

# Identifying EITC Taxpayer Customer Service Needs Report

Research Project 6-05-12-3-018E



Prepared for

**Taxpayer Advocate Service**

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October 18, 2005

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## Executive Summary

The Earned Income Tax Credit (EITC) program is administered by the Internal Revenue Service (IRS) and provides support to the working poor. The EITC is a refundable tax credit that is available to low income taxpayers with earned income. The EITC eligibility requirements are considered by many to be complex and confusing. The EITC population is particularly impacted by this complexity because the population is low income, generally less educated, and many potentially qualified applicants do not speak English as their primary language.

The purpose of this project was to obtain feedback from EITC taxpayers to enable the Service to better understand their customer service needs. The initial step was qualitative research. We conducted focus group interviews to determine the issues and obstacles EITC-eligible taxpayers face when getting information about, and while preparing and filing, their federal tax returns. This information is important to the Taxpayer Advocate Service (TAS) and is an important step in helping the IRS identify customer needs and understand customer expectations.

Our primary research objective was designed to answer the following TAS business question:

*What are the customer service needs of EITC taxpayers?*

To accomplish our research objective, we used the focus group interviewing methodology. The population of our market segment, EITC-eligible taxpayers, is huge (although the precise number is unknown). In 2004, nearly 22 million taxpayers received approximately \$38 billion in EITC. Prior research shows that EITC is an area where there is significant noncompliance (taxpayers claiming the credit that they are not entitled to). On the other hand, researchers also estimate that up to 25 percent of Americans who qualify for the credit do not claim it.

TAS made arrangements for, and obtained approval of Low Income Tax Clinic (LITC) sites to host the focus group interviews. The initial focus group recruitment was accomplished through a solicitation letter mailed to the EITC-eligible taxpayers with Zip Codes near (within 15 miles of) the selected LITC sites on or about June 17, 2005. One focus group was held in each of four cities (Dallas, Seattle, New Orleans, and Burlington) during the last two weeks of July 2005.

Although the individual comments are too numerous to include in the executive summary they are provided in the main body of the report. Across groups we found that the perceptions, opinions, beliefs, attitudes, and experiences were remarkably similar. Not unexpectedly, we also heard less common opinions and experiences from our participants (which are included in the body of the report).

- Overall, we found that participants were able to find the information they need without much effort. Some participants reported difficulty navigating the IRS website and experienced trouble navigating worksheets and forms.
- From their perspective, participants encountered no real obstacles in determining if they were eligible for EITC. Although not acknowledged by participants, we note that some of their comments seem to indicate problems with knowledge of EITC or determining EITC eligibility.

- ‘In Person’ (i.e., face-to-face) EITC information needs varied among participants, dependent upon if they used the services of a Paid Preparer or if they Self Prepared their federal income tax return.
  - The participants who used a Paid Preparer relied primarily on their preparer as a means of meeting their EITC information needs.
  - Self preparers used a variety of ‘In Person’ resources to meet their EITC information needs. They go to IRS offices and volunteer sites (i.e., Volunteer Income Tax Assistance (VITA)) and solicit advice from friends/relatives for customer service; and go to their local library and post office to find tax instruction booklets.
- Many of our participants successfully use the computer to meet their EITC information needs. They use the computer as a source of information, to obtain forms, and for online filing.
- Customer service via phone was not used at all by many participants; and of those that had experience with phone customer service, some stated it was not their preferred method.

As we expected, we found that most of the participants received refunds.

- Unexpectedly, we found that most of them maintain a personal bank account.
- About half received their refund via direct deposit; and find the process speedy, convenient, and safe.
- Only a few obtained a Refund Anticipation Loan (RAL).

Most were not aware of advanced EITC, and after finding out about it, were not interested. They prefer the lump sum check and look forward to the ‘big’ refund rather than having the EITC spread throughout the year.

Our primary objective was to determine the customer service needs of EITC taxpayers. Our findings paint a fairly positive picture of EITC customers’ satisfaction with customer service. We also heard some negative comments indicating areas for improvement – the individual comments (both positive and negative) are provided in the body of the report. We conclude that our EITC focus group participants are generally satisfied with the information available to them. They feel the IRS provides enough information for them. Overall, they indicated that they are able to find the information they need and are not experiencing any significant customer service problems.

An additional conclusion is that owning a computer is not unusual for this group. Among our participants, we found that computer ownership and internet access was *common*. In addition to home use, the participants indicated they have computer access at alternate locations such as work or the public library.

Regarding the issue of determining EITC eligibility, none of the participants indicated this was a problem or even an issue for them. Overall, they stated that they do not have any concerns and are “happy with it.”

The knowledge obtained during this project will enable the IRS to develop a survey instrument. The survey instrument (which is to be administered to EITC-eligible taxpayers in a subsequent project) will effectively measure how well the IRS meets the needs of and how the IRS can improve its service to this taxpayer segment.

## Introduction

### Research Problem and its Importance

Taxpayer Advocate Service (TAS) is responsible for assisting taxpayers with problems they experience in dealing with IRS. A large number of TAS cases (or TAS customers) are EITC taxpayers. TAS has a need to gain a better understanding of the service needs of EITC-eligible taxpayers. The Internal Revenue Service and TAS, in particular, want to determine what taxpayers think about EITC tax related issues. They want to know if their needs are being met and if not being met, what it would take to meet their needs.

The National Taxpayer Advocate in conjunction with the Director of Low Income Taxpayer Clinics (LITCs) made arrangements to conduct focus groups at selected LITC sites. We conducted one focus group in each of four cities (Dallas, Texas; Seattle, Washington; New Orleans, Louisiana; and Burlington, Vermont) during the last two weeks of July 2005. This project was coordinated with the EITC Program Office and they indicated their support by providing funding for the project travel.

The information obtained in this research is important to TAS and is an important step in helping the IRS identify customer needs and understand customer expectations of the EITC-eligible taxpayer.

### Background and Objectives

In 1975, Congress enacted legislation creating the Earned Income Tax Credit (EITC). The intention of EITC was to offset the adverse effect of Social Security and Medicare payroll taxes on poor working families by increasing the remuneration from low-paid work.<sup>1</sup> The EITC program is administered by the Internal Revenue Service (IRS). IRS has been studying the EITC issue for years.<sup>2</sup> IRS' internal research and external research show that EITC is an area where there is significant noncompliance (taxpayers claiming the credit that they are not entitled to) and on the other hand, researchers believe there are substantial under-claimed credits (taxpayers entitled to the credit that do not claim it).<sup>3</sup>

The EITC eligibility requirements are considered by many people to be complex and confusing. The EITC population is at an additional disadvantage since the population is low income, less educated, and many potentially qualified applicants do not speak English as their primary language.<sup>4</sup> The National Taxpayer Advocate 2004 Annual Report to Congress stated that "many low income taxpayers must grapple with the confusing requirements of the EITC to determine whether they qualify for the EITC and, if so, how much they may claim."<sup>5</sup>

Our primary research objective is designed to answer the following question:

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<sup>1</sup> Robert Greenspan and Isaac Shapiro, "New Research Findings on the Effects of the EITC," Center on Budget and Policy Priorities, March 11, 1998.

<sup>2</sup> <http://win.web.irs.gov/research.htm>. Closed EITC Projects. EITC Research Summary, PowerPoint presentation.

<sup>3</sup> [http://win.web.irs.gov/eitc/gao\\_dec\\_2001.pdf](http://win.web.irs.gov/eitc/gao_dec_2001.pdf). GAO 02-290R Earned Income Tax Credit Participation.

<sup>4</sup> <http://elibrary.web.irs.gov/GetResults.asp>. W&I Research, "EITC Population Profile," September 30, 2003.

<sup>5</sup> National Taxpayer Advocate 2004 Annual Report to Congress, Section One, Page 2.

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*What are the customer service needs of EITC taxpayers?*

Other business questions that TAS wants answered include:

*Where do EITC taxpayers go for their information needs?*

*How do they determine if they are eligible for EITC?*

*How effectively are their information needs being met?*

## **Purpose and Structure of the Report**

The purpose of this report is to provide TAS with the results of the focus group interviews. Because focus group analysis is strictly qualitative, we will report the feedback received during the focus groups. Unlike quantitative studies, the sample is neither randomly selected nor representative of a target population so the results cannot be generalized or treated statistically.

We will answer the project objective and each of TAS's business questions (listed in the prior section). The results of customer service needs of EITC taxpayers will be presented first because that is our main objective. After completing that section we will next present results for the remaining business questions. The results for the business questions will be presented in the order they are shown (i.e., listed in the prior section).

## **Research Methodology**

In order to identify and capture a range of taxpayer feedback and opinions we determined the appropriate research method for this project was to conduct focus groups of EITC taxpayers. Focus group interviewing is one of the most frequently used techniques of qualitative marketing research.<sup>6</sup> A typical focus group brings together a small group (six to twelve) of participants for an intense exploration of a topic. A focus group moderator follows a discussion guide, known as a moderator's guide, to channel the discussion.

As a type of group interview, focus groups use group interaction to stimulate relatively spontaneous responses to the supplied topics. Focus groups provide insight and direction rather than quantitatively precise or absolute measures. They are useful for gathering information in a new field and generating hypotheses based on participants' insights. The main advantage focus groups offer is the opportunity to observe a large amount of interaction on a topic in a limited period of time.

## **Market Segment**

Our market segment is EITC-eligible taxpayers. We do not know the precise number of EITC-eligible taxpayers because of EITC over claims and EITC under claims but it is a huge number. In 2004, nearly 22 million taxpayers received approximately \$38 billion in EITC.<sup>7</sup> There are

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<sup>6</sup> Kinnear, T.C. and Taylor, J.R., Marketing Research: An Applied Approach (5<sup>th</sup> Edition), McGraw-Hill, New York, 1996, p. 306.

<sup>7</sup> Although they received the EITC we do not know if they were "eligible" for the EITC credit.

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also an unknown number of EITC-eligible taxpayers that do not claim EITC.<sup>8</sup> It is estimated that up to 25 percent of Americans who qualify for the credit do not claim it.<sup>9</sup>

### **Description of the Methodology**

Step 1 – We met with our customer to determine the objective for this project. After clarifying what the customer desired to determine from the focus groups, we developed a screener’s guide (see Appendix A) to recruit participants and a moderator’s guide (see Appendix B) to be used during the focus groups. We received the required Office of Management and Budget (OMB) approval before recruiting or conducting the focus groups.

Step 2 – We recruited participants through the issuance of a letter which was sent by U.S. postal mail to a sample of EITC claimants and potentially EITC-eligible taxpayers (see Appendix C).<sup>10</sup> We mailed 1,500 letters to taxpayers in each of the four focus group locations. Interested participants were instructed to respond by phone, mail, or email.

We prepared a demographic sheet (see Appendix D) to be used by the screeners. The purpose of the demographic sheet was to help us select a diverse group of participants. TAS and W&I research employees used the demographic sheet and the screener’s guide to solicit and select focus group participants that responded to our recruitment letter.

A reminder letter was mailed to selected participants (see Appendix E). We had a 4.2 percent response rate (see Appendix F for Selection of Participants and Burden Hours). Further information about the Sample Design process is provided in Appendix G.

Step 3 – We collected primary data by conducting a total of four focus groups in Dallas, TX; New Orleans, LA; Seattle, WA; and Burlington, VT (one focus group in each city). Experienced moderators from Wage and Investment Research Group (W&I RG) 1 and TAS conducted the groups. Consistent with focus group procedures, audio recordings and notes of the group discussions were the fundamental data products.<sup>11</sup> Debriefing notes were contemporaneously prepared by the note taker and scribe during each session. This information along with the moderators’ observations formed the elements of our analyses.

Conforming to qualitative research methodology for focus groups, we analyzed the content of the focus group discussions. Our analysis followed the procedures described by Krueger (1998). The group was the fundamental unit of analysis. In addition, we analyzed and summarized individual comments across groups. This analysis identified common themes and trends and provided direct quotations from the group discussions.

To ensure comparability of the focus group discussions and to enhance continuity of the analysis, the same research team was present at all four sessions. In Dallas, New Orleans, and Burlington, the on site person responsible for the LITC program observed the focus group session. The Dallas session was also observed by the Low Income Taxpayer Clinic, English as a Second Language (ESL) Program Manager. The use of a moderator’s guide imposed structure on the

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<sup>8</sup> GAO 02-290R Earned Income Tax Credit Participation.

<sup>9</sup> <http://www.irs-eitc.info/>. EITC overview.

<sup>10</sup> We do not know if the EITC claimants were actually eligible for the EITC credit.

<sup>11</sup> Krueger, R. A., *Analyzing and Reporting Focus Group Results*, Sage Publications, Thousand Oaks, California, 1998, p.54.

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discussion. Our moderator's guide (Appendix B) addressed the study's objectives and provided a framework for the focus groups.

Step 4 – Using the qualitative feedback (from the focus groups) we will work with TAS to develop a survey instrument for EITC-eligible taxpayers to quantify ways in which IRS can improve its customer service to this select population. TAS is currently conducting focus groups at the 2005 Tax Forums. Since their findings (at the Tax Forums) also impact this population they wish to incorporate those findings into one survey instrument which will be administered to EITC-eligible taxpayers. The issuance or administration of the survey will occur in a subsequent project (as planned).

### **Limitations**

We provide these findings with the caveat that our study is limited by the focus group approach, which seeks to develop insight rather than quantitatively precise measures. Thus, although these findings provide insight for decision-makers, we cannot project the findings to represent all customers in the segment.

### **Plan Deviation**

Our initial intent was to send out two waves of recruitment letters for each focus group location. We planned to mail 900 letters in the first wave and 600 letters in the second wave, if needed. When we factored in the additional time it would add to the recruitment phase of the project, we reevaluated this action and decided against it. We deviated from the Plan and the printing contractor mailed all 1,500 recruitment letters for each focus group location simultaneously.

As described in Step 4 of the Description of the Methodology Section, we will work with TAS on survey development.

### **Research Findings**

We will present our findings in the same order as presented in the Moderator's Guide (Appendix B). The Moderator's Guide was prepared so that the discussion was developed and explored in a logical flow. We will start with the Information Needs of EITC taxpayers, go on to discuss Meeting Their Information Needs, Bank Accounts, Direct Deposit, Refund Anticipation Loans (RALs), Advanced EITC, and Taxpayer Advocate Service.

Across groups the perceptions, opinions, beliefs, attitudes, and experiences were remarkably similar. Unless otherwise indicated, the remainder of this discussion refers to the findings from all the focus groups in aggregate. To indicate the source of specific comments or quotes the focus group city name will be shown in parenthesis following the comment (e.g., (Dallas) will indicate the comment originated in the Dallas focus group, (Seattle) will indicate the comment originated in the Seattle focus group, and so on).

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## Information Needs of EITC taxpayers

### When do you start thinking about preparing your taxes or gathering information to prepare your taxes?

We heard similar timeframes from participants at all four sites. Some told us that they begin gathering information on their taxes late in the calendar year (December) or early the following year (January), and some stated that they wait until the filing season is upon them (February). Others accumulate tax information throughout the year and some told us that they wait until they receive their W-2(s) or tax package. Following are some of their comments.

- “In December I start checking to see when books are going to be in the library.”
- “After I receive all my W-2s.”

The Dallas site provided some unique responses that we did not hear at the other sites which had an impact on when they start obtaining tax information. Several participants indicated that they start watching their pay stubs to see when they ‘need to quit working.’ They specifically stated that the EITC amount impacts their willingness to continue employment. This might mean ‘working fewer hours’ or ‘not working’ at all. The Dallas group was very much aware of the maximum EITC credit and stated that they wanted to receive as much EITC as possible. A couple of comments from the Dallas group follow:

- “I start thinking about it (EITC) in October ... about how to maximize the credit.”
- “I stop working so much because I want a refund.”

### What types of information do you gather to start working on your taxes?

This question brought forth a list of information items that participants accumulate to prepare their return. Some of the items were for tax preparation in general and other items more directly focused on the information for EITC taxpayers. The list included the following items:

- Instruction booklets, (also referred to as ‘tax package’ and ‘books and forms from the Post Office’). (Dallas, Seattle)
- Social Security Cards. (Seattle, New Orleans, )
- W-2’s, 1099s, and End-of-year statements. (Dallas, Seattle, New Orleans, Burlington)
- Birth certificate. (New Orleans)
- Things to help them itemize (medical records, property tax). (New Orleans, Burlington)
- Tuition forms from school. (New Orleans)
- Free Application for Federal Student Aid (FAFSA) form. (Burlington)

### How do you determine you are eligible for EITC?

We asked participants how they determined EITC eligibility. The taxpayers who use the services of a paid preparer rely on the paid preparer to determine their eligibility. The self preparers use a variety of means including printed material, online resources (tax preparation software), IRS, and information from other taxpayers.

It was interesting to note that *none* of the participants indicated that determining EITC eligibility was a difficult process for them. Some of their comments however may be indicative of problems with knowledge of EITC or determining EITC eligibility. Many participants responded to this discussion by naming or describing information items rather than a *process* of determination (for example, rather than completing the EITC eligibility worksheet they may just

go directly to the EITC Tables). Participants were very aware of the EITC income limitations and family size requirements.

Participants stated that they used a variety of methods to determine if they were eligible for the EITC, as shown in the following list.

- “Tax preparer.” (Dallas)
- Instruction booklets. (Dallas, Seattle, New Orleans, Burlington)
  - “Tables in the back of book. I look up number of children and income – it is easy.” (Seattle)
  - “I use the EITC Schedule to determine if I am eligible.” (Seattle)
  - “Information on the form.” (New Orleans)
  - “I know the income and dependent limitations.” (New Orleans)
- Online
  - “It was easy and figured it for me.” (Dallas)
  - “I put my information into the computer and the computer told me I was eligible.” (Burlington)
- IRS
  - “I received a phone call from IRS saying they thought I was eligible. They sent me the forms and I received a large refund. I wasn’t aware of it before.” (Burlington)
  - “I used to go to HR Block but now I go to the IRS – they do it for free and told him he was eligible.” (Burlington)
- Friend
  - “A friend told me I might be eligible.” (Burlington)

### **Meeting Information Needs of EITC Taxpayers**

In this section of the focus group discussion we asked participants *where* they go for their EITC customer service information needs and *why* they use that particular method. We expected to hear specific problems that this population was experiencing. Overall, there were no significant problems and maybe this comment explains a lot, “(I) don’t feel (my) situation is complicated enough to talk to someone.” (Dallas)

We will break responses down into the categories they mentioned (In Person, Computer/Internet Access, Mail, Phone) and their reason for choosing it – if they provided one.

### **In Person**

- Tax Preparer (Dallas, New Orleans, )
  - “My preparer takes care of me.” (Dallas)
  - “Just drop the stuff off.” (Seattle)
  - “IRS has a conflict of interest telling you about all of the available deductions – that is what you pay an accountant for.” (Seattle)
  - “I bring in all of the stuff, they prepare it, I go back and sign it.” (Burlington)
- IRS office (New Orleans, Seattle)
  - Taxpayer Advocate helped him – he was “very grateful.” (Burlington)
  - “Anyone who works for the government is not out to save you money – do not go to IRS office.” (Dallas)
- Taxpayer Assistance Center (TAC)

- 
- Used for return preparation and to pick up forms.
  - Location and hours are convenient (New Orleans; Burlington).
  - Very pleased with service. Definitely would use again. (New Orleans)
  - “Best part is that you don’t have to pay for it.” (New Orleans)
  - VITA (or other ‘free’ service)
    - Was happy with service received. (Seattle)
    - “Very supportive and very helpful. Would definitely use again.” (New Orleans,)
    - “3<sup>rd</sup> year using them and they have done a terrific job.” (Burlington)
    - “Convenient hours and location.” (Burlington)
  - Library – to find books (tax instruction booklets). (Dallas, Seattle, New Orleans)
  - Post Office (tax instruction booklets). (Dallas, Seattle)

### Computer/Internet Access

We were very surprised to find that many of our forty focus group participants owned personal computers (pc) *and* had internet access. Because the EITC population is low income we had certain preconceptions about their pc ownership and internet access. We readily acknowledge that our notion was primarily based on anecdotal information.

Participants also indicated they had computer access at the following locations (e.g., Other than Home):

- Work; (Dallas, Burlington, New Orleans,)
- Business Center at apartment; (Dallas)
- Library. (Dallas)

We also want to point out that not everyone was interested in using a pc - we had a few participants who do not have access to a home computer and have no desire to use one at an alternative location.

We generally do not include ‘numbers’ in focus group reports. However, we found the computer/Internet access information interesting enough that we thought it warranted reporting. This is qualitative data so the reader is reminded that results cannot be generalized to the population. We had 10 participants at each of the four focus group locations.

**Table 1: Home Computer/Internet Access**

	Home Computer	Internet Access
Dallas	7	7
Seattle	9	7
New Orleans	6	6
Burlington	7	7
Total	29	27

Source: 2005 Focus Groups (Project 1-05-12-3-018E)

The majority of comments about using the computer for customer service were positive. Following are typical positive comments that reflect the sentiment of the participants.

- “I go online to see what the IRS has changed for the upcoming year.” (Dallas)
- “Everything I want is online. No need to go anywhere else.” (Dallas)

- 
- “I can easily find what I am looking for.” (Dallas, New Orleans)
  - “Updates or “What’s New” page is really good.”
  - Print forms and booklet from website. (Dallas, Seattle, New Orleans, Burlington)
  - Check on status of tax refund. (New Orleans, Burlington)
  - “I like the .pdf that you can type in your information, save and print.” (Burlington)

Next, let us look at some other comments. These comments reflect a less successful experience finding the required information.

- “I couldn’t figure out which category to look under.” (Seattle)
- “Detailed issues can be more difficult.” and “(I) had a very specific question and could not find an answer.” (Seattle)
- “They list the forms but don’t tell you what it is for – an index would be useful.” (Seattle)
- “So much information, everything is there but it is a matter of finding.” and “Confusing because there is so much information.” (New Orleans)
- Navigation issues. (New Orleans, Burlington)
- “Terminology can get confusing.” (New Orleans)
- “A link may mention forms, but when you click on it, it is not the right form.” (New Orleans)

## **Electronic Filing**

When we were discussing computer customer service, the discussion led to quite a bit of feedback and information on Electronic filing. Because of this we felt it appropriate to create a separate section within the report that addresses the Electronic Filing issue.

Please note that issues involving Free File, Online filing, and Online Software were not clear to the participants. From their perspective it was difficult to differentiate because they saw no distinction between them (e.g., it did not matter to them). Although we attempted to discuss them individually that was not always possible for our participants.

### **Free File**

- “Would use again.” (Dallas)
- Negative comment regarding “it was not free. I tried it but it ended up where I would have to pay for it.” (Burlington)
- None used, all bought software (Burlington).

### **Online Filing**

We heard both positive and negative comments regarding Online filing.

#### Positive Comments:

- “Easier ... would use again.” (Dallas)
- “Would be willing to do taxes online but don’t know how it all works.” (Seattle)

#### Negative Comments and Concerns:

- Several participants in the Dallas group had trust concerns with online filing. (Dallas)
- Identity theft concerns were raised. (Dallas, Seattle)

- 
- Concerned about hackers getting information. (Seattle)
  - “Just not interested in it.” (New Orleans, Burlington)
  - “Cost” is a barrier. (New Orleans, Burlington)

### Online Software

- “Much cheaper than accountant.” (Seattle)
- “Found a lot of deductions” (that she did not know about). (Seattle)
- “Just goes through the questions, asks things I never even think about.” (New Orleans)
- “Asks you all of the necessary questions.” (Burlington)
- “Has been using for several years, feels very comfortable with it.” (Burlington)
- “Does pay for it but it is very low fee.” (Burlington)

### Phone

Based upon our participant’s experience the phone is not a heavily used avenue for customer service. None of the Dallas participants acknowledged use of the phone as a method of obtaining EITC customer service. At the other three sites we had some phone usage however many of the focus group participants indicated they *never* used the phone as a method of obtaining EITC Customer Service.

The following feedback is from those focus group participants (those that used the phone) regarding their experience with customer service via phone. We will present the comments as positive or negative.

#### Positive Comments:

- “Was very helpful.” (Seattle)
- “Moderate wait but I got the information needed.” (Seattle)
- “It is so much faster than searching around on the Internet. It is easy.” (Seattle)
- “...felt the assistor was knowledgeable. I felt better talking to someone; and it relieved stress knowing what was going to happen.” (Seattle)

#### Negative Comments:

- Long hold times, transfers. (New Orleans,)
  - “Forty-five minutes to an hour wait, then they pass you on to someone else...ended up getting a call drop.” (Seattle)
- Automated Routing System
  - “I don’t like the automated system (press 1 for xxx, press 2 for xxx, etc.)” (New Orleans,)
  - If you get someone to help you, they are helpful but going through all the routing is difficult. (New Orleans,)
- “It is a headache.” (New Orleans, Burlington)

In summary, we received mixed feedback (i.e., positive and negative) between the focus groups regarding their opinions on their phone customer service experience. The reader should keep in mind that this discussion was with a smaller group of participants because many of the participants (in all locations) did not use the phone as a method of obtaining customer service. Seattle participants were happy enough with it that they would use this method again. New Orleans participants said the phone was not their preferred method for EITC customer service. There was limited discussion in the Burlington focus group due to lack of using this method and there was no discussion in Dallas.

## Mail

- Tax instruction booklet received in the mail. (Seattle)
  - "... has worked for me so far." (Dallas)
  - Some participants received tax booklet in the mail. They also would like them to be available at the Post Office. (Dallas)
- Trust was raised as a positive in this discussion. "Feel mail is safer than online."
- Wrote IRS regarding an audit – received a timely response and matter was quickly resolved. (Seattle)

Other than receiving the tax booklet in the mail (which they like) there was little discussion on this method of EITC customer service. There was some mention of mail just taking too long. This was consistent in all four focus group locations.

## Other

- Family members are trusted sources of EITC information as shown by the following comments.
  - "My mother tells me. Most of the time she is right." (Dallas)
  - "My daughter helps me out." (Dallas)
  - "Mom showed me the first time but I have done it myself for years now." (Dallas)
  - "Uncle." (New Orleans)
- Friend

In summary, we found that the In Person EITC information needs varied among participants dependent upon if they used the services of a paid preparer versus those that prepared their own return. The participants who used a Paid Preparer relied primarily on their preparer as a means of meeting their EITC information needs. On the other hand the self preparers used a variety of In Person (i.e., face-to-face) resources to meet their EITC information needs. The self preparers go to IRS offices and volunteer sites (i.e., VITA) for customer service and go to their local library and post office to find tax instruction booklets.

Many of our participants successfully use the computer to meet their EITC information needs. They use the computer as a source of information, to obtain forms, and for online filing. Customer service via phone was not used at all by many participants and of those that had experience with phone customer service, some stated it was not their preferred method. Mail was primarily considered as a source of information (direct mailing of tax packages) and was not used as a method of obtaining customer service (because of the amount of time required for mail responses). Family and friends were also considered by a few as a source used to meet their information needs.

## Bank Accounts

Prior research has shown that the majority of EITC taxpayers receive a refund. We found this was true with our focus group participants – most of them acknowledged that they had received a refund. We were interested in discussing with our participants the method they chose to receive

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their refund (direct deposit versus a paper check), if they received a Refund Anticipation Loan (RAL) and their reason for selecting the method.

## Direct Deposit

About half of the participants said they obtained their IRS refund by direct deposit. Taxpayers who had used direct deposit had no negative comments about their experience. In addition to commenting on convenience and speed of direct deposit they also commented on direct deposit being safer than mail delivery. Following are some comments they provided as to why they chose Direct Deposit:

- “Saves a trip to the bank.” (Seattle)
- “(Before I used direct deposit) I found it difficult to get the check cashed.” (Seattle)
- “Comes in quickly, wonderful – I do it for speed and convenience.” (Burlington)
- “Don’t have to worry about getting it to the bank, or it getting stolen.” (Burlington)

Anecdotal data led us to believe that many EITC-eligible taxpayers would not have personal bank accounts. This was clearly not true for our focus group participants - we found that most of the participants had a bank account and many used Direct Deposit to receive their IRS refund check. Only a few were not aware that Direct Deposit was an option available to them. Following are some reasons participants provided for not choosing to have their IRS refund direct deposited.

- “I like to see the money.” (New Orleans, Burlington)
- “I am more comfortable seeing the check.” and “habit” (New Orleans, Burlington)
- “Old fashioned, likes to get the check and bring it to the bank.” (Burlington)
- “Went to preparer and didn’t have bank account numbers handy.” (Burlington)

## Refund Anticipation Loan

During our discussion on Refund Anticipation Loans (RALs) we encountered some confusion among participants. It became apparent that one participant did not realize she had entered into a RAL or paid a RAL fee. The participant who acknowledged receiving a paper check may have actually obtained a Refund Anticipation Loan (although she did not realize it). We believe this to be the case because the participant used a timeframe which indicated the check could not have originated from IRS (e.g., “I got my check the next day”).

Some other participants acknowledged paying a RAL fee but they were unsure of the RAL cost. These participants knew the amount of the check they received but they seemed ambivalent about the process and costs involved to get to the bottom line (the check amount). For these participants it seemed that the terminology for ‘refund’ and ‘check amount’ basically meant the same thing. The primary reason stated for obtaining a RAL was because they were in ‘dire straights’ (e.g., they were desperate). They believe the advantage of getting the money sooner far outweighed (i.e., was more important) the cost of the RAL. The range of RAL costs they experienced ran from \$35 up to \$400.

In the previous paragraph we discussed the viewpoint of participants that did not seem to mind the cost of the RAL. These were not the only viewpoints expressed - we also spoke to participants who had obtained a RAL and were very cognizant of its cost.

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The experience of participants divided them into two groups – those who would get a RAL and those that would not. We have captured some of their comments by these two subgroups.

- Would not do again. (Dallas, Seattle)
  - “You have to pay money to get money. It cost like \$200 – I can do other things with that (meaning the \$200).” (Dallas)
  - “Cost \$300 - \$400 – would not do it again.” (Seattle, New Orleans, Burlington)
  - “Usually get the refund in a few days anyway, don’t want to pay for it.” (New Orleans, Burlington)
- “Would do again” (Dallas)
  - “Money Now Loan.” (Dallas)
  - “Doesn’t bother me because I don’t see the money.”
  - “People do it because they really need the money.” (Burlington)

We asked the ‘would do again’ group what IRS would have to do to keep them from getting a RAL. Their response was that IRS would need to ‘set it up so they could get their money in a few days.’

#### Other RAL comments

- “Money is gone when others get their check.” (Dallas)
- “People don’t realize they are paying \$75, they want the money now.” (New Orleans)
- “(I) feel they are ripping off the people who can least afford (it) – the rich people don’t need the money that day.” (Burlington)

In summary, although we heard various viewpoints it seemed overall that participants who had familiarity with the RAL felt it was expensive and most indicated that they would not use it again or would use the RAL only as a last option.

#### Other interesting comments

- One of the participant’s return was audited. IRS sent her a form and told her what she needed to send in (i.e., return to IRS). She said it was, “a very easy process, very simple, but it took a while to get her money back.” We explored the amount of time she had to wait to receive her refund – it was six weeks and to her that was a *long time*.

#### Advanced EITC

We were interested in how many of the participants received the advanced EITC. None of the participants currently receive the advanced EITC and only a couple of them stated that they had previously received it. One stated she “did not like it and would not do again.” Her reason was that she prefers the ‘lump sum’ check.

Most of our participants were not even aware of advanced EITC. A few had heard of it or seen it mentioned in the Tax Booklet but were not clear on how it works. A couple indicated they would like to know more about it. We explained what the advanced EITC was and most flatly stated that they were not interested in it. There was some discussion and concern on how it

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would work if they had a change of income (i.e., lost their job). Some examples of their comments or group sentiment follow.

- They look forward to the ‘big’ refund. (Dallas, Seattle, New Orleans)
- Some look at the EITC Refund as a savings account. (Dallas, Seattle)
- If they had the money sooner, they would spend it. (Dallas)
- “(I) don’t need the government to budget money for me.” (Seattle)

A few liked the idea.

- Thought it would be helpful at Christmas, buying school things, etc. (Dallas)
- “(I) have been on both sides – need it now and better off waiting for a lump sum.” (New Orleans).
- It would be nice to spread the amount over 12 months.

At the opposite end, several participants expressed fear of receiving the advanced EITC.

- They do not want to receive too much and have to pay it back. (Dallas, Burlington)

In summary, most like receiving a lump sum and are not interested in receiving the advanced EITC.

### **Taxpayer Advocate Service**

We asked our participants if they had heard of the Taxpayer Advocate Service and most had not. One thought it was where they help you file your taxes. One participant that had used TAS expressed that he was ‘very happy’ with service TAS provided. He said that TAS subsequently sent him a letter thanking him and his reaction was “No, thank you. You got me my money.”

The unfamiliarity with TAS is probably not unexpected given that our participants had few problems. The few that had received correspondence from IRS were able to resolve the issue within normal IRS channels.

### **Last Comments/Other Issues**

At the conclusion of the focus group we gave participants an opportunity to express other comments/concerns. This is a last chance opportunity for them to say whatever is on their mind so sometimes the comments are a bit random.

- It is difficult to find the worksheet within the tax booklet. (Dallas)
- It is difficult to determine what amount from the return needs to be entered on the worksheet. (Dallas)
- Confusing terminology –Example, what does “under 17” mean? State more clearly, such as “Did you child turn 17 this year?” (Dallas)
- Most in New Orleans thought you must have children to be eligible for EITC.

Additionally, based on comments participants made, it was clear to the research staff that they were confused on the different rules between the various credits (Child Tax Credit, EITC, Additional Child Tax Credit, etc.).

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## Conclusions

Our focus group participants were selected because they are (or were thought to be) eligible for EITC. Their opinions reflect their experiences and may not be reflective of all EITC-eligible taxpayers.

Our primary objective was to determine the customer service needs of EITC taxpayers. Comparing the participants expectations and experiences, gives us a sense of how our participants *view* their customer service needs.<sup>12</sup> The focus groups addressed customer service needs as information needed to prepare their tax return and EITC eligibility determinations. Our findings paint a fairly positive picture of EITC customer's satisfaction with customer service. Participants offered a few suggestions that would make service better for them.

We conclude that our EITC focus group participants are satisfied with the information available to them. Their information needs are primarily met. They feel the IRS provides enough information for them. Overall, they indicated that they are able to find the information they need and are not experiencing any significant customer service problems. Although not acknowledged by participants, we note that some of their comments seem to indicate problems with knowledge of EITC or determining EITC eligibility.

An additional conclusion is that computer ownership in this group is not unusual. We found that computer ownership and internet was *common* among our participants. In addition to home use the participants indicated they have availability of computer access at alternate locations such as, work or public library.

Regarding the issue of determining EITC eligibility, none of the participants indicated this was a problem or even an issue for them. Overall, they stated that they do not have any concerns and are "happy with it."

The knowledge obtained during this project will enable the IRS to develop a survey instrument. The survey, which is to be administered in a subsequent project, response will assist in effectively measuring how well the IRS meets the needs and how the IRS can improve its service to this taxpayer segment.

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<sup>12</sup> Whether factual or not, the participant's opinion is their reality. We moderated the discussion and listened to what participants told us without interjecting our opinions or correcting their belief.

**Approval (Signature Page)**

This draft report has not yet been approved by the Director of W&I Research.

/s/ Stan Griffin

10/18/05

Stan Griffin, Chief Customer Research  
W&I Research Group 6

Date

/s/ Eric J. Larsen

10/25/05

Howard W. McMillan  
Director of Research, Wage and Investment Division

Date

## **Appendices**

## Appendix A – Screener’s Guide



Screener only (no demographic sheet).c

## Appendix B – Moderator’s Guide



Moderator Guide  
May 17.doc

## **Appendix C – Recruitment Letter and Reply Form**



Recruitment  
Solicitation Letter.doc



Reply Form  
052505.doc

## Appendix D – Demographic Sheet



Demographic Sheet  
(for Screener's Guide)

## **Appendix E – Reminder Letter**



Reminder Letter.doc

## Appendix F – Selection of Participants and Burden Hours

As appropriate with focus groups, the participants were not chosen using probability sampling. Thus, the information gleaned from the participants can not be projected to the population of taxpayers represented by the focus group participants.<sup>13</sup>

The population from which focus group participants were selected included EITC-eligible taxpayers (see Appendix G – Sample Design for further information). The screener and demographic sheet, found in Appendix A and Appendix D, provided the recruiters with the characteristics for each focus group. The screener guide consists of a series of discrete questions structured so that “unqualified” respondents are eliminated as quickly as possible. After a prospective respondent has replied to all the questions, without being eliminated, all that remains is securing two hours of his/her time.<sup>14</sup> Careful screening of participants was essential for the success of the focus group sessions. Detailed discussions and several conference calls were held to ensure recruiters were consistent in their recruiting approaches.

**Table 2: Composition of Focus Groups**

Sex		Self vs. Paid		Refund vs. Balance Due		EITC	
Male	14	Paid Preparer	18	Refund	38	EITC Claimed	29
Female	26	Self Prepared	22	Balance Due	2	Did Not Claim EITC	9
Total	40	Total	40	Total	40	Unsure if Claimed EITC	2
						Total	40

Source: 2005 Focus Groups (Project 1-05-12-3-018E)

As is normal for focus groups because of the ‘no-show’ rate, we over-recruited so that we would have 10 participants in each group. Our recruitment effort was successful (4.2 percent). Table 3: Focus Group Recruitment provides the recruitment information for each city in addition to the total. We conducted all four focus groups with 10 participants. Thus, the groups were large enough to stimulate relatively spontaneous interaction and yet small enough to allow everyone an opportunity to speak.<sup>15</sup> We also did not experience the usual ‘no-show’ rate – most of the recruited participants actually showed up so we had over-recruits at all four cities. The nine excess participants were thanked, paid, and released from their commitment to participate in the focus group.

<sup>13</sup> Morgan, D.L., *Focus Groups as Qualitative Research: Qualitative Research Methods* (Vol. 16), Sage Publications, Newbury, Park, California, 1988, page 46.

<sup>14</sup> Templeton, J.F., *The Focus Group: A Strategic Guide to Organizing, Conducting and Analyzing the Focus Group Interview* (revised ed.), Probus Publishing Company, Chicago, Illinois, 1994, page 17.

<sup>15</sup> *Ibid.*, page 27.

**Table 3: Focus Group Recruitment**

Dates of Data Collection	Location	Focus Group					
		Calls Attempts*	Attempts (Screened)	Recruits	Number that showed	Participants	Over-Recruits
July 19, 2005	Dallas	67	17	15	15	10	5
July 21, 2005	Seattle	65	18	14	13	10	3
July 26, 2005	New Orleans	109	29	15	10	10	0
July 28, 2005	Burlington	25	15	12	11	10	1
<b>Total</b>		<b>281</b>	<b>79</b>	<b>56</b>	<b>49</b>	<b>40</b>	<b>9</b>

Source: 2005 Focus Groups (Project 1-05-12-3-018E)

\*'Calls Attempts' are an effort to capture the number of phone calls made. This number is an estimate. Frequently we were unable to reach the taxpayer and many calls were made. This number includes multiple phone calls made to the same number, no answer, voice mail/answering machine, and speaking to someone else at the phone number (taxpayer not at home), etc. before we got to the 'screening' stage.

### Original Estimate of Burden Hours

Conducting this project was a 'ground breaking' experience. As each step in the project was developed, we had to figure out *how* to accomplish it within available resource limitations. Usually focus group recruitment is handled by a vendor who conducts the recruitment process via phone solicitation. We based our estimate of burden on prior research projects (that was all we had to rely on). We had no prior experience because we were trying something new.

We estimated that the project would require screening time of 146 hours and an additional 150 hours for focus group participation (including travel time). Our total estimated burden was 296 hours.

### Actual Burden Hours

Two hundred fifty-two (252) taxpayers responded to our recruitment. Although we asked them to contact us by phone, mail, *or* email if they were interested in volunteering to participate in the focus group discussion some of them responded by multiple methods (e.g., phone and mail and email) and some of them responded multiple times.

We were amazed by the response we received. The research team called taxpayers back by phone and screened them. Once the groups were full the screening process stopped. Some of the taxpayers were reached by phone to let them know the groups were full and to thank them for volunteering to participate. Due to the volume of responses (and our limited resources) this process was subsequently abandoned. A letter was sent out to all taxpayers that responded to our recruitment letter that were not selected to participate. A copy of this letter is provided in Appendix I.

### Screening Burden

Number of taxpayers responding to recruitment letter (phone, mail, email) times = 252 X 1 minute = 252 minutes (approximately 4 hours)

Taxpayers we spoke to 79 X 5 minutes = 395 minutes (approximately 7 hours)

Screening Burden time:

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For participation in the focus group interviews, the burden time was about three hours per participant. The aggregate burden time for 40 participants was 120 hours. For ‘over-recruits’ the burden time was about one hour per person. Thus, the aggregate burden time for ‘over-recruits’ was 9 hours. The total burden time for both groups was 129 hours.

The combined burden time for this project was approximately 140 hours.

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## Appendix G – Sample Design

We wanted to include a diverse mix of our population, including taxpayers that self prepare and those who use a paid preparer, based on the following three aspects:

- 1) EITC taxpayers from a range (high EITC participation to low EITC participation) of areas.
- 2) From varied geographical sections of the country.
- 3) Where there is a LITC site.

EITC Participation Estimates from a prior W&I Research Project (1-03-02-3-115E) were used to provide state and Metropolitan Statistical Area (MSA) EITC participation rates. This data ranked the states and MSAs from highest EITC participation rate to lowest EITC participation rate. We selected our states using this data to determine:

- The five states with the highest taxpayer EITC participation;
- The five states falling in the mid range of taxpayer EITC participation; and
- The five states with the lowest taxpayer EITC participation.

Once the states were identified we next looked at the geographical location and where there were LITC sites.<sup>16</sup> We wanted to cover a diversity of locations throughout the United States but we knew we also were limited to sites where LITC facilities were available (not all states have LITC sites).

From the above data we divided the United States into four sections (Southeast, West, Midwest, and Northeast). Next we selected from each of the four sections of the country five cities with LITC sites in them. The five cities were ranked based on their state's EITC participation rate. This 'potential' list was sent to the LITC director for approval and selection of the LITC sites that would agree to partner with us and host the focus groups.

The LITC director subsequently notified us that our first choice city in each of the four sections of the country was approved.

### Recruitment Efforts:

The EITC Database on the Compliance Data Warehouse (CDW) was utilized to select taxpayers that:

- Either claimed EITC when they filed their 2003 federal income tax return (per return as filed) or were sent a CP 09 or CP 27<sup>17</sup> notice by IRS telling them they may be entitled to the credit, and
- Had a Zip Code address close to the selected LITC focus group site. Our definition of close was a Zip Code address within 15 miles of the LITC.

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<sup>16</sup> We were limited to cities where LITC had sites. EITC taxpayers are located throughout the U.S. LITC are in many parts of the country so although we had to choose cities where there were sites it was not a research limitation.

<sup>17</sup> These are IRS notices that inform the taxpayer of possible eligibility for the EITC. CP 09 is sent to taxpayers with children and CP 27 is sent to taxpayers without children.

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- Taxpayers claiming either Married Filing Separately or Qualifying Widow(er) as their filing status were screened out (due to their ineligibility and the small number claiming either of those filing statuses).

A random list of 1500 taxpayers was selected for each focus group site.<sup>18</sup> Based on our screening experience, we believed approximately 1.5 percent of mail recipients would ultimately meet our screening criteria and agree to participate. TAS was responsible for the print contract.

- A letter was used to recruit taxpayers to participate in the focus groups. The letter asked interested taxpayers to call, email, or mail to advise us of their interest in participating in one of the discussion groups (see Reply Form which is part of Appendix C. TAS was responsible to arrange for a toll-free telephone number and an email address for interested participants to respond to the recruitment letter. The toll-free phone line accepted messages and asked callers to leave a message providing specific information.
- TAS and W&I research employees screened the taxpayers who responded to the recruitment letter. A demographic sheet (Appendix D) and the Screener's Guide (Appendix A) were used to qualify and select focus group participants.
- Methods to Maximize Response Rate
  - A reminder letter and directions to the LITC site were mailed to participants prior to the interview date (Appendix E).
  - TAS was responsible for working with procurement to develop procedures to pay participants at the conclusion of the focus group.

The interviews gathered qualitative data only that was not, nor presented to be, representative of the population.

### **Data Needs - Description of Data and Data Sources**

We used the EITC Database on the CDW for tax year 2003 to identify taxpayers that had mailing Zip Codes located near the selected LITC site location.<sup>19</sup> A description of the variables is provided in Appendix H.

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<sup>18</sup> The OMB package stated that we would conduct a total of five focus groups in four cities (two in one city). This changed due to budget limitations for the stipend fee – we conducted a total of four focus groups (one in each city).

<sup>19</sup> Our definition of 'near' is the same as 'close' - a Zip Code address that was 15 miles or less from the selected LITC focus group site.

## Appendix H – Description of Variables

Using the Tax Year 2003 EITC Database on CDW via SAS, W&I Research Group 1 identified taxpayers that claimed EITC and had a mailing address Zip Code 15 miles or less from the selected LITC site locations. W&I Research Group 1 is not aware of any limitations on the Tax Year 2003 EITC Database.

**Table 4: Description of Variables**

Variable Name	Description
agic	Adjusted Gross Income Amount per Computer
city	City
eicc	EIC Amount per Computer
icdepen	Number of Qualifying EIC Dependents
eicei	EIC Eligibility Indicator (CP09/CP27)
fsc	Filing Status Code
name_in1	First Name Line
name_in2	Second Name Line
prepcode	Preparer Code
prepein	Preparer EIN
prepssn	Preparer SSN
pri_dob	Primary Taxpayer Date of Birth
prissn	Primary SSN
secssn	Spouse SSN
state	State
street	Street Address
tc420	TC420 Audit Indicator
zipcd5	Zip Code

Source: Tax Year 2003 EITC Database

**Appendix I – Thank You Letter**

The following text was used in a Thank You Letter that TAS sent out to taxpayers that responded to our recruitment letter and who were not selected to participate because the groups were already full. We received 252 responses for the four focus groups so the groups filled up quickly.

Thank you for offering to join our discussion group about the Earned Income Tax Credit. We appreciate your interest in helping us.

We received many volunteers to attend our discussion. Unfortunately, the group has room for only a small number of people. We regret that we do not have room for you to attend this group. We may contact you again if we conduct studies of this type at a later date.

**Appendix J – Abstract**

This report provides research requested by Taxpayer Advocate Service (TAS). TAS is responsible for assisting taxpayers with problems they experience in dealing with IRS. A large number of TAS cases (or TAS customers) are EITC taxpayers. TAS requested that we conduct focus groups of EITC-eligible taxpayers to determine their customer service needs. This information is important to TAS and is an important step in helping the Internal Revenue Service identify customer needs and understand customer expectations.

W&I Research Group 6 (formerly Group 1 – Austin, Texas) and Research Group 4 (formerly Group 1 – St. Louis, Missouri) worked with TAS to complete this research.

The study consisted of conducting four focus groups with EITC-eligible taxpayers and analysis of the participants' feedback. The four focus groups were held with EITC-eligible taxpayers in Dallas, TX; Seattle, WA; New Orleans, LA; and Burlington, VT in July 2005.

Keywords List: "TAS," "EITC," "EITC-eligible," "W&I," Customer Service, Focus Group.