year for taxpayers to comply with the law. These specific research questions have not been studied previously and therefore there is no duplication of research.

5. Reducing the Burden on Small Entities

The interviews being conducted for this research have been carefully considered to minimize burden on self and paid preparers selected to participate in the study. IRS researchers worked diligently to limit the sample to only those taxpayers and practitioners who have made a PTC-related error on their returns and with subject matter experts to account for factors that could falsely identify them as having made an error in an attempt to prevent contacting potential respondents that don't actually qualify to participate. The interviews will not exceed one hour in length. According to background research, the IRS estimates 60% of tax preparers from the potential participant pool will be classified as a small entity. As it will take an estimated 1,500 calls to recruit 50 preparers for this study, the IRS estimates 900 calls will be made to preparers considered a small entity (1,500 total calls * .60). Additionally, the IRS estimates 30 preparers considered a small entity will be participants in the study (50 total preparers in study * .60).

6. Consequences of Not Conducting Collection

Without feedback, the IRS is unable to fully achieve the goals and objectives stated in the Strategic Plan regarding the consideration of taxpayer perspectives while working to improve products and services, reduce taxpayer burden, and encourage voluntary compliance.

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 the Agency

Not applicable.

9. Payment or Gift

Participants will be paid an honorarium for their participation in these 60 minute interviews. Individuals who self-prepared their returns will be given \$65.00, while paid practitioners/tax professionals will be given \$75.00. These payments encourage participation, and are a token of gratitude given to participants for their time and contributions to the discussion. These stipends are typical for the time spent in the session, the type of individuals recruited, and in line with the industry standard, though they are higher than the typical \$40 allowed by OMB for cognitive interviews. IRS is asking to increase the stipend for the following reasons:

1. Eligible participants must have had a return that triggered a specific IRS error code upon filing their return. As such, the criteria for the target population are complex. Through the end of May, there were two million returns with a PTC-related error. This is a very small number when compared to the over 130 million returns filed in 2015 (approximately 1.5% of returns filed). Some of the error codes have a low volume, which makes the sampling pool inherently smaller and thus difficult to recruit from. Additionally, the study is comprised of two key market segments: individuals who self-prepared their returns and paid practitioners who prepared returns. The interviews will take place during

business hours, so for both individual taxpayers and paid tax professionals, we need to compensate them for time they may need to take away from their professional jobs. Many tax professionals make more than the allowed \$40 stipend at an hourly rate, so the incentive needs to be higher to encourage their participation from this group. Lastly, previous research has shown it is more difficult to recruit participants during daytime hours. For these reasons, a higher stipend amount will likely reduce recruitment time and increase participation.

2. The population for this study is smaller (only 1 in 65 returns contain a PTC related error , several error codes have an even larger proportion), so IRS anticipates it will be difficult to reach. Additionally, the methodology for this study employs only one method of contacting the eligible participants. If there is no information on how to contact them via phone, or if they engage in any activity to screen calls from unknown numbers, the sampling pool automatically diminishes. There is also the potential for some participants to have engaged in intentional noncompliance. If that is the case, we do not anticipate they will agree to participate, so again, the pool of potential participants shrinks.
3. The nature of this study is about non-compliance, whether it is intentional or not. Individuals may be hesitant to participate in the study due to concerns about the mistakes they made on their return and possible need to divulge additional information. Though IRS does not feel participation in this study poses any risk to individuals, they may disagree. They may have concerns about an IRS audit or further recourse from the IRS, though the information they choose to share will be protected to the extent the law allows.
4. The sampling pool for this study includes individuals all over the country; some will be in high cost-of-living areas (nearly 1/3 of individuals identified as being eligible at this point in time live in California and Texas, traditionally high-cost states) and some will be in low cost-of-living areas. IRS has no way of knowing who will agree to participate but expects that many in the high cost-of-living areas will not if the offered stipend is at the typically allowed amount of \$40. IRS feels that the recruitment time and effort required to obtain the number of participants needed and the geographic dispersion of the eligible individuals warrants a higher stipend to recruit more effectively in any area where an individual is contacted.

There is information attached to this submission (from Westat, a recruiting firm), that discusses the importance of the amount of the interview incentive. The Westat report uses data to show that an incentive amount lower than \$75 can lead to increases in taxpayer burden (as a \$50 incentive is shown to require twice the amount of recruiting time as a \$75 incentive, which would mean a great deal more taxpayers would need to be called to meet recruiting requirements) as well as lead to impacts in meeting the necessary number of participants for the study (no-show rates were shown to be over 50% for a study offering a \$30 incentive versus a 0% no-show rate for studies with an incentive \$75 or more).

10. Confidentiality

No Personally Identifiable Information (PII) will be collected during these interviews. The interviewer will indicate that no names will be used in the final report. Also, the data returned to the IRS will have no identifying information relating to specific records to individual taxpayers. Nonetheless, the IRS will ensure that privacy (to the extent allowed by law) and security of the aggregated results 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 7 operating system. Audiotapes or software used to record the interview sessions will be destroyed when the project is completed and there is no further need for the data. The

IRS 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 total annual burden hours requested is 141 hours. Participants will be interviewed for one hour (60 minutes). The IRS will interview 80 taxpayers who self-prepared their return and 50 tax preparers, for a total of 130 interviewees. The Contractor will give each agreed participant a reminder call as a final confirmation regarding their participation in the study.

According to past recruiting data, it should take approximately 3,900 Contractor contacts with potential participants to get the needed 130 participants for the study (30 refusals per one participant).

Type of Collection	Total Participants	Response Time (minutes)	Total Burden (Hours)
Reminder call to participant	130	5 mins	11 hours
Taxpayer/tax preparer interviews	130	60 minutes	130 hrs.
Grand Total			141 hrs.

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 \$33,000. This includes payments to the contractor (project planning, recruiting/scheduling participants, communication with the IRS, transcripts, recordings, etc.) and participant stipends.

15. Reason for Change

Not applicable.

16. Tabulation of Results, Schedule, Analysis Plans

Data from interview sessions is qualitative in nature. The Contractor will provide transcripts and/or audio recording of each interview session to IRS researchers. Additionally, IRS researchers will take notes by hand during the course of the interviews. IRS researchers will analyze both the verbatim feedback from participants as well as their notes to identify key themes in order to facilitate understanding of the self and paid preparers' experiences.

Information from this will be useful, 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 the IRS does not publish its findings, information will be shared (when appropriate) with organizations within the IRS, and will include specific discussion of the limitation of the data as described 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 of Information will Begin and End

Data collection will begin on 09/21/2015 and end on 10/23/2015.

B. STATISTICAL METHODS

1. Universe and Respondent Selection

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

(For self-preparers)

- Taxpayer **or** spouse earned wages in calendar year 2014 **or** received a pension or annuity in 2014 for service performed as an employee of the U.S. government of any U.S. state or local government.
- Participant must be the person most familiar with the preparation of the return filed in 2015
- Self-prepared their return
- At least 18 years of age
- Not a tax professional
- Diverse in terms of age, gender, household income, education and filing status
- Have had a PTC-related error associated with their return in Filing Season 2015

(For paid professionals)

- Tax professional that filed 10 or more tax returns in Filing Season 2015.
- Preparer filed at least one return with a PTC-related error in Filing Season 2015
- Preparer has not been previously selected by Criminal Investigation (CI) for investigation.
- Diverse in terms of number of years preparing tax returns, number of returns prepared during current filing season, and number of employees working for the company of the participant

Participants will be recruited and selected using screener guides prepared by IRS researchers. The qualitative data gathered will not be presented as representative of the population.

2. Procedures for Collecting Information

Each interview will take no more than 60 minutes. Sending consent forms ahead of phone interviews to be signed and then mailed or faxed back is very time and resource-intensive. The IRS requests permission to obtain a waiver of the documentation of informed consent and instead obtain verbal consent at the start of each interview by following all standard guidelines

to assure interviewees that their participation is entirely voluntary. The Informed Consent forms, attached with this submission, feature the information the IRS will disclose to participants to obtain verbal consent. If the waiver of informed consent is not permissible, these forms will be sent to participants prior to the interview.

Additionally, during recruitment and at the start of each interview, participants will be reminded that their participation is voluntary with the following statement: "Your participation in this interview is voluntary and there are no penalties if you choose not to participate." IRS researchers will also post information about the study on the IRS Tax Acts page (Attachment A), which will explain the research and reiterate that participation is voluntary.

The Contractor will contact the participants to remind them of their interview session and confirm their attendance.

Contractor shall work with WIRA to determine an appropriate method for distributing honorarium to the interview participants and then initiate distribution of the checks based on that plan.

An outline of the areas of discussion is below.

Introduction

- Interviewer introduces self, gives overview of issues of interest/topic(s) of discussion, covers ground rules (audio recording, presence of observers, privacy, OMB, etc.)

Section 1 – Discussion

- Taxpayers and practitioners will be asked to provide comments, suggestions and feedback on their experiences with preparing and filing returns during filing season 2015 and what issues or circumstances led them to make PTC-related errors.

IRS researchers will conduct the interviews using interview guides they developed.

3. Methods to Maximize Response

IRS researchers will use the Compliance Data Warehouse (CDW) to identify taxpayers who filed returns that fit the specific criteria required for the study -- those that made specific errors related to the PTC on their tax return. Once identified, the researchers will use the third-party data source Accurint to identify contact information for taxpayers meeting the criteria and provide this information to the Contractor for recruiting. The Contractor will use various tools common in the industry to further maximize the study's response rates throughout the recruitment process.

4. Testing of Procedures

Pretesting of the interview guide(s) will be conducted internally with IRS researchers.

5. Contacts for Statistical Aspects and Data Collection

The expertise of Social Scientist within the IRS will be sufficient for the needs of the data collected from this project.

For questions regarding the study, its associated materials, or the methodology, contact:

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