

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

**Title: 2016 IRS Nationwide Tax Forum Focus Groups:
Reducing EITC Improper Payments**

Wage & Investment Division
Wage & Investment Strategies & Solutions (WISS)

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The Earned Income Tax Credit (EITC), originally enacted in the 1970's, is a refundable tax credit that supplements the earned income of low-income workers.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 earnings increase, then, after reaching a plateau, begins to decrease as earnings increase. Unfortunately, while designed primarily 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.

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) has employed numerous strategies to identify fraudulent EITC claims from both preparers and individuals. 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, which the IRS is currently unable to treat due to limited audit resources. During Processing Year 2013 (PY13),

there were approximately 1.9 million Tax Year 2012 (TY12) returns by self-preparers that erroneously claimed \$1,000 or more EITC that were not selected for audit.

In an effort to reach taxpayers who are unable to be treated due to budget restraints, and correct fraudulent and erroneously filed EITC claims, Wage & Investment Strategies & Solutions (WISS) has partnered with the Return Integrity and Compliance Services (RICS) office to conduct focus groups with tax preparers to explore how intentional and unintentional errors lead to improper payments and affect participation. Additionally, the groups will focus on developing suggestions for error remediation. Focus group findings will be utilized and distributed by RICS in an effort to reduce the occurrence of EITC error rates. Additionally, findings will be utilized to develop new treatments and identify new data sources in order to reduce improper payments while increasing participation.

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 qualifying child, income, and filing status requirements for receiving the credit. Focus group findings will be utilized by RICS to reduce the occurrence of EITC error rates, develop new treatments, and identify new data sources in order to reduce improper payments while increasing participation.

3. Consideration Given to Information Technology

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

City	Dates
Chicago	July 12-14
New Orleans	July 26-28
National Harbor (D.C.)	August 23-25
Orlando	August 30-September 1
San Diego	September 13-15

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

Participants for this project will be recruited from individual attendees at the 2016 IRS Nationwide Tax Forums. No small entities will be contacted or recruited for participation in these focus groups.

6. Consequences of Not Conducting Collection

If the requirement is not approved, RICS will have less 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 additional resources in the areas of collection and auditing.

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

This project is being completed in partnership with the RICS office. There will be no consultation with persons outside the agency.

9. Payment or Gift

There will be no incentives given for participating in the focus groups.

10. Confidentiality

The IRS will apply and meet fair information and record-keeping practices to ensure privacy 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. The IRS 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 will be designed to minimize burden on 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 192 Tax Forum attendees, to fill 48 total participant spots (12 attendees for each focus group session at four Tax Forums).

The contact time needed to recruit for participants could take up to two minutes, with the resulting burden being $192 \times 2 \text{ minutes} = 384 / 60 \text{ minutes} = 6.4 \text{ burden hours}$.

For participants, total participation time in focus groups is 60 minutes. The time burden for participants is $48 \times 60 = 2,880 / 60 \text{ minutes} = 48 \text{ burden hours}$.

The total burden hours for the focus group is $6.4 + 48 = 54.4$ burden hours

Category of Respondent	No. of Respondents	Participation Time (in minutes)*	Burden (in hours)
Soliciting Potential Participants	192	2	6.4
Expected participants	48	60	48
Totals			54.4

Estimated Response Rate: 25%

Total Burden Estimate = 54.4 hours

13. Costs to Respondents

There is no cost to respondents resulting from the collection of information.

14. Cost to Federal Government

The estimated cost is \$11,000.

15. Reason for Change

This is a new Information Collection Request for Approval.

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

IRS is seeking approval to not display the expiration date for OMB approval, as this is a one-time, limited-duration collection

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

July 12, 2016 through September 1, 2016

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 WISS researcher will serve as the moderator for the focus group sessions. An additional WISS or other IRS employee 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 meet the stated project goals. Only minor changes to the moderator's guide are expected following submission of this supporting statement.

5. Contacts for Statistical Aspects and Data Collection

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

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