Tax Year 2001

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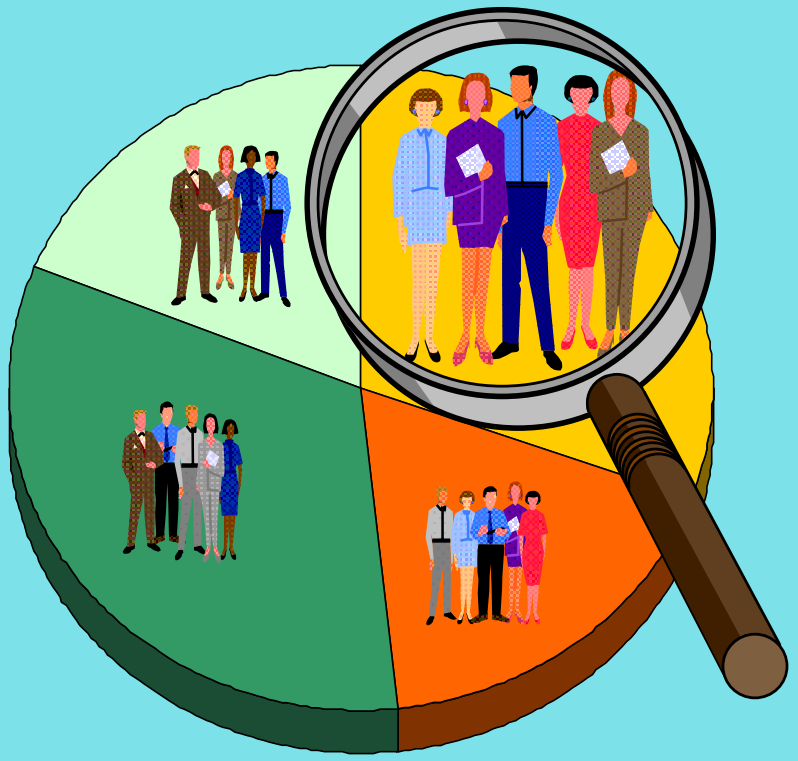
Research

W&I Research Group 5

Research Project Objectives

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



Research Questions for TY 2001

Provide descriptive statistics, in Excel spreadsheets only, for five questions:

A. The four major market segments (paid and self prepared simple and paid and self prepared complex returns)

B. Differences in taxpayer profiles by filing method (On-Line, ELF, TeleFile, and paper).

C. First time filers by market segment based on method of filing and method preparation.

D. For taxpayers who received a TeleFile PIN show, by W&I area and territory, the number and percentage ineligible, eligible to use TeleFile but chose not to, and those that actually use TeleFile.

E. The form type used for self-prepared returns with a comparison by form type and market segment.

Research Questions for TY 2001 (continued)

Six questions with Excel spreadsheets and where appropriate discussed in the report:

1. **Discuss the repeat rates and intermodel migration rates for paper, ELF, TeleFile, and On-Line returns between PY 2001 and PY 2002.**
2. **Identify those taxpayers who used a 1040PC return in TY 1999 and determine how these taxpayers filed in TY 2000 and TY 2001.**
3. **Discuss the trend of computer usage (*e-file* and V-code) for return preparation in each of the market segments.**
4. **For taxpayers who used TeleFile in TY 1997, has TeleFile acted as a "gateway" to other electronic filing methods?**
5. **Profile taxpayers who used the self-select PIN by market segment, method of electronic filing, and whether they are new electronic users.**
6. **Profile tax practitioners who used the Practitioner PIN by market segment and whether they were new electronic users.**

TY 2001 ETA Questions covered in this presentation

Question A. General market segment data

Question 1. Repeat rates and intermodal migration

Question 2. How TY1999 1040PC filers filed in TY 2000

Question 3. ***e-file*** and V-code return preparation

Question 4. TeleFile as a "gateway" to electronic filing

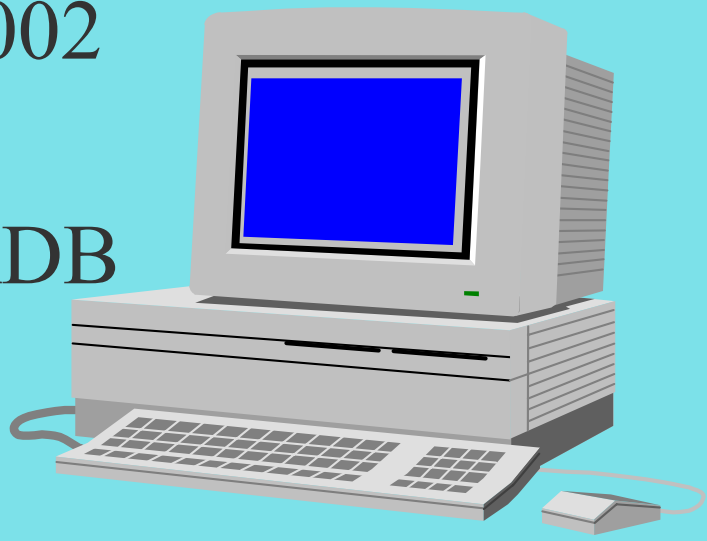
Question 5. Self-select PIN usage

Question 6. Practitioner PIN usage

Question C. First time filers

Primary Data Source

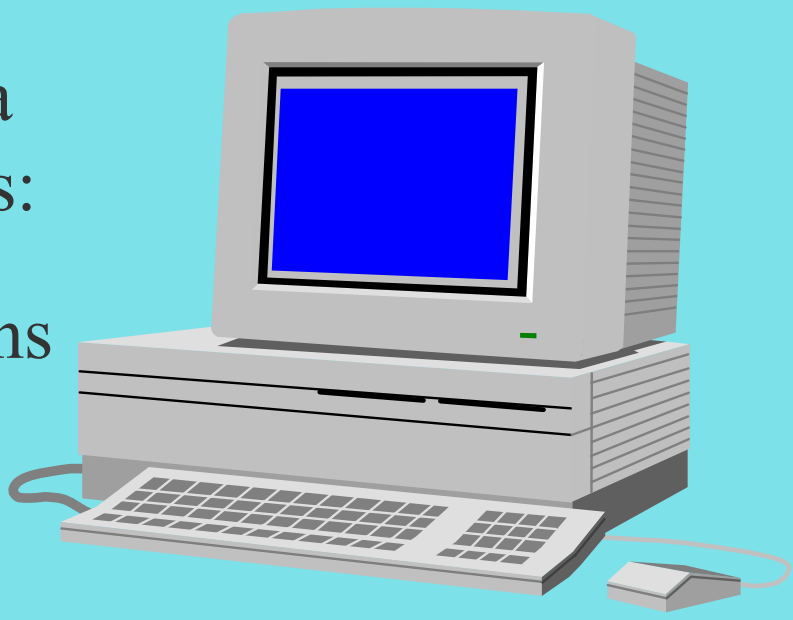
- All individual income tax returns filed for tax year 2001
- Processed through June 29, 2002 (cycle 200226)
- Certain variables from the TRDB and TeleFile mailing list were added to the IRTF
- Includes over 118 million returns



PLUS

Primary Data Source (continued)

- Four more years of tax data in a relational database that includes:
- All individual income tax returns filed for tax years 1997, 1998, 1999, and 2000



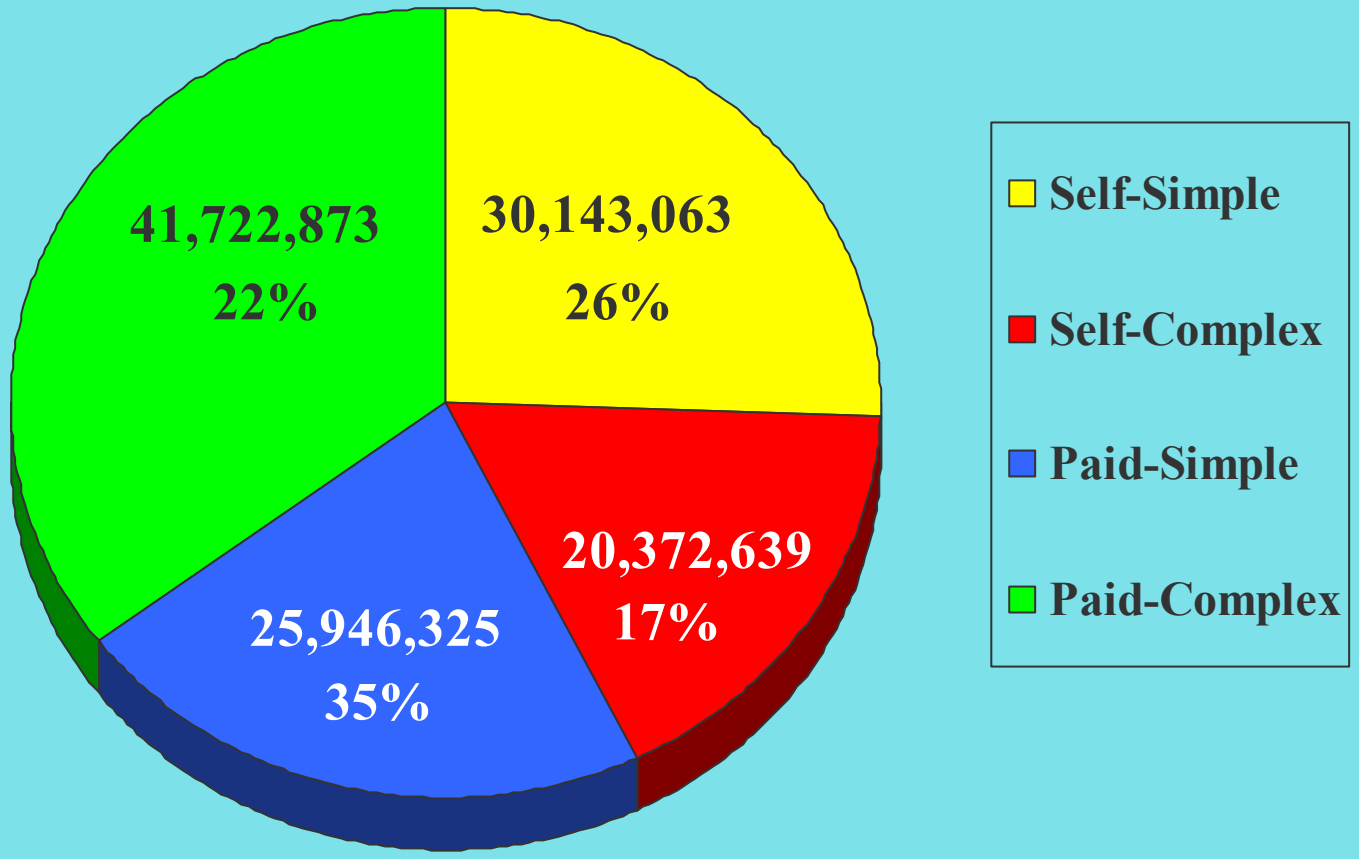
Question A- The market segments

- 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

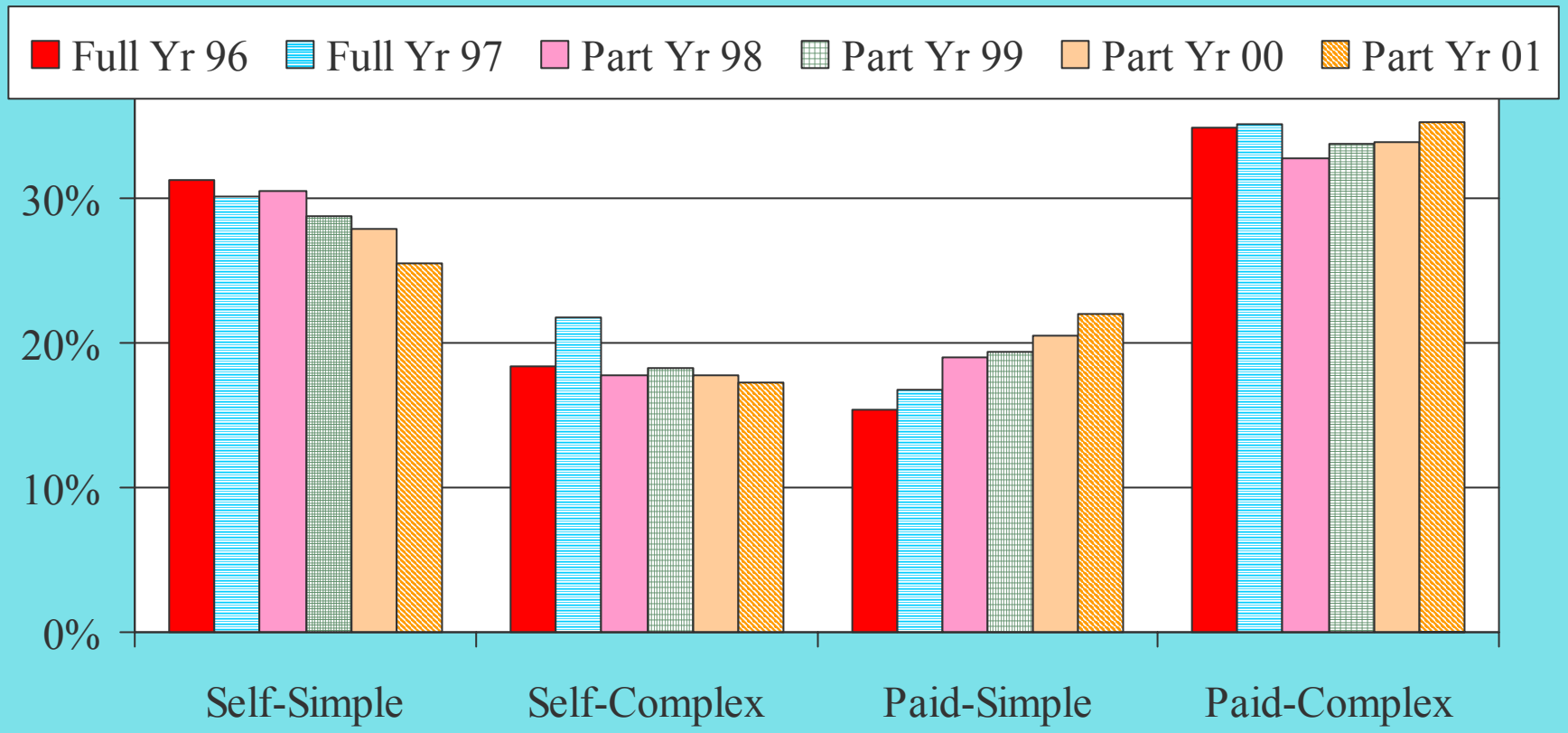
Four *e-file* Market Segments

- **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 2001



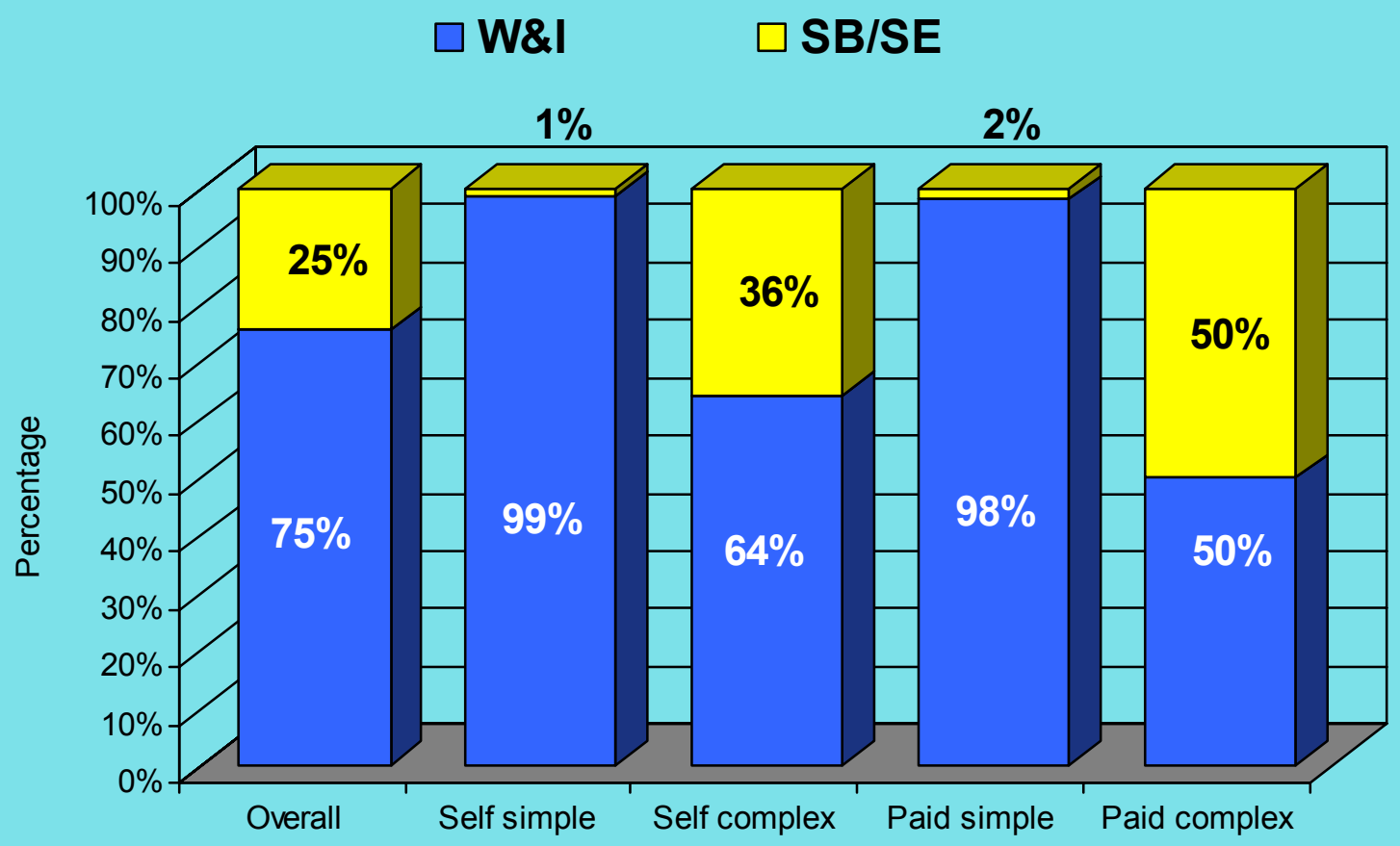
Percentage of returns by market segment for TY 1996 through TY 2001



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

Business Operating Divisions

- 75.3% of all returns (nearly 89 million) were W&I returns.
- 98.5% of the simple market segments were W&I.
- Highest proportion of SB/SE returns is in paid-preparer complex return market segment.



Averages by market segment for TY 2001

Market segment	Primary TP age	Adjusted gross income	Balance due or refund	EIC amount
Self simple	36 yrs	$22,033	-$770	$156
Self complex	45 yrs	$61,830	-$1,350	$149
Paid simple	39 yrs	$22,334	-$1,284	$450
Paid complex	48 yrs	$62,652	-$1,162	$290

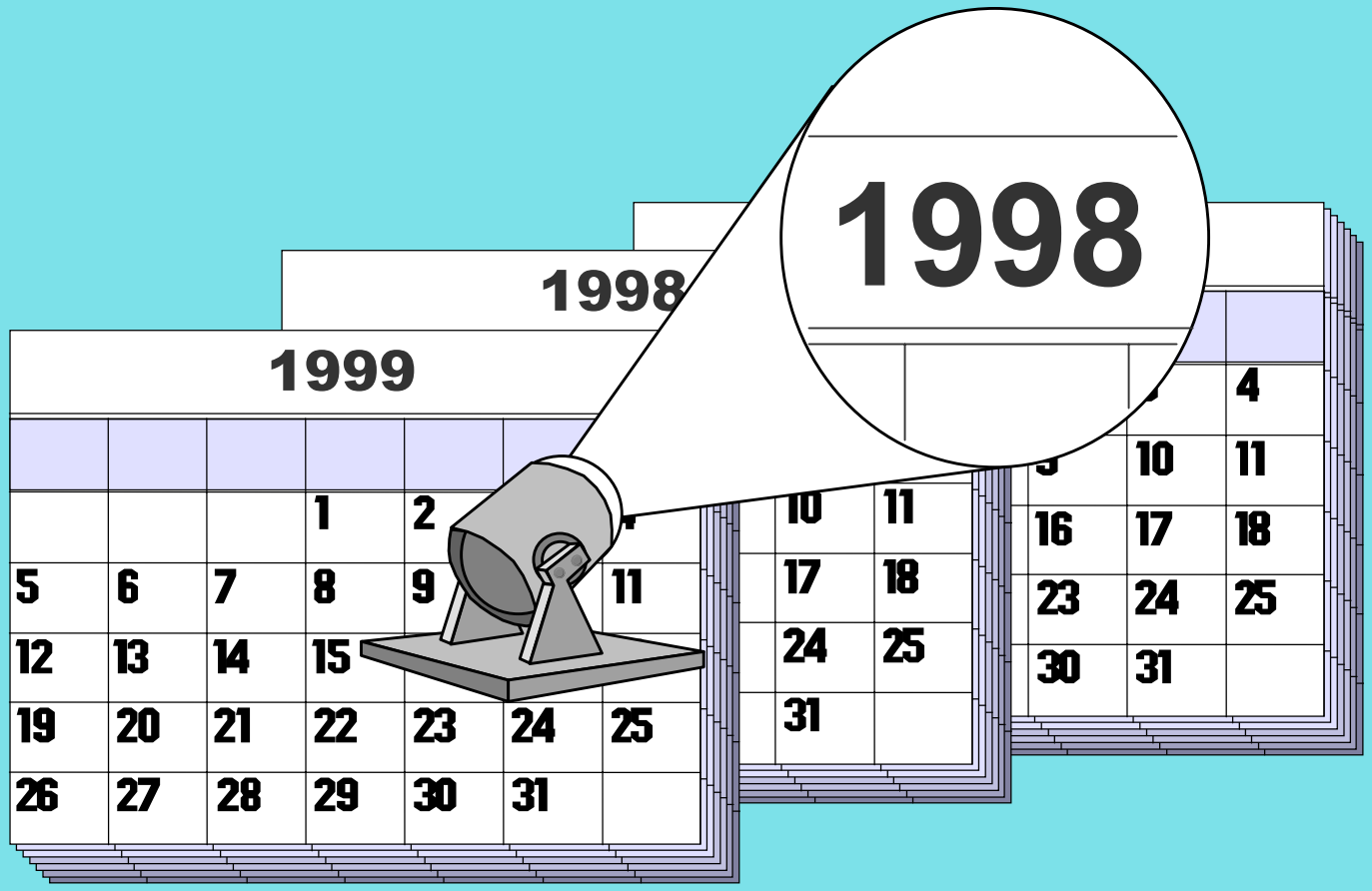
Changes from TY 2000 to TY 2001

- The Self-prepared complex segment had the largest dollar increase in average AGI, up $1,425 or 2% from TY 2000
- The Self-prepared simple segment average AGI rose by $1,103 or 5% from TY 2000
- The average refund for the self-prepared complex segment was up $567, slightly over 72%
- The average refund for the paid-preparer complex segment rose $716, up nearly 161%

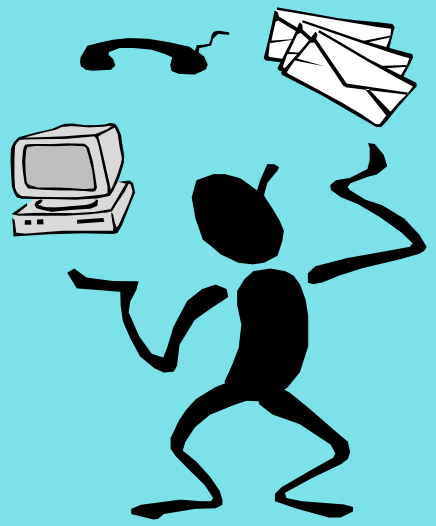
Averages by filing method for TY 2001

Filing Method	Primary TP age	Adjusted gross income	Balance due or refund	EIC amount
Paper	45 yrs	$48,168	-$657	$123
ELF	39 yrs	$33,805	-$1,989	$630
TeleFile	30 yrs	$17,843	-$546	$9
On-Line	37 yrs	$50,458	-$1,918	$212

Question 1- What Are the Repeat Rates and Inter-modal Migration Rates for *e-file* Methods?



e-file Repeat Rates



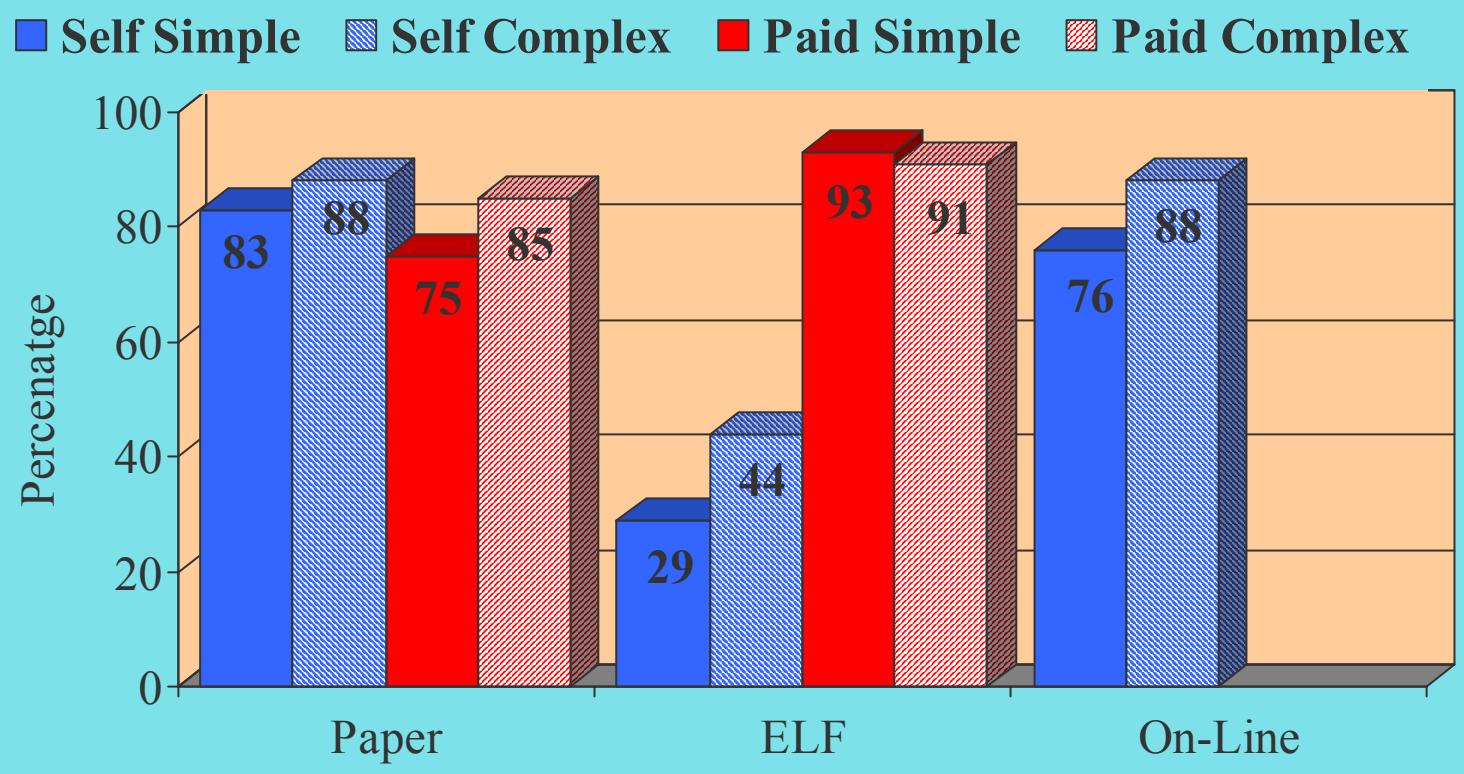
Filing Method	Base Year 2001		
	2000	1999	1998
Paper	83.4%	77.9%	73.4%
ELF	83.3%	77.6%	73.4%
TeleFile	64.5%	45.7%	35.4%
On-Line	75.1%	68.2%	67.9%

Repeat rate by market segment TY 2000 to TY 2001

Market segment	Paper	ELF	On-Line	TeleFile
Self Simple	83%	29%	76%	75%
Self Complex	88%	44%	88%	
Paid Simple	75%	93%		
Paid Complex	85%	91%		

Both are down from TY 2000

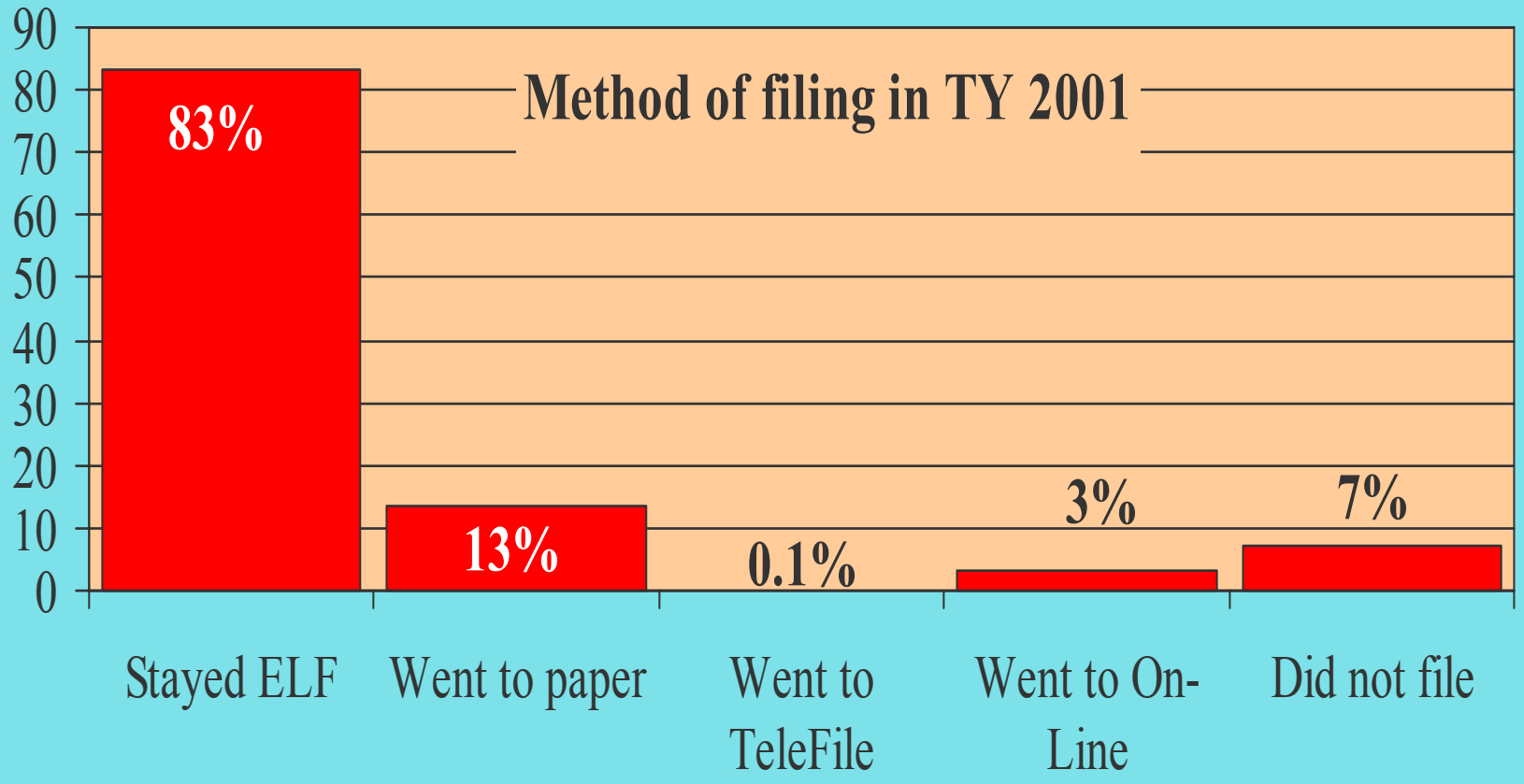
Repeat rates for paper, ELF, and On-Line TY 2000 to TY 2001



Repeat rate summary

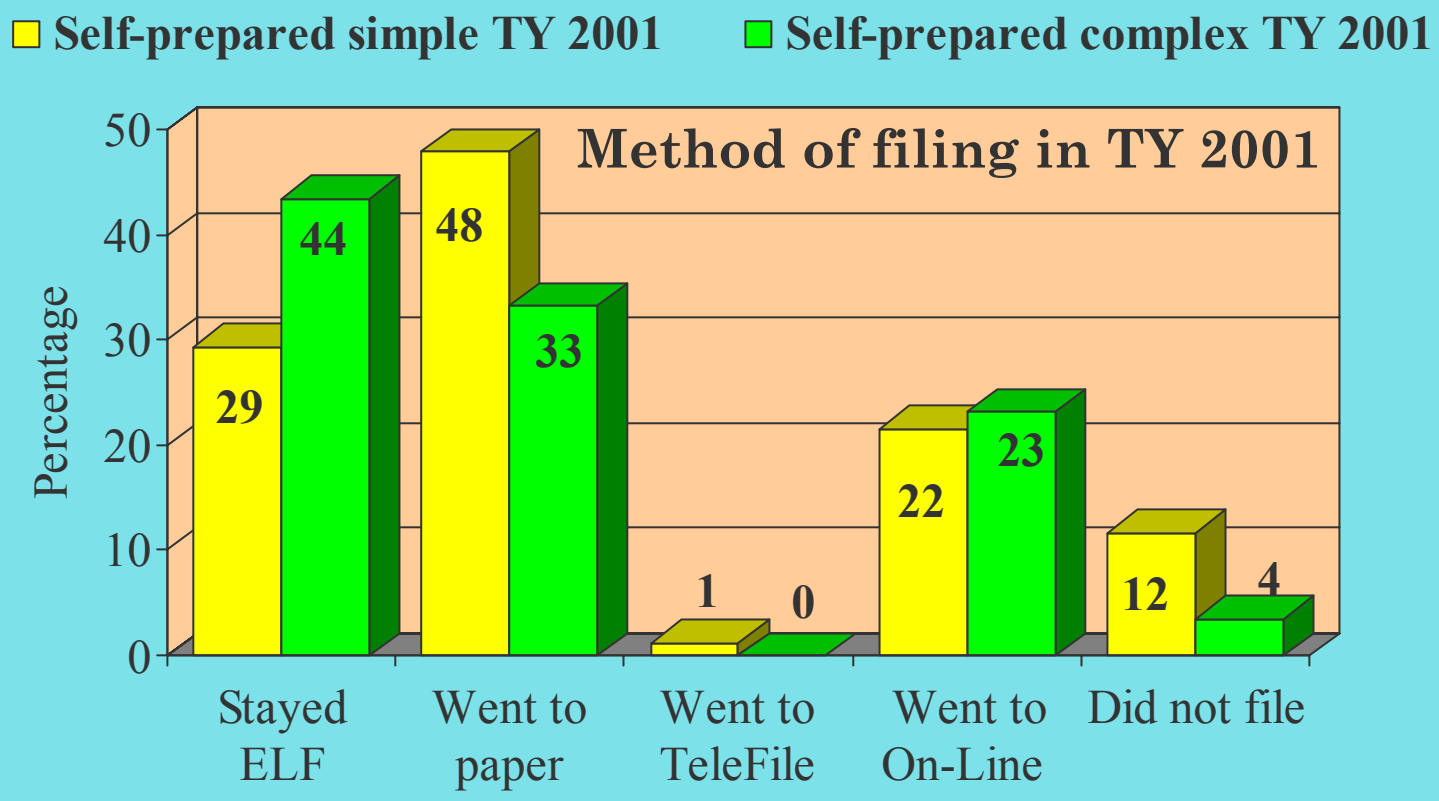
- ✓ All market segments had lower paper repeat rates
- ✓ The self-prepared simple segment had lower repeat rates for ELF and TeleFile in TY 2001
- ✓ Both of the self-prepared segments have the lowest ELF repeat rates
- ✓ The Paid Simple segment had the highest ELF repeat rate

National Intermodal Migration
Filed ELF in TY 2000



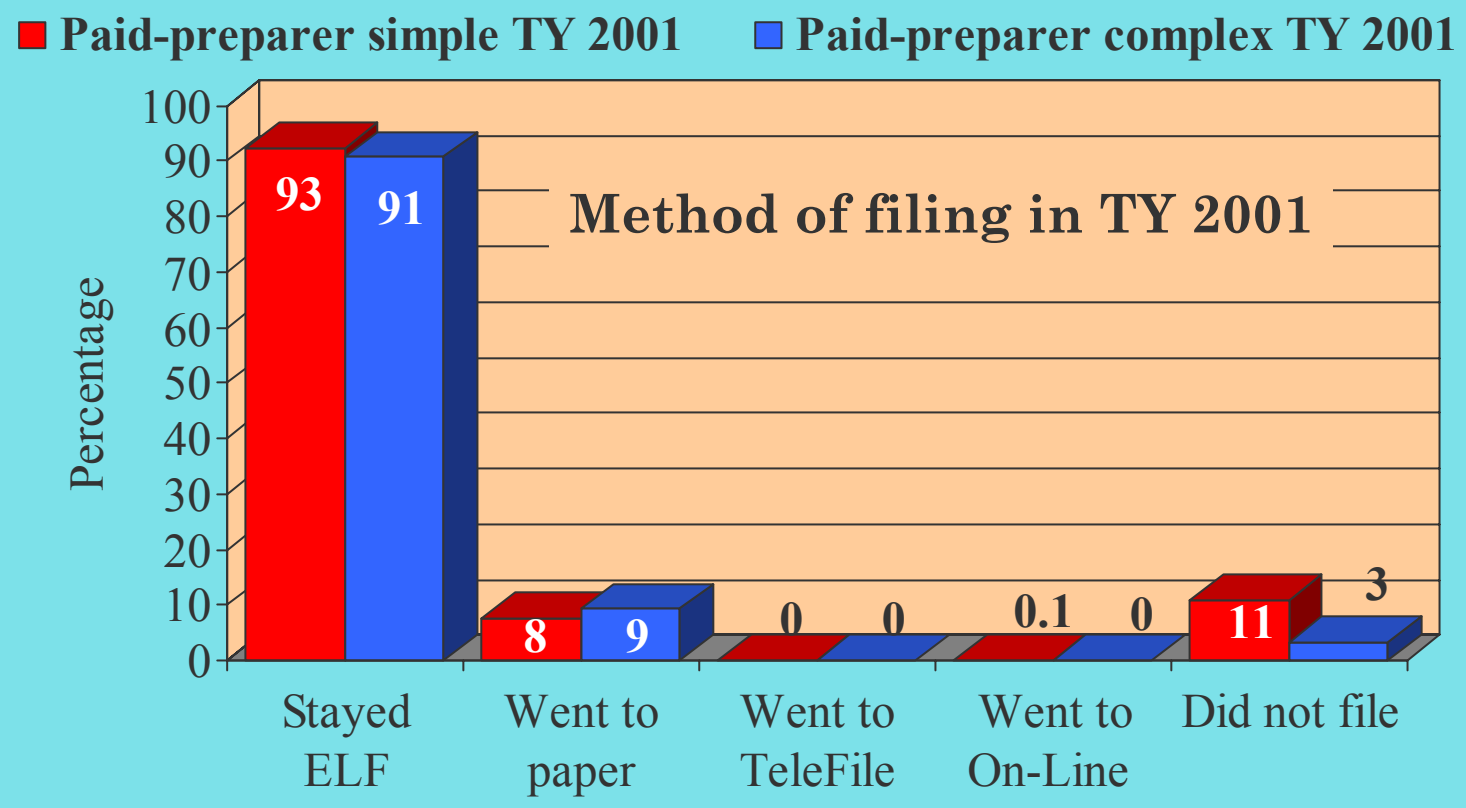
Note- Total is greater than 100% due to rounding and including those who did not file.

Self-prepared Intermodal Migration Filed ELF in TY 2000



Note- Total is greater than 100% due to including those who did not file

Paid-preparer intermodal migration
Filed ELF in TY 2000



Note- Total is greater than 100% due to including those who did not file

Summary

- Less than 30% of the Self-prepared simple segment stayed with ELF in TY 2001 and almost 50% of the segment went back to paper.
- Only self-prepared taxpayers switched to On-Line filing in TY 2001.
- The paid-preparer segments were over 90% loyal to ELF.
- Approximately 11% of the TY 2000 filers in each of the simple return segments did not file in TY 2001.

Question 2- Form 1040PC Migration

- 4.2 million filers used Form 1040PC in TY 1999.
- Form 1040PC was no longer accepted in TY 2000
- How did TY 1999 1040PC filers continue to file in TY 2000 (full-year file) and TY 2001 (part-year file)?

How all TY 1999 1040PC users filed in TY 2000 by market segment

Market segment	Filed paper	%	*e-file*	%	Did not file	%	Total returns
Self Simple	675,744	83.3	135,572	16.7	NA	NA	811,316
Paid Simple	928,362	80.0	232,544	20.0	NA	NA	1,160,906
Self Complex	577,334	60.2	381,074	39.8	NA	NA	958,408
Paid Complex	1,138,649	69.1	508,022	30.9	NA	NA	1,646,671
Did not file	NA	NA	NA	NA	358,010	7.3	358,010
Total	3,320,089	67.3	1,257,212	25.5	358,010	7.3	4,935,311

How all TY 1999 1040PC users filed in TY 2001 by market segment

Market segment	Filed paper	%	*e-file*	%	Did not file	%	Total taxpayers
Self Simple	516,488	73.6	184,957	26.4	NA	NA	701,445
Paid Simple	688,062	67.3	334,407	32.7	NA	NA	1,022,469
Self Complex	467,407	51.0	448,993	49.0	NA	NA	916,400
Paid Complex	831,686	54.9	683,253	45.1	NA	NA	1,514,939
Did not file 2001	NA	NA	NA	NA	780,058	15.8	780,058
Total	2,503,643	50.7	1,651,610	33.5	780,058	15.8	4,935,311

How TY 1999 1040PC users filed in TY 2000 and TY 2001

Method of filing	Conversion to electronic	
	TY 2000	TY 2001
Filed paper 97 and 98	22.8%	35.2%
Filed electronic 97 and/or 98	48.2%	59.1%
Did not file 97or 98	31.1%	43.9%
Overall to electronic	27.5%	39.7%

This table does not include taxpayers that did not file in TY 2000 or TY 2001

The direction is slowly moving towards electronic filing

In TY 2000

- Overall, slightly over 72% reverted to paper returns
- Nearly 28% filed electronic
- At nearly 84% paper returns, the Self Simple segment still lags behind the other market segments

In TY 2001

- All market segments reduced the percentage of paper returns to 60%
- And increased the percentage of electronic returns returns to 40%.
- At nearly 74% paper returns, the Self Simple segment still lags behind the other market segments

Items for consideration

- Is there still an interest in tracking the TY 1999 1040PC users for a third year?

We also noted the number of taxpayers that did not file in TY 2000 or TY 2001

- 358,000 (slightly over 7%) in TY 2000 and 780,000 (nearly 16%) in TY 2001

We will further address these taxpayers later in our section on first-time and intermittent filers

Attempt to project long-term migration for 1040PC users

Limitations of projection

- The projection is a mathematical model using only two years of data.
- More data points are required for accurate projections.
- We do not expect 100% electronic filing by 2004, but with limited data that is the result the model produces.

Note: the total number of returns is decreased by nearly 2 million due to intermittent filing patterns.

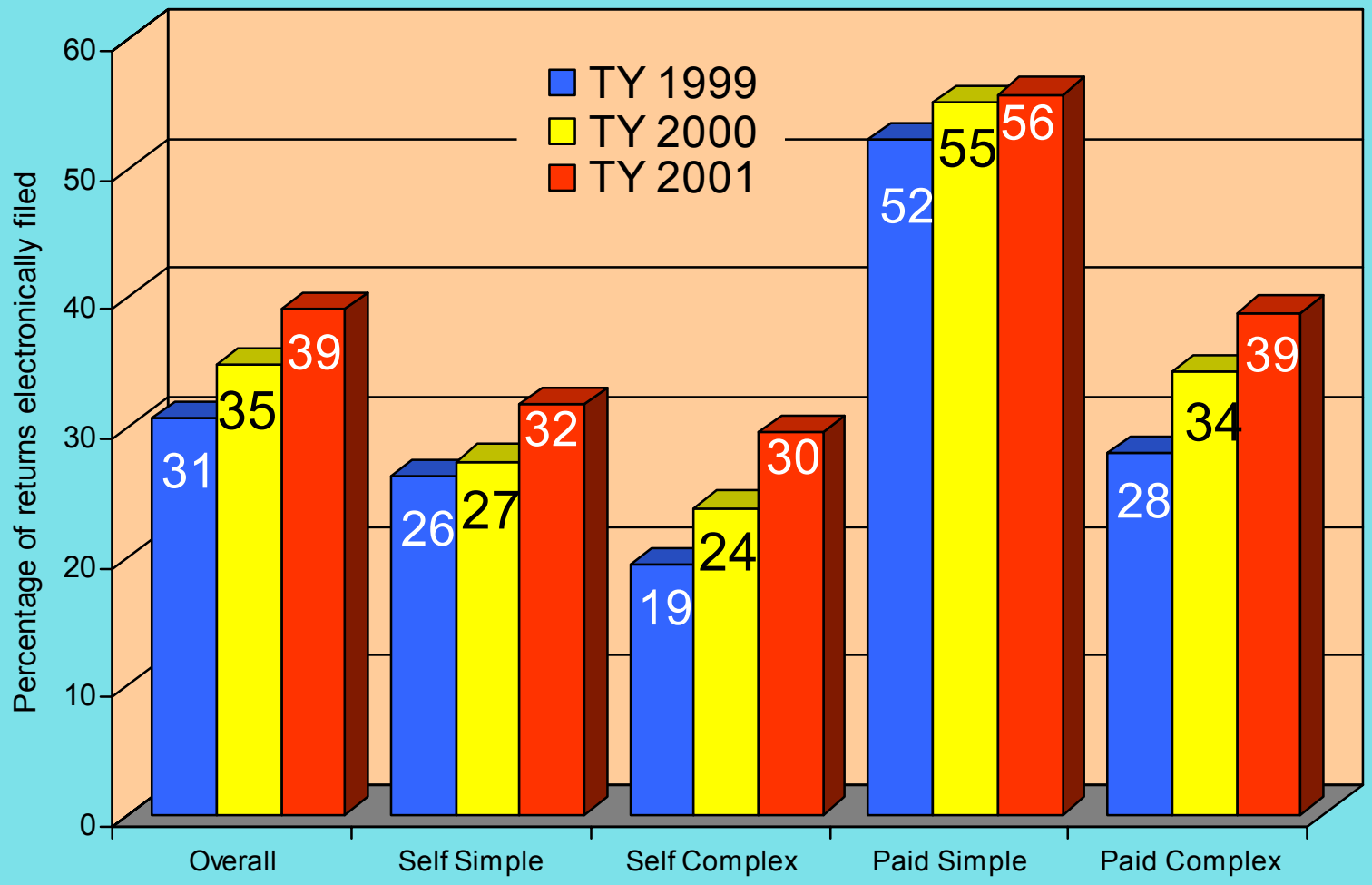
Potential net conversion from 1040PC to electronic filing

Tax year and data type	Total former 1040PC users	% *e-filed*	Number of electronic returns
1999 actual	4,935,311	0.0	0.0
2000 actual	4,577,301	27.5	1,257,212
2001 actual	4,155,253	39.7	1,651,610
2002 projected	3,776,000	62.1	2,345,000
2003 projected	3,386,000	82.0	2,777,000
2004 projected	2,996,000	100.0	2,996,000

Question 3- Electronic Filing in Tax Year 2001

e-file and V-code return preparation by market segment

Use of electronic filing by market segment



Electronic filing by market segment (continued)

- The paid-preparer simple segment continued to have the largest overall percentage of electronic filed returns (56%) and each of the other three segments increased their percentage of electronic filing by 5% or more.
- While the self-prepared complex return market continued to have the least *e-file* penetration, the segment had the largest change from 24% in TY 2000 to 30% in TY 2001.

Every market segment experienced growth in *e-file* from TY 2000 to TY 2001

Market segment	TY 2000			TY 2001			Percent growth
	Returns	*e-file*	Percent	Returns	*e-file*	Percent	
Self-simple	32,056,921	8,760,032	27%	30,143,063	9,556,294	32%	↑ 19%
Self-complex	20,350,265	4,814,195	24%	20,372,639	6,015,988	30%	↑ 25%
Paid-simple	23,599,112	12,976,299	55%	25,946,325	14,445,096	56%	↑ 2%
Paid-complex	38,936,189,	13,321,670	34%	41,722,873	16,192,536	39%	↑ 15%
Total	114,942,487	39,872,196	35%	118,184,900	46,209,914	39%	↑ 11%

But the rate of *e-file* growth actually slowed for every market segment except the self-prepared simple return segment.

Market segment	TY1999 to TY2000 rate	TY2000 to TY2001 rate	Difference in rate of growth
Self-prepared simple	4%	19%	+15
Self-prepared complex	26%	25%	-1
Paid-preparer simple	6%	2%	-4
Paid-preparer complex	21%	15%	-7
Total	13%	11%	-2

Electronic Filing by Operating Division

- Although *e-file* returns remain disproportionately represented in W&I (82%) the percentage is slightly lower for TY 2001.
- SB/SE increased the percentage of electronic returns within the operating division and in the percentage of total returns for TY 2001.

	Wage and Investment		Small Business/Self-employed		Total populations
***e-file* Population**	**37,773,409**		**8,436,505**		**46,209,914**
Percentage TY2001		**82%**		**18%**	**100%**
Prior percentage		83%		17%	100%
Total population	**88,996,163**		**29,188,737**		**118,184,900**
PercentageTY2001		**75%**		**25%**	**100%**
Prior percentage		77%		23%	100%

The *e-file* penetration rate increased to 39%

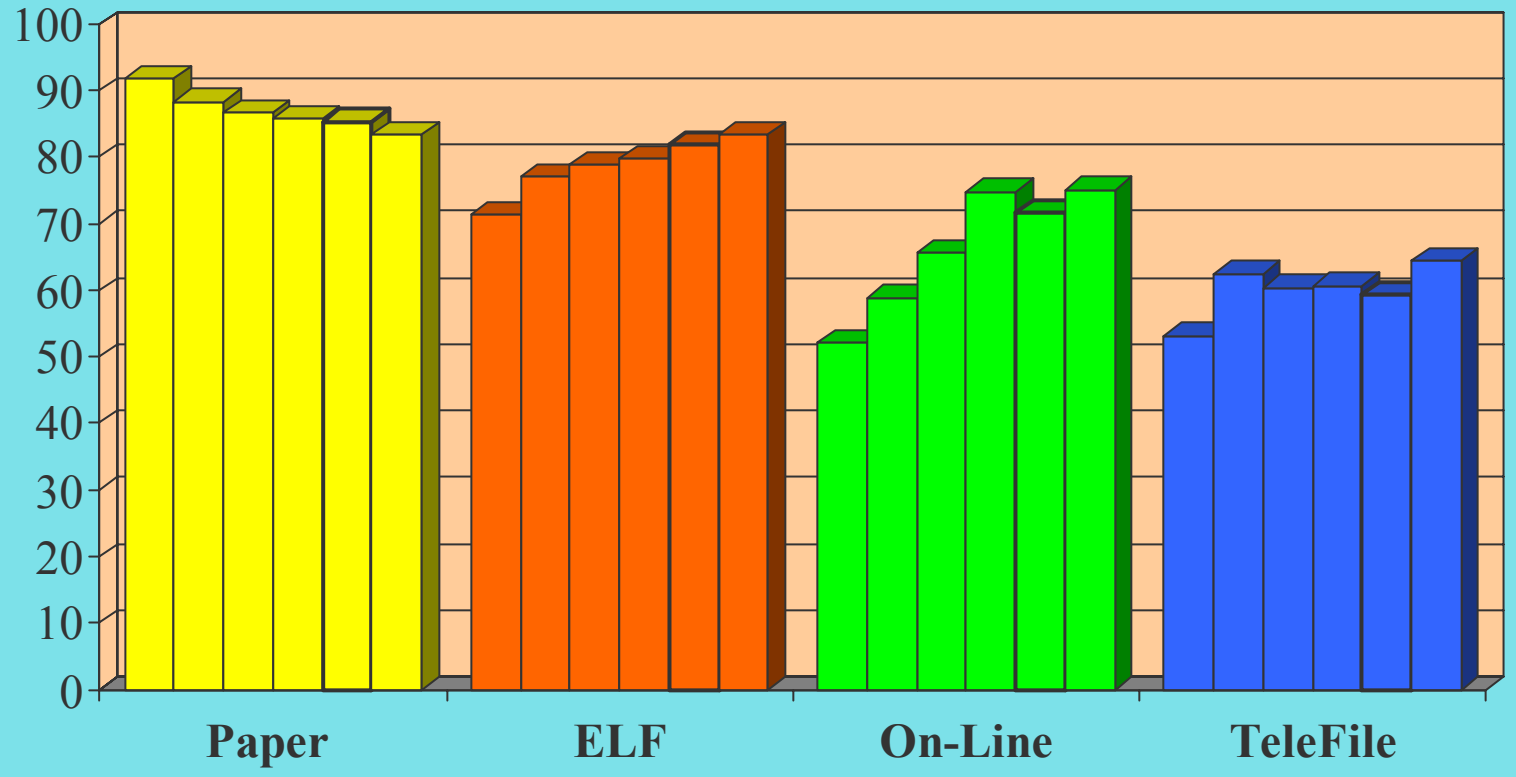
	TY 1999	TY 2000	TY 2001	Percentage change PY 1999 to PY 2000	Percentage change PY 2000 to PY 2001
Electronic returns	**31%**	**35%**	**39%**	**13%**	**16%**
• ELF	22%	25%	28%	15%	14%
• TeleFile	5%	4%	4%	-14%	-6%
• On-Line	4%	6%	8%	**36%**	**38%**
Paper returns	**69%**	**65%**	**61%**	**-6%**	**-4%**
Total returns	**100%**	**100%**	**100%**	**-**	**-**

On-Line filing shows continued strong growth.

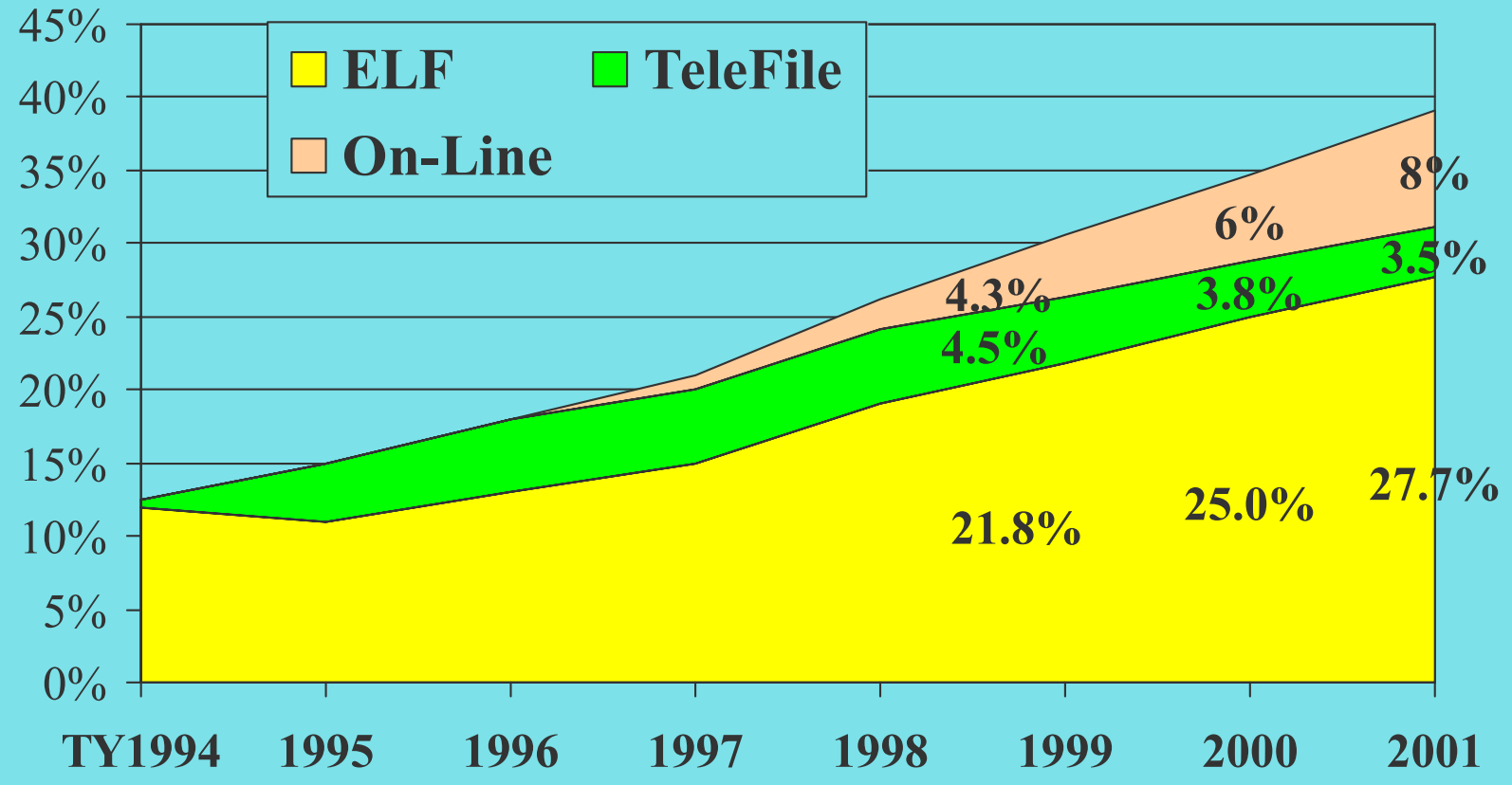
TeleFile continued to decline.

Repeat rates by method of filing for TY 1996 -TY 2001

Tax years are shown left to right, 1996 - 2001, for each method of filing



The filing trend toward electronic returns is continuing for On-Line and ELF products.



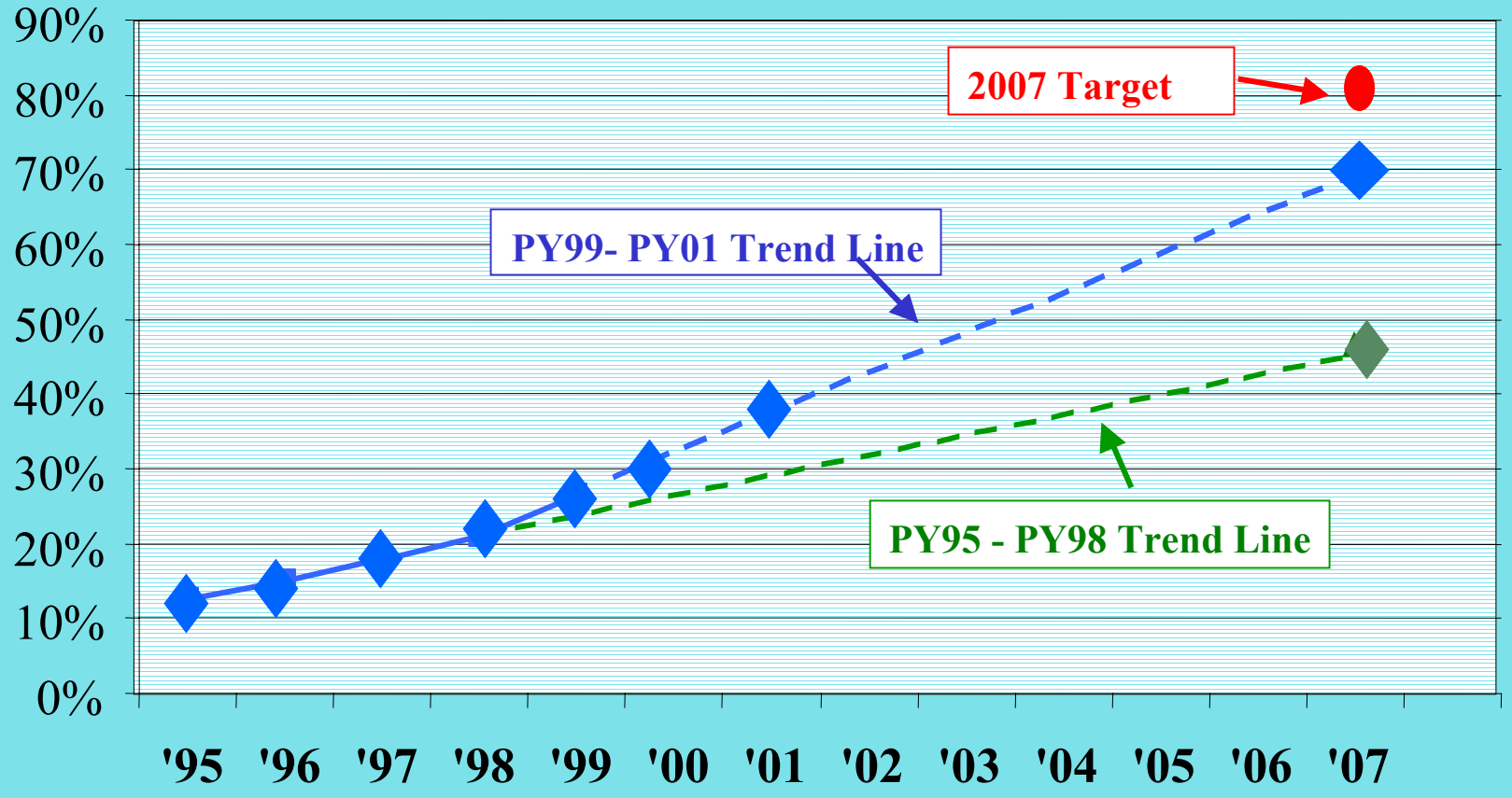
The growth of electronic filing by market segment, TY 1998 – TY 2001

	Percentage of electronic returns filed				
Market segment	**TY 1998**	**TY 1999**	**TY 2000**	**TY 2001**	**Rate of growth**
Self Simple	23.6	26.2	27.4	31.8	35%
Self Complex	12.7	19.3	23.7	29.5	**132%**
Paid Simple	47.1	52.2	55.0	**55.7**	**18%**
Paid Complex	23.8	28.0	34.3	38.8	**63%**
Overall	26.2	30.6	34.7	39.1	49%

Growth of electronic filing (continued)

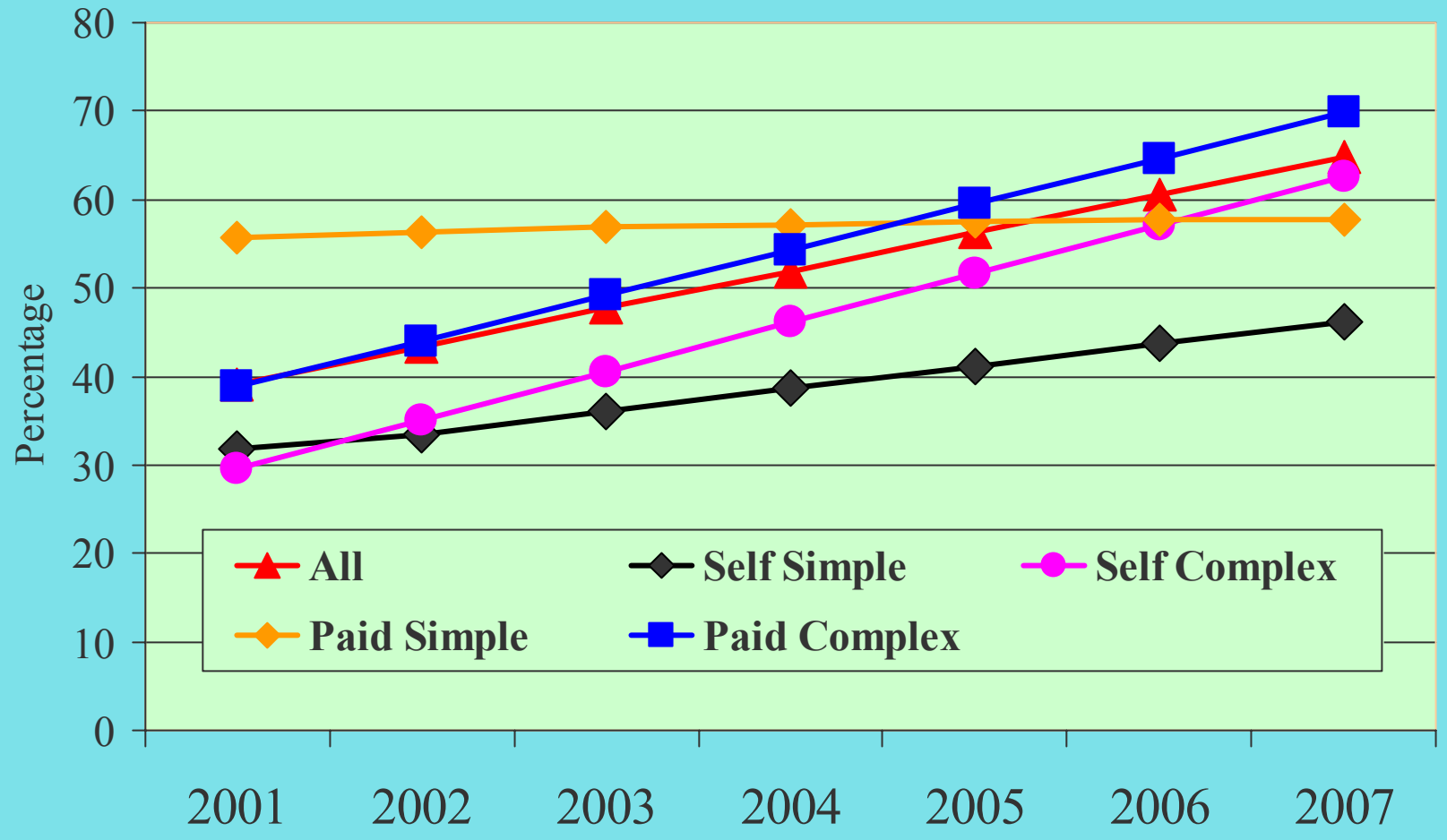
- Electronic filing in the simple market segments is growing much slower than in the complex segments.
- The paid simple return segment may be reaching the “saturation” point. At nearly 56% electronic filing it has the lowest rate of growth, approximately one-third the overall rate.

The *e-file* penetration growth rate increased significantly in TY 1999 and has maintained the increase through TY 2001



But is still insufficient to meet the 2007 target.

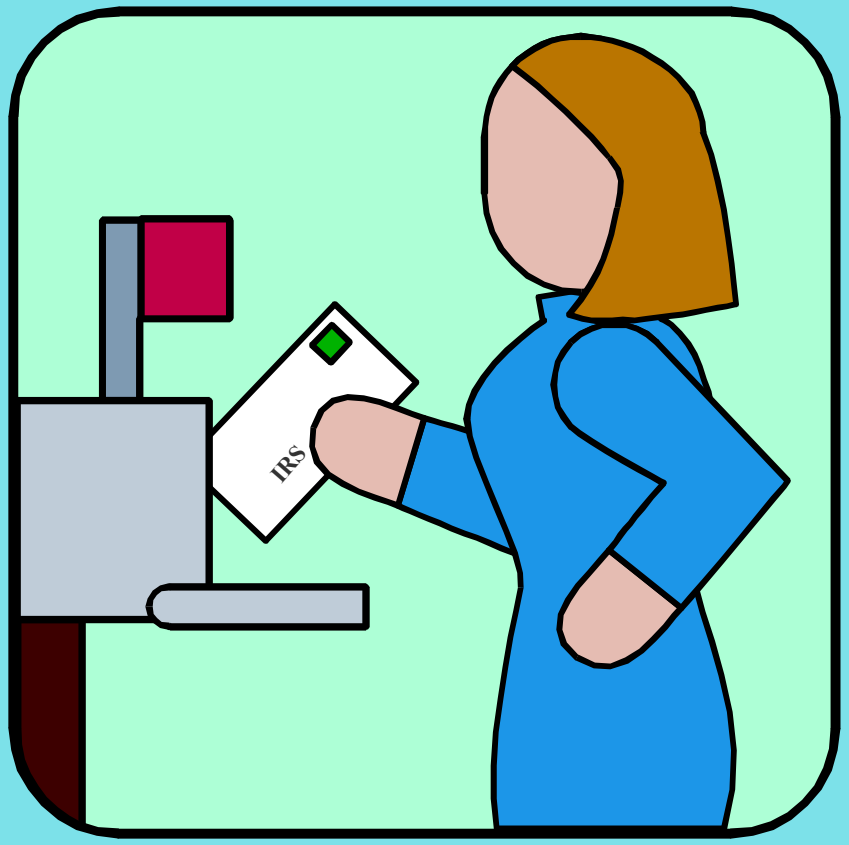
Hypothetical, potential electronic growth by market segment using TY 2001 growth



Outlook for electronic filing

- Electronic filing, both ELF and On-Line, repeat rates have significantly increased over the past six years.
- Paper filing repeat rates have slowly, but steadily, decreased over the same time period.
- TeleFile repeat rates have remained flat overall with a small increase in TY 2001 despite a decline in the volume.

The significant differences in the profiles of *e-file* users and non-users in each market segment remain.



Most differences between *e-file* users and non-users are the same as last year

- ***e-file*** users are younger than non-users in every market segment
- TeleFile and ELF users have lower income than non-users, On-Line users have the highest average income
- In each market segment ***e-file*** users continue to have a higher percentage of refund returns, claims for EIC and requests for direct deposit than non-users

Computer Prepared Returns

- V-code returns (computer-prepared, but paper filed returns)
- Electronically filed returns (ELF and On-Line)

Computer-prepared paper returns increased slightly from TY 1999 to TY 2001

	TY 1999	TY 2000	TY 2001	Percentage change TY 1999 to TY 2000	Percentage change TY 2000 to TY 2001
Paper returns	**69%**	**65%**	**61%**	**-9%**	**-4%**
V-code	35%	35%	35%	6%	0.6%
Other paper	31%	30%	26%	-9%	-10%
Electronic returns	**31%**	**35%**	**39%**	**20%**	**16%**
Total	**100%**	**100%**	**100%**		**-**

The total number of V-coded paper returns increased by only 237,669 returns from TY 2000, comprises 57% of all paper filed returns, and continues to represent 35% of all returns.

Computer-prepared returns by market segment

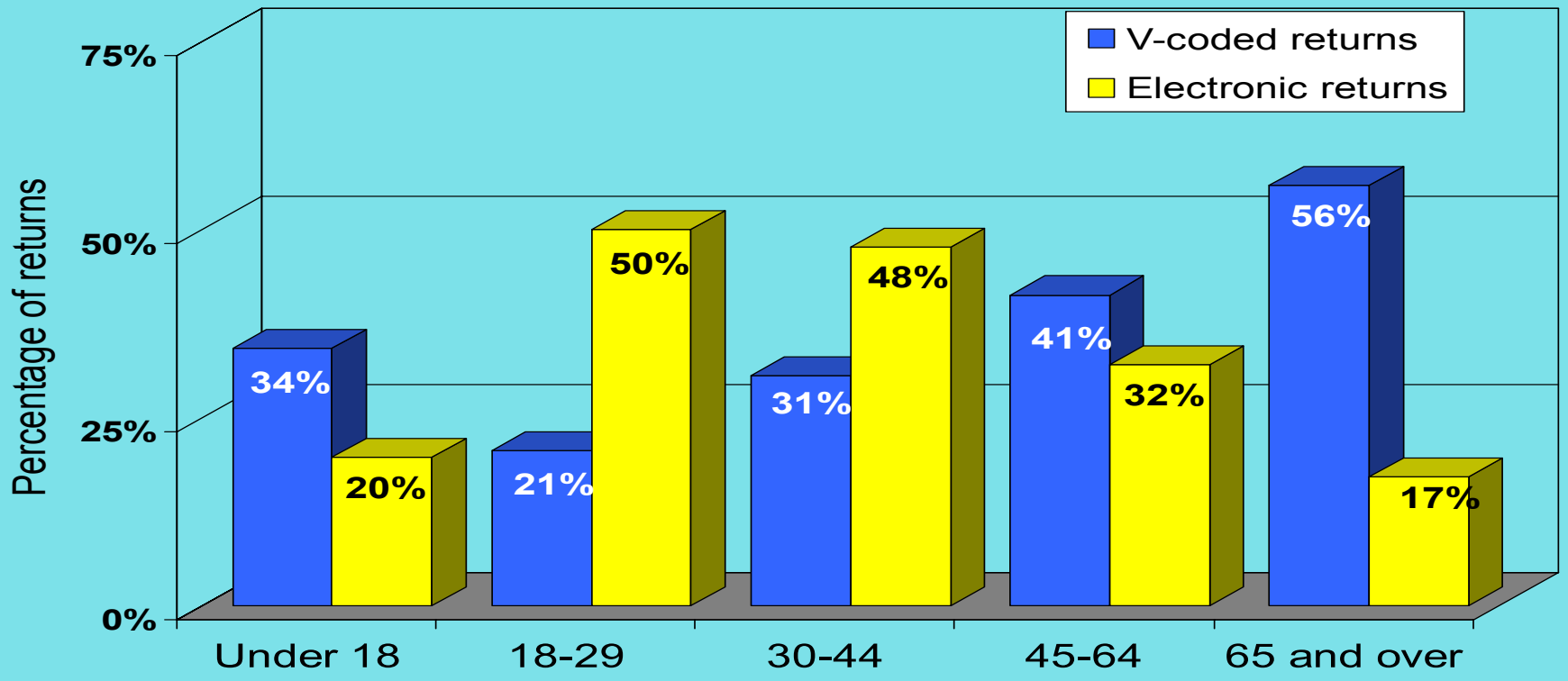
- 88% of the paid-preparer simple segment and 93% of the paid-preparer complex segment are computer prepared.
- At 43%, the self-prepared simple segment substantially lags in computer return preparation.

Market segment	Hand prepared, paper return	V-coded returns	*All e-file* returns	Percentage of segment computer prepared
Self-prepared simple	55%	8%	21%	**43%**
Self-prepared complex	26%	15%	13%	**60%**
Paid-preparer simple	10%	21%	31%	**88%**
Paid-preparer complex	9%	56%	35%	**93%**
Total	100%	100%	100%	**74%**
Method of filing as a percent of total returns	**26%**	**35%**	**39%**	

Computer usage compared to electronic usage

Market Segment	Percentage of segment computer prepared	Percentage computer prepared and electronically filed
Self-prepared simple	43%	32%
Self-prepared complex	60%	30%
Paid-preparer simple	88%	56%
Paid-preparer complex	93%	39%
Total	74%	39%

V-code and Age

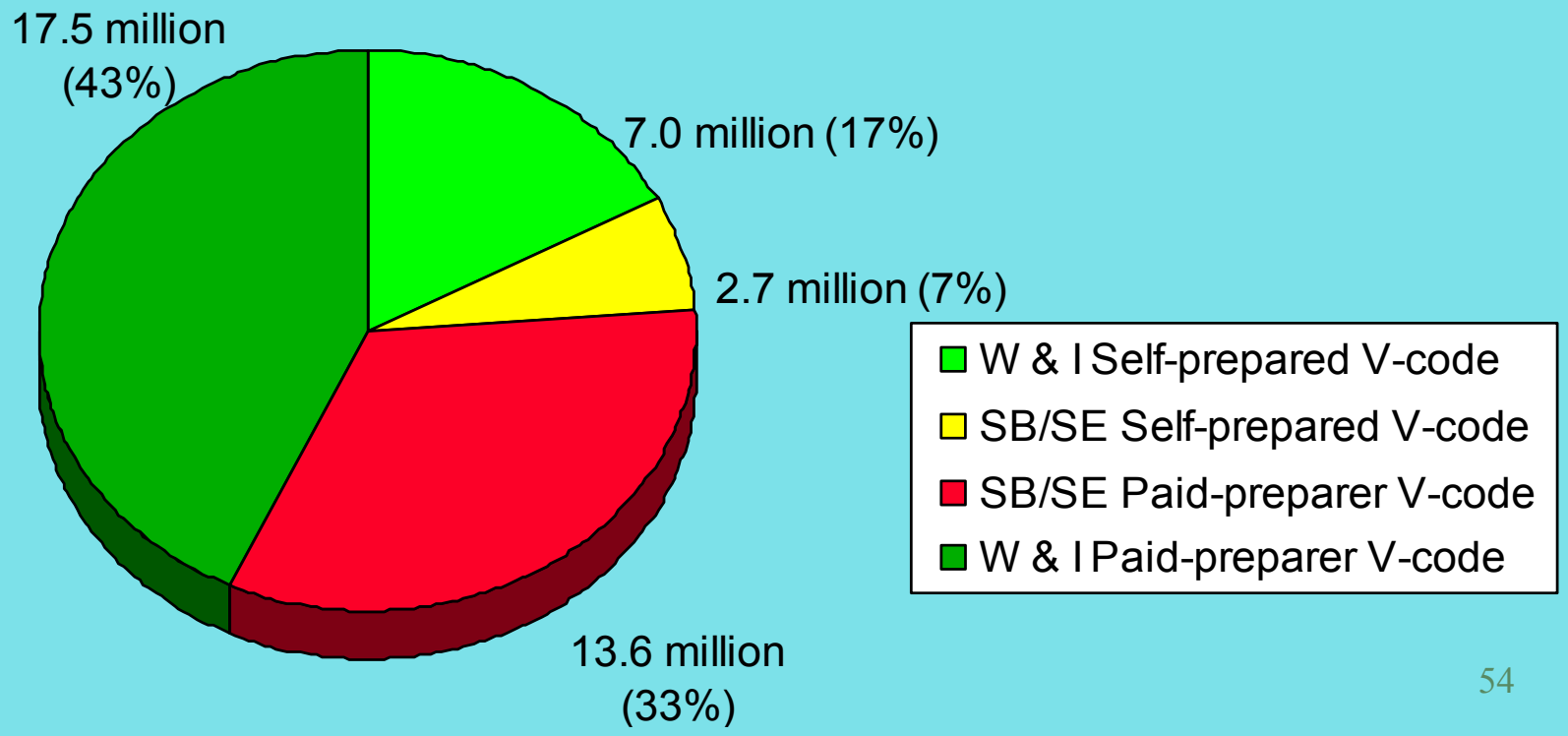


The percentage of electronic filing increased in every age bracket from TY2000.

The percentage of V-code returns filed by the 45 to 64 age group increased slightly in TY2001 and over 1/3 of all V-code returns were filed by taxpayers in this bracket.

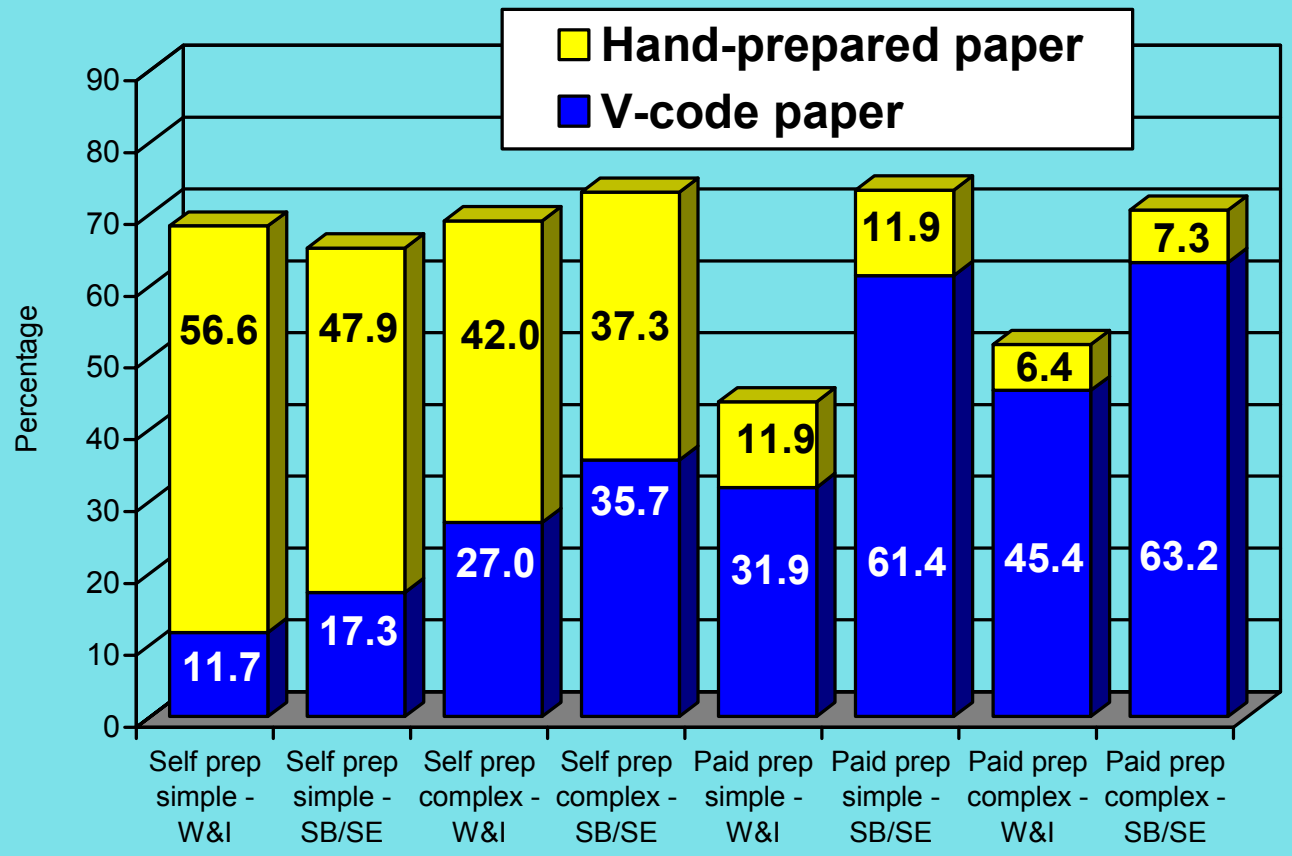
V-code returns, operating divisions and market segments

- 76% of the V-code returns are prepared by paid-preparers
- 43% of the V-code returns are prepared by paid-preparers and are in the W&I division



V-code usage by operating division

- **The proportion of V-code returns remains higher in the SB/SE division in all four segments.**
- **V-code usage went down on a percentage basis in all segments except the W&I self-preparer simple segment which rose from 10.2 to 11.7 percent.**

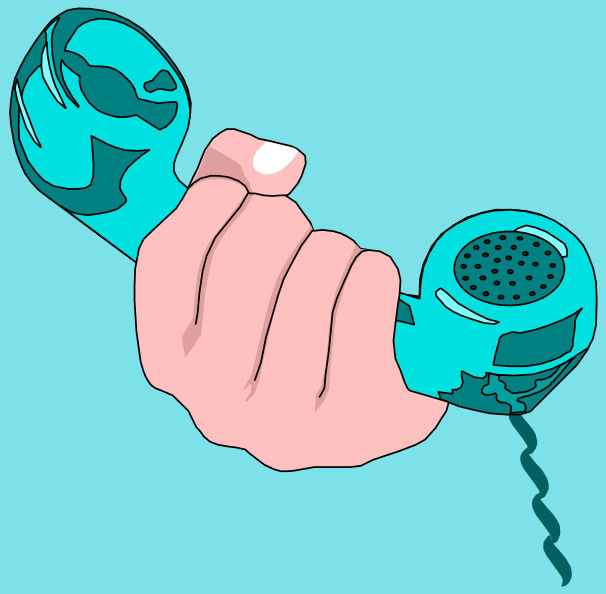


V-code and Computer prepared Returns Summary

- As in TY 2000, 35% of all TY 2001 returns are V-code returns
- V-code returns comprise 57% of all paper returns filed (up 3 points)
- V-code returns make up 84% of all paid-preparer paper returns (down 2 points)
- 57% of self-prepared simple returns are hand prepared (down 5 points)

Question 4- TeleFile

General information for TY 2001 and prior



TeleFile returns filed for tax years 1996 through 2000

Tax year	Number of TeleFile returns	Percentage of total returns
TY 1996	4,682,576	4.2%
TY 1997	5,915,184	5.2%
TY 1998	5,658,966	5.1%
TY 1999	5,153,011	4.5%
TY 2000	4,414,206	3.8%
TY 2001	4,157,956	3.5%

The percentage of eligible taxpayers that received and used TeleFile rose to 54%, an increase of nearly 8 percentage points from TY 2000.

	TY 1999			TY 2000			TY 2001		
Package recipient and filed a return	20,285,051	100%		15,332,766	100%		13,192,240	100%	
Eligible to TeleFile	12,648,968	62%	100%	9,533,119	62%	100%	7,727,005	59%	100%
Eligible and used TeleFile	5,153,011	25%	41%	4,414,206	29%	46%	4,157,956	32%	54%
Not eligible to TeleFile	7,653,188	38%		5,804,647	38%		5,465,235	41%	

This equals a 17% percent increase in the rate of TeleFile usage among eligible TeleFile package recipients

TeleFile TY 2001 (continued)

- The number of packages mailed has been reduced by nearly 35% since TY 1999.
- However, the percentage of taxpayers receiving packages, but ineligible to TeleFile, is still rising. For TY 2001 over 41% of the recipients were not ineligible.
- Reasons now include: ES payments, using other 1040 forms (e.g. 1040NR, 1040PR), and additional credits

Is TeleFile a “Gateway” to electronic filing?

e-file

On-Line

What has happened with TeleFile users since TY 1996

We approached this question in three steps:

A. How TeleFile users that received a package for TY 2001 and filed every year between 1995 and 2001, filed in TY 2001 and prior years.

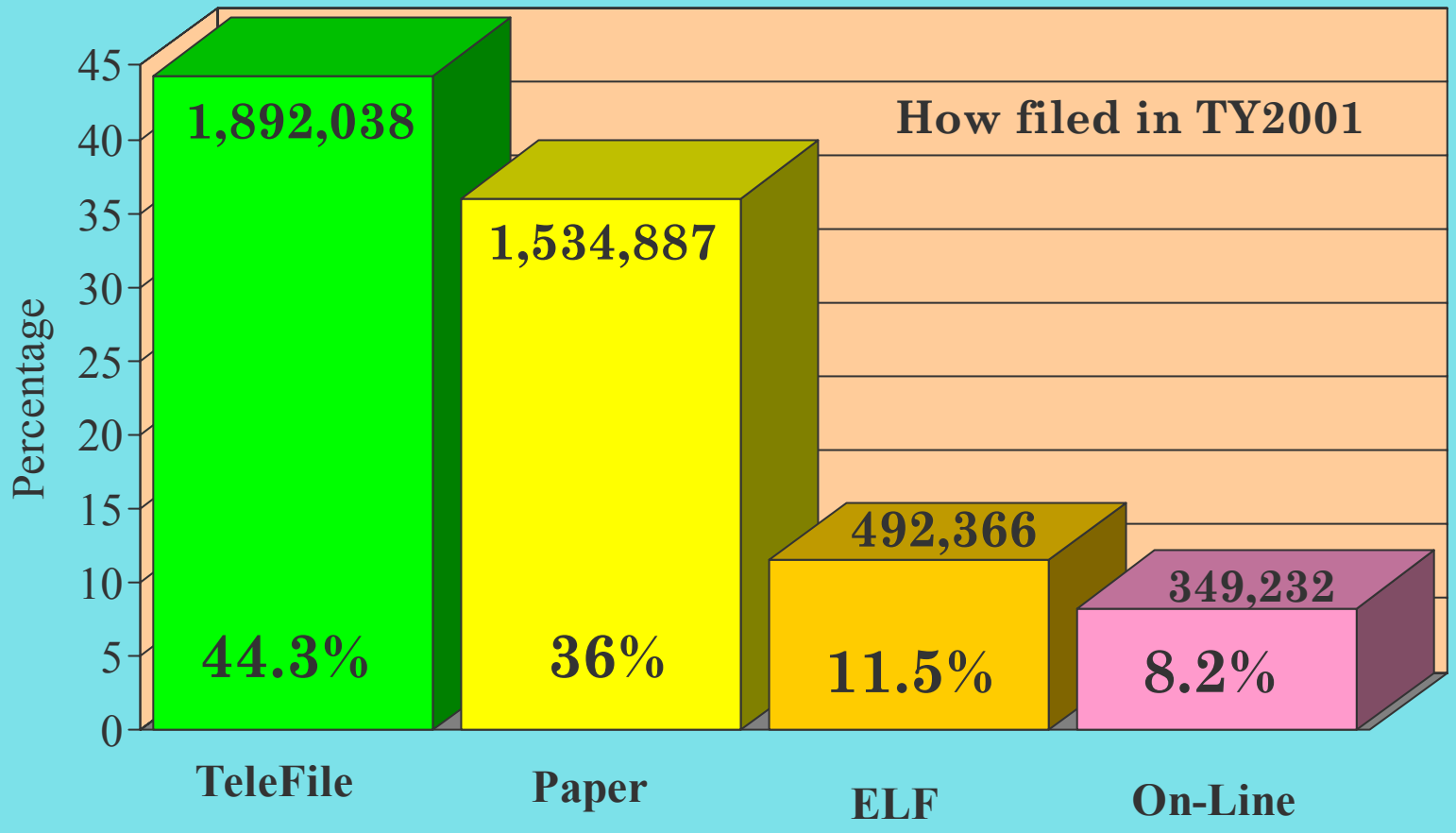
B. How taxpayers, that did not receive a package for TY 2001 and filed every year between 1999 and 2001, filed in TY 2001 and prior years.

C. How taxpayers, that did not receive a package for TY 2001 and did not file every year between 1999 and 2001, filed in TY 2001 and prior years.

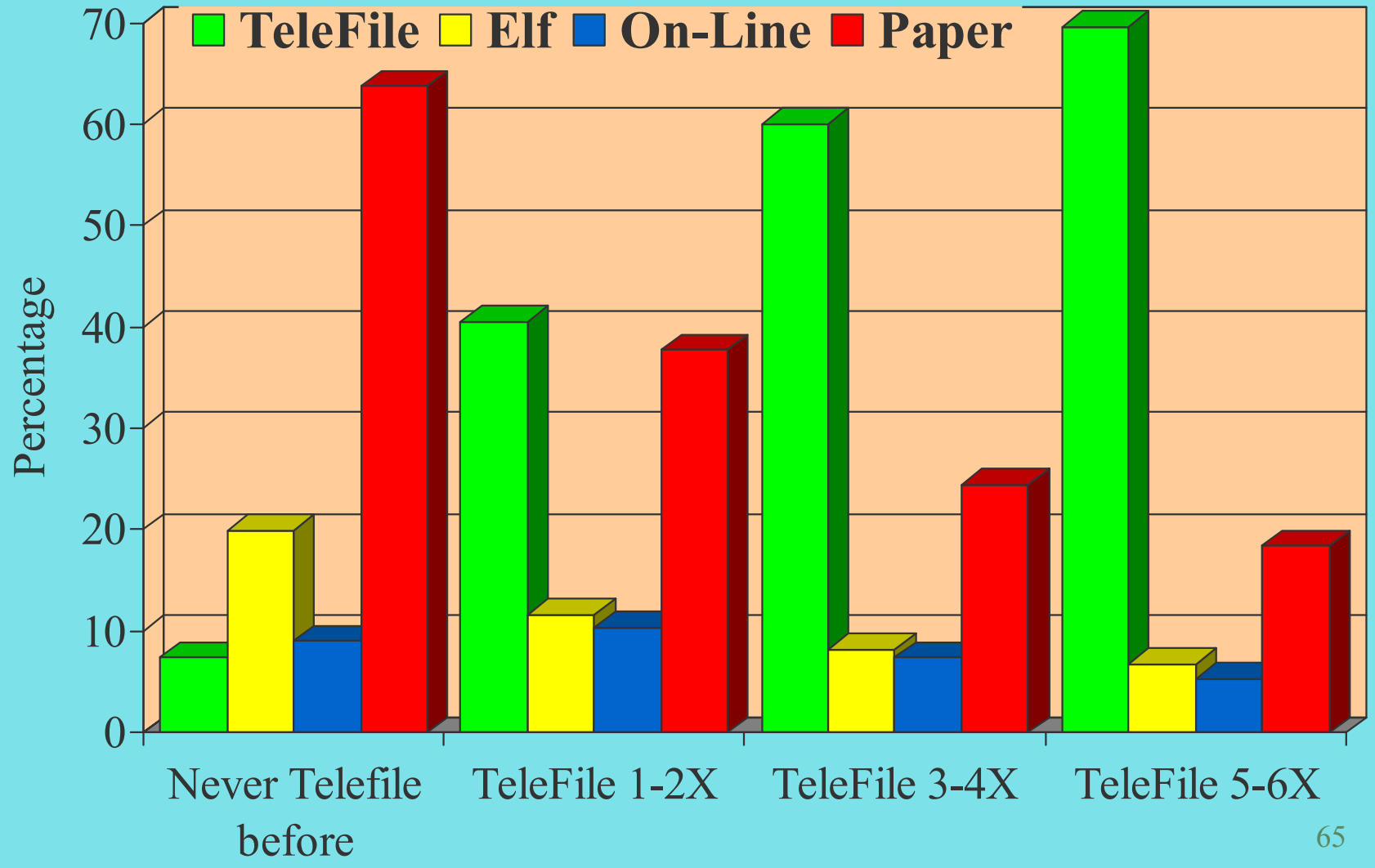
A. How 4.3 million taxpayers filed in TY 2001 that:

- ✓ Received a TeleFile package in TY 2001
- ✓ Filed every year between 1995-2001
- ✓ But may not have been TeleFile eligible

Overall, 44% used TeleFile and nearly 20% used ELF or On-Line



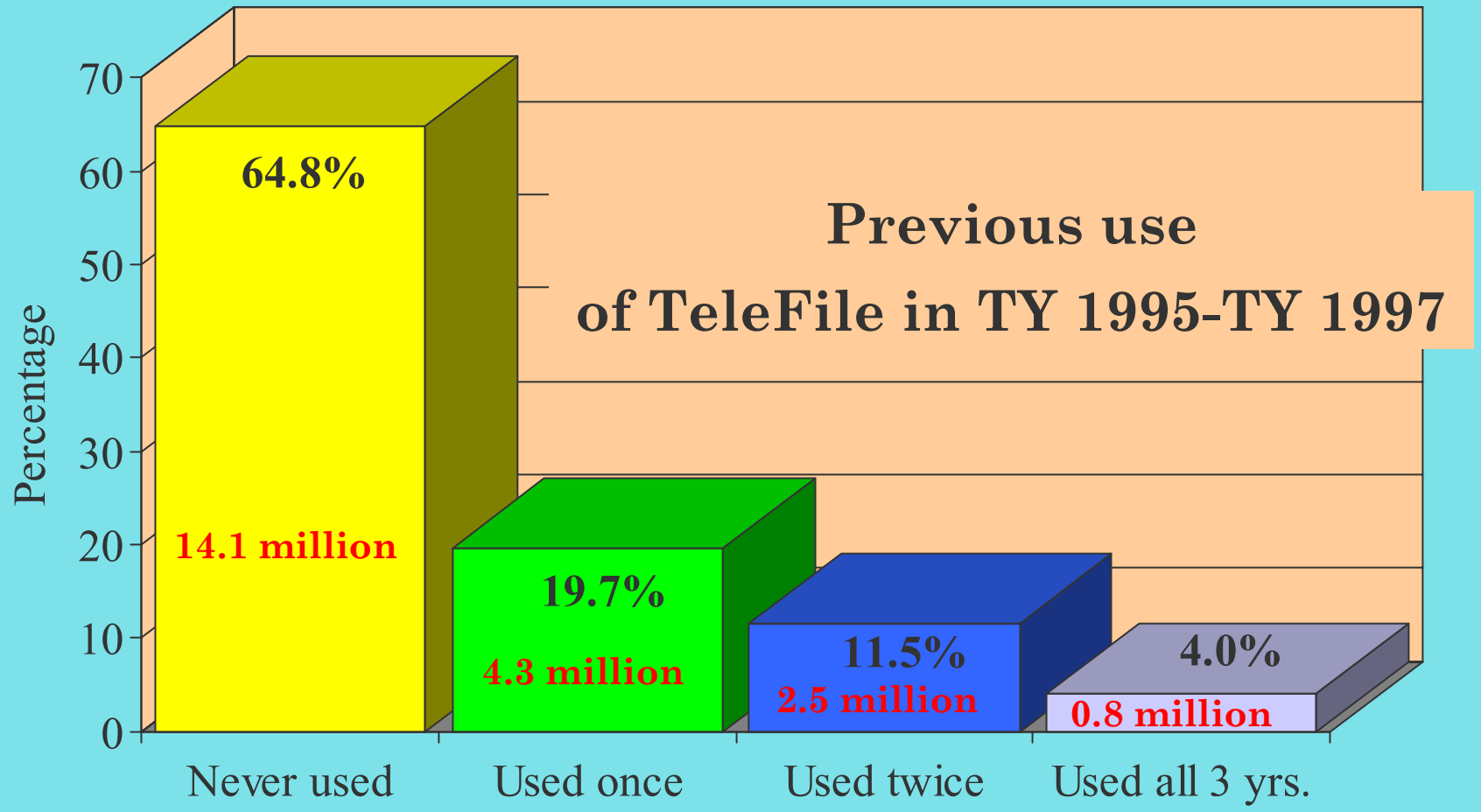
Received TeleFile package in TY 2001, filed all years, and prior TeleFile usage



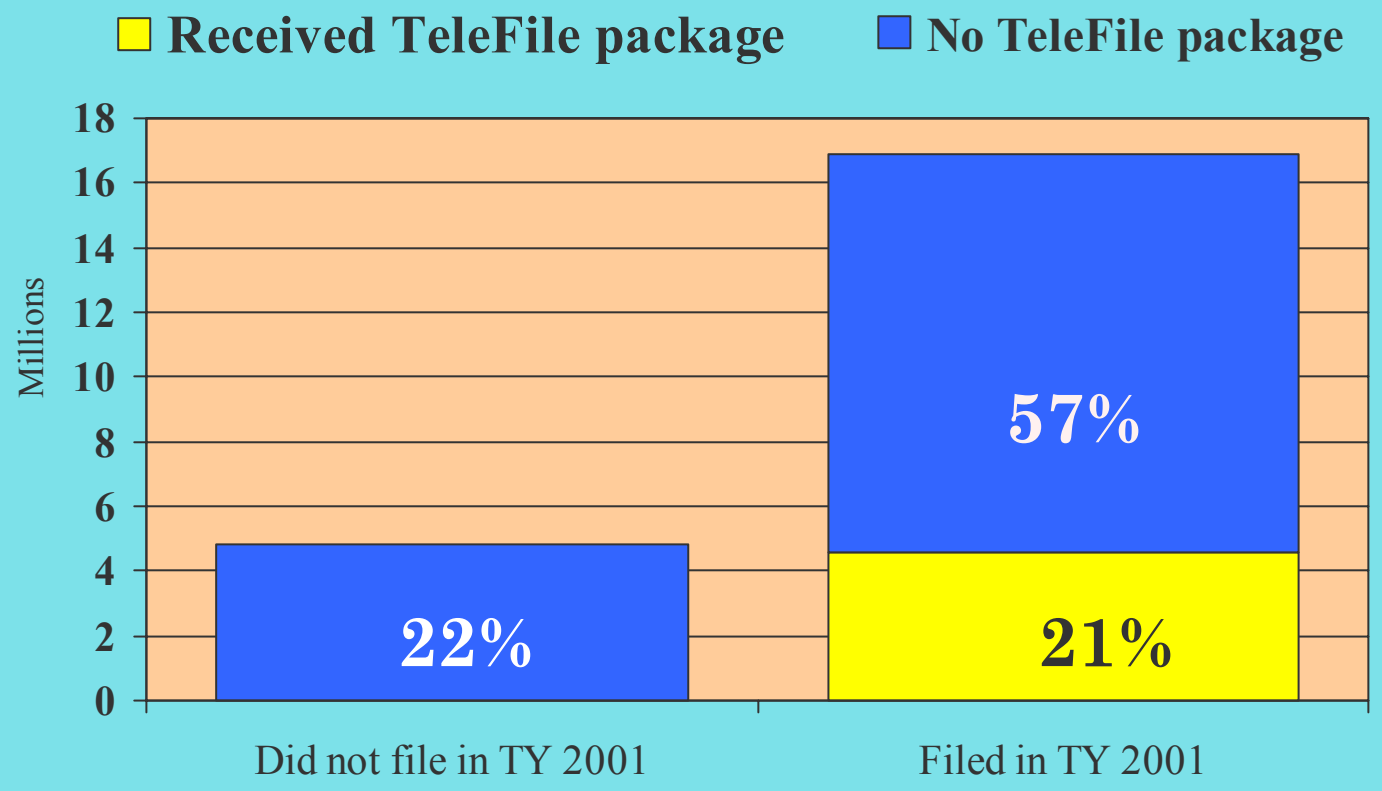
Received TeleFile package and filed 1995-2001

- Approximately 64% filed electronically in TY 2001 (TeleFile, ELF or On-Line).
- 63% of the taxpayers that used TeleFile three or more times since 1995 used TeleFile again in TY 2001.
- Nearly 64% of the taxpayers that never used TeleFile before, filed on paper in TY 2001.

Looking back three years on the 21.7 million taxpayers that were mailed packages and filed in TY1997



Did the TY 1997 taxpayers get a TeleFile package in TY 2001?



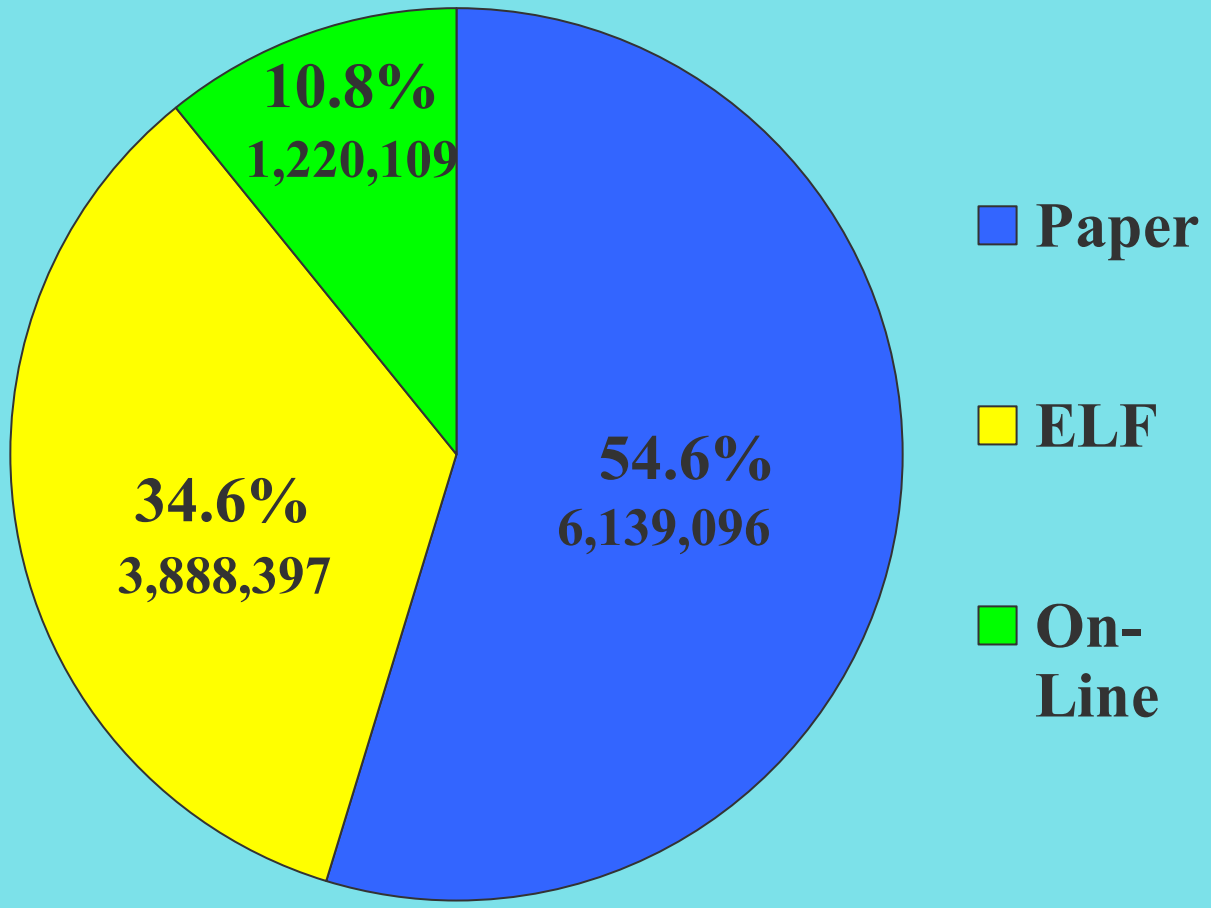
12.3 million did not receive a package, 4.6 million received a package and filed, and 4.7 million did not file in TY 2001

B. Of the 12.3 million taxpayers that did not receive a TeleFile package in TY 2001:

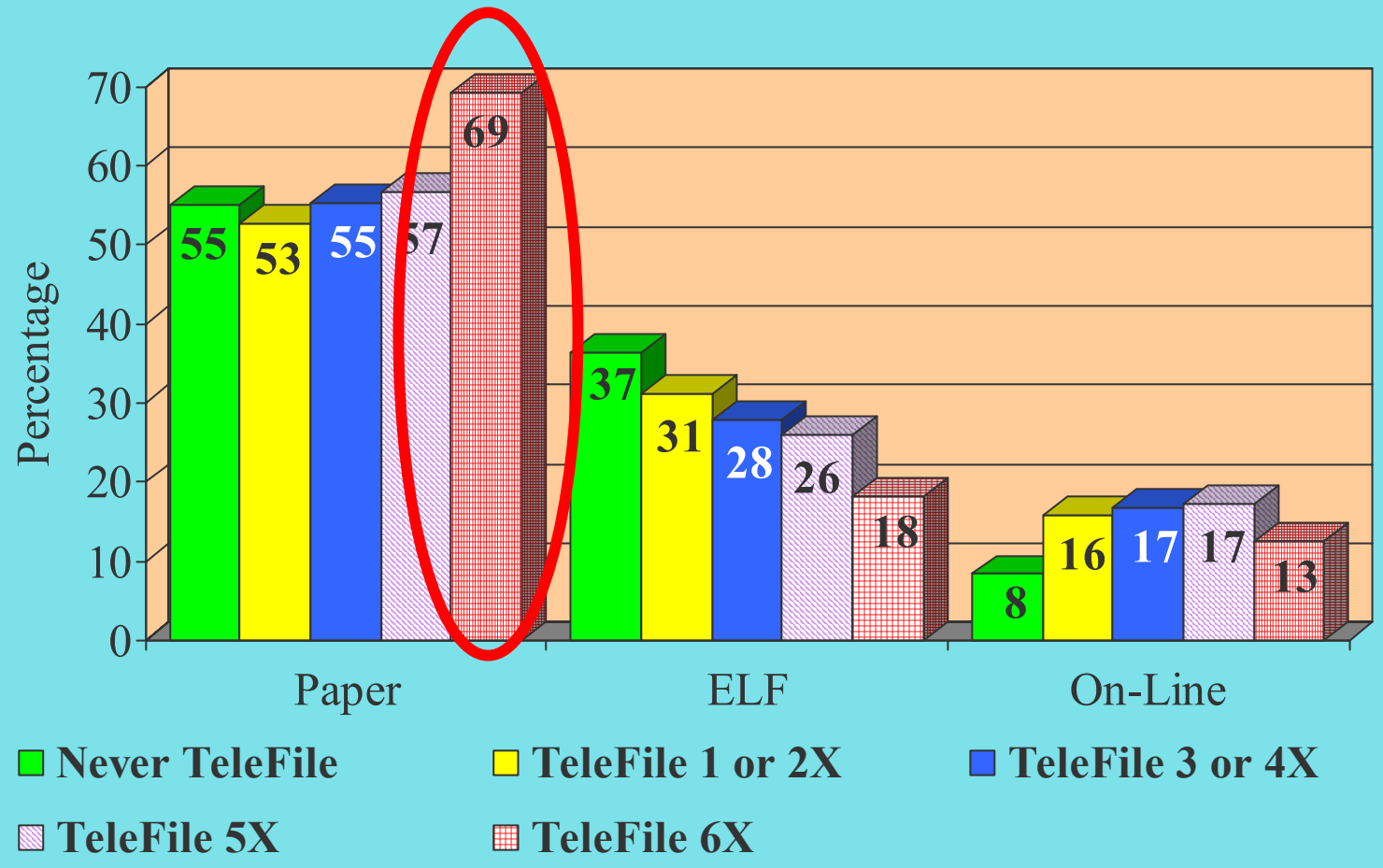
- 11.2 million (91%) filed all years between 1997 and 2001
- 1.1 million (9%) did not file in at least one year

Looking at the taxpayers that filed in all 5 years we found-

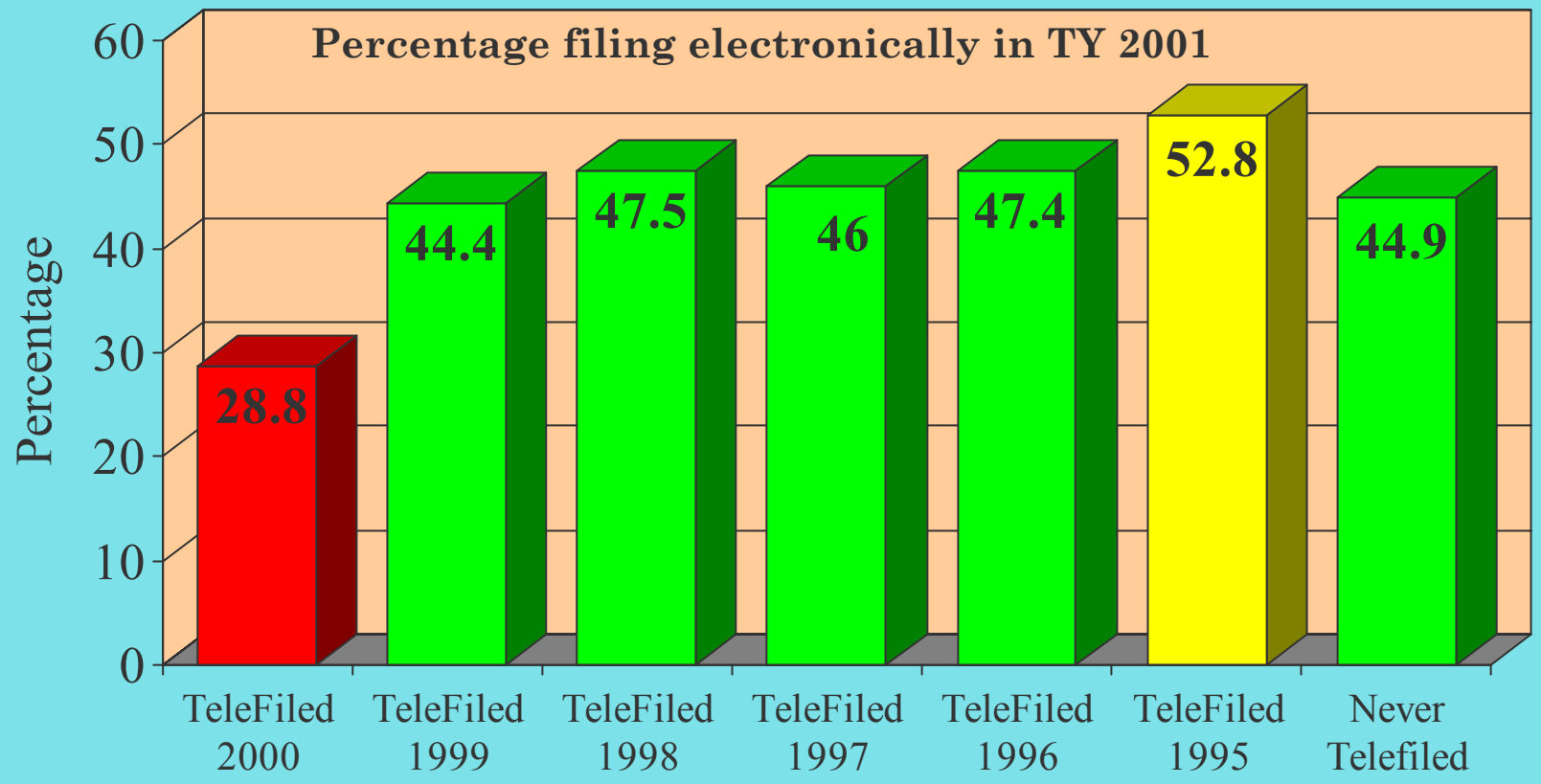
In TY 2001, they filed using the following methods-



Even if TeleFile was used in every prior year, when they stopped using TeleFile, they switched back to a paper return in TY 2001



However, the longer they were away from using TeleFile, the more likely they filed electronically in 2001

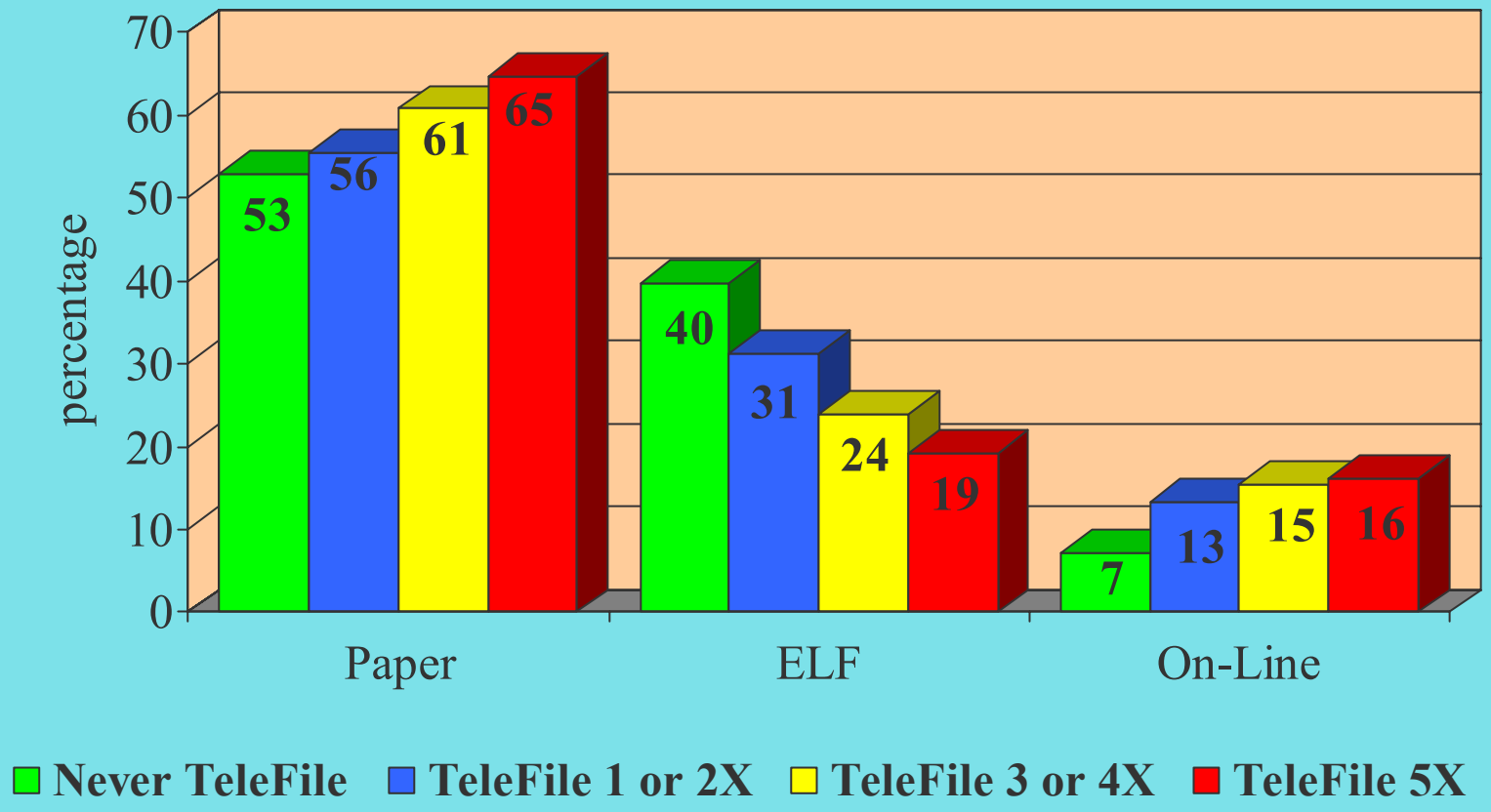


- **Remember, overall e-file penetration is 39%**

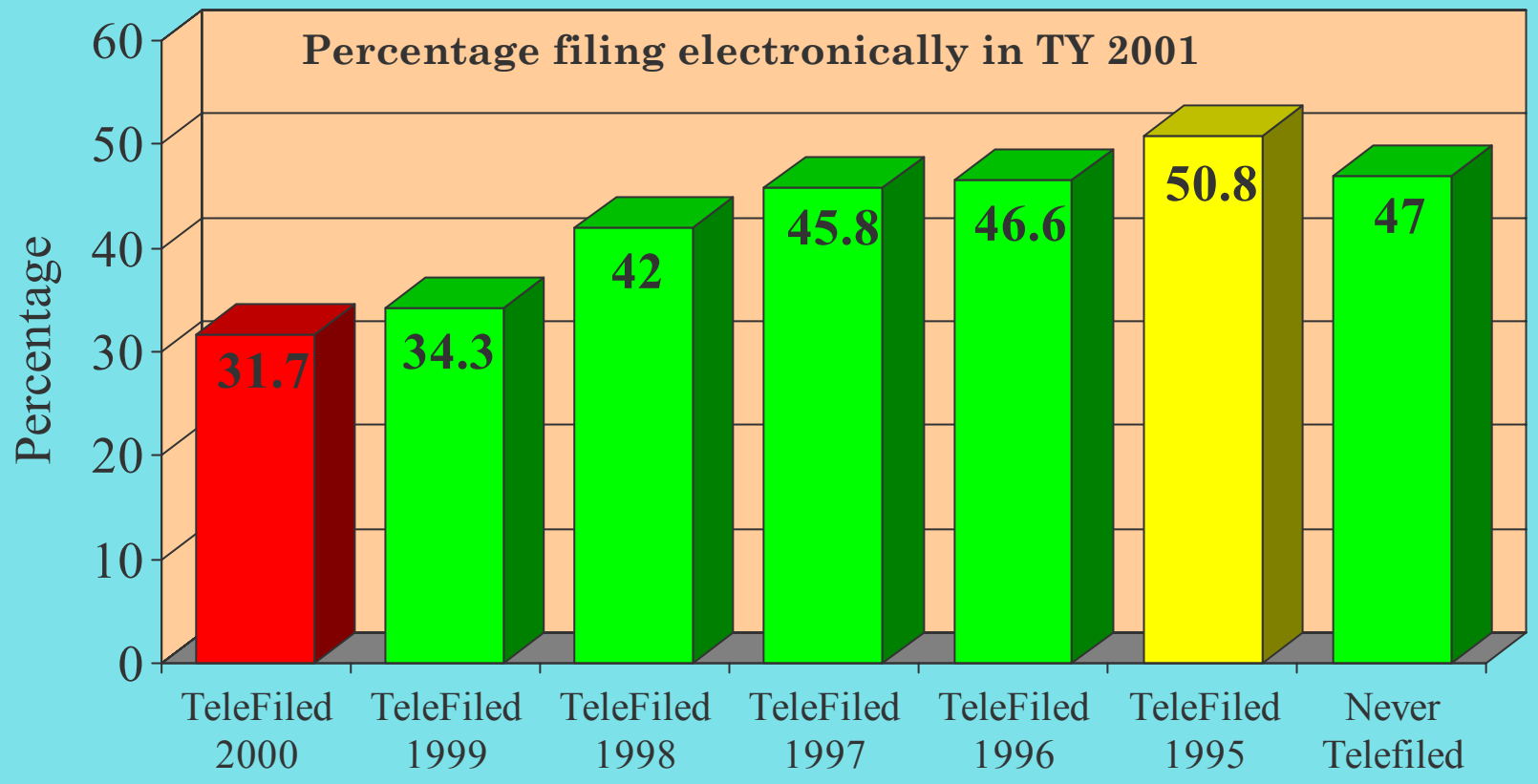
C. What about the 1.1 million Taxpayers who did not file at least one year since TY 1997?

Number of years not filed	Paper	Elf	On-Line	Total
One year	52.7%	37.9%	9.4%	100.0%
Two years	56.6%	34.6%	8.8%	100.0%
Three Years	61.1%	30.3%	8.6%	100.0%
Total	54.2%	36.6%	9.2%	100.0%

Again, even if they used TeleFile every year when they did file, they switched back to paper in TY 2001



And, the longer they were away from using TeleFile, the more likely they filed electronically in TY 2001



Short term patterns

- When taxpayers stopped using TeleFile in TY 2001, whether or not they received a TeleFile package, most went back to paper.
- If they received a TeleFile Package, most went back to paper even after using TeleFile for 5 or 6 years.
- Less than 20% of the taxpayers that filed every year and received a TeleFile Package in TY 2001, used ELF or On-Line in TY 2001.

Long term patterns

- Over time, taxpayers who receive TeleFile packages switch to other electronic methods at a greater rate than taxpayers in general.
- Taxpayers that used TeleFile in 1995, whether they received a TeleFile package in TY 2001 or not, had the highest percentage of electronic filing in TY 2001.

Additional research is needed to determine the reasons for the changes in method of filing between short term (one or two years) and long term

- Do these taxpayers go to paper because their return remains relatively simple and paper filing is less time consuming?
- Do they eventually switch to electronic filing due to complexity as their income and life style changes?

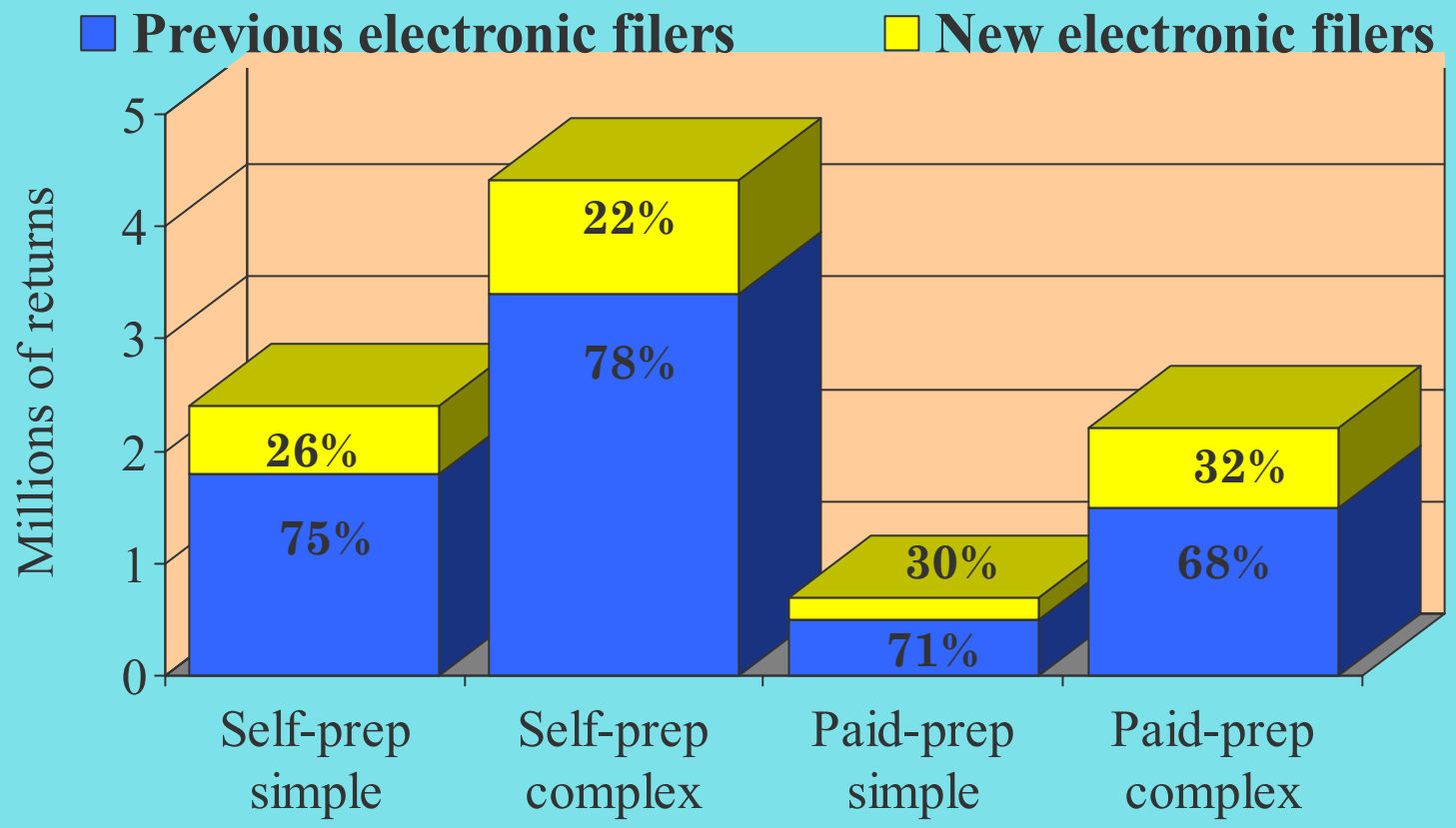
Question 5- Self-select PIN usage

- Usage by market segment
- Previous and new electronic filers
- Method of filing by new electronic filers

Distribution of Self-Select PIN users by market segment and method of filing

Market segment	Filing method			Filing method %	
	ELF	On-Line	Total	ELF	ON-Line
Self Simple	16,677	2,423,423	2,440,10	1%	99%
Self Complex	31,102	4,323,183	4,354,285	1%	99%
Paid Simple	599,000	48,701	674,701	92%	8%
Paid Complex	2,128,928	5,459	2,134,387	100%	0%
Total	2,775,707	6,800,766	9,576,473	29%	71%

Number of taxpayers using the self-select PIN



May not total to 100% due to rounding

Method of electronic filing by new electronic, self-select PIN users

Market segment	ELF	On-Line	Total
Self-prep simple	3,392	628,784	632,176
Self-prep complex	8,874	948,851	957,725
Paid-prep simple	165,890	25,219	191,109
Paid-prep complex	680,373	2,427	682,800
Total	858,529	1,605,281	2,463,810

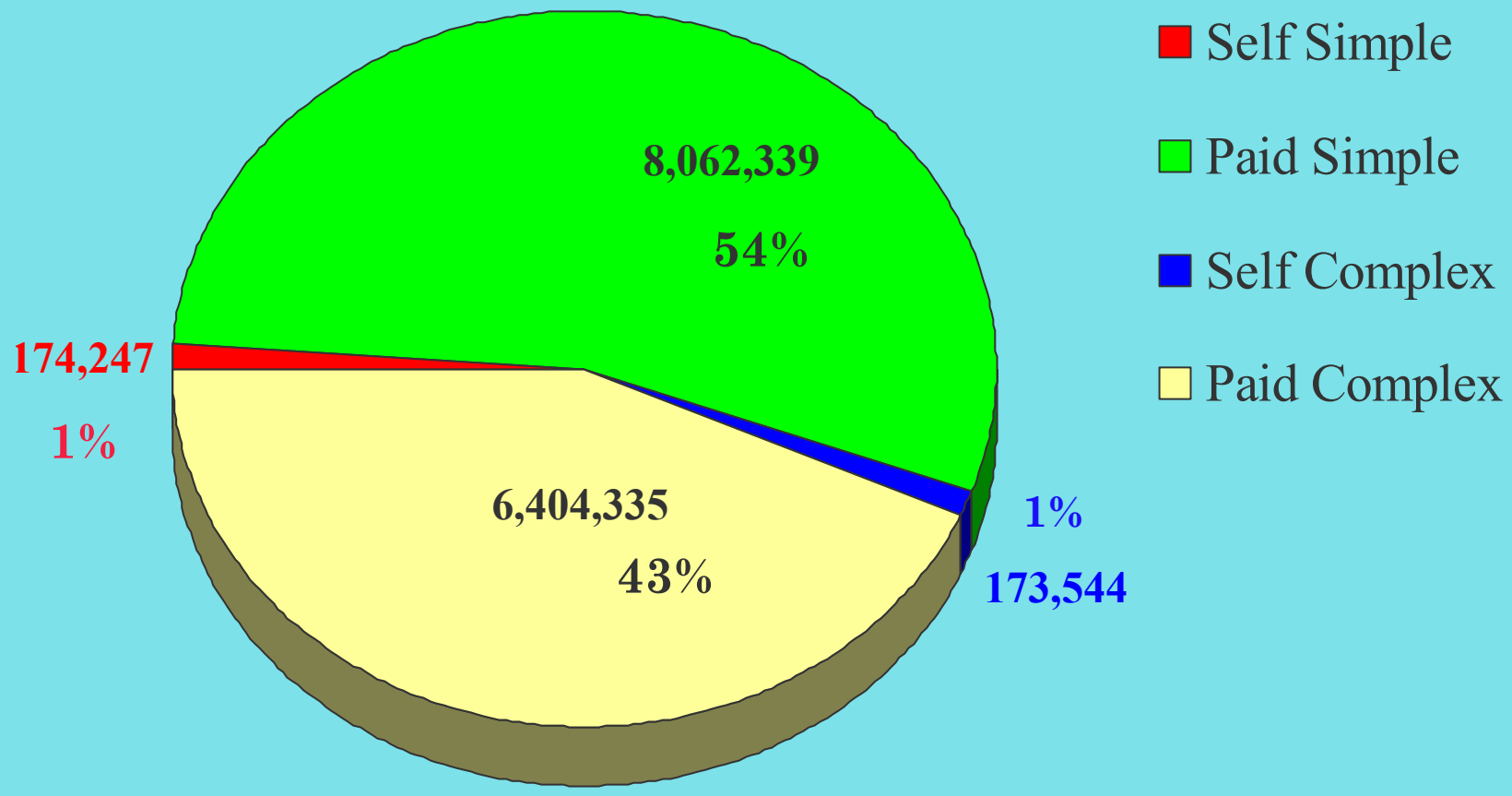
Self-select PIN summary

- Slightly over 45% of all returns with a self-select PIN were in the self-prepared complex return segment
- 65% of the new electronic filers using the self-select PIN filed On-Line

Question 6- Practitioner PIN usage

- Distribution by market segment
- Number of new electronic filers using the practitioner PIN

Taxpayers using Practitioner PIN by Market segment



About 20% of first-time electronic filers used a Preparer PIN

Market segment	Not first-time ELF	First-time ELF	% first-time ELF	Total
Self Simple	135,895	38,352	22%	174,247
Self Complex	141,176	32,368	19%	173,544
Paid Simple	6,521,187	1,541,152	19%	8,062,339
Paid Complex	5,297,623	1,106,712	17%	6,404,335
Total	12,095,881	12,095,881	18%	14,814,465

Practitioner PIN summary

- As expected, 98% of returns that contained a Practitioner PIN were prepared by paid preparers
- About 20% of new ELF filers in every market segment used the Practitioner PIN

Question C- First-time Filers

- Any filer who filed in TY 2001 and showed no record of filing a return in 1997, 1998, 1999 or 2000 was considered a first-time filer
- This segment was suggested and first researched by RG5 using the TY 1999 ETA data

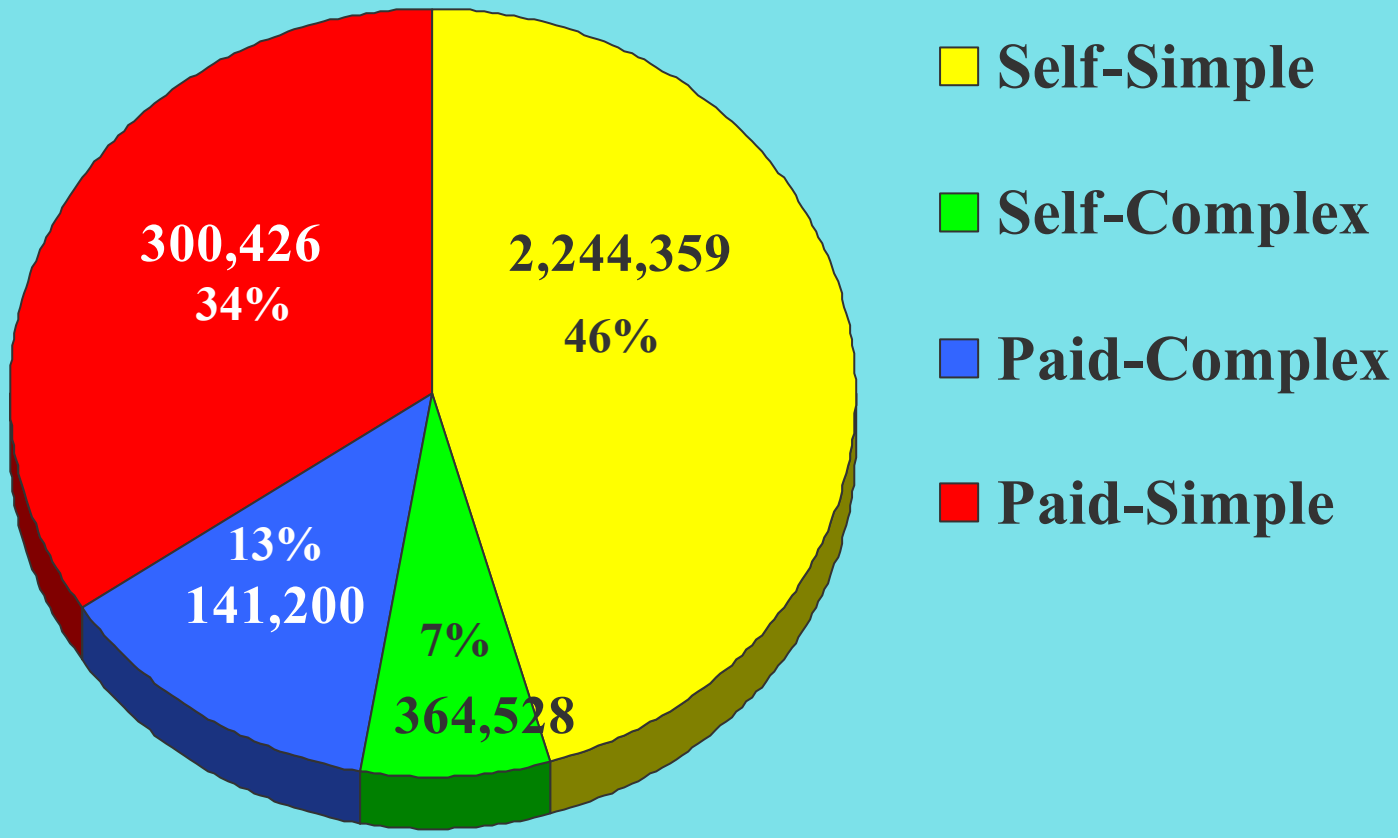
First-time Filers (continued)

- **Identified 4,936,652 first-time filers**
  - Agreement on the identification of first-time filers is difficult.
    - The TY 2001 findings do not include TY 1996 filing records
  - The different definition for TY 2001 resulted in a substantial increase from the 1.1 million first-time filers identified in the TY 2000 report.

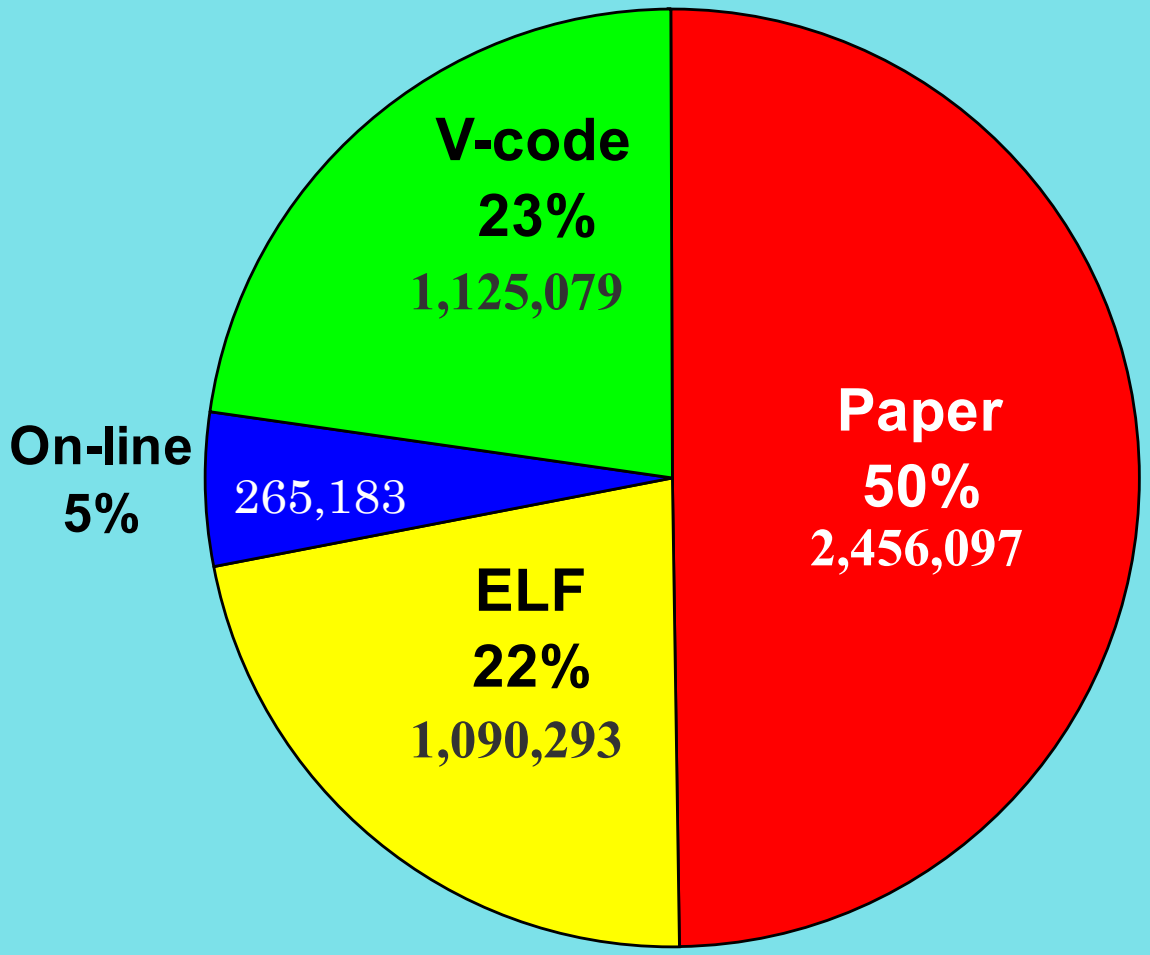
First-time Filers (continued)

- **Examined**
  - How did they file their returns?
  - What market segment are they in?
  - How did they file within their market segment?
  - How do TY 2001, TY 2000, and TY 1999 first-time filers compare?

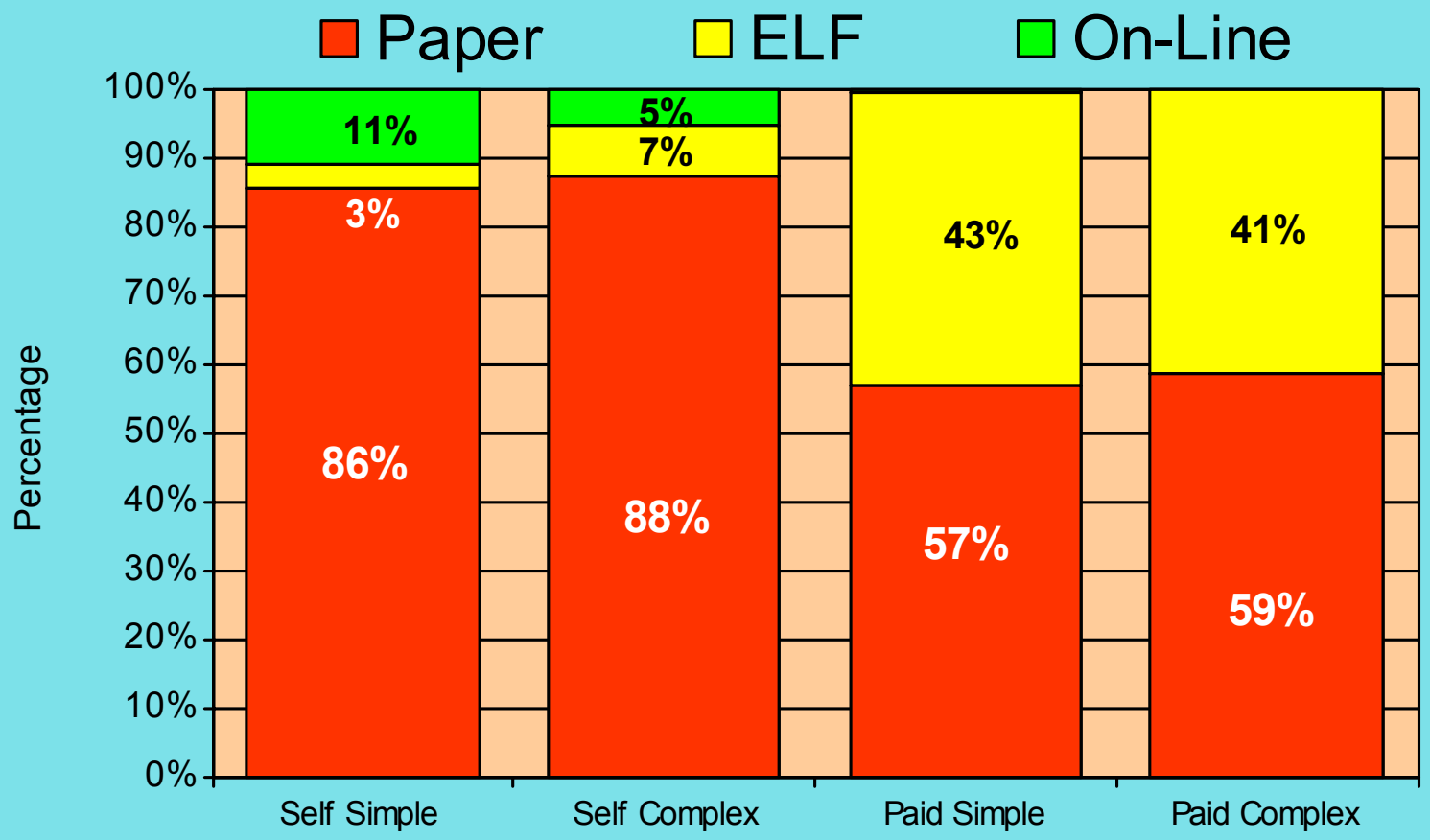
What market segment do first-time filers fall into?



How did the first-time filers file in TY 2001?



Method of filing by first-time filers by market segment



Research Group 5 first looked at first-time filers in 1999

After five years of data, our research is raising questions regarding first-time filers:

Should first-time filers be a separate market segment?

Or, are first-time filers part of a larger segment of filers that could be more effectively marketed to?

Filing history of TY 1999 first-time filers

Status since TY 1999	Number	Percentage
Not filed since	1,336,513	**18%**
Filed TY 2000 only	1,266,972	17%
Filed TY 2001 only	522,532	7%
Filed all years	4,352,268	**58%**
Total	7,478,285	100%

Nearly 1 in 5 have not filed for two years

Less than 60% of first-time filers consistently filed in subsequent years

Subgroup comparisons

Compared the following:

1. TY 1999 first-time filers based on their behavior since 1999
2. TY 1999 and TY 2001 first-time filer attributes
   AND
3. Investigated the attributes of 5.1 million taxpayers that have not filed since 1997

1. Comparison of TY 1999 first-time filers

Attribute (median)	No filing since 1999	Filed 2000 only	Filed 2001 only	Filed all years
Wages	$2,223	$2,873	$2,571	$3,632
AGI	$4,051	$4,201	$3,125	$4,279
Age	28 yrs	22 yrs	19 yrs	19 yrs
Refund	$136	$167	$147	$224
EIC (Mean)	$233	$243	$212	$267

Comparison (continued)

Attribute	No filing since 1999	Filed 2000 only	Filed 2001 only	Filed all years
% Filing	18 %	17 %	7 %	58 %
%W&I	92 %	90 %	95 %	95 %
%SB/SE	8 %	10 %	5 %	5 %
% 1040EZ	31%	32%	47%	44%
% V-code	34%	36%	25%	27%
% Paid Prep	48%	50%	40%	41%

Summary of TY 1999 first-time filers

- We found the taxpayers that did not file all years since 1999 to be very similar.
- Taxpayers that filed all years had a little higher income, higher refund amount or balance due and were more likely to be SB/SE taxpayers.

Next, we looked at how TY 1999 first time filers compared to TY 2001 first-time filers

2. Comparison of TY 1999 and TY 2001 first-time filer attributes

Attribute	TY 1999 first-time filer	TY 2001 first-time filer
Wages (median)	$3,220	$3,335
Age (median)	20 yrs	19 yrs
% W&I	94%	90%
% 1040EZ	40%	49%
% V-code	30%	22%
% Paid Prep	44%	47%

TY 1999 and TY 2001 first-time filer comparison

- Again we found them to be very similar in their income, age, and return attributes

Finally, we investigated the attributes of taxpayers that have not filed since TY 1997

3. Over 5.1 million taxpayers filed in TY 1997 and have not filed since

To see if there was any other explanation for these taxpayers to appear as non-filers we made several cross-checks:

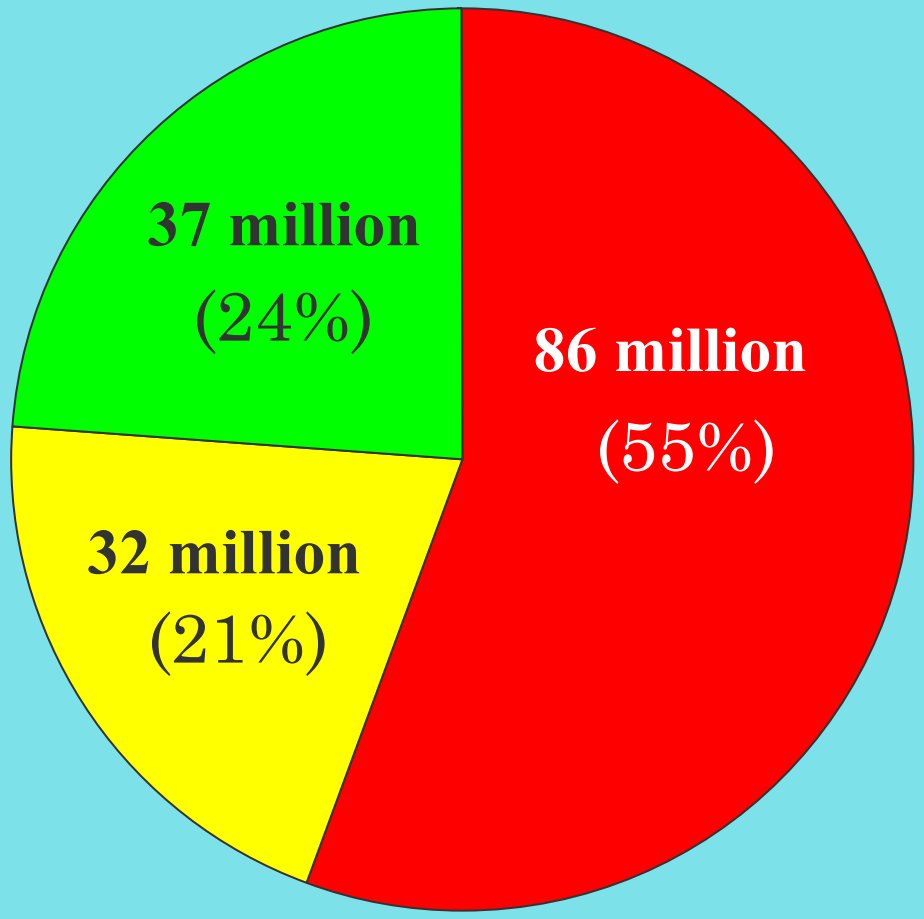
- ✓ They do not appear to be deceased as their average age in 1997 was 44 years and the median age 39.
- ✓ Checked subsequent years as a secondary SSN to insure they had not married and filed jointly.

Attributes of taxpayers that have not filed since TY 1997

- 50% filed Form 1040EZ
- 55% were single
- 50% used a paid preparer
- 30% were V-code returns
- Median AGI $11,472
- Median refund $594

Other than being slightly older and making slightly more income we found these taxpayers to be quite similar to TY 1999 or TY 2000 first-time filers

Frequency of filing for all taxpayers TY 1997-TY 2001



- Filed all years
- Filed TY 2001 but not all years
- Did not file TY 2001 but filed other years

Consistent and intermittent filers

- Consistent filers- Taxpayers that filed all five years, TY 1997 through and including TY 2001
- Intermittent filers- Taxpayers that did not file returns for one or more of the tax years 1997 through 2001.

Consistent and intermittent filer characteristics – using TY 2001 filers

Consistent – 86 million		Intermittent – 32 million	
AGI mean	$52,304	AGI mean	$19,222
median	$35,965	median	$11,237
Age mean	46 yrs	Age mean	32 yrs
median	44 yrs	median	27 yrs
Refund mean	$2,343	Refund mean	$1,378
median	$1,454	median	$720
Bal Due mean	$3,683	Bal Due mean	$1,767
median	$826	median	$440

Comparison of filing method and operating division

	Consistent filers	Intermittent filers
% paper returns	62%	59%
% V-code returns	38%	26%
% Paid-prep	59%	53%
% Complex returns	60%	32%
% W&I returns	71%	86%
% SB/SE returns	29%	14%

The low percentage of V-code returns and a relatively high percentage of paid-preparation is somewhat unusual

Comparison of tax form used

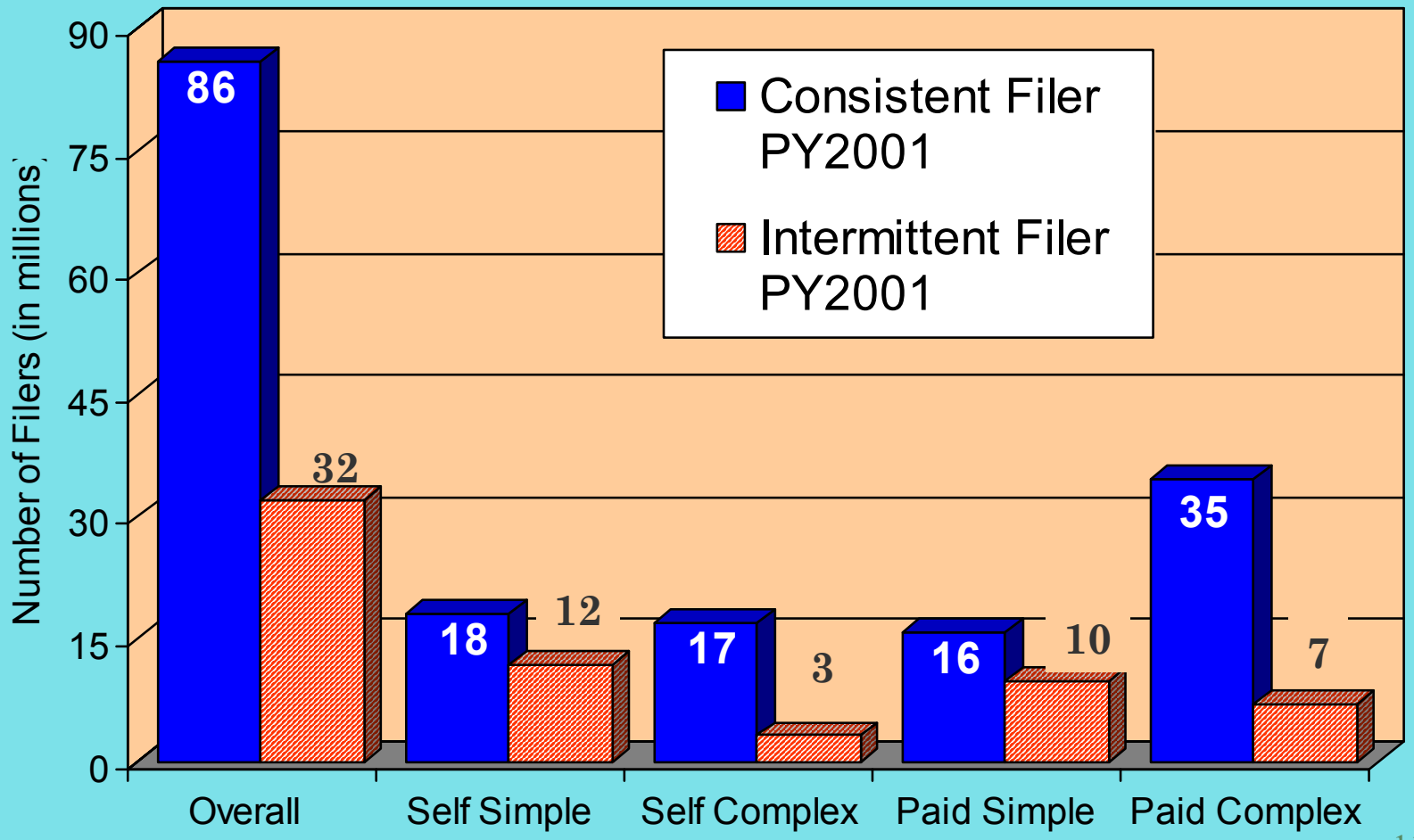
Tax form	Consistent filers	Intermittent filers
% 1040 EZ	9.7%	31.4%
% 1040 A	17.7%	22.8%
% 1040	72.2%	44.0%

Intermittent filers are three time as likely to file a Form 1040 EZ.

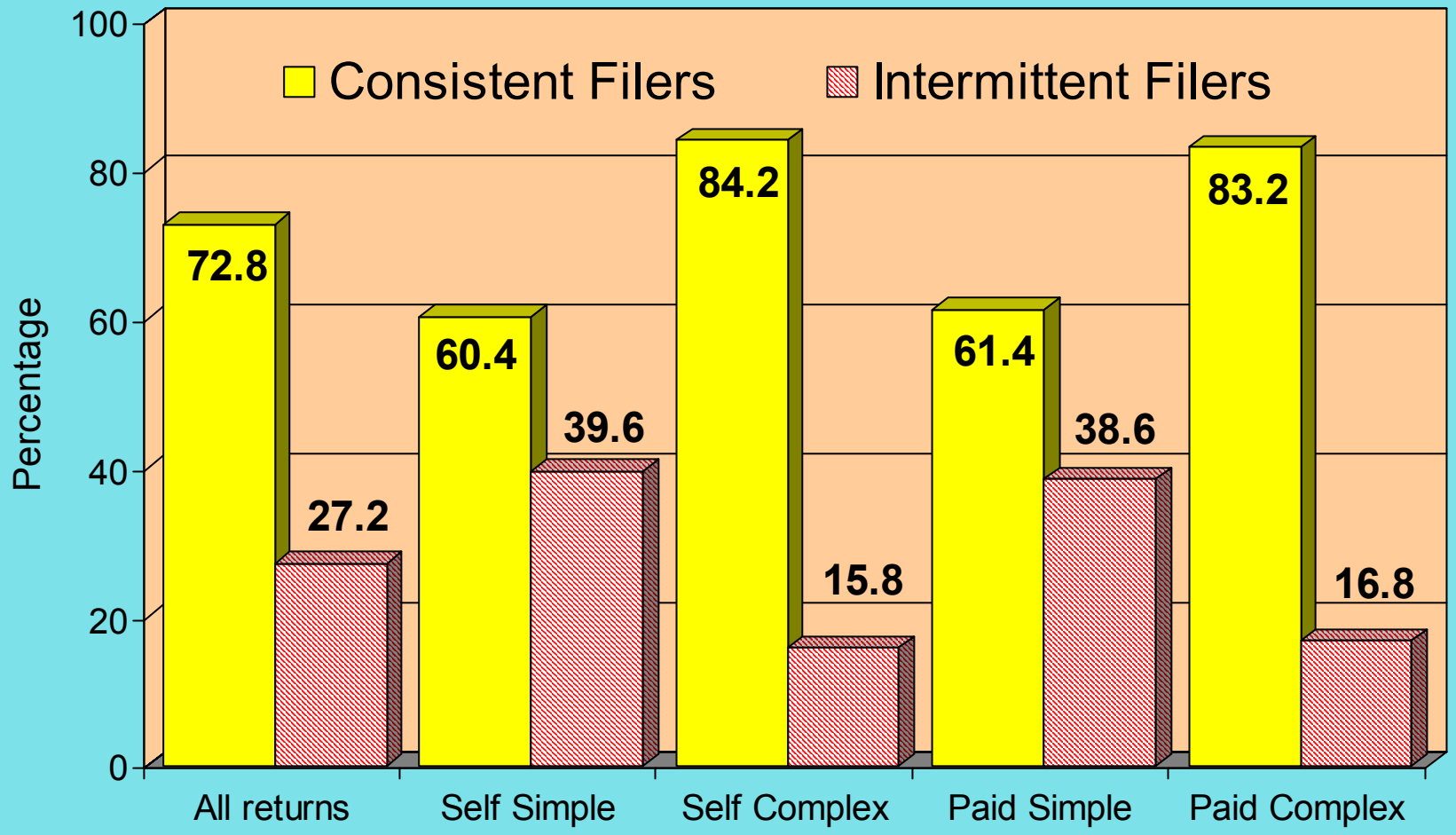
Next, we looked at how consistent and intermittent filers are integrated into the four market segments

- By volume count
- Percentage of market segment
- The distribution of intermittent filers by market segment
- Percentage of electronic filing

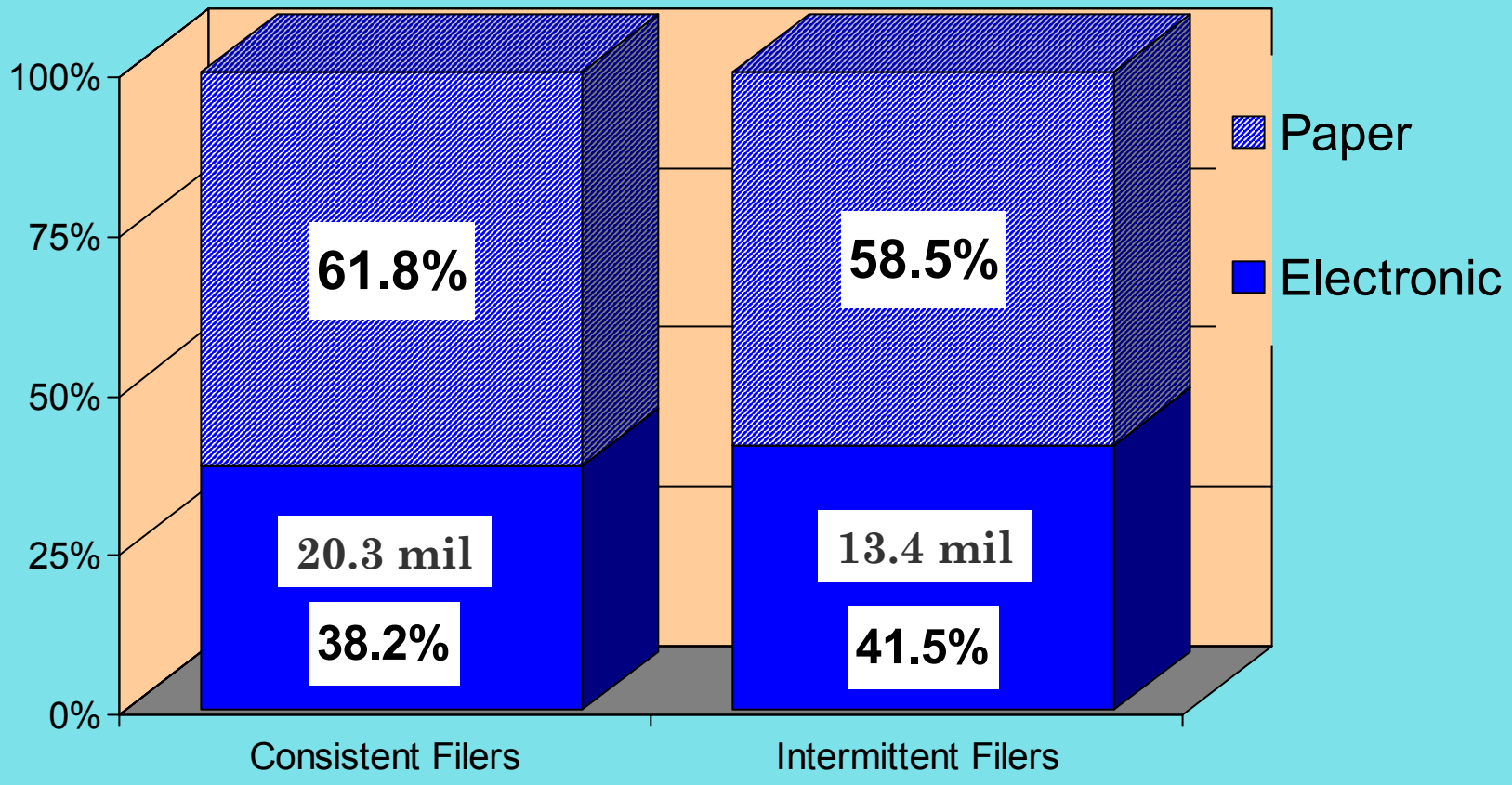
Number of intermittent filers in TY 2001



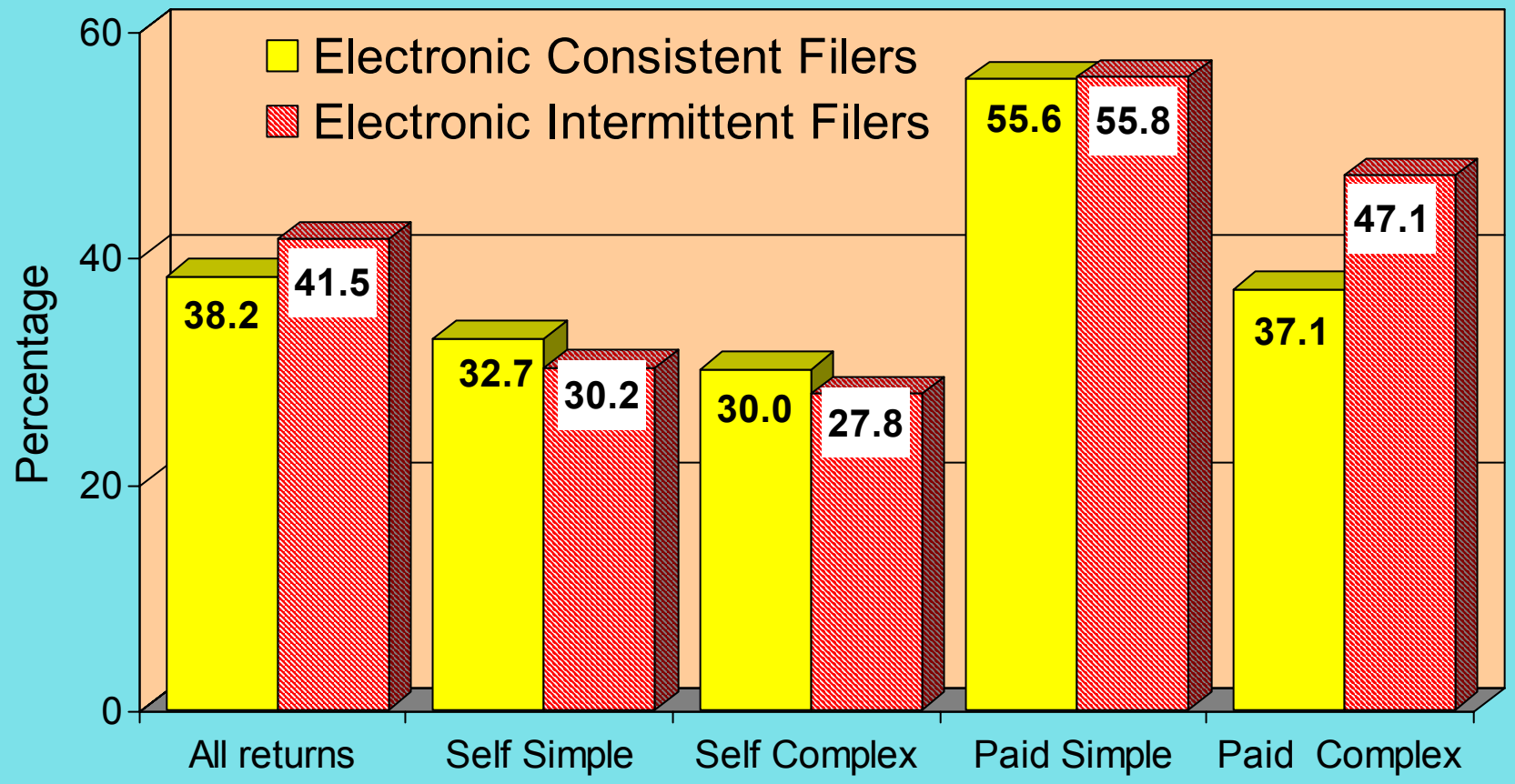
Percentage of intermittent filers in TY 2001



Method of filing used by intermittent filers in TY 2001



Electronic filing by filer consistency and market segment



Summary - Intermittent filers

- AGI, Age, average refund and balance due are substantially lower than consistent filers
- Nearly 90% are in W&I
- They are three times as likely to file using Form 1040EZ and 80% are in the simple return market segments
- They file a slightly higher percentage of electronic returns due to the paid-complex market segment results

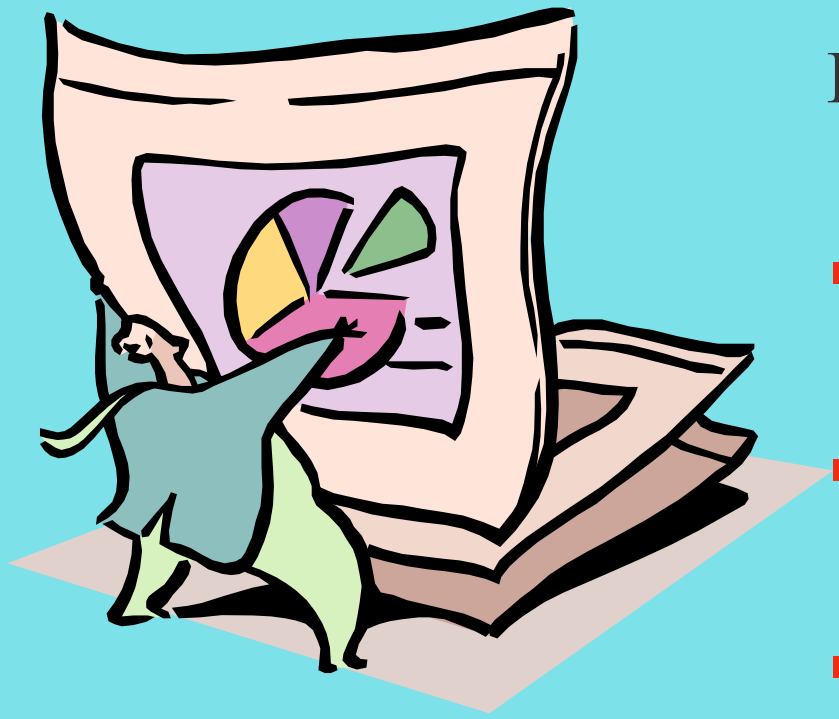
Reasons for marketing to intermittent filers versus first-time filers

- Market segment is much larger (69 million vs. 5 million).
- Both segments do not file every year, but intermittent filers are ten times larger (32 million vs. 3.2 million).
- We can identify intermittent filers before they file again, we can only guess who will be a first-time filer.

Should first-time filers be a separate marketing segment?

- ➔ Our findings indicated that there is a larger group of taxpayers that have characteristics similar to first time filers.
- ➔ Identification of this larger segment, and marketing to it, may be more effective than focusing on first-filers only.

What's next?



Further research of intermittent filers if requested

- Research the preparer data (preparer size, loyalty, etc.)
- Determine what schedules are intermittent filers using
- Research other profile characteristics

What Is the Bottom Line?

Overall Summary

- The use of ***e-file*** increased, but the current growth rate is still not sufficient to reach 80% electronic filing by the year 2007.
- 39% of 2001 returns were filed electronically.
- In each market segment ***e-file*** users continue to be more often younger, single, have a refund return, claim EIC and utilize direct deposit than non-users.
- Rate of growth in ***e-file*** is still lagging in the simple market segments.
- ***e-file*** growth in the paid-simple segment has slowed to only two percent per year

Overall Summary (continued)

- ELF filer repeat rates for paid-preparer returns in TY 2001 were almost 90%.
- About 40% of former 1040PC filers filed electronically in TY 2001 compared to 27% in TY 2000.
- Nearly 16% of former 1040PC users did not file in TY 2001.
- The filing of computer prepared paper returns (V-code) seems to have leveled off. As in TY 2000, 76% of all V-code returns are prepared by paid-preparers.

Overall Summary (continued)

- Though overall use of TeleFile went down, use of TeleFile among eligible TeleFile package recipients increased by over 17% from TY 2000.
- TeleFile package recipients in the long term use electronic products more than the “average” taxpayer
- Eligibility for TeleFile is still an unresolved issue.
- First-time filers appear to have many of the same attributes as a larger population we refer to as “intermittent” filers.

Ideas for consideration

- For the self-prepared simple segment, create on the IRS web site an internet based equivalent to TeleFile. This would provide a natural transition to On-Line filing and not compete with private industry.
- Additional research to define the intermittent filer population

Ideas for consideration (continued)

- Research into possible causes of the extreme slow down in ***e-file*** growth in the paid-simple market segment
- Research to determine if the paid-simple segment is reaching the saturation point for electronic filing

Final Words

- We now have a 5-year relational database, but few questions asked to be researched have utilized multiple year data.
- W&I Research Group 5 soon will be receiving a new server with increased storage capacity.
- With five years of data we can project the future by looking at the past

Final Words

- RG 5 is proposing for TY 2002 a part year analysis of two or three “key” questions.
- Presentation of results in late January or early February 2004.
- Report to be delivered by end of March 2004.
- Full year analysis to begin mid-March and to encompass the majority of questions.

- Baseline questions for 2004 (TY 2002) are now being developed. Submit yours through Diane Geraghty.