

**OMB SUPPORTING STATEMENT
INTERNAL REVENUE SERVICE
IRS TAXPAYER BURDEN SURVEYS
TIRNO-10-Q-00152**

**The Supporting Statement for OMB 1545-2212
Update**

IRS Taxpayer Burden Surveys

Additional Surveys Covered Under This Clearance Request.

Individual Taxpayers

2016 Individual Taxpayer Burden Survey (Data collection 6/1/2017-5/31/2019)
2017 Individual Taxpayer Burden Survey (Data collection 6/1/2018-5/31/2019)
2018 Taxpayer Compliance Burden Survey (Data collection 2/1/2019-9/13/2019)
2018 Individual Taxpayer Burden Survey (Data collection 5/1/2019-6/31/2020)

Entity Taxpayers

2016 Business Taxpayer Burden Survey (Data collection 7/15/2017-12/31/2019)
2017 Tax-Exempt Organization Burden Survey (Data collection 5/1/2018-5/31/2019)
2018 Business Compliance Burden Survey (Data collection 2/1/2019-9/13/2019)

Other

2017 Trust and Estate Burden Survey (Data collection 6/1/2018-5/31/2019)
2017 Employment Tax Burden Survey (Data collection 6/1/2018-5/1/2019)
2017 Information Return Burden Survey (Data collection 10/1/2018-7/31/2019)

A. Justification

1. Circumstances Making the Collection of Information Necessary.

The IRS Taxpayer Burden Surveys are designed to gather statistically representative data that allow the IRS to provide Congress and the President with accurate estimates of taxpayer compliance burden. These surveys also help the IRS understand how and why taxpayer burden changes over time. An ongoing survey effort is necessary to inform the IRS on the impact of an ever-changing tax law that leads to regularly-issued and updated IRS regulations as well as improvements and changes in tax-filing technology. This information is not available in IRS administrative data and cannot be directly observed.

Unlike the more common customer satisfaction surveys, the success of the IRS Taxpayer Burden Surveys depends significantly on being able to crosswalk results back to previous surveys. By doing so, the IRS has developed the Taxpayer Burden Model that can be used to assist the IRS and policymakers in determining the sources of changes to taxpayer burden.

Changes in tax regulations, tax administration, tax preparation methods, and taxpayer behavior continue to alter the amount and distribution of taxpayer burden. We intend to conduct updated surveys to better reflect the current tax rules and regulations, the increased usage of tax preparation software, the increased efficiency of such software, the 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. The IRS has not previously conducted a survey of trust and estate income tax filers. These data will be used as inputs for the creation of an econometric model that will allow the IRS to estimate compliance burden for the entire population and serve as a baseline for future surveys of this population.

The IRS has conducted prior surveys of individual taxpayers in 1984 (OMB 1545-0802), 1999 (OMB 1545-1688), 2000 (W&I taxpayers OMB 1545-1688, Self-employed taxpayers OMB 1545-1740), 2007 (OMB

1545-1349), 2010 through 2015 (this OMB Control Number). CY2010 and CY2014 Taxpayer Compliance Burden Surveys were conducted under this OMB Control Number.

The IRS has conducted Business Taxpayer Burden Survey for TY2009 (OMB 1545-1432) and TY2012 (this OMB Control Number). The IRS also conducted the TY2010 Tax Exempt Organization Burden Survey, and the CY2014 Business Compliance Burden Survey under this OMB Control Number.

2. Purpose and Use of the Information Collection.

The purpose of the taxpayer burden surveys is to gather data that will be used to update and expand the IRS Taxpayer Burden Model, a robust predictive model based on an improved burden estimation methodology. Information gathered by the surveys is not available in the administrative tax return data, so survey data are a critical input to the model. The survey data are not viewed discretely. Rather, because the data are used as inputs to the Taxpayer Burden Model (discussed below), they provide an end-to-end, taxpayer facing view of compliance burden.

The information collected via the IRS Burden Surveys will be used by IRS to support or achieve several important goals:

1. Fulfill its mission to provide top quality service to taxpayers.
2. Better understand taxpayer time and out-of-pocket cost burden.
3. Improve the accuracy and comparability of the information collection budget estimates it provides under the Paperwork Reduction Act (44 U.S.C. 3501 et seq.).
4. Provide data to be used in micro-simulation models to allow estimation of the impact of proposed legislation on taxpayer burden before the legislation is enacted.
5. Support ongoing analysis of the role of compliance costs in influencing taxpayer behavior and identifying taxpayer needs.
6. Provide information to the Executives and Operating Divisions for assessing the impact of programs on taxpayer burden.
7. Support the Operating Divisions and IRS executives in their efforts to identify and implement burden reduction initiatives.
8. Support tax analysis in the Treasury Department Offices.
9. Assist the IRS in evaluating the effectiveness and associated impact on taxpayer costs and behavior of IRS initiatives.

The micro-simulation models are used to develop baseline and what-if compliance cost estimates. These estimates are used to support recommendations to simplify the tax forms or schedules or provide better IRS instructions to the taxpayers. The models are also used to better understand the choices taxpayers make when preparing their tax returns (e.g., filing electronically, using a paid tax preparer). In addition, the models are used to provide estimates for information reporting to OMB for baseline compliance burden of proposed or recently enacted legislative or regulatory changes. The models also provide insight on the role of technological advancements in mitigating compliance burden, even as the tax law becomes more complex, because the tax preparer and tax software industries continue to develop innovative ways to help taxpayers comply with new tax laws and IRS regulations. The role of these preparation methods is represented in the model.

Advancements in electronic tax administration also play a role in reducing burden. OMB's burden reduction data calls have emphasized the relationship between technology and burden. Estimates generated by the burden model allow us to provide this information.

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 methods of collecting the survey data will be via mail or web. All respondents will be offered the option of completing the survey online. The secure web survey will be posted online using a proprietary web survey delivery system developed by the survey contractor. 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). In addition, the contractor's web survey platform allows

creation of mobile-friendly surveys, which expands respondents' web survey completion options to smart phones, tablets, and other mobile devices. Participant responses will be captured, stored, and tracked in a response database which can then be used to update and extend the relevant burden model.

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. Respondents are not asked to provide information already known to the IRS. The burden surveys ask for information regarding the time and money cost that taxpayer spend preparing and submitting the relevant tax or information return and other qualitative and quantitative data not available in the IRS administrative data. Because 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, the survey requires respondents to answer only the questions that are applicable to them, thus reducing respondent burden.

5. Reducing the Burden on Small Entities.

The individual, entity, and other burden survey efforts will impact small businesses to the extent that some selected respondents are self-employed sole proprietors, small corporations, or small partnerships. 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 focus small business burden reduction efforts related to tax administration, as well as in coordination with policymakers who are considering legislative changes.

The surveys will be conducted using a mail-first initial contact method. 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. We anticipate that providing the option to complete the survey using the web-based 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.

6. Consequences of Not Conducting Collection.

The IRS taxpayer burden surveys are instrumental to estimating and reporting approximately 75 percent of the total information collection budget of the federal government. This reporting is required by Congress under the Paperwork Reduction Act. Further, IRS methodology and associated estimates of the monetized value of time derived from these studies has been used by OMB in estimating the overall monetized burden of all federal government information collections. Results from the surveys also support program evaluation and policy design for IRS and other Offices of the Department of the Treasury. Periodic updates of the survey are necessary to identify changes in the impacts of different drivers of taxpayer burden, allowing us to adjust the model and associated estimates appropriately over time. Failing to collect these data would limit the Government's ability to provide accurate current estimates of these costs.

Support of OMB Initiatives. 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. Qualitative evidence discussed in the FY2010 Information Collection Budget pointed to the likely existence of significant burden reductions over the past

decade from Treasury Department technology investments and industry partnerships. 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. The surveys will inform this research by extending the time-series data, which allows more substantive comparison to earlier data collections. These data will be used to update, validate, and expand the IRS Taxpayer Burden Model.

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 and associated taxpayer post-filing burden. 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 taxpayer burden surveys are a key component of this research plan.

Integrated reporting of taxpayer burden across taxpayer segments. Currently, individual and entity-level taxpayer burden is estimated using the IRS Taxpayer. The model will be expanded to include burden estimation capabilities. Burden related to other tax or information returns is currently reported using a different methodology. This hinders integrated reporting across taxpayer segments and leads to potentially inconsistent estimates for dual-use forms used by business entities or individuals and other types of taxpayers. The IRS plans to develop econometric models that will cover all tax-related OMB forms, and is working with Treasury and OMB to convert all taxpayer compliance burden estimates to the new IRS burden model methodology. To maintain the burden models and ensure that they reflect current taxpayer burden in light of tax law and IRS administrative changes, surveys must be done at least every three years.

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.

Although the program is led and managed by the IRS, the IRS consults external stakeholders and survey research experts for input related to the program at key decision points. This research program and the associated data collections have been discussed with representatives of the following groups outside of IRS:

- Department of the Treasury, Office of Tax Analysis
- The survey vendor
- Enrolled Practitioners
- Stakeholder representatives to the IRS National Public Liaison, Information Reporting Program Advisory Committee, Internal Revenue Service Advisory Council, Reporting Agents Forum
- Academic, non-profit, and public sector tax policy-makers and researchers through the meetings of the National Tax Association and the IRS Research Conference

9. Payment or Gift.

In the past 20 years, the survey industry has experienced a steady decline in response rates (e.g., Groves, Dillman, Eltinge, and Little, 2002; American Academy, 2013). To decrease nonresponse, 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 Bhattacharjee, 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 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, the TY2010 Individual Taxpayer Burden survey (ITB), previously approved, provided that half of the respondents receive a \$2 incentive, while the other half received no incentive. (See citations in Appendix A.)

The 2010 ITB protocol included an extensive experiment involving whether a small monetary incentive included with the first contact could improve the response rate. Based on the 2010 ITB final survey data, respondents who received the \$2 incentive had an overall higher response rate than those who did not.

| Treatment | %Complete |
|---------------------------|-----------|
| Web First/With Incentive | 42.78% |
| Web First/No Incentive | 36.57% |
| Mail First/With Incentive | 45.99% |
| Mail First/No Incentive | 39.49% |

For the 2011 ITB, all respondents received a \$2 incentive with the survey mailing (mail-first). The response rate for this survey was 47.31%, similar to the equivalent Mail First/With Incentive treatment group in the 2010 ITB survey.

A second incentive test was conducted during the fielding of the 2015 ITB surveys. Preliminary results for this survey show that the response rate for respondents who received the incentive is almost 7 percent higher than for those who didn’t receive an incentive. Based on the findings for the 2010 ITB and the preliminary findings for the 2015 ITB surveys, each respondent in the ITB surveys will receive a \$2 incentive with the survey mailing. No incentive will be offered for non-response conversion.

There are no studies that suggest that an incentive would improve the response rate for the Taxpayer Compliance Burden Survey, which is also sent to individual taxpayers. We do not have sufficient variance information to create an efficient enough sample design to conduct such a test of the Post-Filing population with our planned sample size without collapsing strata. Thus, no incentive will be offered in our initial Taxpayer Compliance Burden Survey, but we may revisit this design aspect in a subsequent study once we have good variance data for this population.

No incentive will be provided to respondents of a Business, Tax-Exempt Entity, or Other category survey. Past survey response rates and professional judgment of our survey vendor indicate that an incentive is not necessary for surveys of corporations, partnerships, tax-exempt entities, and other established and legal entities.

10. Confidentiality.

Confidentiality is not promised to respondents, but they 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.

Each respondent will receive a prenote that will explain the purpose of the survey and ask them to respond which they may spend about one minute reading. Each potential respondent will participate only once. The potential response rate, which varies depending on the type of survey, is indicated in the burden estimate charts below.

Estimated time to complete the surveys is based on results from prior 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.

The total annual burden estimates for the covered surveys is as follows:

TY 2016 Surveys **14,083.33 hours**
TY 2017 Surveys **29,497.53 hours**
TY 2018 Surveys **17,550.00 hours**

The estimated burden for each survey is itemized below:

TY2016 Individual Taxpayer Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 20,000 | 1 | 1 minute | 333.33 |
| Survey Completion | 20,000 | 1 | 15 minutes | 5,000 |
| Total | | | | 5,333.33 |

TY2016 Business Taxpayer Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 25,000 | 1 | 1 minute | 416.67 |
| Survey Completion | 25,000 | 1 | 20 minutes | 8,333.33 |
| Total | | | | 8,750 |

TY2017 Individual Taxpayer Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 25,000 | 1 | 1 minute | 416.67 |
| Survey Completion | 25,000 | 1 | 15 minutes | 6,250 |
| Total | | | | 6,666.67 |

TY2017 Tax-Exempt Organization Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 25,000 | 1 | 1 minute | 416.67 |
| Survey Completion | 25,000 | 1 | 15 minutes | 6,250 |
| Total | | | | 6 666.67 |

TY2017 Information Return Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 20,000 | 1 | 1 minute | 333.33 |
| Survey Completion | 20,000 | 1 | 15 minutes | 5,000 |
| Total | | | | 5,333.33 |

TY2017 Trust and Estate Income Tax Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------|-----------------------|-----------------------|--------------|--------------------|
| Answering screener | 60 | 1 | 1 minute | 1 |

| | | | | |
|--|--------|---|------------|----------|
| questions* | | | | |
| Participating in the focus group* | 36 | 1 | 90 minutes | 54 |
| Cognitive Testing* | 36 | 1 | 60 minutes | 36 |
| Reading invitation letter & reminder postcards | 20,000 | 1 | 1 minute | 333.33 |
| Survey Completion | 20,000 | 1 | 15 minutes | 5,000 |
| | | | Total | 5,424.33 |

TY2017 Employment Tax Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 20,000 | 1 | 1 minute | 333.33 |
| Survey Completion | 20,000 | 1 | 15 minutes | 5,000 |
| | | | Total | 5,333.33 |

Total TY-2018 Taxpayer Compliance Burden Survey

| Year | Number of Respondents | Frequency of Response | Annual Hour Burden |
|---|----------------------------|-----------------------|------------------------|
| 2018- Business 2018 Individual 2018 Taxpayer Compliance Burden Survey | 25,000 20,000 13,000 | 1 | 17,550.00 hours |
| | 58,000 | | 17,550.00 hours |

TY2018 Taxpayer Compliance Burden Survey Pre-Work (Conducted in 2017)**

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|----------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Answering screener questions | 64 | 1 | 3 minutes | 3.2 |
| Participating in the focus group | 32 | 1 | 90 minutes | 48 |
| Answering screener questions | 40 | 1 | 3 minutes | 2 |
| Participating in the focus group | 20 | 1 | 60 minutes | 20 |
| | | | Total | 73.20 |

CY2018 Business Compliance Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 25,000 | 1 | 1 minute | 416.67 |
| Survey Completion | 25,000 | 1 | 20 minutes | 8,333.33 |
| | | | Total | 8,750 |

TY2018 Individual Taxpayer Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|----------|-----------------------|-----------------------|--------------|--------------------|
|----------|-----------------------|-----------------------|--------------|--------------------|

| | | | | |
|--------------------------------------|--------|---|------------|----------|
| Reading prenote & reminder postcards | 20,000 | 1 | 1 minute | 333.33 |
| Survey Completion | 20,000 | 1 | 15 minutes | 5,000 |
| | | | Total | 5,333.33 |

CY2018 Taxpayer Compliance Burden Survey

| Activity | Number of Respondents | Frequency of Response | Average Time | Annual Hour Burden |
|--------------------------------------|-----------------------|-----------------------|--------------|--------------------|
| Reading prenote & reminder postcards | 13,000 | 1 | 1 minute | 216.67 |
| Survey Completion | 13,000 | 1 | 15 minutes | 3,250 |
| | | | Total | 3,466.67 |

The annual burden cost to respondents is estimated to total \$336,038 (14,083.33 hours x \$23.86) for 2016, \$70,811 (29,497.53 hours x \$23.86) for 2017, and \$418,743,968(17,5500 hours x \$23.86) for 2018. This estimate is derived using \$23.86, the May 2016 average wage rate from the Bureau of Labor and Statistics Occupational Employment Statistics Survey.

*The TY2017 Trust and Estate Income Tax Burden Survey will be the first attempt to collect information from this taxpayer segment. To better inform the survey efforts and to ensure adequate feedback from relevant survey strata during the cognitive testing phase, we are requesting burden hours to conduct focus groups to inform survey instrument design and additional respondents for testing the draft survey instrument.

**This work will be conducted as part of the CY2018 Taxpayer Compliance Burden Survey data collection, but it will occur in 2017.

13. Annual Cost to Respondents.

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

14. Cost to the Federal Government.

The estimated annualized cost to the Federal government for administering these surveys is estimated to be:

2016 Burden Surveys

\$1,360,000 _____

- Employee labor and materials (for developing the surveys, 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): \$60,000
- Cost of contractor services: \$1,250,000 _____

2017 Taxpayer Burden Surveys

\$3,100,000 _____

- Employee labor and materials (for developing the surveys, 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): \$100,000
- Cost of contractor services: \$3,000,000 _____

2018 Taxpayer Burden Surveys

\$1,860,000 _____

- Employee labor and materials (for developing the surveys, 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): \$60,000

- Cost of contractor services: \$1,800,000

Total 2017 and 2018 Taxpayer Burden Surveys Government Cost

| Year | Employee labor and materials | Cost of contractor services | Total Cost to Government |
|-------------|-------------------------------------|------------------------------------|---------------------------------|
| 2017 | \$100,000 | \$3,000,000 | \$3,100,000 |
| 2018 | \$1,860,000 | \$60,000 | \$1,860,000 |
| | | | \$4,960,000 |

15. Reason for Change.

The survey scope is expanded to include burden associated with trust and estate income tax returns. This burden category represents a continuation of the IRS’s strategy to gather taxpayer burden data for all types of tax returns and information reporting documents. This survey will allow expansion of the IRS Taxpayer Burden Model supporting subpopulation estimates and what-if analyses for trust and estate that file an income tax return, similar to that currently provided in support of the 1545-0074 and 1545-0123 reporting. This will further allow consolidated reporting of forms by taxpayer type along the lines of 1545-0074 and 1545-0123, improving the ability of IRS, Treasury and OMB to manage the associated information collections.

16. Tabulation of Results, Schedule, Analysis Plans.

Upon conclusion of data collection for each survey, IRS staff will use the results to develop updated estimates of compliance burden for the relevant taxpayer segments. 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.

17. Display of OMB Approval Date.

The IRS will comply with requirements to display the expiration date for OMB approval of the information collection on all instruments under this OMB number.

18. Exceptions to Certification for Paperwork Reduction Act Submission.

Not applicable. No exceptions are believed to exist.