

# Part Tax Year 2002



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## Research

### W&I Research Group 5

# Research Project Objectives

- \* Answer baseline questions relating to the four major *e-file* market segments and
- \* Investigate and present new data available in the six-year relational database of TY 1997, 1998, 1999, 2000 2001, and 2002 returns (PY 1998, 1999, 2000, 2001, 2002, and 2003).





# Baseline Questions for PY 2003

(EXCEL spreadsheets only)

- # A) descriptive statistics of the four market segments.
- # B) profiles of taxpayers using each filing method (On-Line, ELF, TeleFile, and paper) within each market segment.
- # C) repeat rates and intermodal migration rates for paper, ELF, TeleFile, and On-Line returns between TY 2002 and PY 2003 including SPEC territory.
- # D) number and percentage of computer usage (e-file, and V-code) for return preparation in each of the market segments.

# Single Question for PY 2003

(written report)

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## # A single research topic developed and agreed to by ETA and Research Group 5:

An analysis of the filing population identified in the PY 2001 part year report as “consistent filers” (taxpayers that have consistently filed individual tax returns for each of the last six years (TY 1997-TY 2002)).



# TY 2002 Questions Covered in This Presentation

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- # **General market segment data**
- # **Repeat rates and intermodal migration**
- # **e-file and V-code return preparation**
- # **Consistent filers**
  - **General profile of consistent filers**
  - **Six-year filing patterns of consistent filers**
  - **Filing product and preparer loyalty**

# Primary Data Source

- # All individual income tax returns filed for tax year 2002
- # Processed through June 28, 2003 (cycle 200326)
- # Certain variables from the TRDB and TeleFile mailing list were added to the IRTF
- # Includes over 118 million returns

**PLUS**



# Primary Data Source (continued)

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✓ **Five years of tax data  
in a relational  
database that  
includes:**

all individual income tax  
returns filed for tax years  
1997, 1998, 1999, 2000, and  
2001



# Market Segment Definitions

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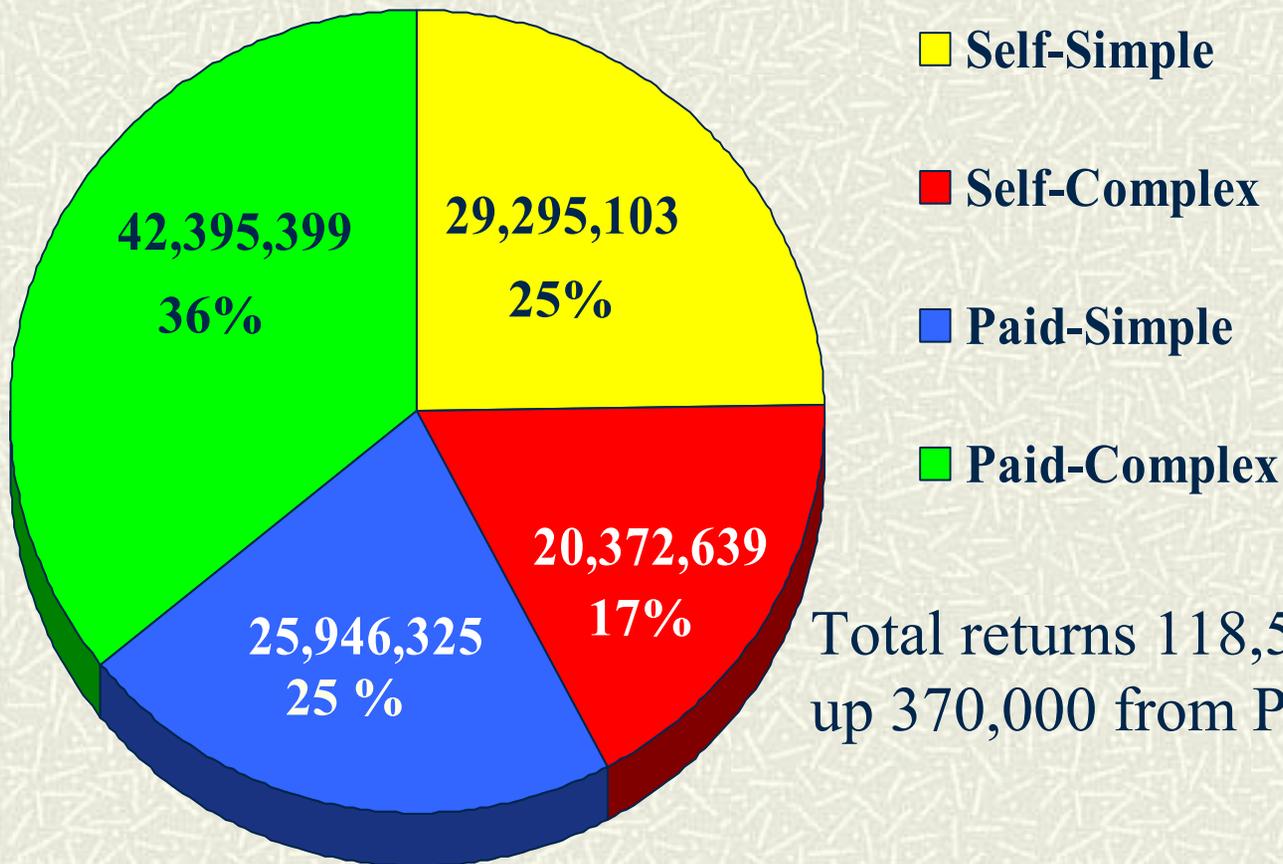
- # **Self-prepared return - there was no paid-preparer identification number on the return**
- # **Paid-preparer return - there was a paid-preparer identification number on the return**
- # **Simple return -**
  - Form 1040EZ or Form 1040A
  - Form 1040 with no schedules
- # **Complex return - all returns that do not meet the definition of a simple return**

# Four *e-file* Market Segments

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- # **Self-prepared Simple Returns  
(Self-Simple)**
- # **Self-prepared Complex Returns  
(Self-Complex)**
- # **Paid-preparer Simple Returns  
(Paid-Simple)**
- # **Paid-preparer Complex Returns  
(Paid-Complex)**

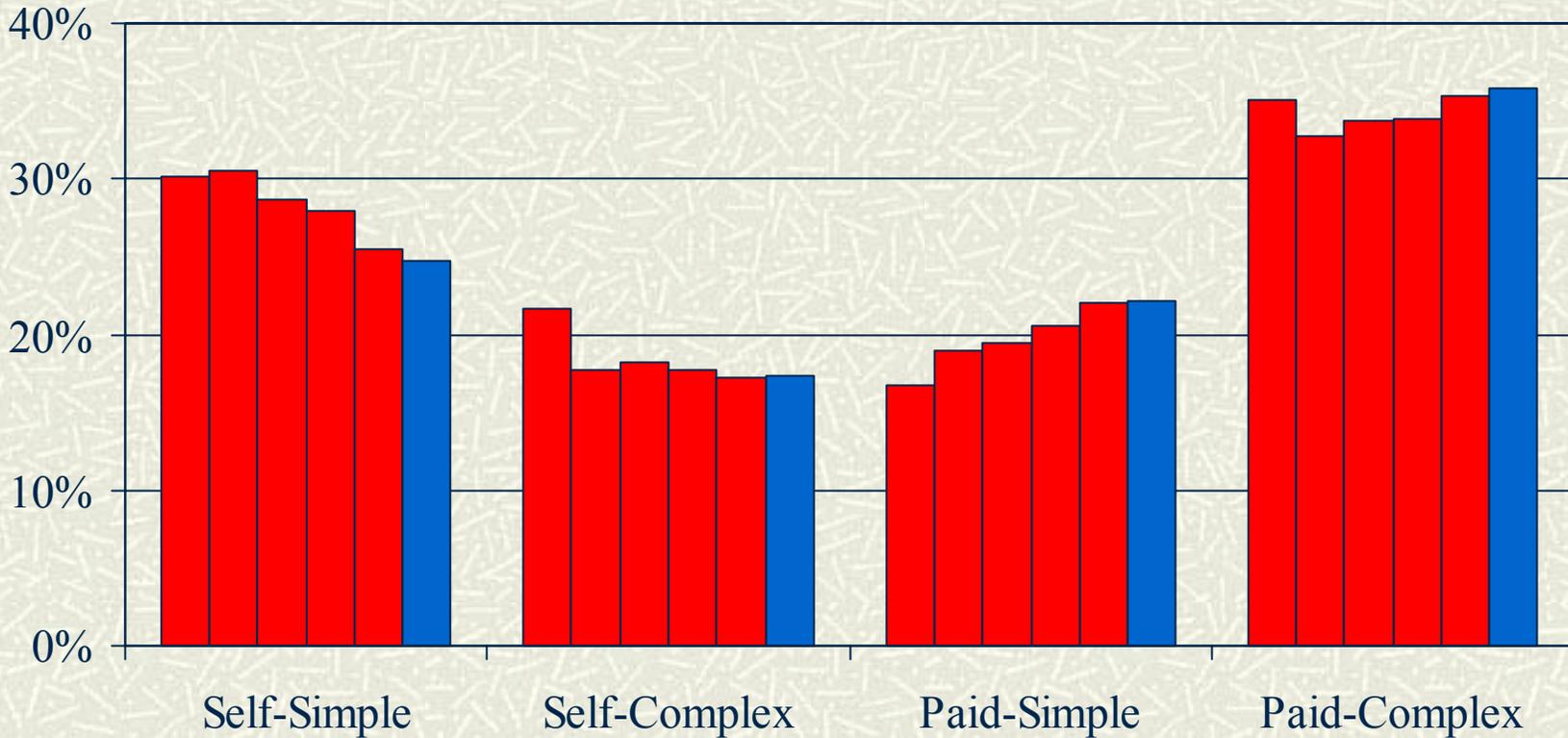
# The Four Principal Market Segments in TY 2002



Total returns 118,554,943-  
up 370,000 from PY2002

# Percentage of Returns by Market Segment for TY 1997 through TY 2002

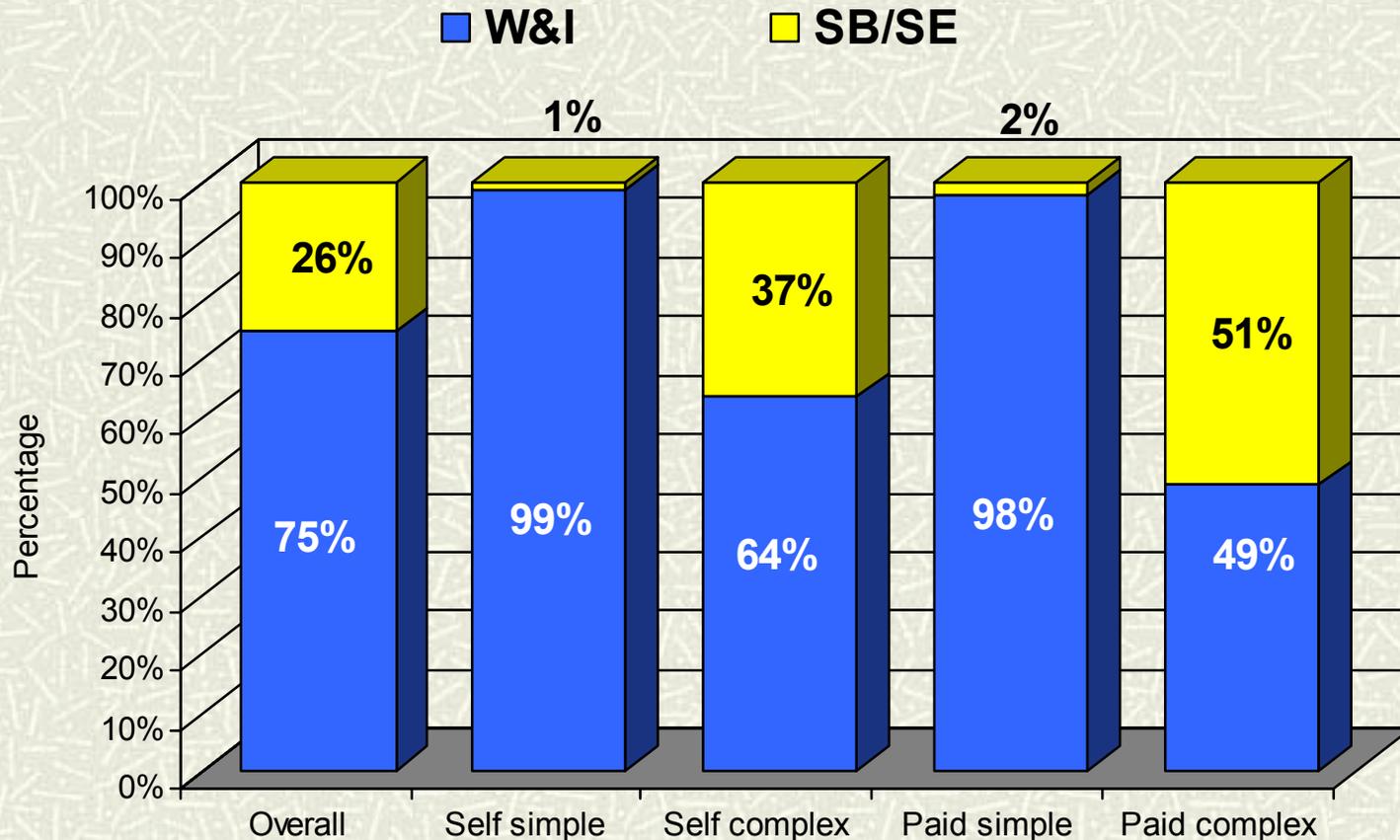
(Years shown left to right)



**The self-simple segment continues to decline and the paid-simple segment continues to increase.**

# Business Operating Divisions

- The number of returns filed in TY 2002 increased by 370,000 with the number of SB/SE returns growing by nearly 4%, or 1.1 million returns.
- The number of W&I returns decreased by 729,000 returns.



# Percentage of Returns by New Taxpayer Age Ranges

Age	Self-simple	Self-complex	Paid-simple	Paid-complex	Total
Under 18	9.7	0.9	6.8	1.0	4.4
18-25	30.6	7.9	25.7	7.7	17.4
26-35	18.3	21.5	19.8	19.0	19.4
36-45	14.6	26.9	16.0	24.0	20.4
46-55	11.4	23.0	11.1	21.1	16.8
56-64	6.2	10.6	7.2	12.3	9.4
65 plus	9.2	9.1	13.5	14.9	12.2



# Percentage of Returns by New AGI Ranges

AGI	Self-simple	Self-complex	Paid-simple	Paid-complex	Total
Negative AGI	0.4	0.5	1.2	1.3	0.9
0-\$16,999	48.5	16.3	45.2	20.6	32.2
\$17,000-\$24,999	16.0	7.8	18.4	10.2	13.0
\$25,000-\$34,999	14.5	10.1	14.7	11.1	12.6
\$35,000-\$49,999	11.8	14.5	11.9	14.2	13.1
\$50,000-\$74,999	7.0	21.5	6.8	18.7	13.6
\$75,000-\$99,999	0.5	14.4	1.3	10.6	6.9
\$100,000 plus	1.4	14.9	0.4	13.3	7.6

# TeleFile TY 2002

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**Due to missing variables we could not complete an analysis of TeleFile qualification as provided in prior reports.**

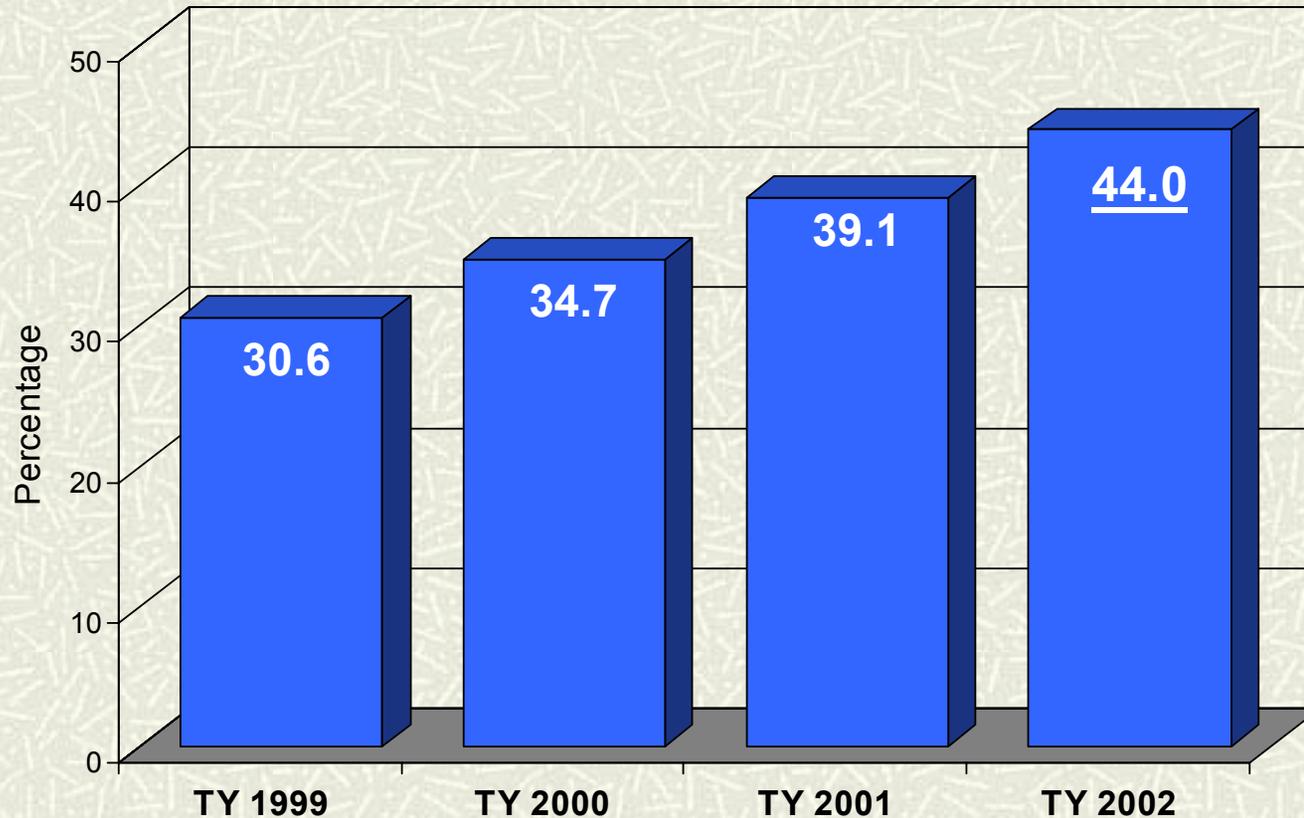
# Electronic Filing in Tax Year 2002



- # *e-file*, hand-prepared paper and V-code return preparation by market segment



# Overall Use of Electronic Filing TY 1999 to TY 2002\*



\*Through cycle 200326



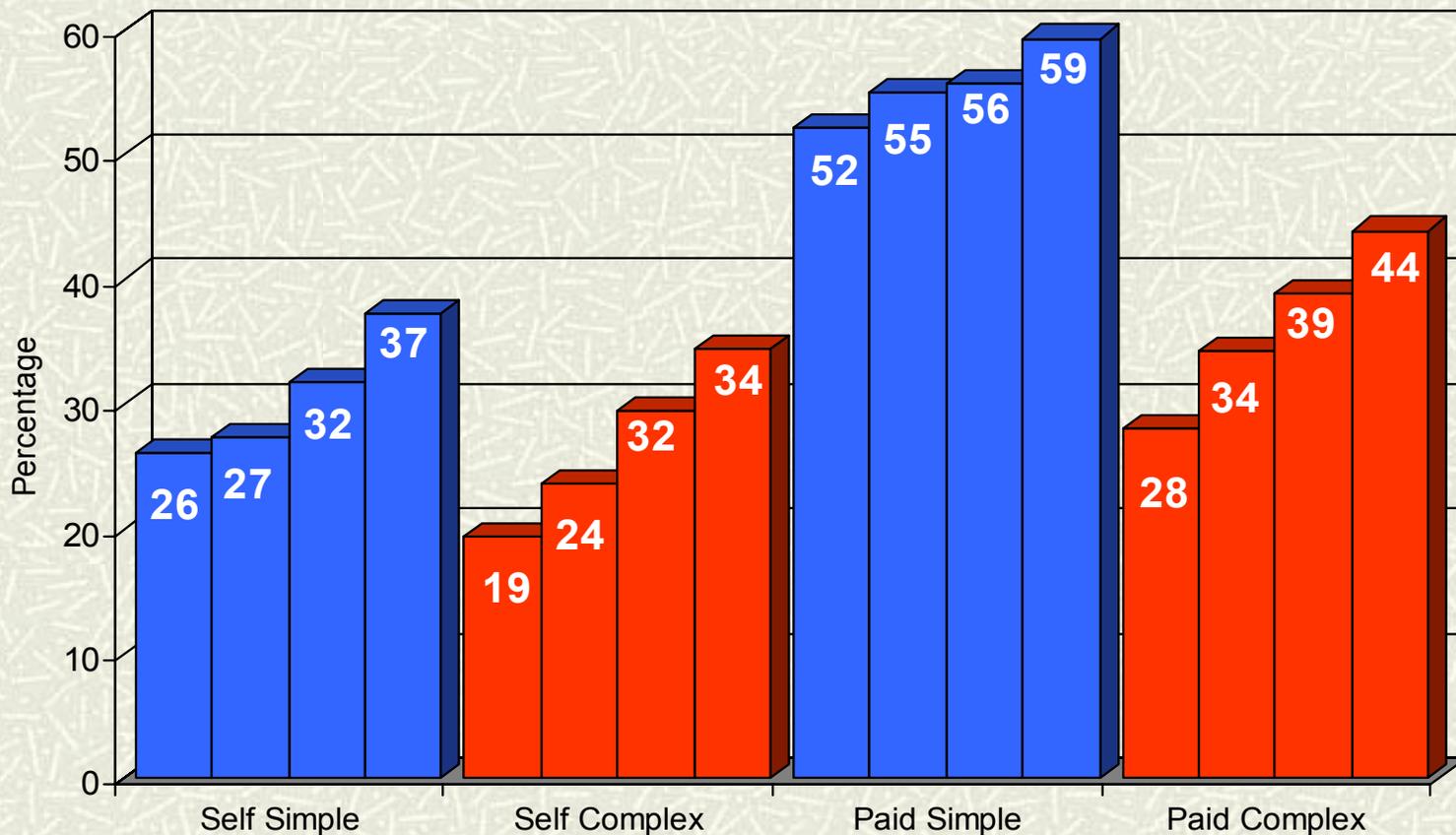
# The *e-file* Penetration Rate Increased to 44%

Method of filing	Processing year					
	1999	2000	2001	2002	Change 1999 to 2002	Change 2001 to 2002
<b>Electronic returns</b>	<b>31%</b>	<b>35%</b>	<b>39%</b>	<b>44%</b>	<b>42%</b>	<b>13%</b>
• ELF	22%	25%	28%	31%	41%	11%
• TeleFile	5%	4%	4%	3%	-40%	-25%
• On-Line	4%	6%	8%	10%	<b>150%</b>	<b>25%</b>
<b>Paper returns</b>	<b>69%</b>	<b>65%</b>	<b>61%</b>	<b>56%</b>	<b>-19%</b>	<b>-8%</b>
<b>Total returns</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

There were still over 66 million paper returns filed in PY 2003

# Use of Electronic Filing by Market Segment

Tax years 1999 to 2002, shown left to right





# Electronic Filing by Market Segment

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**The paid-simple segment continued to have the largest overall percentage of electronic filed returns (59.3%) up 3 percentage points from TY 2001.**

**While the percentage of electronic filing in the the paid-complex segment equaled the overall percentage at 44%, the paid-complex segment still filed nearly 23.8 million paper returns in TY2002.**



# Every Market Segment Experienced Growth in *e-file* from TY 2001 to TY 2002

Market segment	TY 2000			TY 2001			TY2002 Percent growth
	Returns	<i>e-file</i>	Percent	Returns	<i>e-file</i>	Percent	
Self-simple	30,143,063	9,556,294	32%	29,295,103	10,888,274	37%	16%
Self-complex	20,372,639	6,015,98	30%	20,686,803	7,124,727	34%	13%
Paid-simple	25,946,325	14,445,096	56%	26,177,638	15,526,488	59%	5%
Paid-complex	41,722,873	16,192,536	39%	42,395,399	18,627,029	44%	13%
Total	118,184,900	46,209,914	39%	118,554,943	52,166,518	44%	13%

**But at a lesser rate than TY 2001**



# Only the Paid-simple Segment Increased the Rate of Electronic Filing from TY2001

Market segment	TY 2001 rate of growth	TY 2002 rate of growth	Change
Self-simple	19%	16%	-3
Self-complex	25%	13%	-12
Paid-simple	2%	5%	<u>3</u>
Paid-complex	15%	13%	-2
Total	11%	13%	2



# The Growth of Electronic Filing by Market Segment, TY 1999 – TY 2001

## Percentage of electronic returns filed

Market segment	TY 1999	TY 2000	TY 2001	TY 2002	%Growth	
					4 yr	1 yr
Self Simple	26	27	32	37	42	16
Self Complex	19	24	30	34	79	13
Paid Simple	52	55	56	59	<u>13</u>	<u>5</u>
Paid Complex	28	34	39	44	57	13
Overall	31	34	39	44	42	13



# The Slowing Growth of Electronic Filing

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- **The 4 year rate of growth within all segments but the self- simple has slowed compared to the previous four year comparison (after removing the TY 1998 data).**
- **As noted in our prior presentation, the paid-simple return segment appears to be reaching the “saturation” point with only a 5% increase from TY2001 to TY2002.**

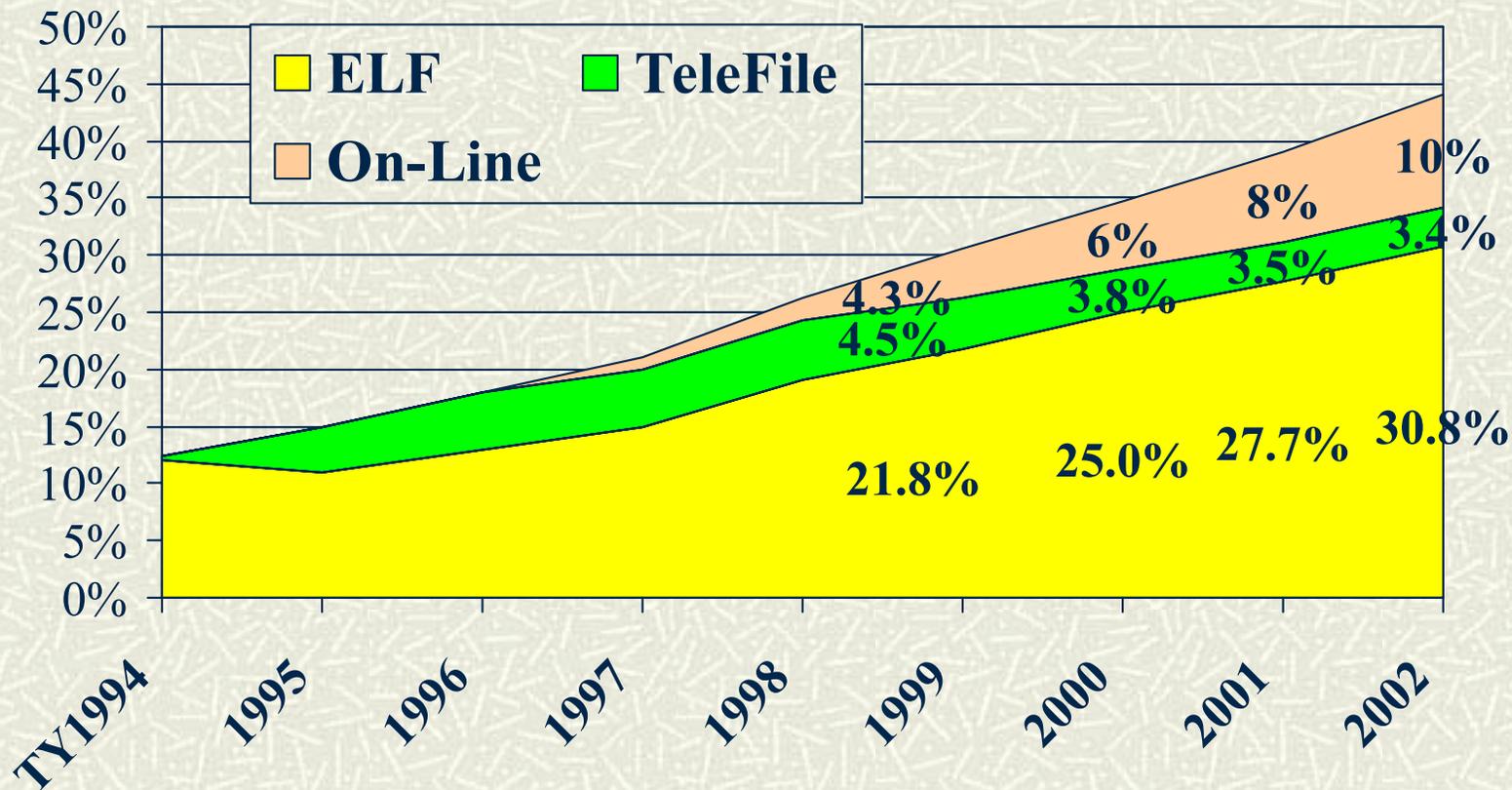


# Electronic Filing by Operating Division

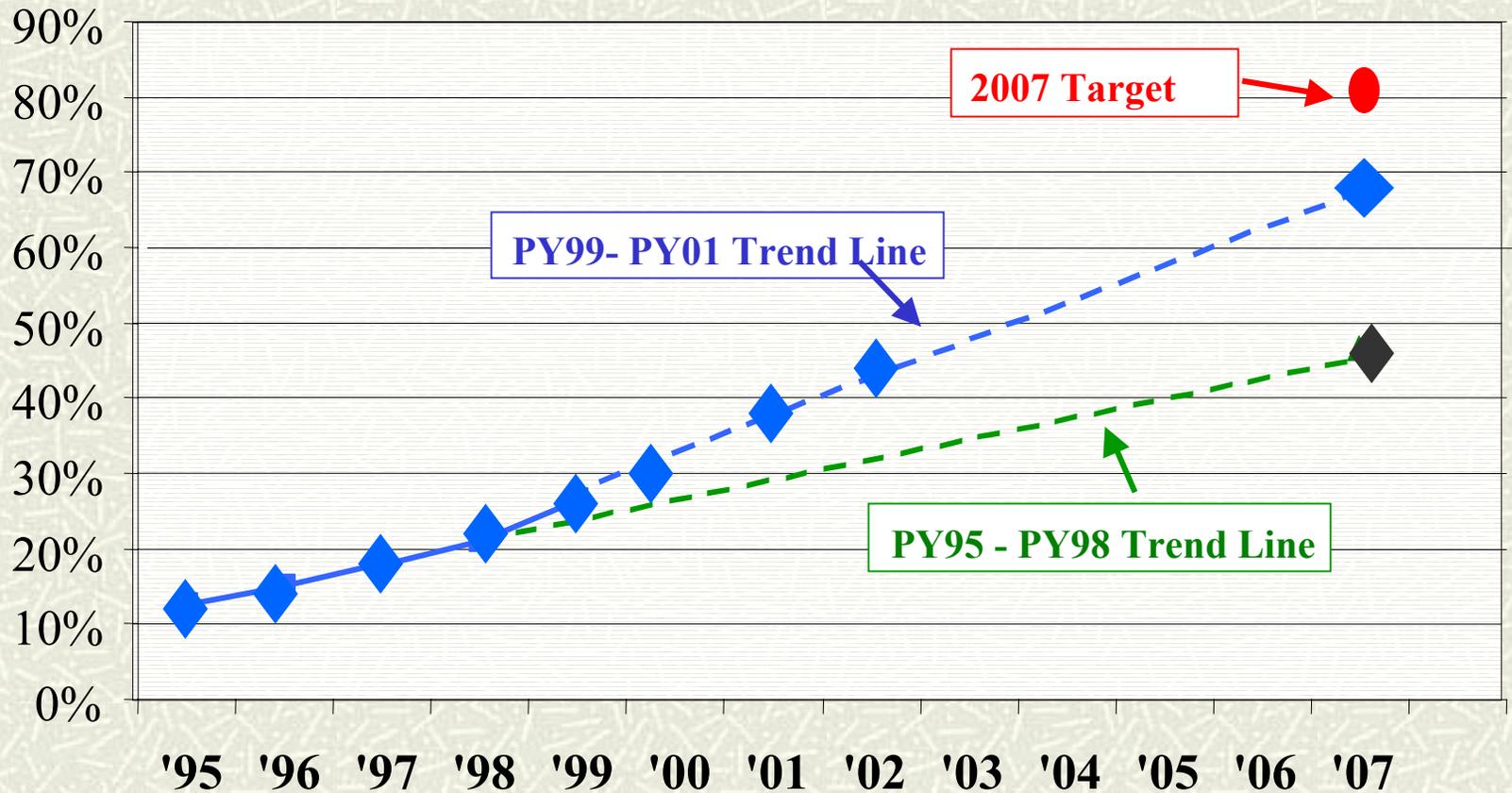
Although *e-file* returns remain disproportionately represented in W&I (80%) the percentage is slightly lower for TY 2002 continuing a three year trend.

	Wage and Investment	Small Business/Self-employed	Total populations
<b>e-file Population</b>	<b>41,700,462</b>	<b>10,466,056</b>	<b>52,166,518</b>
<b>Percentage TY2002</b>	<b>80%</b>	<b>20%</b>	<b>100%</b>
Prior percentage	82%	18%	100%
<b>Total population</b>	<b>88,267,367</b>	<b>30,287,576</b>	<b>118,554,943</b>
<b>Percentage TY2001</b>	<b>74.5%</b>	<b>25.5%</b>	<b>100%</b>
Prior percentage	75%	25%	100%

# On-Line and ELF filing continue to increase

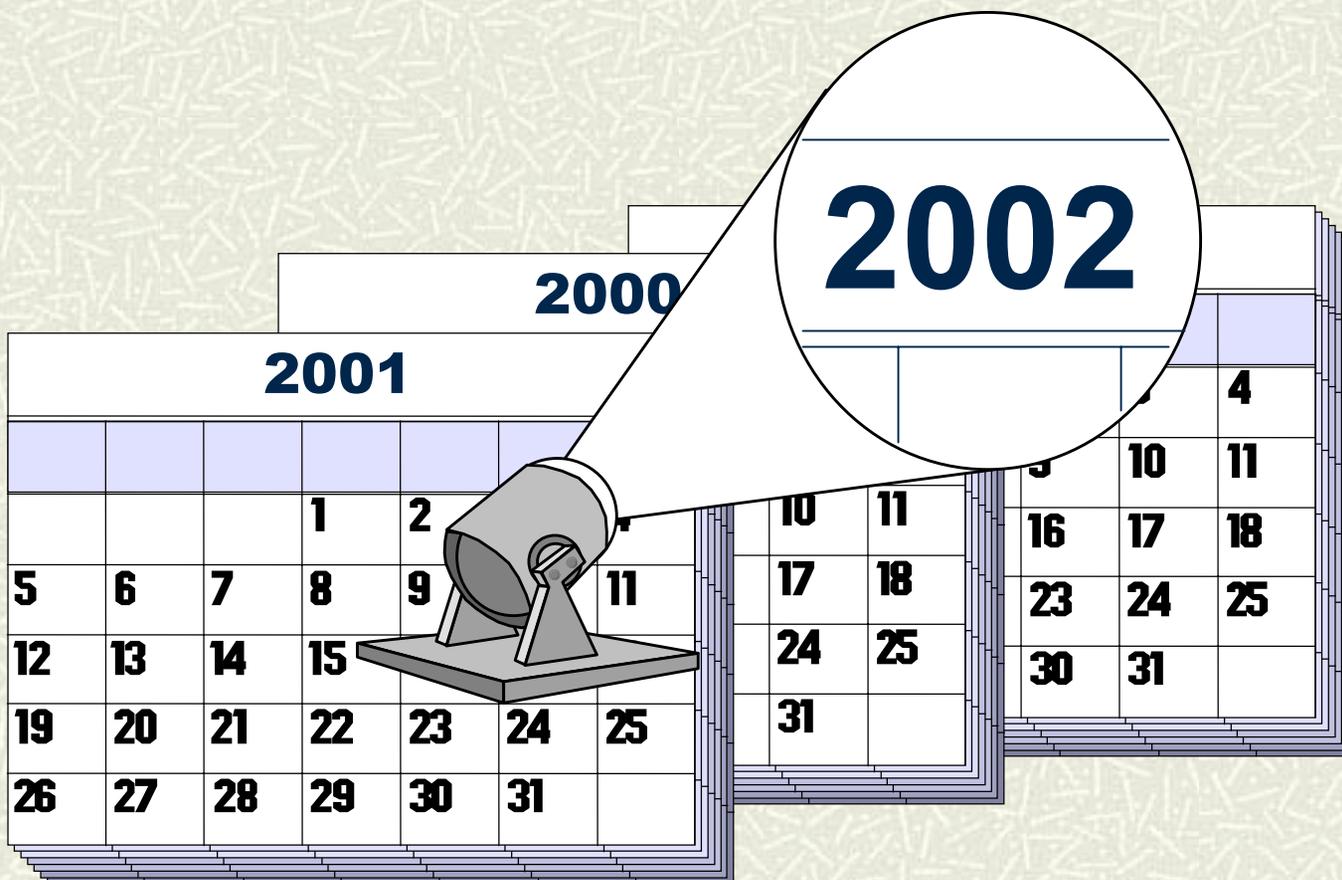


# The *e-file* penetration growth rate increased significantly in TY 1999 but may be flattening out in TY 2002



and is still insufficient to meet the 2007 target.

# Repeat Rates and Inter-modal Migration Rates for *e-file* Methods?



# Loyalty Rates-Look Forward or Look Backward?

Taxpayer	1	2	3	4	5	6	7	8	9	10	11	12
TY 2001	ELF	ELF	None	ELF	Paper	Paper	ELF	Paper	Paper	ELF	Paper	None
TY 2002	ELF	Paper	Paper	ELF	None	ELF	ELF	Paper	Paper	Paper	None	ELF

## Looking back TY2002 to TY2001

ELF: 3 of 4 equals 75% loyalty

Paper: 2 of 4 equals 50% loyalty

## Looking forward TY2001 to TY2002

ELF: 3 of 5 equals 60% loyalty

Paper: 2 of 3 equals 67% loyalty

# Advantages of the Two Methods of Determining Loyalty Rates

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## # Look Backwards

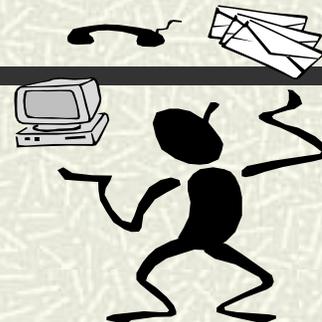
- Only one file needed.
- Quick to do.

## # Look Forward

- More realistic.
- More like private industry.

**We recommend adopting the look forward approach for future reports and projects.**

# Traditional *e-file* Repeat Rates



Looking back from current year

Filing Method	Computed from 2002 to		
	2001	2000	1999
Paper	82.1%	74.9%	70.8%
ELF	84.0%	78.9%	75.0%
TeleFile	66.3%	49.0%	36.7%
On-Line	75.5%	70.2%	66.0%

# *e-file* Repeat Rates TY2002



Looking forward from previous year

Filing Method	Computed from base year to 2002		
	2001	2000	1999
Paper	68.4%	60.1%	55.5%
ELF	75.3%	67.3%	61.9%
TeleFile	60.4%	42.6%	30.4%
On-Line	68.5%	61.7%	56.9%

# Comparison of Repeat Rates TY 2001 to TY 2002



Filing Method	2002	2001
	Backward	Forward
Paper	82.1%	68.4%
ELF	84.0%	75.3%
TeleFile	66.3%	60.4%
On-Line	75.5%	68.5%
Total returns	118,554,943	126,961,344
Non-filers	8,177,255	18,352,395

# Repeat Rate by Market Segment

## Looking Back TY 2002 to TY 2001

Market segment	Paper	ELF	On-Line	TeleFile
Self Simple	81%	28%	<u>78%</u>	<u>77%</u>
Self Complex	87%	<u>41%</u>	88%	
Paid Simple	74%	93%		
Paid Complex	84%	91%		

Self-simple On-Line and TeleFile up 2 percentage points.

Self-complex ELF was down 3 percentage points from PY2002.

# Repeat Rate by Market Segment

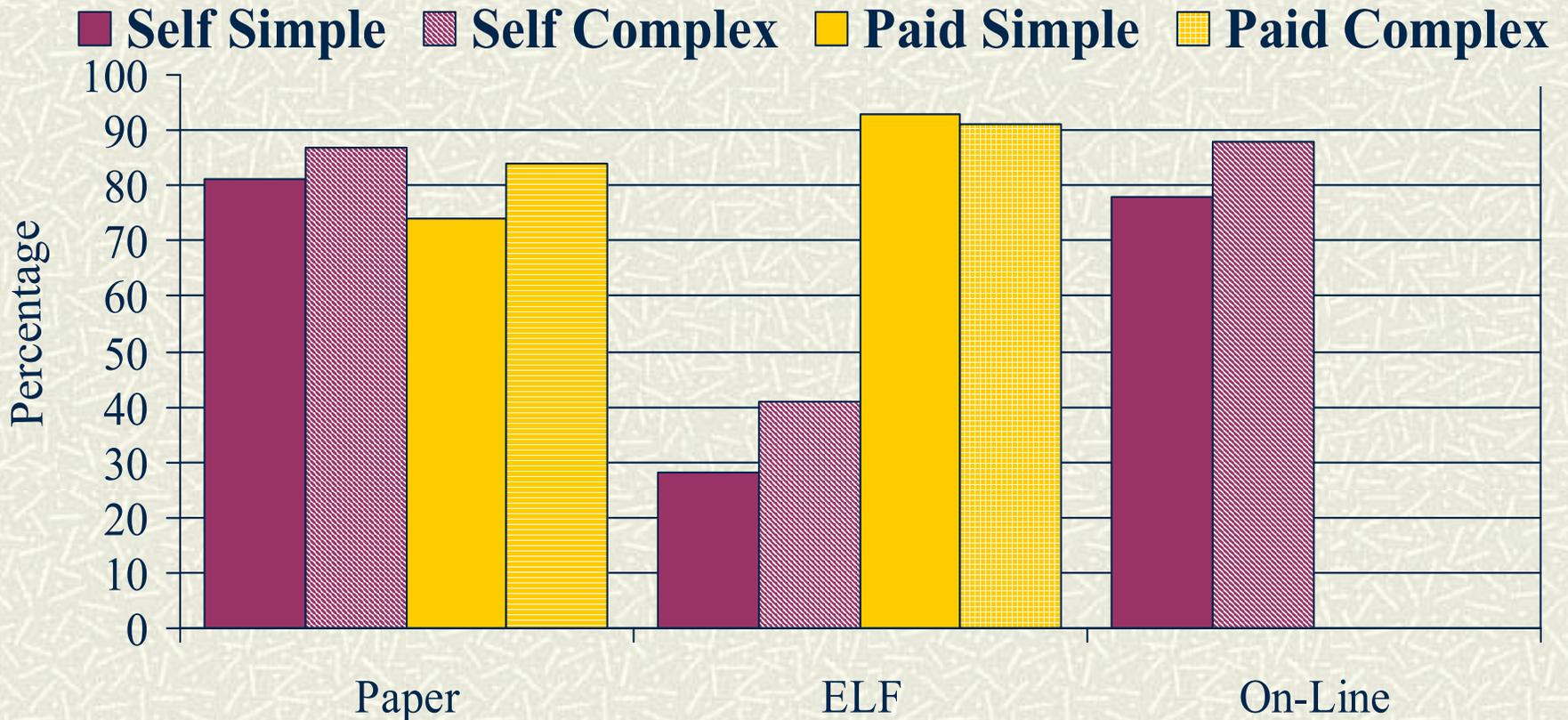
## Looking Forward TY 2001 to TY 2002

Market segment	Paper	ELF	On-Line	TeleFile
Self Simple	63%	63%	60%	60%
Self Complex	73%	69%	76%	
Paid Simple	67%	73%		
Paid Complex	70%	79%		

The two self-prepared segments show an increase in ELF repeat rates but represent less than a 1 million return increase in each segment.

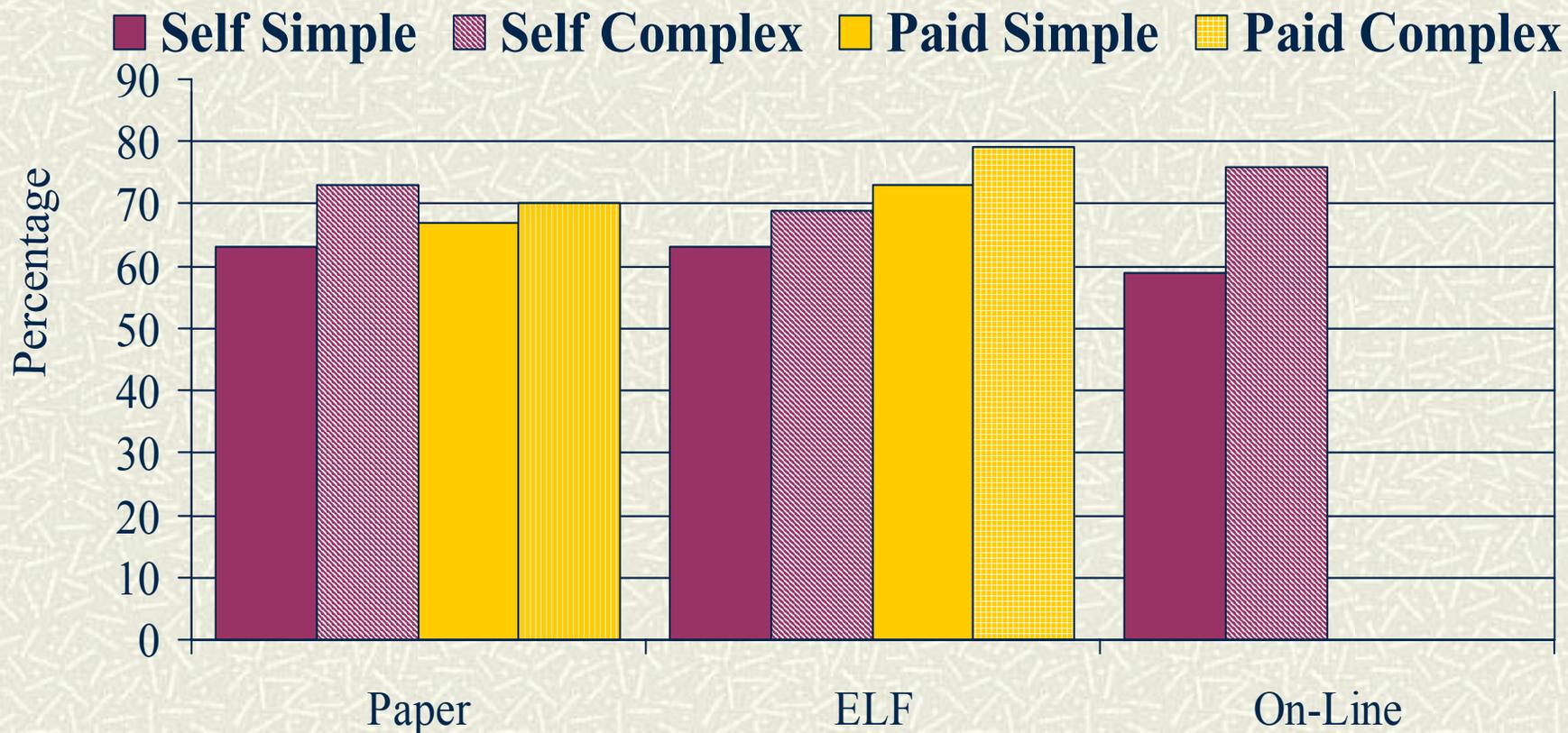
# Repeat Rates by Market Segment

## Looking Back TY 2002 to TY 2001



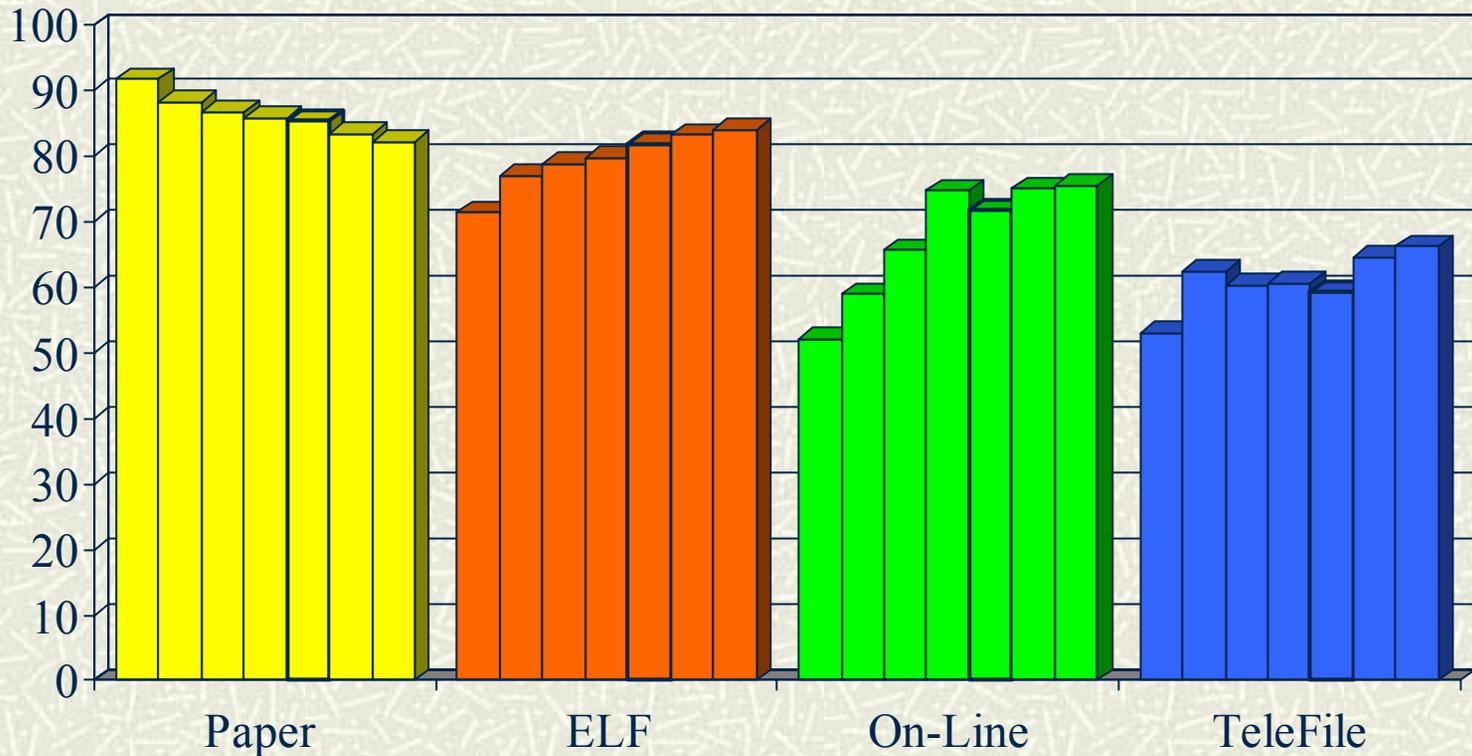
# Repeat Rates by Market Segment

## Looking Forward TY 2001 to TY 2002

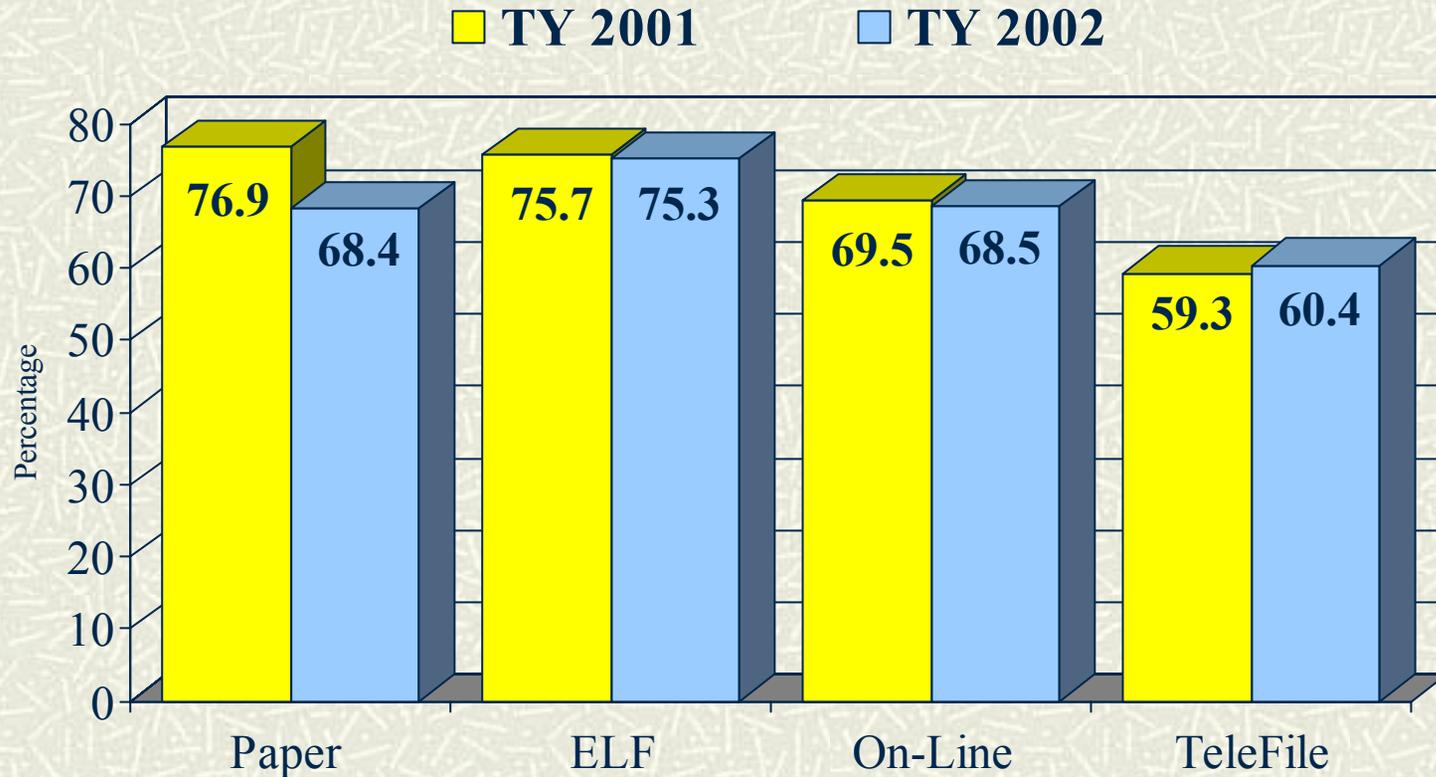


# Repeat Rates by Method of Filing for TY 1996 -TY 2002 (Look back)

Tax years are shown left to right, 1996 - 2002, for each method of filing



# Repeat Rates by Method of Filing for TY 2001 and TY 2002 (Look forward)



# Repeat Rate Summary

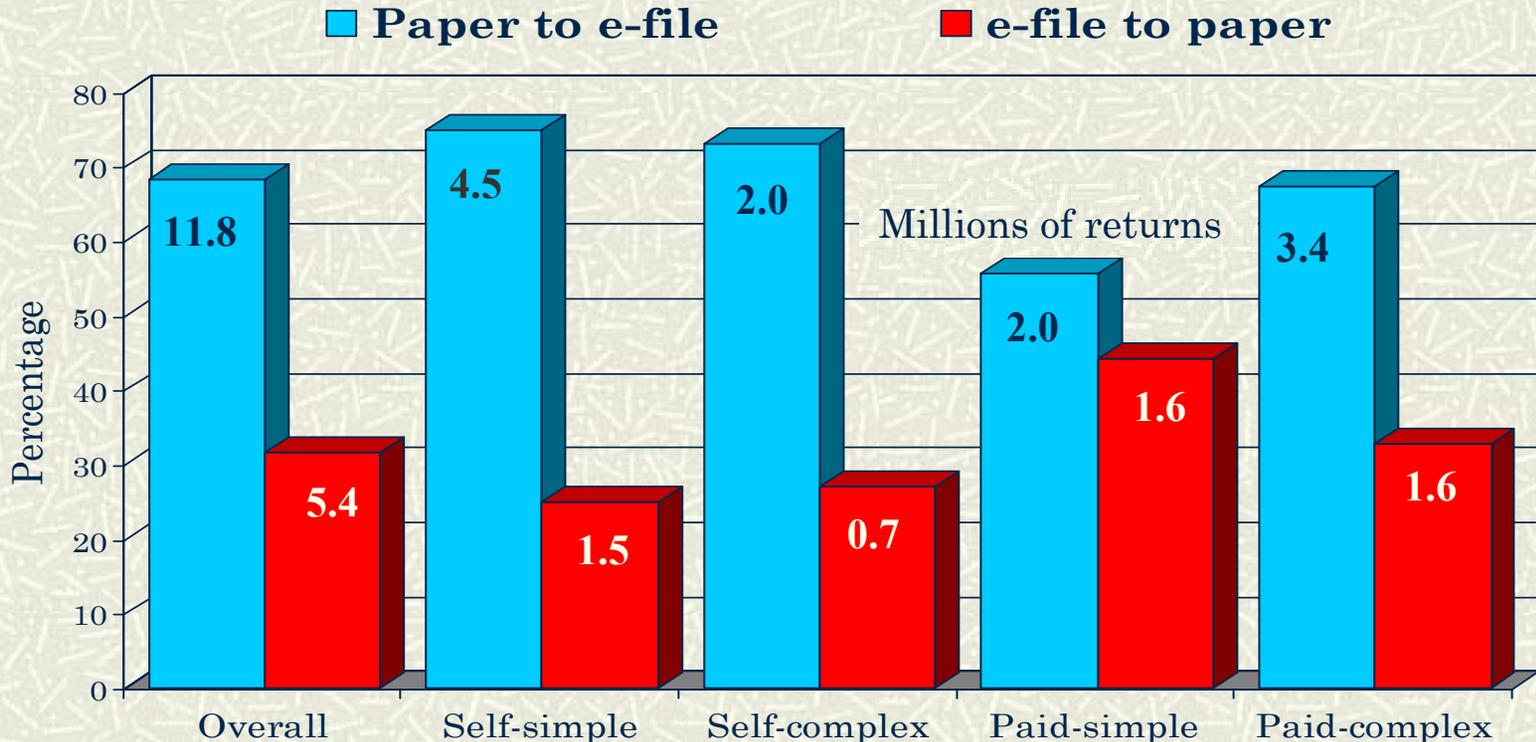
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**Using the “Look Forward” method all repeat rates are lower, the exceptions are the two self-prepared segments using ELF.**

**Forward looking repeat rates are best calculated on full year data only.**

# Inter-modal Migration

Number and Percentage of taxpayers migrating



TY 2001 to TY 2002 Forward looking

# Computer Prepared Returns

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**V-code returns  
(computer-prepared,  
but paper filed  
returns)**

**Electronic returns  
(ELF and On-Line)**





# Computer-prepared Paper Returns Decrease Slightly

	TY 2000	TY 2001	TY 2002	Percentage change TY 2000 to TY 2001	Percentage change TY 2001 to TY 2002
<b>Paper returns</b>	<b>65%</b>	<b>61%</b>	<b>56%</b>	<b>-6%</b>	<b>-8%</b>
V-code	35%	35%	33%	0%	-6%
Other paper	30%	26%	24%	-20%	-8%
<b>Electronic returns</b>	<b>35%</b>	<b>39%</b>	<b>44%</b>	<b>11%</b>	<b>13%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>		-

The total number of V-coded paper returns decreased by 2.2 million returns from TY 2001.

58% (up one point) of all paper filed returns are V-coded and represent 33% (down 2 points) of all returns.



# Percentage of All Returns Computer-Prepared TY 2002

Market segment	Hand prepared, paper return	V-coded returns	All e-file returns	Percentage of segment computer prepared
Self-prepared simple	53.9%	8.8%	20.9%	48.8%
Self-prepared complex	27.5%	15.3%	13.7%	63.1%
Paid-preparer simple	9.9%	20.5%	29.8%	89.5%
Paid-preparer complex	8.7%	55.4%	35.7%	94.3%
Total	100.0%	100.0%	100.1%	76.5%
Method of filing as a percent of total returns	23.5%	32.5%	44.0%	

Totals may not equal 100% due to rounding.

# Other V-code and Computer Prepared Returns Information

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- 51% of self-simple returns are hand prepared (down 6 points, but V-code returns are up 4 points to 12% from 8% in TY 2001).
- 33% of all TY 2002 returns are V-code returns (down 2 points).
- V-code returns comprise 58% of all paper returns filed (up 1 point).
- V-code returns still make up 85% of all paid-preparer paper returns.

When

**“They’re Back”**

can be a good thing!

\*\*\*\*\*

**Comparison of consistent and  
intermittent filers**

**Advantages of consistent filers for  
marketing**

# Consistent and Intermittent Filer Definitions

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- **Consistent filers-** Taxpayers that filed all six years, TY 1997 through and including TY 2002.
- **Intermittent filers-** Taxpayers that did not file returns for one or more of the tax years 1997 through 2002 (includes new filers).

# TY 2002 Consistent and Intermittent Filers by Market Segment

Market segment	Consistent		Intermittent		Total
	Count	%	Count	%	
Self-simple	16,304,717	19.9	12,990,386	35.4	29,295,103
Self-complex	16,753,925	20.5	3,932,878	10.7	20,686,803
Paid-simple	15,035,172	18.4	11,142,466	30.4	26,177,638
Paid-complex	33,810,852	41.3	8,584,547	23.4	42,395,399
<b>Total</b>	<b>81,904,666</b>	<b>100.0</b>	<b>36,650,277</b>	<b>100.0</b>	<b>118,554,943</b>



# Profile of Consistent and Intermittent Filers for TY 2002

Measure	Consistent filers	Intermittent filers
% Single taxpayer	36%	62%
% Married filing joint	50%	15%
% 25 yrs or younger	10%	47%
% 46 yrs or older	47%	18%
% AGI \$30,000 or less	41%	80%
% AGI \$50,000 or more	37%	9%



# Profile of Consistent and Intermittent Filers for TY 2002

(Continued)

Measure	Consistent filers	Intermittent filers
% All paper returns	71%	29%
% e-file in segment	43%	47%
% Paid-preparer	60%	54%
% Complex returns	62%	34%
% W&I returns	70%	85%
% SB/SE returns	30%	15%



# Tax Forms Used by Consistent and Intermittent Filers in TY 2002

Tax form	Consistent filers	Intermittent filers
% 1040 EZ	5%	<b><u>24%</u></b>
% 1040 A	17%	23%
% 1040	74%	46%

**Intermittent filers are nearly five times as likely to file a Form 1040 EZ.**

# Return Balance at Filing for Consistent and Intermittent Filers

Balance at filing	Consistent		Intermittent		Total
	Count	%	Count	%	
Refund	67,734,226	67.6	32,482,010	32.4	100,216,236
Balance paid	11,723,161	80.0	2,921,867	20.0	14,645,028
Balance unpaid	2,447,279	66.3	1,246,400	33.7	3,693,679
Total	81,904,666	69.1	36,650,277	30.9	118,554,943

# Advantages of Marketing to Consistent Filers

# Identifiable- we know who they are.



# Locatable- We know where to find them.



# Stable- We know what kind of income they will have.





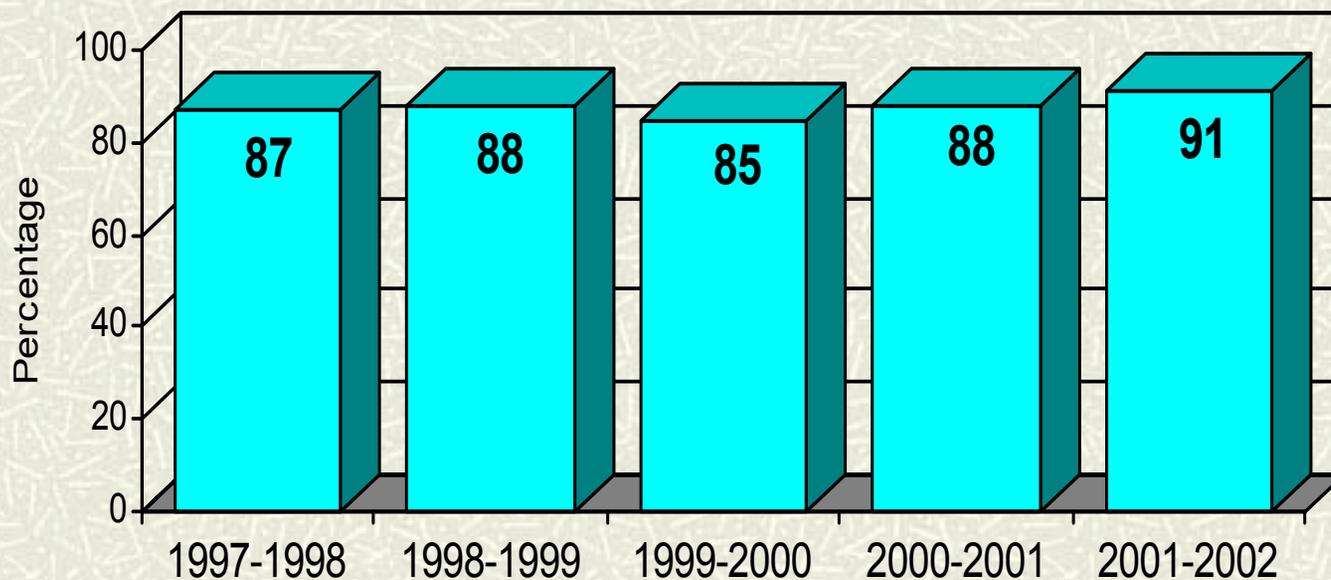
# We Know Who Will File Next Year

Segment	Number of taxpayers that filed some or all of tax years 1997-2001	Number of taxpayers that filed again in PY 2003	Percentage that filed in PY 2003
Intermittent filers	63,951,648	36,650,241	48.8
Consistent filers	91,999,786	81,904,666	89.0
Total	155,951,434	118,554,943	na

Nine out of ten consistent filers file before June 30<sup>th</sup>.

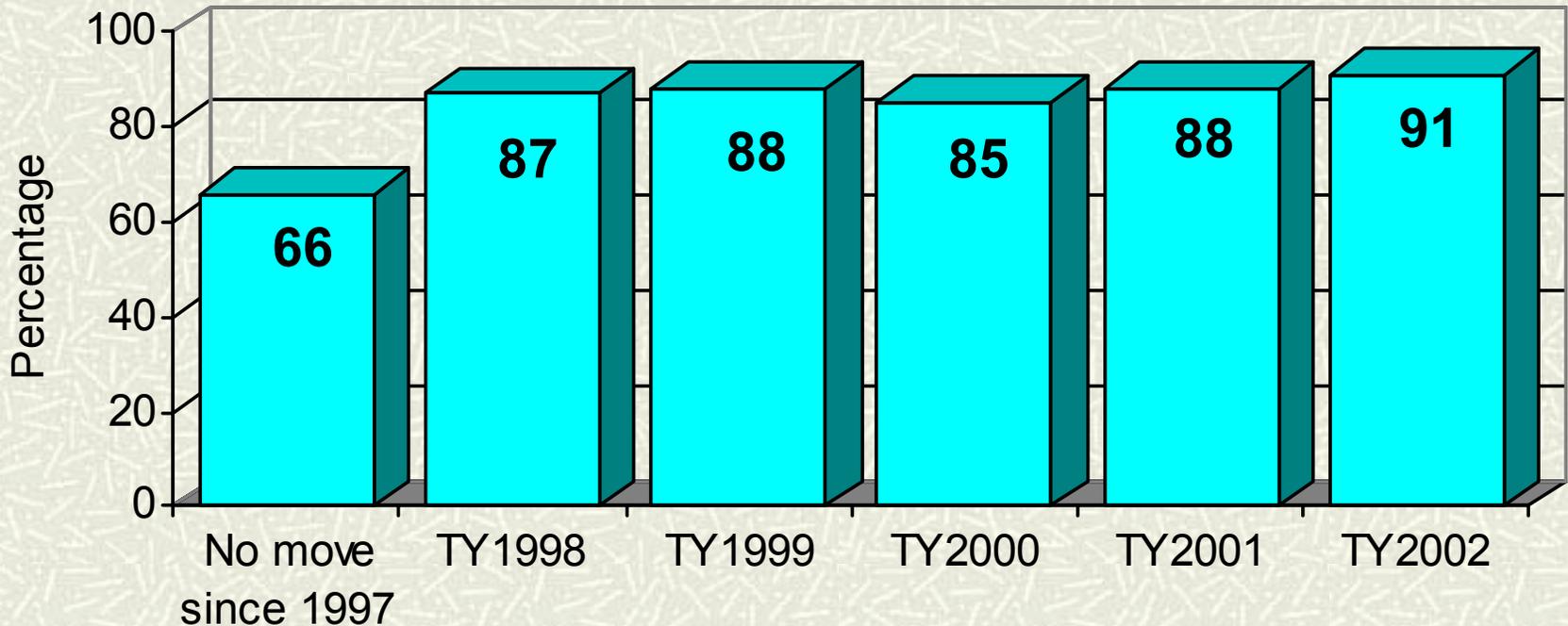
# Where to Find Them

## No change in zip code

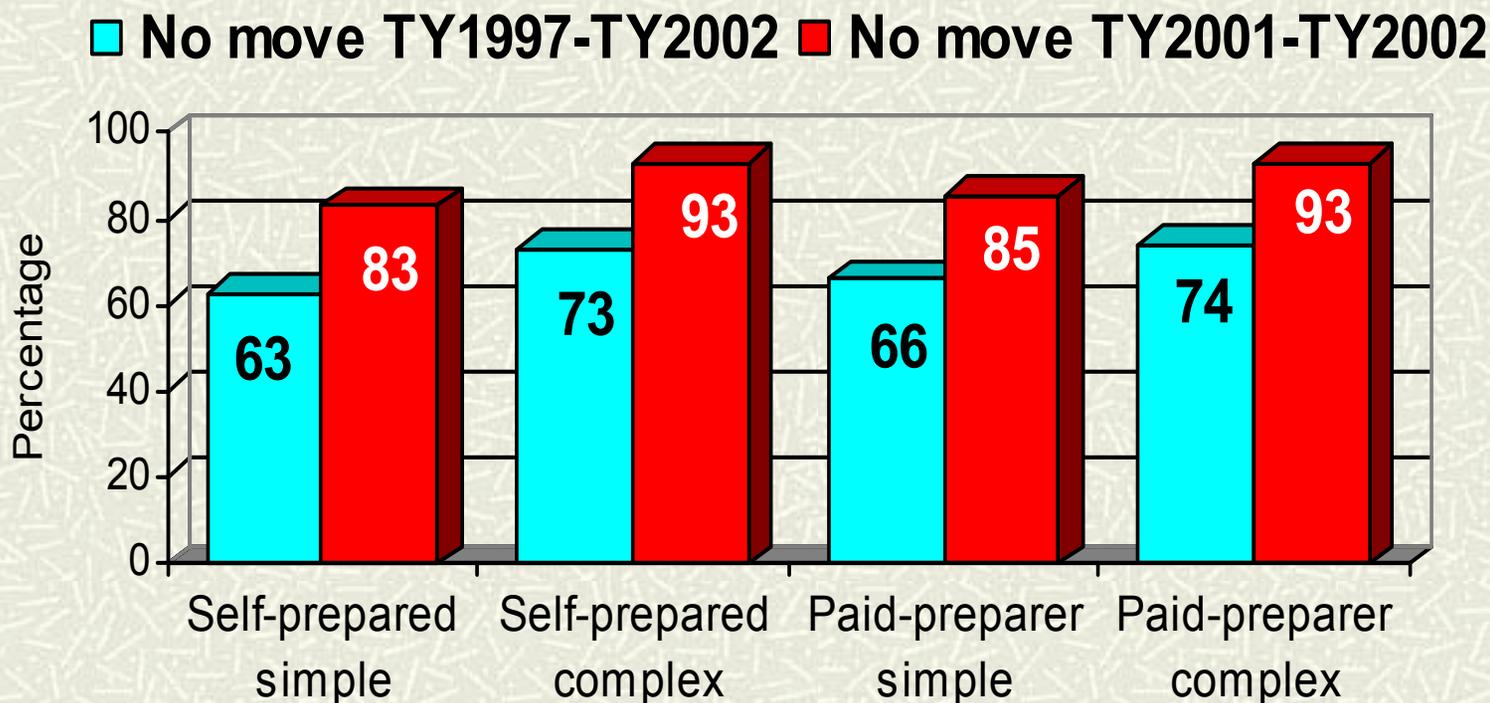


**Overall, nine out of ten consistent filers stay at the same address.**

# Annual Percentage of All Consistent Filers That Did Not Move



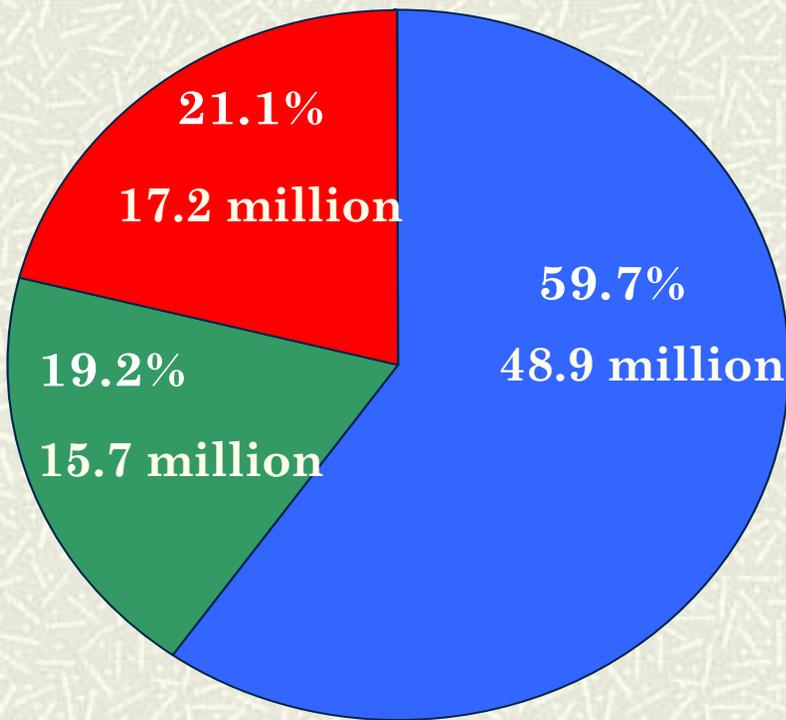
# Consistent Filer Moving by Market Segment\*



\*Taxpayers filing in the same segment for the last five years as discussed in slides 68-71.

# Same Income Type TY 1999-TY 2002

■ Always W&I 
 ■ Always SB/SE 
 ■ Switched



**79% filed all four years in the same operating division.**

**92% stayed in the same division between TY2001 to TY2002.**



# Consistent Filers Provide an Opportunity for Specific Individual Marketing

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- # We know who they are since 9 out of 10 will file again the next year by June 30th.
- # We know where to find them since 9 out of 10 will be at the same address next year.
- # We know their general income source since 9 out of 10 will be in the same operating division next year.

# Cost Benefits of Marketing to Consistent Filers

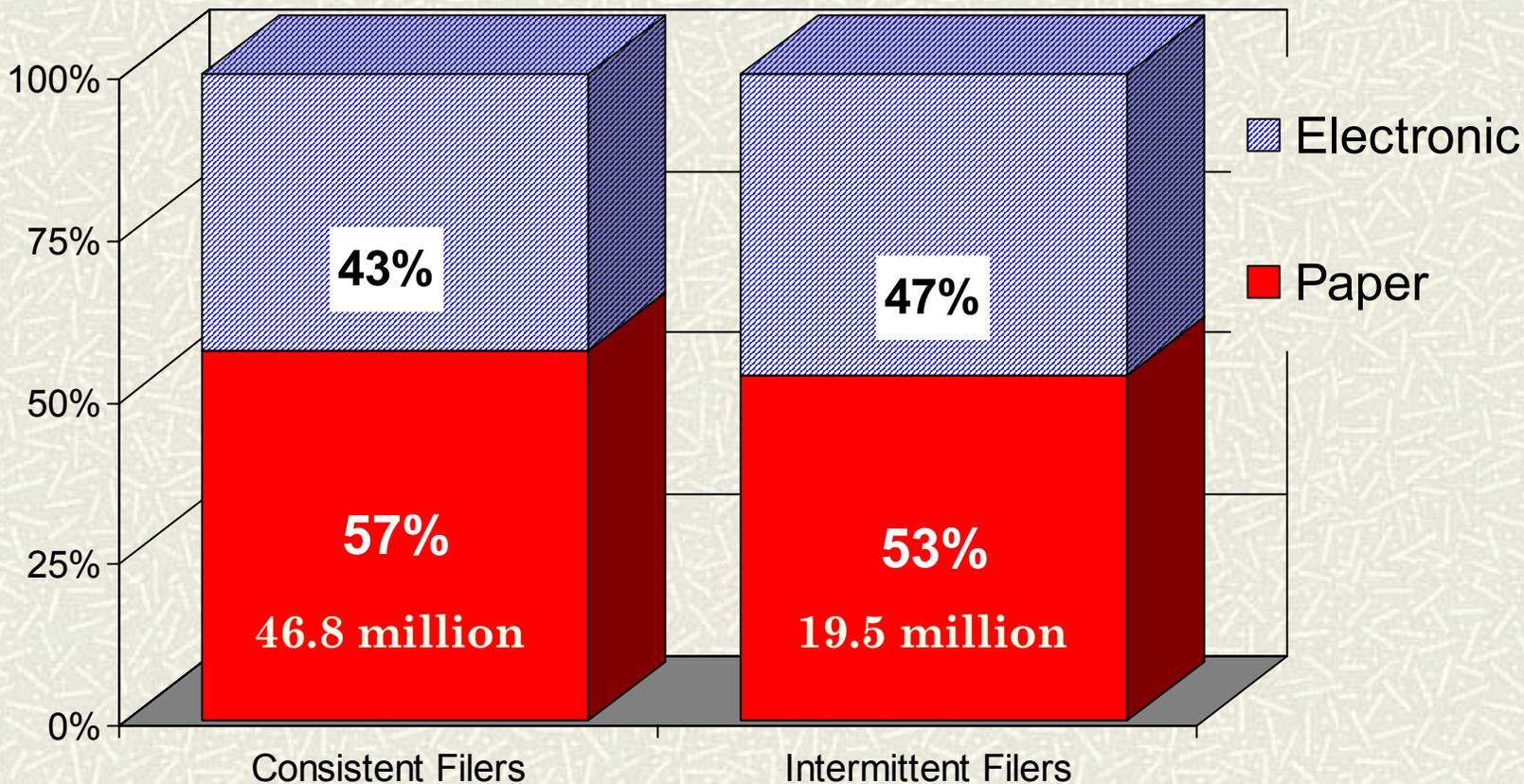
Since electronic filing reduces processing and post processing costs we looked at consistent filers and:

- Paper
- V-code returns
- Return complexity
- Balance due at filing

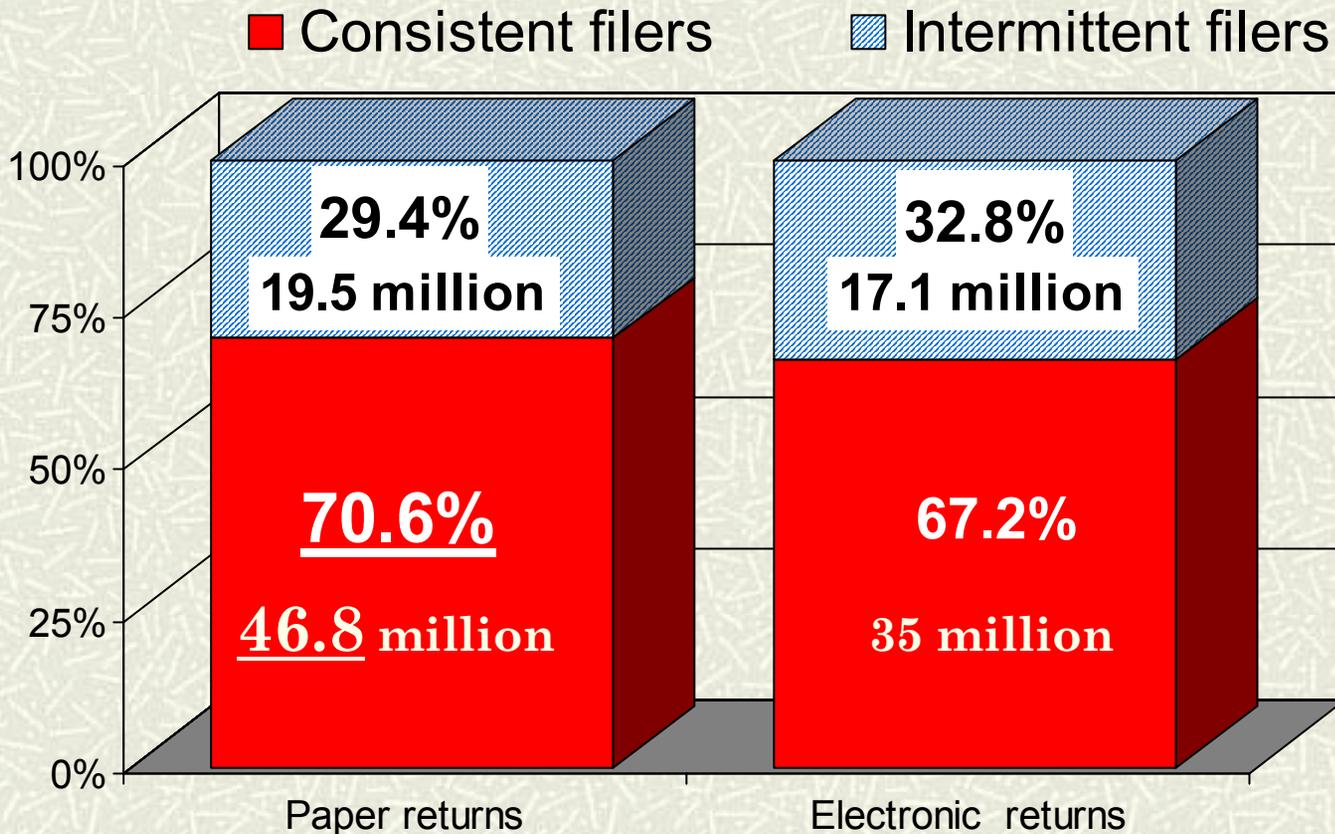




# Method of Filing by Consistent and Intermittent Filers in TY 2002

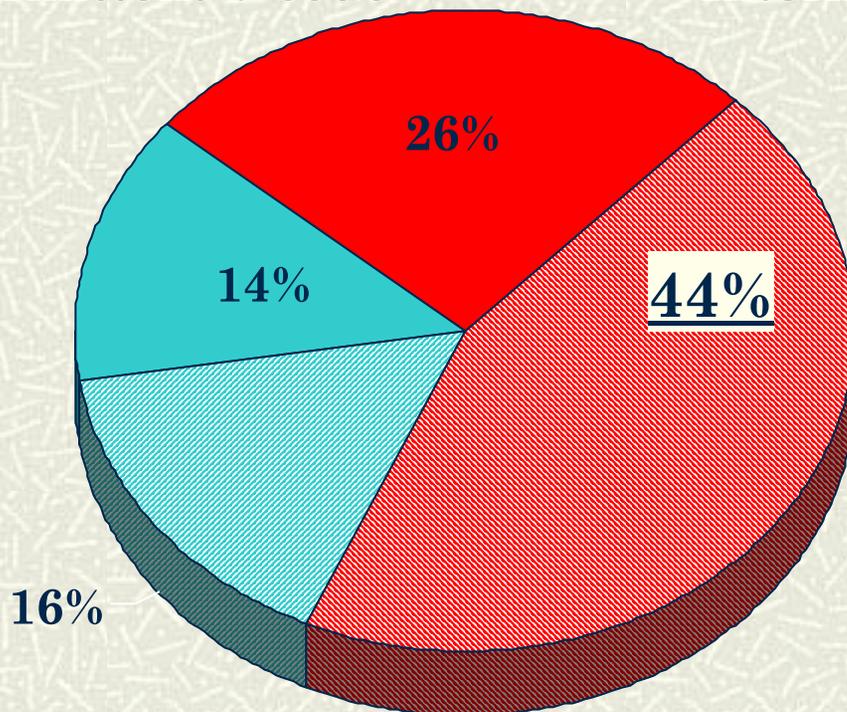


# Percentage of Returns by Method of Filing TY 2002



# All TY 2002 Hand Prepared Paper and V-coded Returns

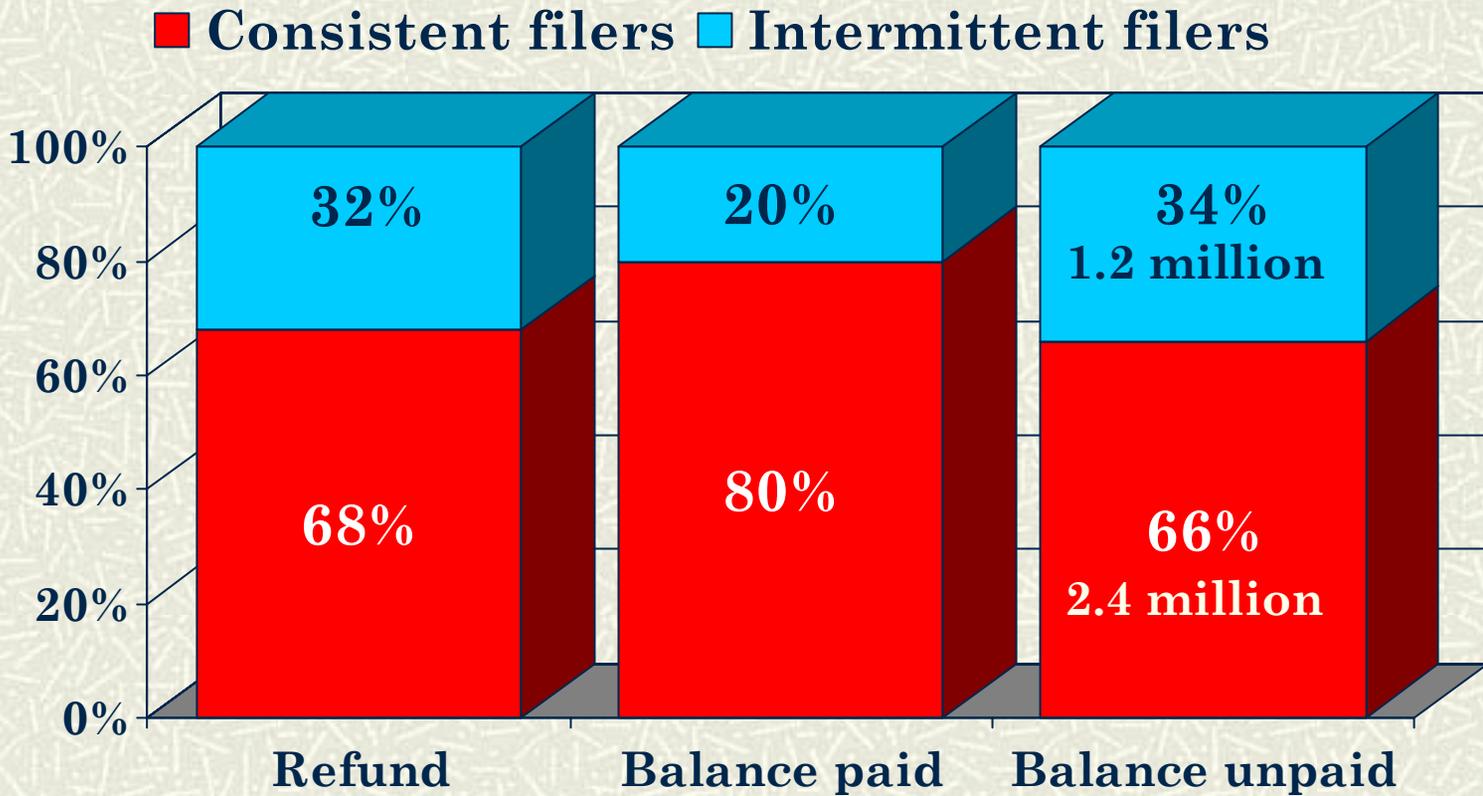
- Consistent paper
- Consistent V-code
- Intermittent V-code
- Intermittent paper



29.5 million V-coded returns

77% of all V-code returns are filed by consistent filers.

# Balance Due at Time of Filing





# Successful marketing to consistent filers will produce the largest benefit because:

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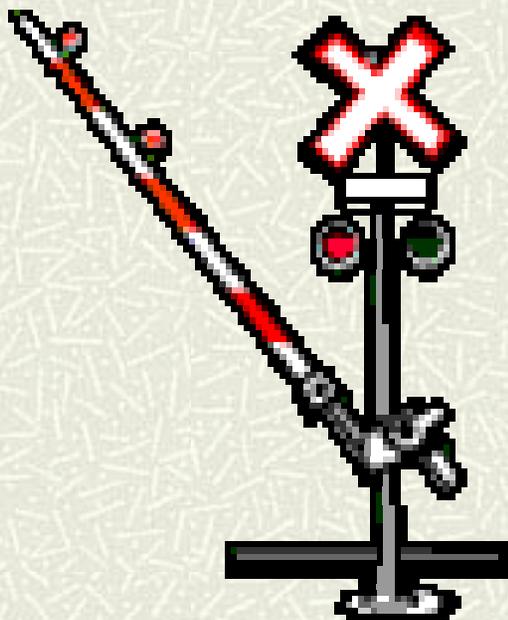
- **Reduce paper returns-** Consistent filers filed 47 million (71%) of all paper returns, of which 29 million were V-coded, in TY 2002.
- **Accurate and complete return data capture-** Consistent filers filed over 37 million complex paper returns in TY 2002 which are subject to transcription errors and limited capture of return data.
- **Marketing to consistent filers could potentially address nearly two-thirds (2.5 million) of the returns that had an unpaid balance due at the time of filing.**

# Research Question

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**If consistent filers are stable and do not move, why hasn't our marketing message reached them in 6 plus years?**

# Potential Barriers for Consistent Filer Marketing



- # High loyalty to paper returns
- # High preparer loyalty



# Six Year Consistent Filer Loyalty to Paper Returns

Method of filing	Count	Percentage
V-code all six years	13,531,518	16.5
Hand-prepared Paper all six years	9,392,604	11.5
V-code or paper only all six years	14,230,675	17.4
<b>Sub total paper returns</b>	<b>37,154,797</b>	<b>45.4</b>
<i>e-file</i> at least once	8,715,931	10.6
<i>e-file</i> two to five times	27,620,365	33.7
<i>e-file</i> all six years	8,413,573	10.3
<b>Total</b>	<b>81,904,666</b>	<b>100.0</b>

# Consistent, Consistent Filers

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- **In order to track taxpayer behavior on a year-to-year basis we had to further stratify our population not only by how many years they filed but also in what market segment they consistently filed.**
- **Since the customer did not identify specific time ranges we started our analysis by looking at the number of taxpayers that filed within the same ETA market segment for all six years (TY 1997-TY 2002).**



# Consistent Filers- Same Market Segment TY1997-TY2002

Same market segment all six years.

Market segment	Count	Percentage of all consistent filers
Self-simple return	7,317,998	8.9
Self-complex return	7,800,678	9.5
Paid-simple return	3,246,806	4
Paid-complex return	18,336,034	22.4
<b>Total</b>	<b>36,701,516</b>	<b>44.8</b>

# Consistent Filers- Same Market Segment TY1998-TY2002

Same market segment for five years.

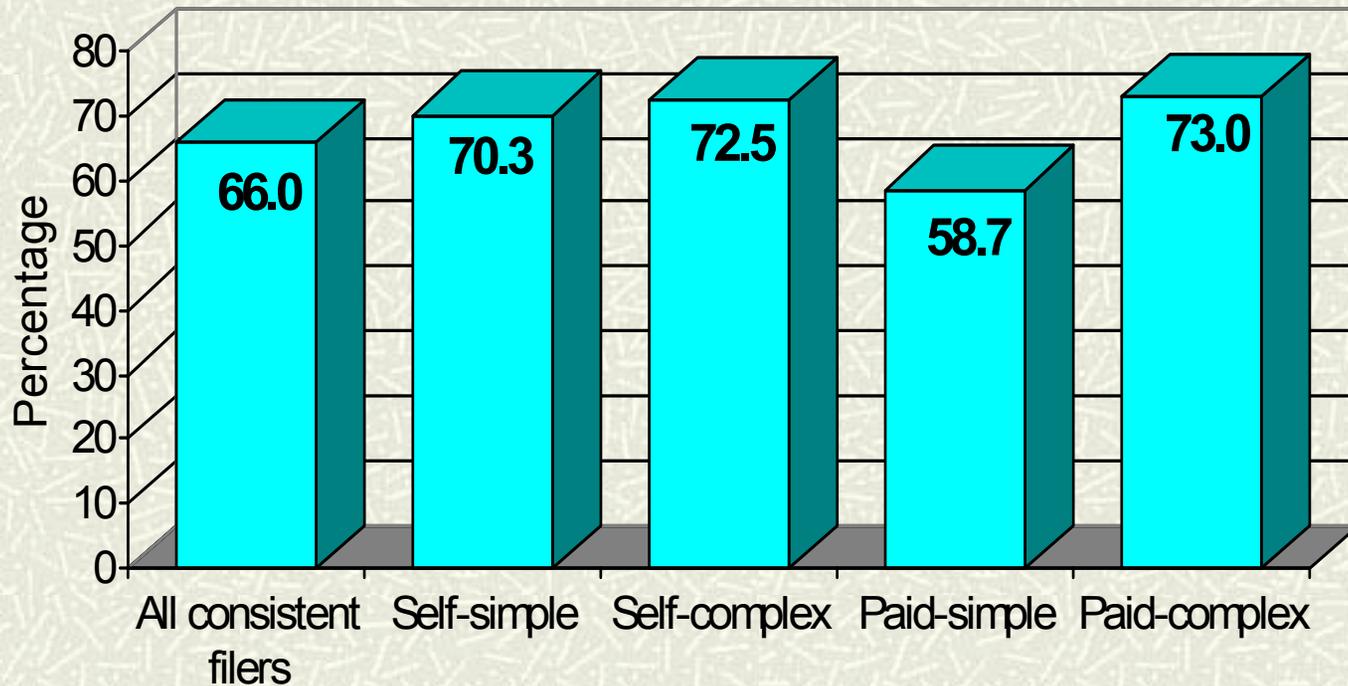
Market segment	Count	% of all consistent filers	Amount of increase	% increase
Self-simple	8,184,704	10.0	866,706	10.6
Self-complex	8,753,540	10.6	952,862	10.9
Paid-simple	4,264,148	5.3	1,017,342	23.9
Paid-complex	20,260,777	24.8	1,924,743	9.5
<b>Total</b>	<b>41,463,169</b>	<b>50.7</b>	<b>4,761,653</b>	<b>11.5</b>

# Consistent market segment filers

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- # Chose to use 5 year base for consistent market segment filers as:
  - TY 1998 brought major tax changes to the tax code that changed a TY1997 taxpayer's market segment from simple to complex.
  - Using 5 years produced a large population to compare.

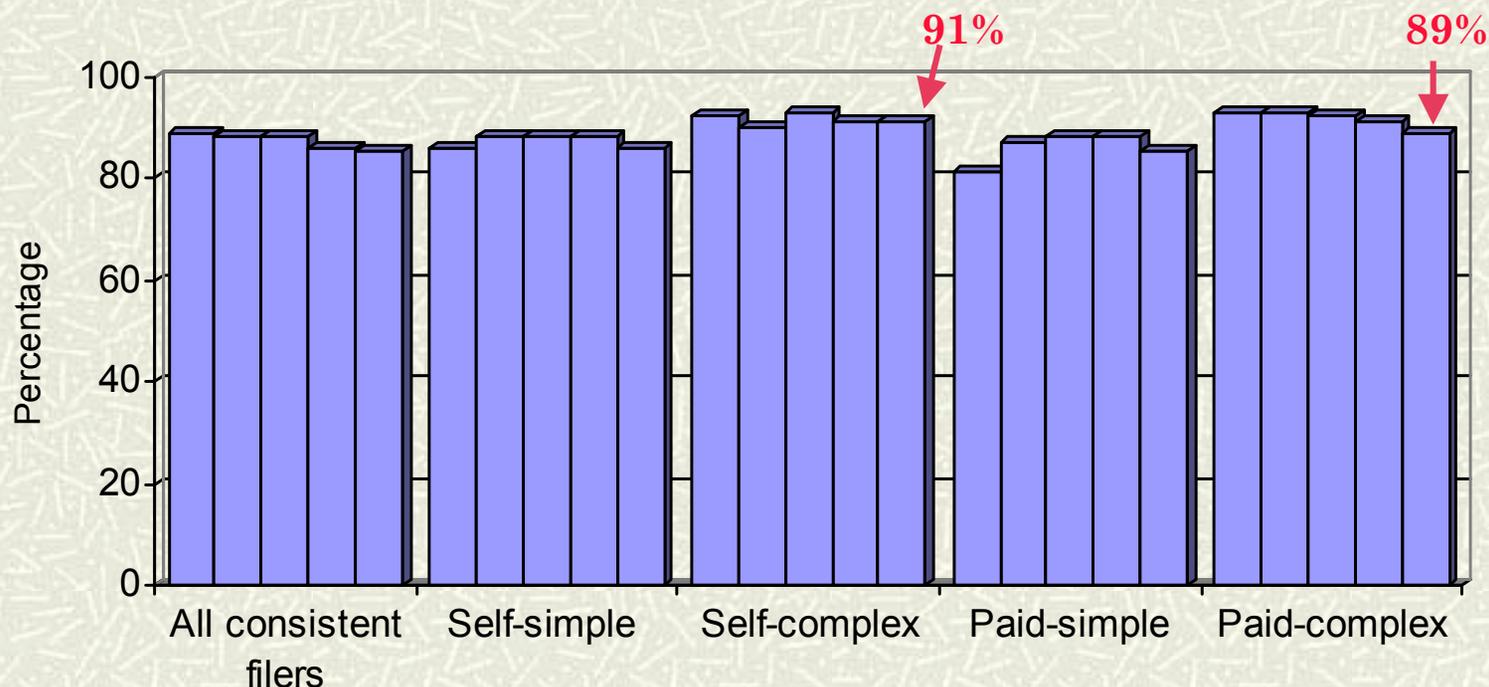
# Consistent Filers That Filed Paper Returns in TY 1997 and in TY 2002



**Note: Specific market segment calculations include only those taxpayers that stayed in the same segment the last 5 years.**

# Consistent Filer Year-to-Year Loyalty to Paper Returns

Tax years are shown left to right TY1998 through TY2002.



**Note: Specific market segment calculations include only those taxpayers that stayed in the same segment the last 5 years.**



# Consistent Filer Loyalty to Paper Returns by Market Segment

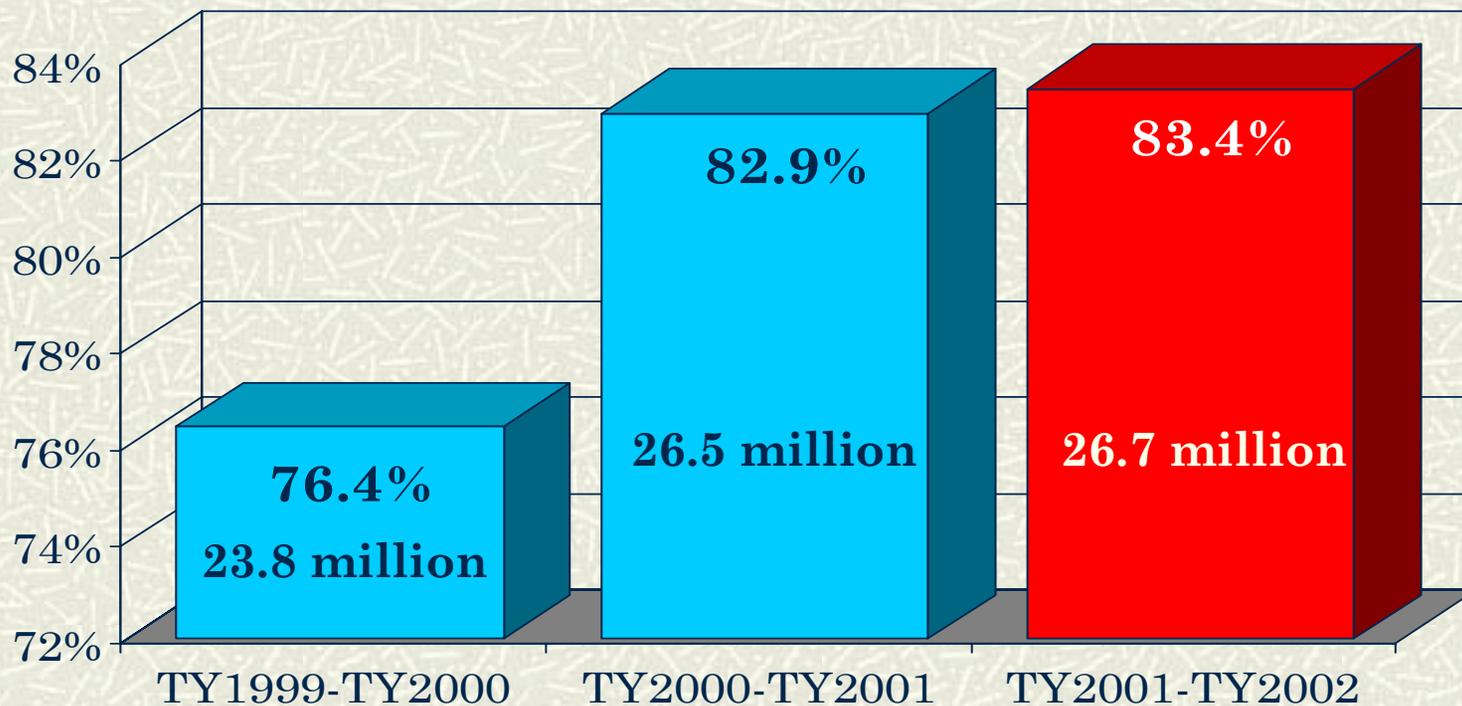
Method of filing	Self-simple	Self-complex	Paid-simple	Paid-complex
V-code all years	1.4	12.9	16.7	36.4
Always Hand-prep paper	36.1	35.3	2.4	1.7
V-code or paper all years	8.1	14.9	12.9	20.9
Sub total always paper	45.6	63.1	32.0	59.0
<i>e-file</i> at least once	10.0	7.8	6.1	8.8
<i>e-file</i> two to five times	35.2	25.6	29.3	23.0
<i>e-file</i> all six years	9.3	3.5	32.5	9.2
Total	100.1	100.0	99.9	100.0

# Consistent Filer Preparer Loyalty



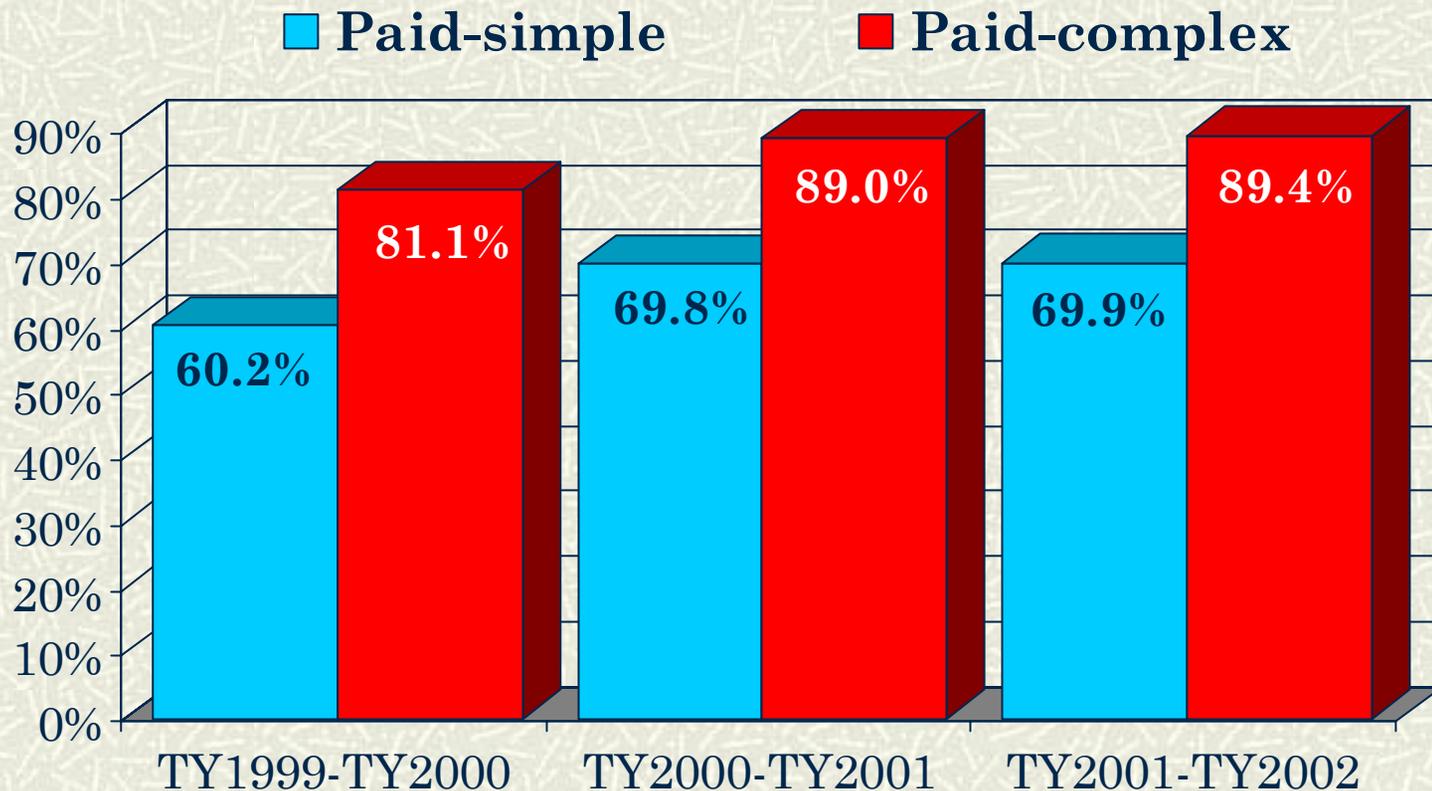
- # **Complex preparer identification matching process identified 31,985,104 consistent filers that used a paid-preparer for TY1997-TY2002.**
- # **Limited to to last three tax years (TY2000-TY2002) for simplicity and clarity.**

# Overall, Consistent Filer 3-year Preparer Loyalty Rates



**Note:** Taxpayers used a paid preparer in each of the last six tax years and used the same preparer between the tax years shown.

# Preparer Loyalty by Market Segment



**Note: Taxpayers used a paid preparer in each of the last six tax years, and used the same preparer between the tax years shown, and were in the same market segment for the last five years.**

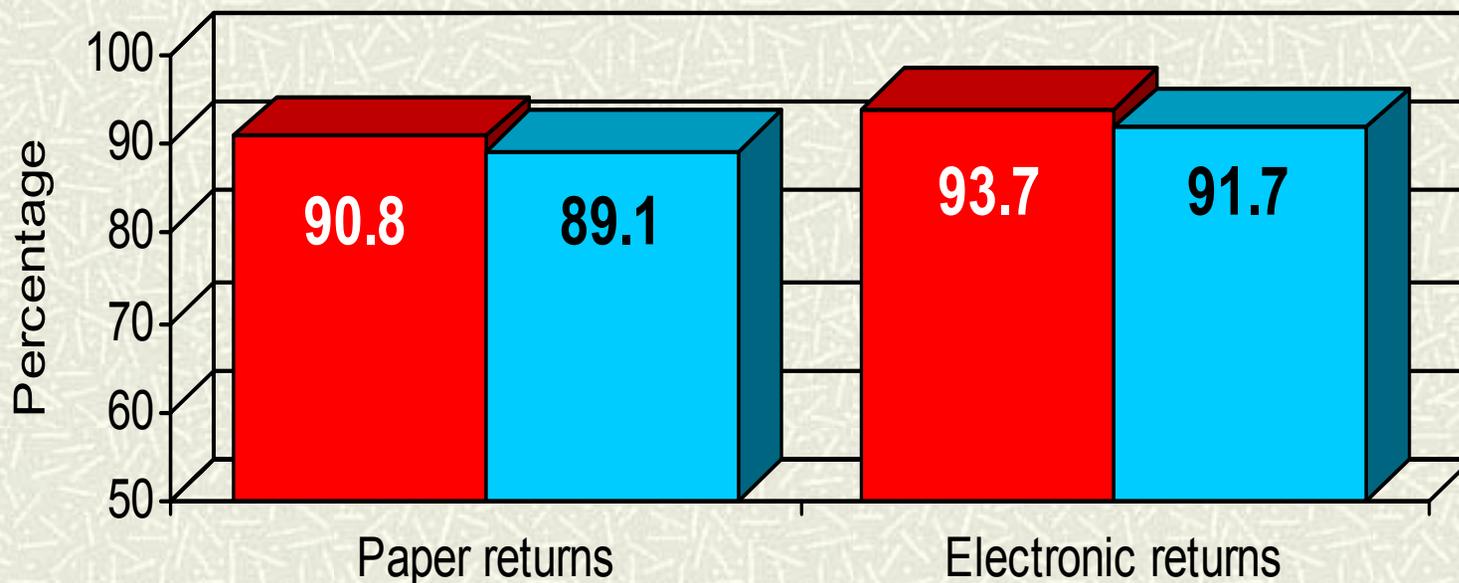
# Preparer Loyalty Impact On Method of Filing

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- # We determined that of the 18.3 million consistent, paid-complex return filers in TY 2002, 15.1 million (nearly 83 percent) used the same preparer for the last three years.
- # Focused on consistent, paid-complex filers because they file:
  - the largest number of paper returns, the largest number of complex returns, and had the highest overall preparer loyalty rate.

# Repeat rates when same preparer used for three years

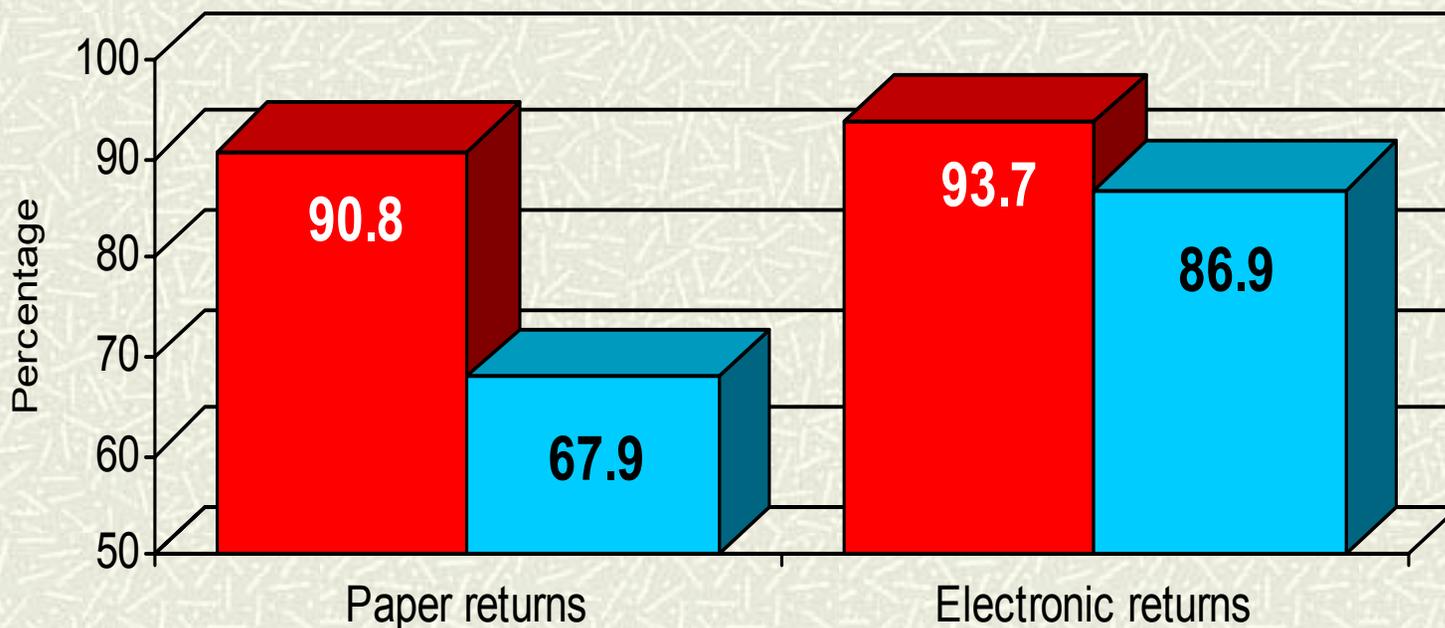
- Consistent, paid-complex with same preparer
- All consistent, paid-complex filers



Taxpayers were in the same market segment for the last five years.

# Consistent, Complex Paid-Preparer Repeat Rates

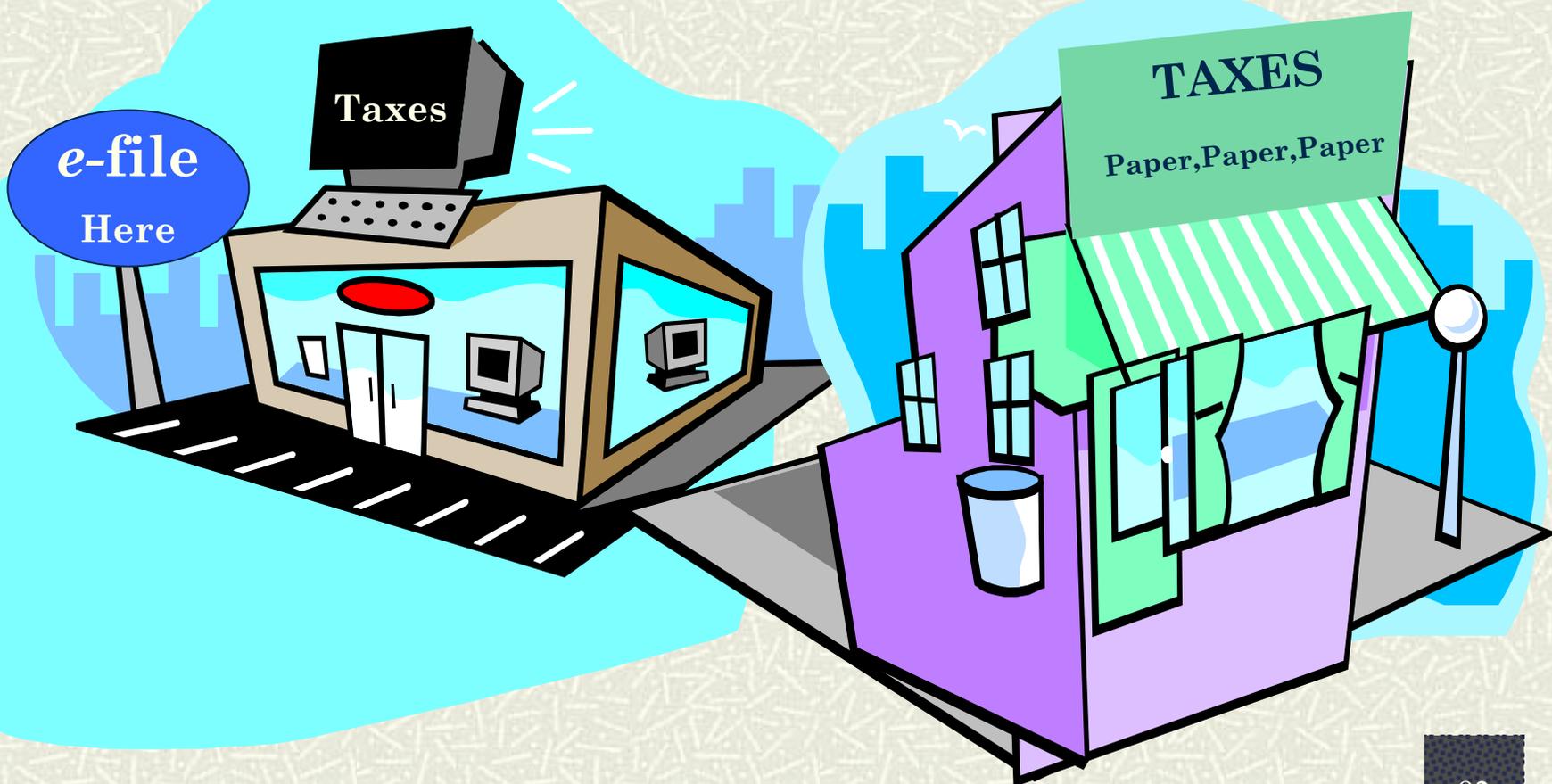
■ Used same preparer-3 yrs   ■ Switched preparers- all 3 yrs



**Taxpayers were in the same market segment for the last five years.**

# Who They Chose Can Determine How They File

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# Preparer Influence on Method of Filing

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- # Identified 36,244 preparers that prepared at least 100 returns for the same consistent, complex taxpayer in each of the last three consecutive tax years which we labeled as, “3-year Preparers”.
- # “3-year preparers” prepared nearly 9.3 million of the 15.1 million consistent, paid-complex returns for TY2002.

# Preparer Influence on Method of Filing

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(continued)

- **Using their preparer identification numbers and the electronic filing indicator we were able to determine the total number number of returns the “3-year Preparers” prepared in TY2002 and the percentage that were electronically filed.**



# Consistent, Paid-Complex Returns by “3-year Preparers”

Percentage of electronically filed	Number of preparers	Percentage of preparers	Number of returns	Percentage of returns
<b>No electronic</b>	<b>14,070</b>	<b>38.8</b>	<b>2,812,981</b>	<b>30.4</b>
<b>Less than 10% e-file</b>	<b>8,537</b>	<b>23.6</b>	<b>2,542,503</b>	<b>27.4</b>
10 - 20% e-file	2,961	8.2	788,669	8.5
20 - 40% e-file	3,374	9.3	921,863	9.9
40 - 60% e-file	2,069	5.7	577,333	6.2
60 - 80% e-file	1,822	5.0	628,263	6.8
<b>80 - 90% e-file</b>	<b>1,209</b>	<b>3.3</b>	<b>371,077</b>	<b>4.0</b>
<b>90 - 99% e-file</b>	<b>2,132</b>	<b>5.9</b>	<b>611,844</b>	<b>6.6</b>
<b>All electronic</b>	<b>70</b>	<b>0.2</b>	<b>12,357</b>	<b>0.1</b>
Total	36,244	100.0	9,266,890	100.0

Taxpayers were in the paid-complex market segment for the last five years and used the same preparer for the last three years.



# All Returns by “3-year Preparers”

Percentage of electronically filed	Number of preparers	Number of returns	Percentage of returns
<b>No electronic</b>	<b>14,070</b>	<b>7,566,677</b>	<b>23.1</b>
<b>Less than 10% e-file</b>	<b>8,537</b>	<b>6,857,646</b>	<b>20.9</b>
10 - 20% e-file	2,961	2,603,898	7.9
20 - 40% e-file	3,374	3,560,758	10.9
40 - 60% e-file	2,069	2,753,462	8.4
60 - 80% e-file	1,822	3,732,936	11.4
<b>80 - 90% e-file</b>	<b>1,209</b>	<b>2,017,985</b>	<b>6.2</b>
<b>90 - 99% e-file</b>	<b>2,132</b>	<b>3,596,152</b>	<b>11.0</b>
<b>All electronic</b>	<b>70</b>	<b>78,901</b>	<b>0.2</b>
Total	36,244	32,768,415	100.0

Taxpayers were in the paid-complex market segment for the last five years and used the same preparer for the last three consecutive years.

# What Is the Bottom Line Regarding Consistent Filers?



# Easy to Identify and Locate

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- # **Unlike intermittent filers, consistent filers are easy to identify and locate for marketing materials or follow-up since:**
  - **Nine of out every ten consistent filers can be expected to file in the subsequent year by the end of June.**
  - **Nearly 88 percent of all consistent filers do not move from one year to the next allowing marketing to expect to locate 9 out of 10 consistent filers at the same address in the next tax year.**
  - **At least 80 percent of all consistent filers stay within the same operating division from year to year.**

# Most Costly to Process

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- # **Based on our findings, consistent filers are currently the most costly in terms of processing costs.**
  - **Consistent filers filed over 70 percent (nearly 47 million) of all paper returns and more than 57 percent of consistent filers submitted a paper returns in PY 2003.**
  - **Thirty million of the paper returns submitted by consistent filers were V-coded, representing nearly 77 percent of all V-coded returns filed in PY 2003.**

# Most Costly to Process

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(Continued)

- In addition, approximately 62 percent (50.5 million) of the consistent filers filed complex returns compared to 34 percent (12.5 million) of the intermittent population. Complex paper returns require more processing time for manual transcription and increased opportunity for transcription error.

# But, There are Some Hurdles to Get Over



# Hurdles to Overcome

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## # Consistent filer attributes-

**Age and filing status-almost half of the consistent filers are 46 years of age or older and almost half file married filing joint.**

**Comfort levels and trust in electronic commerce in general may inhibit their conversion to electronic filing.**

**And, since they file jointly, there are really two taxpayers to convince to file one electronic return.**

# Hurdles to Overcome

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(Continued)

## # Loyalty to paper returns-

**Of all consistent filers, only the consistent, paid-preparer simple return segment has been able to reduce its loyalty to paper returns below 60 percent after six years. The other three consistent market segments remain at least 70 percent loyal to paper returns.**

**In addition, nearly 90 percent of the consistent, paid-complex filers remained loyal to paper returns between TY 2001 and TY 2002 accounting for 11.7 million returns, two and one half times the number of electronic returns filed by this segment.**

# Hurdles to Overcome

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(Continued)

## ■ Preparer loyalty-

For those consistent taxpayers using a paid preparer in each of the past six years, over 83 percent used the same preparer in TY 2002 that they used in TY 2001. This figure increases to almost 90 percent for the consistent, paid-complex return filers.

# Hurdles to Overcome

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(Continued)

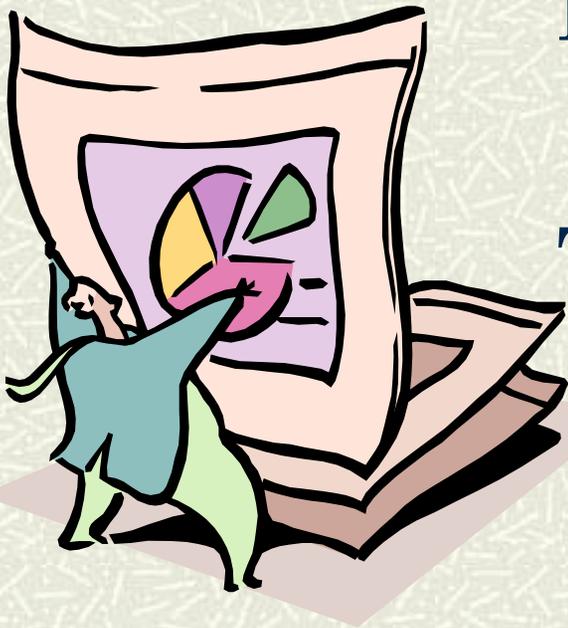
## # Preparer influence-

- Of the 36,244 paid preparers identified as having prepared the same consistent, paid-complex taxpayer's return for the last three years and having prepared 100 or more returns, 14,070 (39 percent) did not file any electronic returns in TY 2002.
- These 14,000 preparers were responsible for nearly three million paper returns in the consistent, paid-complex segment alone and over 7.5 million paper returns in the total TY 2002 filing population.

# What's next?

**Full year profile of consistent and intermittent filers?**

**The research customers need to decide and direct future research questions regarding consistent filers.**





# Items for Consideration

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- **Consideration could be given to conducting a similar analysis using the TY 2002 full year data in order to include the data from the approximately 10 million later filed returns and address specific follow up questions by ETA customers.**



# Items for Consideration

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- **Consideration could be given to limiting future part year reports to tables only and thereby shift the focus of full reports from follow up topics to complete in-depth analysis using the multiple full year data files. This would reduce repetition and provide more accurate findings.**



# Items for Consideration

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- **Consideration could be given to further research and the development of individual, direct marketing strategies for consistent filers in order to most effectively expand the use of electronic filing products.**



# Items for Consideration

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- **Consideration could be given to investigating the potential for legislative change to require paid preparers to electronically file the returns they prepare. Three states, most notably California, now require preparers of more than 100 returns to file those returns electronically.**

# Final Words

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- # Baseline questions for 2005 (TY 2003) are now being developed. Submit yours through Diane Geraghty.