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AN INVESTIGATION OF ELECTRONIC TAX FILING IN ARKANSAS

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Abstract:

As a part of the IRS Restructuring and Reform Act of 1998, Congress set a goal for the IRS to have at least 80 percent of federal tax returns filed electronically by 2007. During the last tax filing season, electronic filing of tax returns increased by around 9 percent, up to 41 percent of individual returns filed, with over 18 million taxpayers filing state and federal returns simultaneously.¹ While the number of electronic returns is increasing, the IRS is unlikely to reach its 80 percent mandate by 2007.

Government taxing agencies are actively pursuing ways to use technology to increase effectiveness and efficiency while decreasing costs. In order to reach more citizens, research is needed to identify who currently e-files and what are the barriers for those that do not. In response, a survey was mailed to Arkansas citizens concerning their use of electronic filing for federal and state tax returns. The goal was to identify demographic characteristics of taxpayers that file electronically versus those that do not. Responses were statistically analyzed for variations. The results provided a basis for research into possible actions the government can take to increase the number of e-filers. The findings will be of interest to the IRS and state tax authorities, tax researchers and the general public. This is due to the fact that government agencies can create cost savings by automating more of their services and transactions, and these benefits accrue to the public through lower taxes or increased public goods.

Introduction:

Although the Internal Revenue Service (IRS) is attempting to increase electronic tax filing compliance, less than half of American taxpayers are filing their returns electronically. Electronic filing is beneficial to taxpayers and tax preparers for many reasons. In addition, there are numerous benefits for the Government and the IRS. Consequently, as part of the IRS Restructuring and Reform Act of 1998, Congress has set specific goals for the IRS regarding electronic tax filing. The purpose is to encourage the IRS to deliver improved service to taxpayers,

while taking advantage of the benefits it can provide. However, for various reasons, which we will explore, it is not likely that the IRS will reach its goals.

The purpose of this paper is to identify possible actions that the IRS can take to increase compliance. While Congress is aiming its goals of increased electronic filing at businesses, as well as individuals, the focus of this research will concentrate on individual tax filing. In order to determine factors that contribute to the decision to file electronically, a survey was mailed to Arkansas citizens about their use of electronic filing for federal and state tax returns. The goal is to identify demographic characteristics of taxpayers that file electronically versus those that do not. In addition, respondents that do not e-file will be asked about the reasons they do not and what changes would be required for them to file electronically in the future. Once this information is obtained, decisions can be made on a course of action to reach the targeted goals. The results will be of interest to the IRS and state tax authorities, tax researchers, tax practitioners and the general public.

Federal Objectives of IRS Restructuring and Reform Act:

In the IRS Restructuring and Reform Act of 1998 (RRA 98), Congress set several goals for the IRS regarding electronic tax filing. The primary objectives that were provided to the IRS include¹:

1. Paperless filing should be the preferred and most convenient means of filing federal tax and information returns,
2. The goal of the Internal Revenue Service to have at least 80% of returns filed electronically by the year 2007; and
3. The Internal Revenue Service should cooperate with and encourage the private sector by encouraging competition to increase electronic filing of returns.

Since the enactment of RRA 98, the IRS has continually searched for ways to improve compliance rates. The use of electronic filing has many advantages for all parties involved.

However, the trends of electronic filing in recent years have been less than satisfactory.

Advantages and Disadvantages of Electronic Tax Filing:

There are numerous advantages of filing electronically. There are potential benefits for the government, return preparers, and individuals alike. Some of the advantages offered by electronic filing include cost savings, reduction of errors, and faster refunds. However, many disadvantages of the current system have been identified as well. One of the most obvious disadvantages is the possibility of security weakness that would threaten taxpayer confidentiality. It is necessary to more closely examine both the advantages and disadvantages of electronic filing in order to discover new methods of recruiting non-electronic filers” (Table 1).

The government has many incentives associated with electronic filing. First of all, the processing costs of electronic filing are significantly lower. The labor costs of manually entering tax data are dramatically cut when the data is submitted electronically. In addition, there is a reduction in entry errors, time for processing, and general burden of entering the returns. Another benefit that has recently gained some recognition is the decrease in number of callers at the IRS call center. This is due to the decrease in errors and faster processing time. As electronic filing grows, more and more cost savings are recognized. Due to the decrease in paper returns, the IRS was able to close its first tax return processing center in Brookhaven in 2003, and there are plans for additional closings in the future. All of the cost savings will allow the government to reallocate funding to areas that may benefit the public sector as well.

As previously stated, return preparers and individual filers are seeing benefits as well. For these groups, the reduction in errors means that they will experience a much simpler process, without the burden of post-filing issues. Increased convenience includes the possibility of free tax filing, electronic payment options, and faster refunds. The timeliness of tax refunds has been a big motivator for those that are due refunds. However, for those that owe the government money, they prefer to postpone payment.

Unfortunately, along with all of the benefits of electronic filing, there are shortcomings as well. There has been concern that security weaknesses may threaten the confidentiality, integrity, and availability of sensitive systems and taxpayer data. The current system is simply not advanced enough to handle the type of overhaul that is needed. Over the past few years Congress has spent a substantial amount of money in business systems modernization. They have fully funded IRS budget requests as well. Another problem is that taxpayers with extremely complicated tax returns simply cannot file electronically. Until these issues are addressed, many filers will probably continue with paper filing.

Table 1: Summary of Electronic Filing Advantages/Disadvantages

Advantages	Disadvantages
Cost Savings	Security weaknesses
Convenience	Complicated returns
Reduction of errors	Possible cost issues
Fast confirmation	
Faster Refunds	

Recent Activities and Trends:

Congress and the IRS have attempted to increase the number of electronic filers through various programs. Of the actions taken thus far, one of the most important may be the Free File Alliance. In 2003, several tax software companies formed an agreement with the federal government to offer free electronic filing to certain taxpayers. The alliance encourages those that would not ordinarily pay someone to prepare their taxes to file online. It is also convenient for residents of the eight states who are now requiring mandatory filing of returns. Previously it was much cheaper for individuals to pay the price of mailing a paper return, rather than paying the fee for electronic filing. Hopefully this alliance will persuade more taxpayers to e-file.

However there are limitations as to who can file for free under the program. Only about 60% of taxpayers are qualified to use Free File. The software companies have various conditions under which the taxpayers must fall in order to qualify. Eligibility is based on factors such as income, age, state of residence, and type of form being filed.

The IRS has considered developing its own software or providing direct filing via its Web Site. However, private sector businesses that earn a substantial amount of income from electronic filing would be devastated should this occur. They would lose the majority of their business, which would require the government to address the issue of unfair competition. Furthermore, as stated by Jason Mahler, general counsel for the Computer & Communications Industry Association, “We don’t think it’s the proper role for the IRS to be sitting side by side with the consumer determining how much money they owe the government.”ⁱⁱ

However, the IRS website does make it possible for taxpayers to make payments online through the Electronic Federal Tax Payment System (EFTPS). Through the EFTPS, taxpayers may make tax payments through the Internet or by phone. In addition, taxpayers may elect to instruct their financial institution to electronically place the funds in the Treasury’s account. Should taxpayers choose to use the EFTPS, the benefits include convenience, accuracy, flexibility, ease of use, and fast and economical payment.

Another attempt that Congress has made to increase the incentives for electronic filing is a bill that would extend the April 15th deadline to April 30th for those who file and pay taxes electronically. The Taxpayer Protection and IRS Accountability Act of 2003, H.R. 1528, was passed in the House of Representatives on June 19, 2003. However, it still awaits decision by the Senate. This would be a big incentive for the approximately 30% of taxpayers who owe the government money each year, as it would allow them an extra 15 days to pay up. This issue has also been addressed in President Bush's 2005 Budget Proposal. In his proposal, returns would have to be filed and paid electronically by April 30th. Paper filers would still be required to pay by April 15

The practitioner community, including the American Institute for Certified Public Accounting (AICPA), have raised various concerns over the proposed due date change, citing the following reasons²:

- Taxpayer confusion over inconsistent due dates
- Paper extensions would still be required on April 15
- Estimated tax calculations on April 15 would not be avoided
- Added burden on practitioners
- Confusion due to non-conforming state and local Departments of Revenue
- Illusory incentive to file electronically
- Move away from "National Tax Day" of April 15

Several states are enacting various mandates that are aiding in federal initiatives. Many are requiring that tax preparers file individual returns electronically. The guidelines differ from state to state, but generally only require that practitioners who

file a certain number of returns comply. These practitioners may face penalties, such as fines, for non-compliance.

So, what has all of this done for e-file compliance? During the 2003 filing season, electronic filing of tax returns increased by 12.5 percent, up to 42.1 percent of individual returns filed, with over 18 million taxpayers filing state and federal returns simultaneously. However, this is down from the previous year's increase of 16.4%. According to the IRS, the 2004 filing season million returns, of which 45.8 million were filed electronically. If this is a good representation of the remainder of the filing period, approximately 62% of taxpayers will file electronically. While the number of electronic returns is increasing, if the current trends continue (Table 2)³, the IRS is unlikely to reach its 80 percent mandate by 2007. In the five years after RRA 98 was enacted, less than half of filers have been motivated to file electronically. If trends continue at these rates, the IRS could expect a very disappointing number of taxpayers to be filing online by the deadline. And even more importantly, it will likely be much harder to motivate the remaining paper filers to change. For these reasons, the IRS is aggressively searching for ways to reach the targets. Therefore, it is necessary to find different ways to encourage these taxpayers to convert to electronic tax filing.

Survey of Arkansas Taxpayers:

In order to understand better the reasons that taxpayers continue to file paper returns, a survey was conducted among a sample of Arkansas residents (see Appendix A). This information will serve as an aid in determining the motivators of filing electronically, as well as things that can be done to further motivate those that have not yet converted to electronic filing. The residents were asked to respond to questions concerning tax filing for the 2002 taxable year. These questions examined the following three groups of characteristics of the filers:

Table 2: Growth of Electronic Filing for Individual Tax Returns (millions)

Year	Total Returns	On-line returns ¹	Practitioner returns	Telefile returns	Total electronic returns	Percent returns e-filed	Percent growth of e-filed returns
2003 ²	124.1	11.8	36.4	4.0	52.2	42.1	12.5
2002	131.7	9.4	33.1	4.2	46.7	35.5	16.4
2001	131.0	6.8	28.8	4.4	40.1	30.6	13.3
2000	128.4	5.0	25.2	5.2	35.4	27.6	20.8
1999	126.0	2.4	21.2	5.7	29.3	23.3	20.1

Taken from IRS Oversight Board Electronic Filing Annual Report to Congress (November 2003)

Table 3:

Demographics	Filing History	Motivations
Gender	Access to Internet	Motivators for electronic filing
Race	Knowledge of electronic filing	Reasons for not filing electronically
Age	Type of form filed	Other incentives to file electronically
Income	Extra schedules that were filed	
Marital Status	Expectations of refund	
Number residing in household	Use of refund	
Level of schooling	Use of CPA	
Size of community		

Survey Response:

The survey was mailed to a random sample of 1000 Arkansas residents. The names and addresses were obtained from a sampling agency, Survey Sampling, Inc. Of the 1000 surveys that were mailed out, 191 usable surveys were included in the analysis. Representing a 19.1 % response rate. Not included in the useable surveys were 38 surveys that were returned undeliverable, and 7 surveys that were returned indicating that the respondent was not able to complete the survey due to the fact that they were deceased or did not file a return. This left a possible sample of 955 residents, which produces a response rate of about 20%.

Table 4:

Surveys Mailed:	1000
Returned Undeliverable	(38)
Delivered	962
Total Responses	198
Unusable/Incomplete	(7)
Usable Responses	191
Response rate	19.85%

Descriptive Statistics:

In order to determine what differentiates electronic filers from paper filers, it must be determined which if any forms the respondents filed electronically in the last filing year. According to the results of the survey, approximately 37% of taxpayers filed at least one of their returns electronically, while the remaining 63% filed both their state and federal forms by a paper method. In addition, the majority of taxpayers chose to file both electronically, if they were going to file any in that manner. This is consistent with current IRS statistics of e-filing compliance.

The respondents also exhibited certain demographic characteristics that would be worthwhile to note. Based on the responses from all who participated in the survey, 92% of them were Caucasian. The remaining respondents were African American, Asian, or Native American, representing 6%, 1%, and 1%, respectively. In addition, 62% were male while only 38% were female, 77% were 40 years old or over, 86% had a least some college education, and 73% were married. Refer to Appendix B for a detailed list of response statistics.

Current Motivations and Additional Incentives:

Electronic filers were asked to identify their motivations for filing electronically. They were asked to indicate all factors that contributed to their decision. Figure 1 shows the response results.

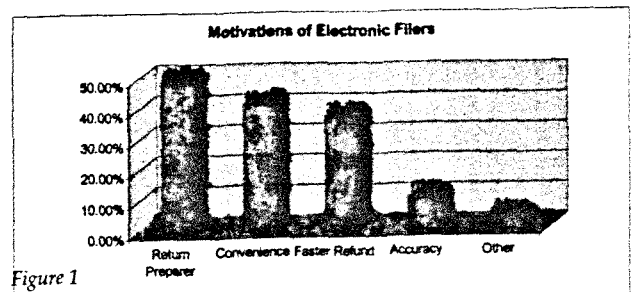
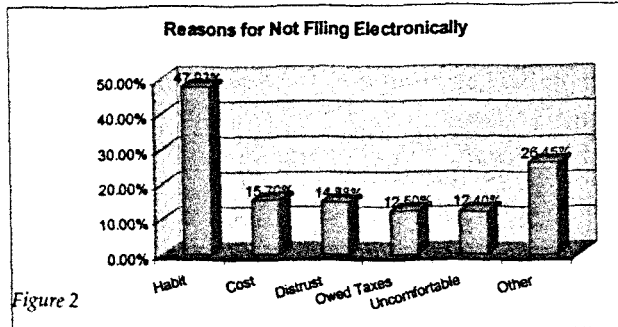


Figure 1

The above graph illustrates that the most commonly identified motivators are the advice of a return preparer, convenience of e-filing and the idea of a faster refund. Therefore the IRS should make it a priority that each of these motivators is exploited to the greatest extent possible. Possible actions to achieve this will be identified in a later section. Of the 4% of respondents that answered "other", their reasons included advice from others and free filing with tax software packages.

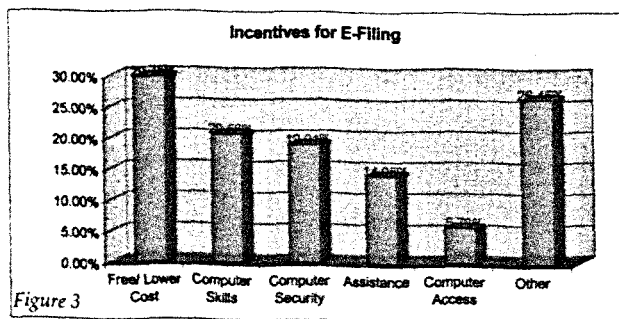
It is also beneficial to identify reasons that those that continue to file paper returns have not converted to electronic

filing. Again, this group of respondents was asked to indicate all of the factors that contributed to their decision. The options included: distrust of computer security, owed taxes and wanted to postpone payment, not comfortable with computers, habit, and the cost of online filing. Figure 2 shows the results.



As one can see, the majority of respondents do not file electronically because they have always filed by mail and they just aren't interested in doing it any other way. Another popular answer was that their CPA did not file electronically. This accounted for about 57% of those that indicated "other" as a reason. Other reasons included difficulty of forms and technical difficulties.

Paper filers were also questioned about possible actions that could be taken to encourage them to file electronically. Possible motivators that were identified included: free or lower filing costs, confidence in computer security, better access to a computer, better personal computer skills, and assistance with electronic filing. They were given the option to provide their own answers as well. The results are illustrated in Figure 3.



As the results indicate, taxpayers view free or lower filing costs as the biggest incentive to file electronically. The "other" category also had a significant percentage of respondents. The majority of these respondents indicated that they would file electronically if their CPA required them to do so. In addition, many answered that nothing would encourage them to change.

Characteristics of Electronic Filers:

In order to determine other factors that may affect decisions to file electronically, the respondents were broken into two

groups: electronic filers and non-electronic filers. These groups were then compared based on a number of different factors. T-tests were performed on the data to determine whether there were significant differences in certain areas. The following table illustrates the results of the tests.

When interpreting the results of a t-test, the p-value can determine whether or not the difference in two sets of data is significant. If the p-value falls below the desired level of significance, it can be determined that the means of the two groups are statistically different. The standard level of significance is .05, therefore, if the p-value for the two groups is under .05, there is reason to believe that there is a significant difference in that particular characteristic for electronic filers and those that do not file electronically.

Table 4 indicates that there are some differences in the two groups. The biggest difference between the groups was related to whether or not the taxpayer was due a refund. Those taxpayers who chose not to file electronically were mostly those who were not receiving a refund. This can be attributed to the fact that taxpayers who file electronically tend to receive their refund more quickly.

E-filers also appear to be younger than Non E-Filers. Older filers may not choose to file electronically because they do not own a computer or they are not comfortable using it. In addition, younger filers are most likely attracted to the convenience and speed that electronic filing offers. This may also be the reason why electronic filers tended to have more people in the household. With an increased number of family members, convenience may be a big incentive. Another reason for this difference may lie in the fact that older filers tend to have fewer people living in the household, since the majority of their children reside outside the home. This would further support evidence that older filers are less likely to file electronically.

Further Analysis of Refund Expectation:

As Table 6 indicates, taxpayers who expect a refund are more likely to file electronically. Last year, almost 13% of taxpayers did not file electronically because they owed taxes. This is because they want to wait as long as possible to hand their money over. In order to confirm this, Table 3 shows the filing preferences of those that were due a refund compared to those that were not.

The results further confirm that those who are due a refund are more likely to file electronically than those who are not. Almost 37% of respondents who were due a refund filed electronically, while only 14% who were not due a refund filed electronically. In addition, those who were not due a refund were almost twice as likely to file neither return electronically, than those who were.

Table 5: Variation of Means between E-Filers and Non E-Filers

	Mean			
	E-Filers	Non E-Filers	Total	P-Value
Refund	1.5797	2.3417	2.0576	0.0000
Type of Return	1.5362	1.3667	1.4241	0.1770
Preparer	0.5507	0.5417	0.5497	0.9092
Community	2.1884	2.3750	2.3037	0.2959
Education	3.6087	3.4000	3.4869	0.1815
Race	1.2029	1.0500	1.1047	0.0597
Gender	0.3913	0.4667	0.4346	0.3784
Income	3.4493	3.4833	3.4921	0.8829
Marital Status	1.4783	1.4917	1.4817	0.9263
Number in Household	2.7246	2.2500	2.4346	0.0123
Age	4.1014	4.9917	4.6649	0.0002

Table 6: % of E-Filers Based on Refund Status

	Refund Due	No Refund
Both	36.88%	14.29%
Federal	5.67%	2.04%
State	1.42%	0.00%
Neither	56.03%	83.67%

Characteristics of Older Taxpayers:

Since age is a significant factor in determining whether or not an individual will file their return electronically, it is useful to examine characteristics of different age groups. Most importantly, it is necessary to determine why older filers do not file electronically. In addition, it would be helpful to know the factors that would influence them to convert to electronic filing.

The age group that was least likely to file electronically was that were between the ages of 60-69. Figure 4 shows the reasons that this group indicated for not filing electronically.

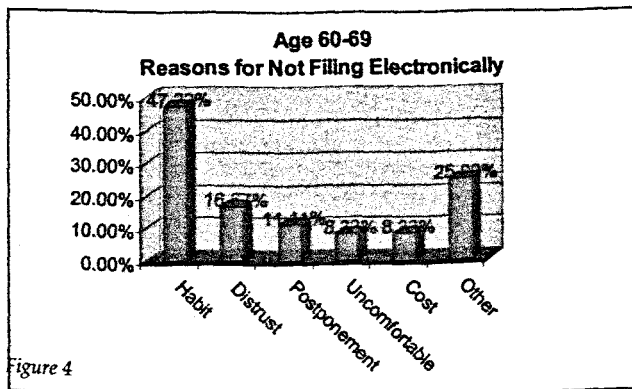


Figure 4

The above figure illustrates that the main reason given for paper filing was habit. The main response for "Other" was that their CPA made the decision for them. Distrust of computer security was another significant factor.

In addition to knowing why older filers don't file electronically, it is important to know the factors that would influence them to change their mind. Figure 5 shows the responses for the 60-69 age group.

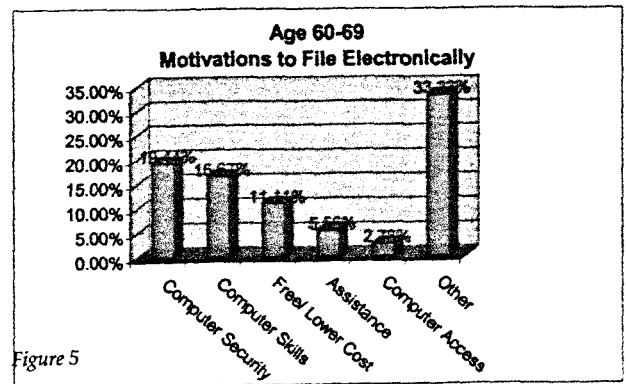


Figure 5

This figure indicates that greater security and increased computer skills would convince these taxpayers to file electronically. Those that indicated other reasons expressed that they would allow their CPA to make the decision.

Characteristics of CPA Prepared Returns:

Due to the large number of responses regarding the CPA's role in electronic filing, the responses were separated based on whether or not a return preparer was used. Figure 6 compares electronic filing percentages for those that used a return preparer versus those that did not. It indicates that those returns filed by return preparers had a slightly higher likelihood of being filed electronically. In addition, the return preparers usually filed both the state and federal forms electronically or did not file either in this manner. However, there did not appear to be a significant difference in these categories based on the variance analysis.

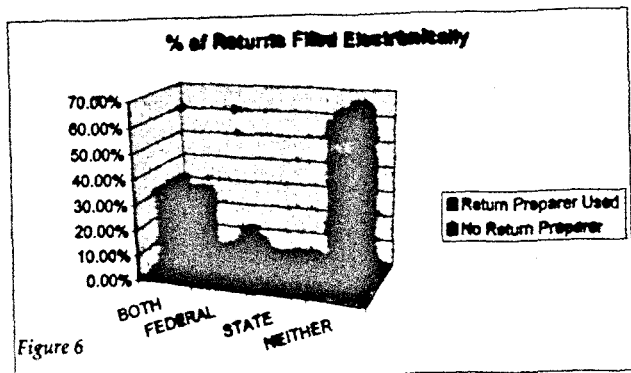


Figure 6

Biases:

The results did appear to contain some response biases. There was a greater response from members of certain demographic segments. These biases must be remembered when evaluating the responses. These biases include gender, education, race, and age differences. Perhaps the greatest bias was the race of the respondents. Caucasians accounted for 92% of the results. In addition, there were a greater number of male responses than female, representing approximately 62% and 38%, respectively. They also tended to be fairly well educated, with 85% having at least some college education. Finally, 78% were over the age of 40. Refer to Appendix B for more detailed statistics on response rates.

Results and Implications:

The results of the survey can be used to determine which demographic groups are more likely to file electronically. The IRS can then decide which of the demographic groups should continue to be targeted, as well as the groups that are not being reached with current incentives. It would likely be more effective for the IRS to use different methods to target the different demographic groups, since these groups may respond differently to certain tactics.

The information obtained from the survey also provides useful insight into reasons that some taxpayers do file electronically. The results indicate specific incentives that the IRS may be able to use in the future to increase the number of electronic filers. This information can be used to develop new methods of recruiting greater percentages of electronic filers.

The survey also identified specific reasons that paper filers choose not to file electronically. Due to the fact that there were a significant amount of responses to each of the given reasons, the IRS should search for ways to eliminate these concerns. If these concerns can be eliminated, or at least lessened, these taxpayers may decide that the benefits of filing electronically outweigh the disadvantages.

Perhaps the most important finding is that the older filers are less likely to file electronically. This is one particular

demographic group that the IRS needs to target. In order to encourage older filers to convert to electronic filing, the IRS should address the concerns of these groups. They should also examine incentives that create benefits for the older filers.

Another important finding is that taxpayers who receive refunds are more likely to file electronically. The IRS needs to develop a plan that would encourage taxpayers who are not receiving refunds to file electronically. They are likely to dramatically increase the number of electronic filers by creating incentives that are attractive to those who are still filing by paper.

Recommendations:

The implications of the survey suggest various methods that the IRS could use to attract more electronic filers. One of the most important steps that should be taken is to find ways to target older taxpayers. These taxpayers did indicate that a better understanding of computers and more confidence in computer security would influence their decision. Actions that the IRS could take include giving taxpayers assistance and instructions for electronic filing. In addition, simplifying the process would make it easier for older filers to understand.

Another action that the IRS could take is requiring all tax preparers to file electronically. This would increase the number of electronic filers in older age groups, as well as others. Many states are already requiring tax preparers to file electronically, if they prepare over a certain amount of tax returns. However, this is currently not a federal requirement. Due to the large amount of responses that indicated the decisions of CPA's had a great influence on the decision, this would likely be a sure way to increase electronic filing compliance rates. However, as previously stated many preparers are opposed to this requirement.

The cost of electronic filing was another reason that taxpayers did not file electronically. Although the free file alliance has allowed some filers to submit their returns at no cost, many taxpayers do not meet the qualifications to file for free. Therefore, the IRS needs to examine ways to make electronic filing free or cheaper for all filers. One possibility would be to expand the qualifications for free filing. However, they must be careful not to infringe upon private sector businesses.

Another action that has been suggested involves issuing tax credits to those who file electronically. This would allow businesses to still charge for filing, by shifting the cost to the government. The taxpayers would pay the business, but would later receive a credit from the government. Depending on the amount of the credit, this would reduce or eliminate the out-of-pocket expense for taxpayers. In addition, it would encourage filers who do not receive refunds to file electronically.

Finally, there have been discussions concerning the extension of the April 15th due date. This would be an incentive for many taxpayers to convert to electronic filing. Since paper

returns only have to be post marked on April 15th, it is disadvantageous to file electronically by the same date. When filing electronically, the government can process your return much faster, therefore taking the money out of the bank sooner. In addition, those filers who waited a little too long to file their taxes, and did not file an extension, would be forced to file electronically in order to avoid penalties. Although, it does seem to be a good idea, this does lead to some confusion and other disadvantages as well.

After reviewing the advantages and disadvantages of a number of alternative actions, it appears that some actions would be more advantageous than others. One action would be to offer a tax credit for electronic filers. Some of the cost savings realized by the IRS would be reduced, but the reduction in effort and errors would likely make up the difference. In addition, requiring tax preparers who meet certain criteria to file electronically would definitely increase electronic filing compliance. However, the IRS should be sure to address preparer concerns about electronic filing.

Conclusions:

The IRS is working hard to achieve the goal set forth in the IRS Restructuring and Reform Act of 1998. Even with their efforts, studies have shown that they are not likely to reach 80% compliance by 2007. However, plans are in place to increase the marketing budget for electronic filing. In addition, the IRS plans to mail post cards encouraging electronic filing to taxpayers and preparers. Through these efforts, along with others, electronic filing will continue to grow in popularity. Although, 80% will not be reached by 2007, it may be reached soon after. As younger generations start their careers, and older generations begin to retire on minimal income, electronic filing will become the standard in tax filing.

Endnotes:

¹ Joint Committee of Taxation report to Congress on IRS modernization (May 19, 2003).

² IRS Oversight Board Electronic Filing Annual Report to Congress Adaptation (November 2003)

³ E-Filing.com. Advantages of E-Filing Pandit, Ganesh and Allen J. Rubenfield. The CPA and The Computer "E-Filing: The Ups and Downs". Sept. 2003

⁴ Block, Sandra, SmartPros "E-filers My Get Later Deadline to File Taxes" Feb. 4, 2002 <http://www.smartpros.com/x32824.xml>

⁵ IRS ETAAC Report to Congress 2003, [http://www.irs.gov/TaxationTeam/Proposal to Extend Due Date for E-Filed Returns](http://www.irs.gov/TaxationTeam/Proposal%20to%20Extend%20Due%20Date%20for%20E-Filed%20Returns), <http://aicpa.org>

⁶ Taken from IRS Oversight Board Electronic Filing Annual Report to Congress (November 2003)

Faculty Comments:

Ms. Adams', thesis advisor, Dr. Deborah Thomas, made the following comments about her student's work:

As thesis advisor for Angela Adams, I am writing to endorse her work on electronic filing of tax returns. Her research paper is meritorious for the following reasons:

Universal Topic: Angela's work investigates something that affects every American - the annual filing of individual income tax returns.

Practical Topic: Electronic filing is a cheaper and more efficient alternative to paper tax returns, for both the taxpayer and the government.

Timely Topic: In 1998, Congress set a goal that 80% of all tax returns be filed electronically by 2007. The IRS is making progress toward that goal, with increased e-filing during the 2004 tax season. But as of April 9, 2004, only 57% of 2003 individual returns were filed electronically.

Unique Database: Angela built her data from an original mailed survey of 1,000 Arkansas residents. Her response rate of close to 20% was high for this sort of research.

Meaningful Results: The IRS must find ways to encourage taxpayers to use e-filing to meet the 2007 Congressional mandate. Angela's research identifies some of the roadblocks to and avenues for increasing the use of electronic filing that could assist the IRS in meeting its goal.

Quality paper: I believe you will find Angela's paper to be well-written and insightful.

Appendix A- Survey Instrument

Electronic Tax Filing

Please answer the following questions using a pencil, and return the survey in the provided Business Reply Envelope.

1. Where do you have Internet access? (Fill in all that apply)
- Home School
 Workplace Library
 Other _____
2. Are you aware that you can file your tax returns via the internet?
 Yes No
3. Which tax return(s) did you file electronically last year?
 Both federal and state State only
 Federal only Neither
4. If you did, what motivated you to file electronically? Was it: (Fill in all that apply)
- Convenience Accuracy
 Faster refund Return preparer did it for me
 Other _____
5. If you didn't, why didn't you file electronically? Was it: (Fill in all that apply)
- Distrust of computer security
 Owed taxes, so want to postpone payment
 Not comfortable with computers
 Habit - I've always filed by mail/just not interested
 Cost of online-filing
 Other _____
6. If you didn't, have you investigated the cost of filing electronically?
 Yes No
7. If you didn't, what would make you more likely to file electronically? (Fill in all that apply)
- Free or lower filing cost
 Confidence in computer security
 Better access to a computer
 Better personal computer skills
 Assistance with electronic filing
 Other _____
8. Were you due a tax refund last year?
 Yes, both federal and state Yes, state only
 Yes, federal only No
9. If yes, what did you do with your tax refund? (Fill in all that apply)
- Used it to pay groceries/bills/necessities
 Used it for recreation/vacation/luxuries
 Saved it
10. Which Federal return did you file in 2002?
 1040 1040EZ
 1040A Other _____
11. If you filed 1040 in 2002, which schedules did you file? (Fill in all that apply)
- Schedule A itemized deductions
 Schedule C small business/self-employed
 Schedule D capital gains
 Schedule E income/rental property/partnership
12. Did you pay someone to do your 2002 tax return for you?
 Yes No
13. In what type of area/community do you live?
 City
 Suburb
 Small town/community
 Rural area/farm
14. Which best describes your level of schooling?
 Didn't graduate from high school
 High school graduate or equivalent
 Some college including business or trade schools
 College graduate
 Graduate or professional degree
15. Which best describes your racial or ethnic group?
 White
 African-American
 Hispanic
 Asian
 Native American
 Multi-ethnic
16. Are you male or female?
 Male
 Female
17. Which best describes your total 2002 household income?
 \$15,000 or less
 \$15,001 to \$25,000
 \$25,001 to \$50,000
 \$50,001 to \$75,000
 \$75,001 to \$125,000
 \$125,001 to \$500,000
 \$500,001 or over
18. Which best describes your present marital status?
 Married
 Separated or divorced
 Widowed
 Single
19. How many people, including yourself, live in your household?
 1 2 3 4 5 6 7 8 9 10+
20. What is your current age?
 Under 20 years
 20-29 years
 30-39 years
 40-49 years
 50-59 years
 60-69 years
 70 or more years
- Please give any additional comments about electronic tax filing on the back of this form.

Appendix B- Summary of Survey Repsonses

1	YES	NO	SUM	% YES	% NO
Home	141	50	191	73.82%	26.18%
Work	97	94	191	50.79%	49.21%
School	11	180	191	5.76%	94.24%
Library	29	162	191	15.18%	84.82%
Other	10	181	191	5.24%	94.76%

2	YES	NO	SUM
#	183	8	191
%	95.81%	4.19%	100.00%

3	BOTH	FEDERAL	STATE	NEITHER	SUM
#	59	9	2	121	191
%	30.89%	4.71%	1.05%	63.35%	100.00%

4	YES	NO	SUM	% YES	% NO
Convenience	30	161	191	15.71%	84.29%
Faster Refund	27	164	191	14.14%	85.86%
Accuracy	7	184	191	3.66%	96.34%
Return Preparer	38	153	191	19.90%	80.10%
Other	5	186	191	2.62%	97.38%

5	YES	NO	SUM	% YES	% NO
Distrust	18	173	191	9.42%	90.58%
Postponement	15	175	190	7.89%	92.11%
Uncomfortable	16	175	191	8.38%	91.62%
Habit	59	132	191	30.89%	69.11%
Cost	20	171	191	10.47%	89.53%
Other	35	156	191	18.32%	81.68%

6	YES	NO	SUM
#	33	158	191
%	17.28%	82.72%	100.00%

7	YES	NO	SUM	% YES	% NO
Free/Lower Cost	43	148	191	22.51%	77.49%
Computer Security	25	166	191	13.09%	86.91%
Computer Access	7	184	191	3.66%	96.34%
Computer Skills	25	166	191	13.09%	86.91%
Assistance	19	172	191	9.95%	90.05%
Other	34	157	191	17.80%	82.20%

8	BOTH	FEDERAL	STATE	NEITHER	SUM
#	98	30	13	49	190
%	51.58%	15.79%	6.84%	25.79%	100.00%

81	110	191	42.41%	57.59%
25	166	191	13.09%	86.91%
46	145	191	24.08%	75.92%

118	42	14	7	181
65.19%	23.20%	7.73%	3.87%	100.00%

114	77	191	59.69%	40.31%
34	157	191	17.80%	82.20%
53	138	191	27.75%	72.25%
30	161	191	15.71%	84.29%

101	88	189
53.44%	46.56%	100.00%

73	21	56	37	190
38.42%	11.05%	31.05%	19.47%	100.00%

2	26	59	70	31	188
1.06%	13.83%	31.38%	37.23%	16.49%	100.00%

174	12	0	2	1	0	189
92.06%	6.35%	0.00%	1.06%	0.53%	0.00%	100.00%

115	71	186
61.83%	38.17%	100.00%

15	16	49	50	37	14	0	10
8.20%	9.84%	26.78%	27.32%	20.22%	7.85%	0.00%	100.00%

137	19	20	12	188
72.87%	10.11%	10.64%	6.38%	100.00%

34	73	33	35	8	1	0	0	0	0	184
18.48%	39.67%	17.93%	19.02%	4.35%	0.54%	0.00%	0.00%	0.00%	0.00%	100.00%

20	35 or under	35-39	30-39	40-49	50-59	60-69	70 or more	189
#	1	13	28	43	42	36	26	189
%	0.53%	6.88%	14.81%	22.75%	22.22%	19.05%	13.76%	100.00%