



Session 4. Behavioral Research: Why do people do what they do?

Moderator:

Sandy Lin

IRS, RAAS, National Research Program

**Examining Motivations to Volunteer with
the VITA Program: How Motivations
Influence Future Volunteer Behavior**

Patti J. Davis-Smith

IRS, W&I Research and Analysis

**The Effect of Social Norms on Taxpayer
Payment Compliance**

Caroline von Bose

Fors Marsh Group

Understanding the Nonfiler/Late-Filer

Melissa Vigil

IRS, RAAS, Office of Research

Discussant:

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Tax Policy Center



Wage & Investment

Examining Motivations to Volunteer with the Volunteer Income Tax Assistance (VITA) Program: *How Motivations Influence Future Volunteer Behavior*

Patti J. Davis-Smith, Robert P. Thomas, and David C. Cico

Internal Revenue Service, Wage & Investment Strategies and Solutions Research

Introduction

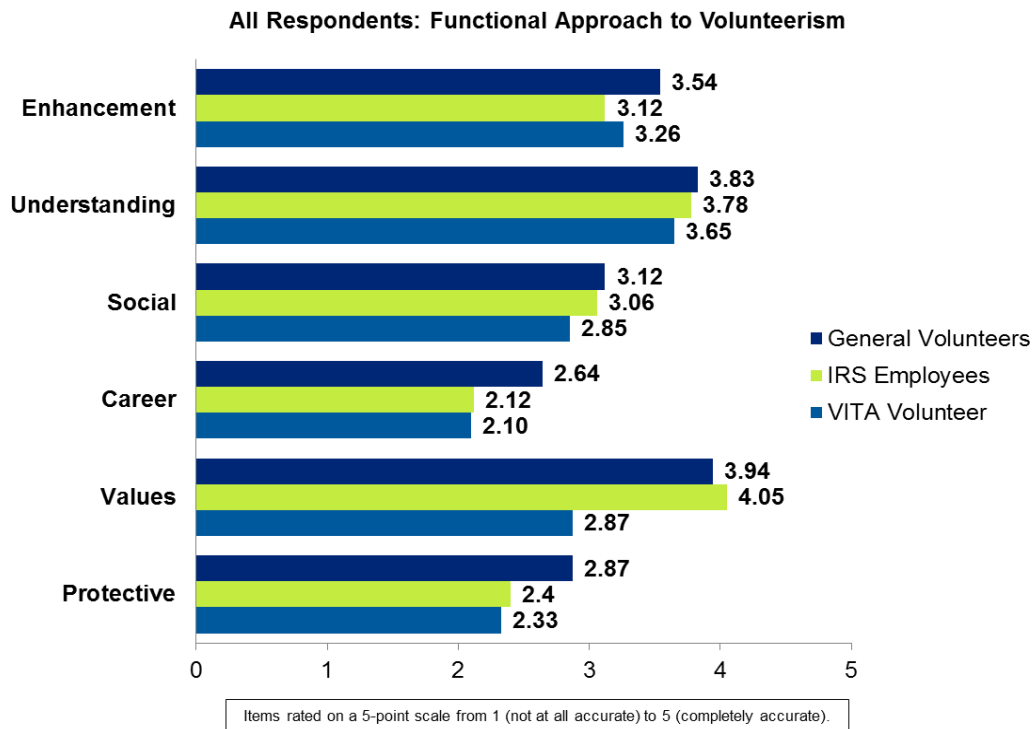
- Volunteerism: seeking opportunities; consideration of time, involvement level and needs; and making an ongoing commitment
- Volunteering serves different functions for different people.
 - **Self-Determination Theory** suggests that engaging in volunteer work satisfies an individuals' competence, autonomy, and relatedness needs.
 - **The Functional Approach to Volunteerism** suggests that volunteering can serve six functions: values , understanding, career enhancement, social, protective, and esteem enhancement.
- Two studies in which we expected to be a relationship between psychological motivations and volunteering with the VITA Program.



Study 1 Method

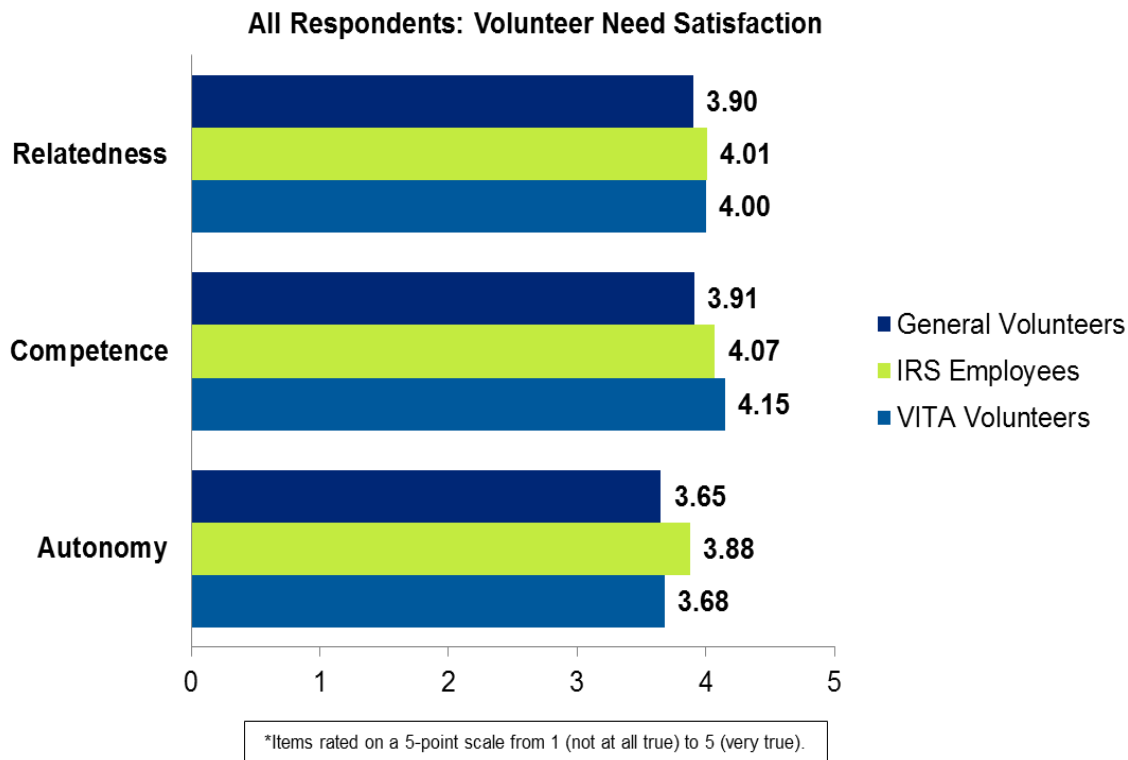
- **Study 1:** Survey current and prospective VITA volunteer to understand motivations to volunteer with the VITA Program.
- Approximately 1,400 volunteer respondents: VITA Volunteers, IRS Employees, and General Volunteers.
- Measures:
 - Volunteer Functions Inventory (Functional Approach)
 - Volunteer Need Satisfaction (SDT)
 - Benefits of Volunteering
 - Aspects of VITA Volunteer Experience
 - Demographics

Study 1 Results: Functional Motivations



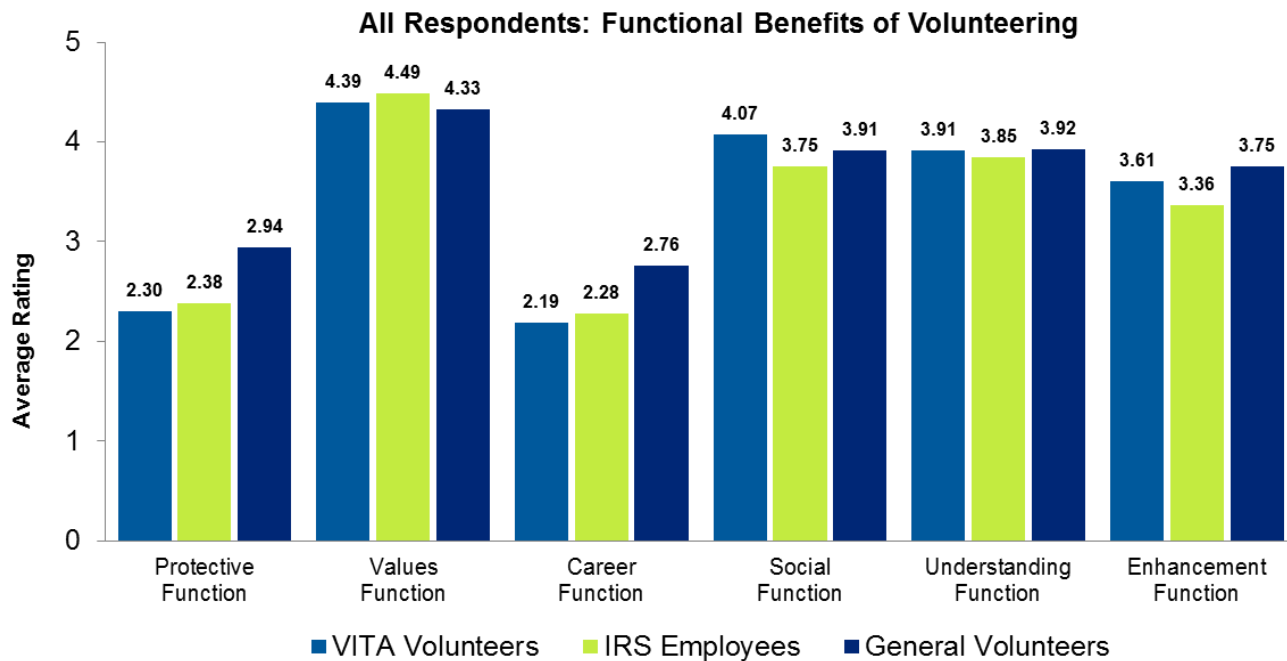


Study 1 Results: Volunteer Needs



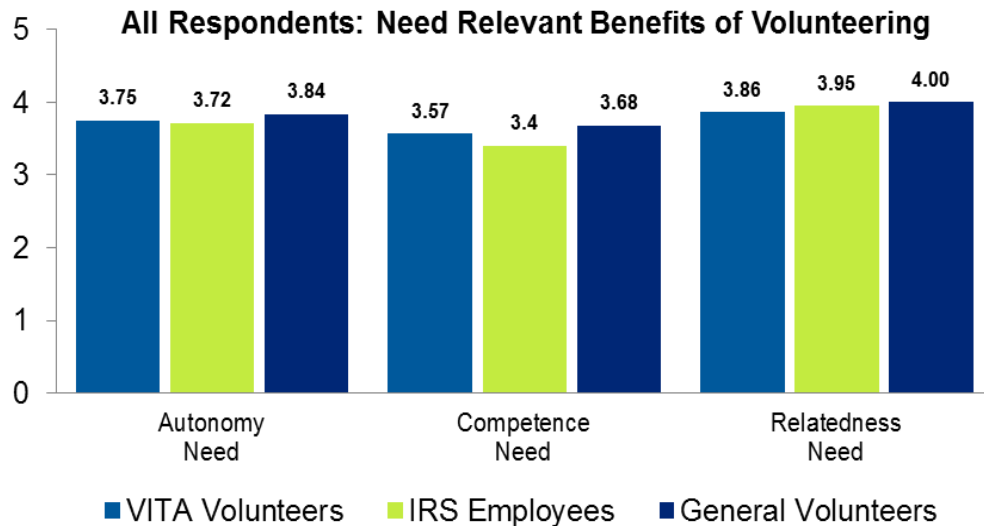


Study 1 Results: Functional Benefits



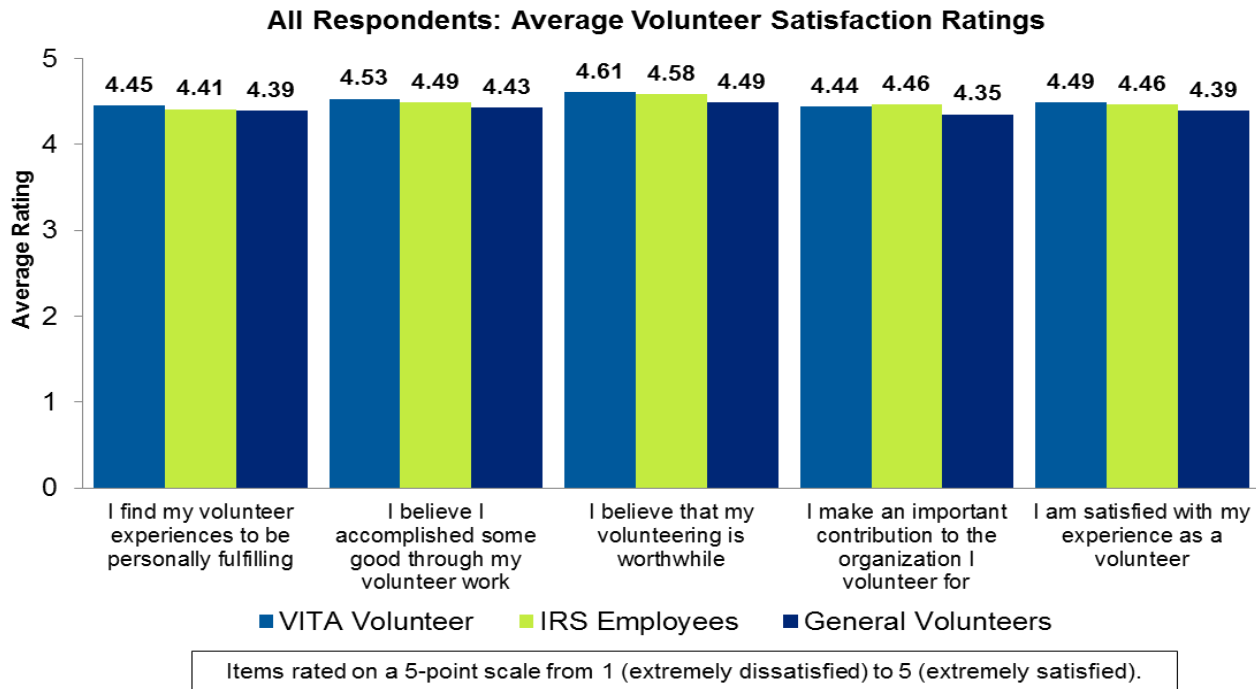
Items rated on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree).

Study 1 Results: Need Relevant Benefits



Items rated on a 5-point scale from 1 (strongly disagree) to 5 (strongly agree).

Study 1 Results: Volunteer Satisfaction Ratings





Study 1 Summary

- Volunteering facilitated respondents need-based and functionally relevant motivations.
 - General Volunteers and IRS Employees: Values function and values benefits
 - VITA Volunteers: Understanding function and values benefits
 - All groups: Competence needs and relatedness benefits
- Receiving motivational benefits contributes to respondents overall satisfaction with their volunteer work.



Study 2 Method

Study 2: Systematically test VITA recruitment efforts using a trade-off method designed by Pacific Consulting Group (PCG).

Please compare the two boxes and choose the more persuasive message by selecting the radio button under that message.

Which message is more persuasive in convincing you to take the next step described in the table below?

| | Message 1 | Message 2 |
|---|---|---|
| How you get the message | Twitter (IRS) | Local newspaper |
| Who gives the message | Annette Franqui, member of Board of Directors of AARP | Care Director, Julie Garcia |
| What the message says | Most VITA returns are simple to prepare and support is provided for more complicated returns. | By volunteering with VITA you can help prevent tax return mistakes, so less work for the taxpayer and less work for the IRS. |
| Incentive | Complete one year of successful volunteering and receive a Letter of Commendation to use in your job search | Sign up with VITA and earn lunch with anyone at the IRS of your choosing |
| What you should do next | Visit and observe at a VITA site | Talk with a volunteer site coordinator by phone about the Tax Coach and Tax Preparer roles |
| Which message is more persuasive in convincing you to take the next step described in the table below? | <input type="radio"/> | <input type="radio"/> |

Diverse combinations of messaging elements:

Media vehicles (11)

Sources (7)

Message (23)

Incentive (6)

Calls to Action (7)

- Approximately 1,900 respondents: VITA Volunteers, General Volunteers, and IRS Employees.



General Volunteers are viable targets with considerable recruitment potential



We bring good people
& good causes together

Up to **46%** of **General Volunteers** would take the step of completing an interactive suitability form if –

A current VITA volunteer told them,

“Volunteer Hours are flexible and include weekdays, evenings and weekends”

on a volunteer matching site

and they received a 2016 tax organizer file.

Campaign which delivers lowest possible impact:

20% would do 1 hour online training if Suze Orman used Twitter to tell them volunteering is a springboard to a business career.



IRS Employees: Campaign should focus on unique methods of communicating and has different message.



There's an agency looking for talented professionals
to make our nation stronger.

Up to **46%** of **IRS Employees** would take the step of completing an online interactive suitability form if –

A VITA Site Coordinator told them,

“People with simple taxes often find filing overwhelming. They need your help”
through an internal IRS email

and they received a letter of commendation after one year of service.

Campaign which delivers lowest possible impact:

15% would do 1 hour online training if Suze Orman used Twitter to tell them that sharing their knowledge was a way to achieve immortality.



Current VITA Volunteers appear to be uniquely influenced



Why I Volunteer With AARP Foundation Tax-Aide
Helping low-income seniors with tax preparation “works
your mind while warming your heart”

Up to **56%** of current **VITA Volunteers** would take the step of talking to a Volunteer Coordinator by phone about the Tax Coach and Tax Prepare roles if –

A Taxpayer told them,

“If you help me file, I will receive the full tax refund I deserve”

on a volunteer partner website

and they received a 2016 tax organizer file.

Campaign which delivers lowest possible impact:
19% would do 1 hour online training if Annette Franqui used Twitter to tell them volunteering is a springboard to a business career.



Study 2 Summary

- Combining messaging elements into campaigns with the highest impact would persuade nearly half of General Volunteers and IRS Employees to take the next step.
 - Both IRS Employees and General Volunteers are viable recruitment populations with considerable potential.
 - Messages that appeal to the nature of volunteering were rated most highly; spokespersons with ties to the program VITA were desirable.

General Discussion and Implications

- Functional and psychological need fulfillment motivated volunteers and lead to greater volunteer satisfaction. [Study 1]
- Messaging that highlights the motivational benefits of VITA volunteerism, using spokespersons close to the program held more persuasive appeal. [Study 2]
- Limitations: sample composition, hypothetical choices, model inputs
- Implications for the practice and nature of volunteering:
 - Coordinators: provide opportunities that maximize benefits.
 - Generally focused on potential helpers and spontaneous helping situations, rather than person-based processes in helping.
- Reminder: behavior is jointly determined.

IRS Tax Policy Conference 2016

Do Appeals to Social Norms Increase Taxpayer Compliance?

James Alm, Michael McKee, William D. Schulze,
Carrie von Bose, and Jubo Yan



Goal: Increase Voluntary Tax Compliance

→ Ideally, people will

- Report and pay all their taxes
- Pay on time, and
- Withhold enough money in advance

→ How can the IRS increase tax compliance outside of traditional audit enforcement mechanisms?

- Messages based on social norms may influence taxpayer behavior

Social Norms Influence Decisions

- Humans care a lot about
 - What other people are doing
 - What other people think about us
- Social norms can create reference points
- Social approval generates utility

Previous Research

- Field experiments added language to taxpayer communications in the U.K. and the Netherlands
 - “Nine out of ten people in the UK pay their tax on time.”
 - “Your taxes finance important public services.”



Din skatt finansierer viktige samfunnstjenester.



Designing the Social Norm Messages

- Conducted focus groups to gauge reactions to various messages
 - Descriptive norm – describes typical/most frequent behavior
 - Injunctive norm – describes behavior that “constitutes morally approved and disapproved conduct”

| | |
|-------------------------------------|---|
| Descriptive norm | <p>“In a previous session of this experiment, a large majority of Cornell University students withheld enough earnings to pay their entire tax liability, and 12% did not. This is very similar to the country as a whole where 3 in 4 Americans withhold enough taxes throughout the year to pay their entire tax liability, and 1 in 4 does not.”</p> |
| Injunctive norm, approval-framed | <p>“In a previous session of this experiment, a large majority of Cornell University students withheld enough earnings to pay their entire tax liability. This is very similar to the country as a whole where 3 in 4 Americans withhold enough taxes throughout the year to pay their entire tax liability. 90% of Americans say that personal integrity is a big reason why they comply with tax regulations, and those who withhold enough taxes have a 97% tax compliance rate.”</p> |
| Injunctive norm, disapproval-framed | <p>“In a previous session of this experiment, a minority of Cornell University students did not withhold sufficient funds to pay their entire tax liability. This is very similar to the country as a whole where only 1 in 4 Americans still owe taxes at the time of filing. 88% of Americans agree that any type of tax cheating is unacceptable, and people who do not withhold enough earnings to pay all of their taxes are 4 times more likely to cheat on their taxes.”</p> |

Experiment Setup

→ In each round, participants go through the following steps

- Step 1: Earn income
- Step 2: Choose withholding amount
- Step 3: Claim a deduction amount
- Step 4: Find out if they are audited, learn audit outcome and final earnings

Treatments

- For each of the three messages, participants are shown the messages for rounds 11-20
- Control group does not receive a message at any point
- We compare the compliance behavior within and between groups

Effects on Compliance

| Treatment | Tax Paid | |
|---|---------------------|---------------------|
| | 1st Half | 2nd Half |
| Control (Treatment 1) | 3241.53 (715.15) | 3162.33 (736.89) |
| Descriptive norm (Treatment 2) | 3284.38 (773.75) | 3149.00 (777.31) |
| Injunctive norm, approval-framed (Treatment 3) | 3214.26 (756.12) | 3145.73 (757.89) |
| Injunctive norm, disapproval-framed (Treatment 4) | 3279.44 (747.57) | 3216.05 (709.01) |

Note: Standard deviations are in parentheses.

Effects on Compliance

→ Conditional on other factors, participants in both the injunctive social norm conditions paid about \$65 more in taxes per period (in experimental dollars)

Effects on Withholding

| Treatment | Withholding Amount | |
|---|----------------------|----------------------|
| | 1st Half | 2nd Half |
| Control (Treatment 1) | 3430.42 (1583.23) | 3528.33 (1604.06) |
| Descriptive norm (Treatment 2) | 3302.52 (1603.48) | 3270.59 (1621.81) |
| Injunctive norm, approval-framed (Treatment 3) | 3534.58 (1507.09) | 3649.58 (1524.17) |
| Injunctive norm, disapproval-framed (Treatment 4) | 3383.75 (1591.66) | 3240.83 (1592.02) |

Note: Standard deviations are in parentheses.

Effects on Withholding

- Conditional on other factors, participants in the negatively framed treatment withheld around \$150 less
- Participants in the positively framed treatment withheld around \$100 more

Conclusion

- The descriptive norm had no effect
- Injunctive norms both increased the amount of taxes paid
- The positively framed injunctive norm increased withholding amount
- Social approval/disapproval is a strong motivator in tax compliance

Thank you. Questions?





Understanding the Nonfiler/Late-Filer **Preliminary Findings**

IRS/TPC Research Conference
June 23, 2016

Jose Colon De La Matta, John Guyton, Ronald Hodge II, Patrick Langetieg, Stacy Orlett, Mark Payne, Ahmad Qadri, Lisa Rupert, Brenda Schafer, Alex Turk, Melissa Vigil
Internal Revenue Service

Disclaimer: This research does not represent any official opinions or views of the Internal Revenue Service, United States Treasury or any other government agency.



Agenda

- Background
- Key Findings
- Definitions
- Survey Population Characteristics
- Preliminary Findings
- Preliminary Recommendations
- IRS Initiatives Supported by Study Findings
- Further Research

Background

Purpose of Study

- Gain insight into drivers of nonfiling and the taxpayer's experience resolving an issue with an unfiled return.
- Desired Outcomes
 - Understand barriers to filing on time
 - Gain insight into behavior
 - Why do taxpayers file late?
 - What prompts them to file?
 - What actions do they perform to become compliant?
 - What are taxpayers' perceptions of the process?
 - How much time and money taxpayers spend to become compliant?
 - How can IRS facilitate filing?

Key Factors that Drive Nonfiling

Inability to Pay

- Many of the respondents with liquidity issues are unaware of payment options.

Life Events Pose Barriers to Filing

- Life events (e.g., death, illness, unemployment) are a significant factor for not filing for many respondents.

Not all Documents are Available

- Many respondents do not file on time simply because they do not have all of their tax documents.

Filing an Extension

- Taxpayers who file an extension may believe they have filed or may forget to file as they get farther away from filing season.

Definitions

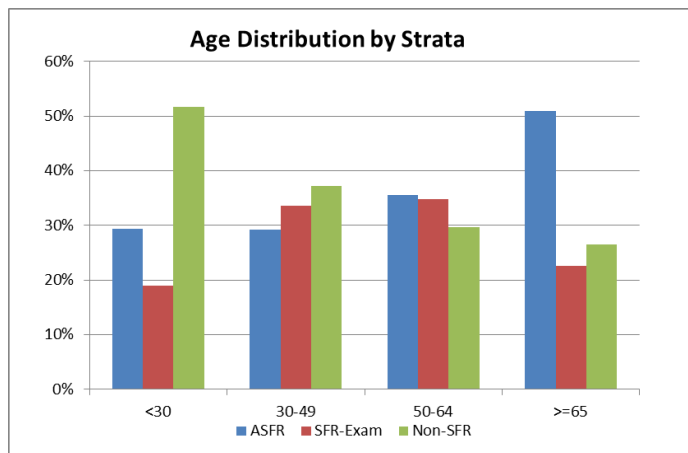
General Definitions

- **Nonfiler** – An individual who appears to be required to file a return but has not filed.
- **Late-filer** – An individual who files a required return after the due date.
- **SFR (Substitute for Return)** – Process by which IRS calculates tax liability for certain nonfilers.
- **Study Population** – Individual taxpayers contacted by IRS about an unfiled return. Taxpayer either filed a return or agreed to the proposed assessment in CY2014.

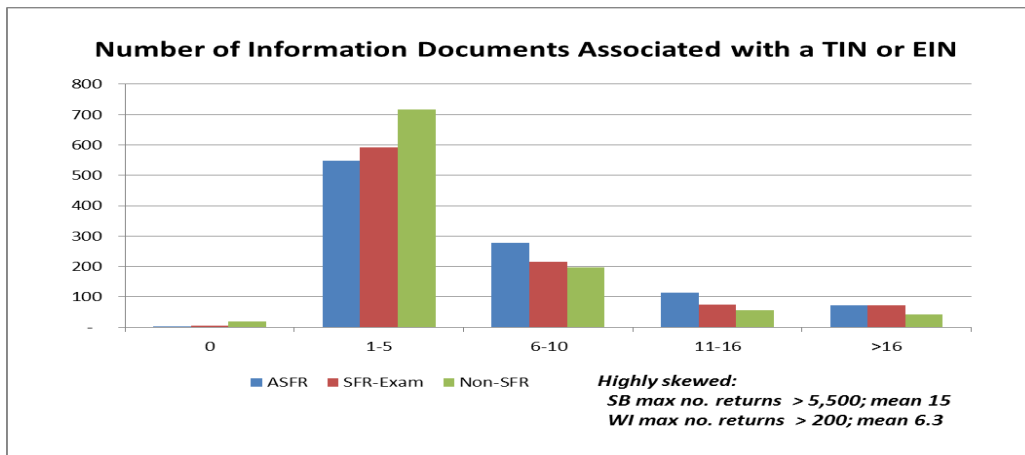
Survey Strata

- **ASFR (Automated Substitute for Return)** – An automated process to contact nonfilers and make a substitute for return assessment if they don't respond.
- **SFR Exam** – Nonfiler cases worked by Examinations division.
- **Non-SFR** – Nonfiler cases where returns were secured by the notice process, automated collection system (ACS), or field collection.

Study Population Characteristics



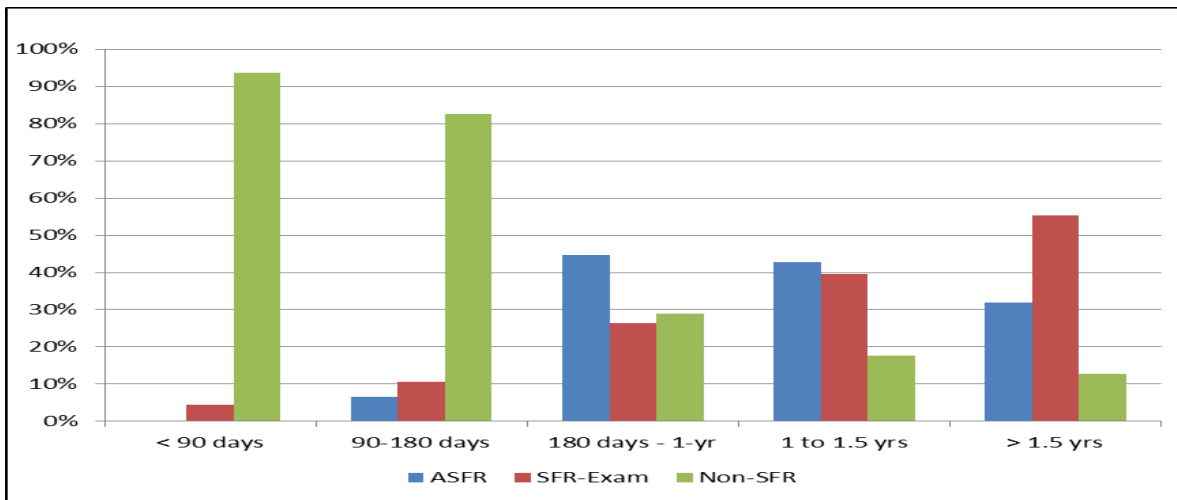
- ASFR taxpayers are older and Non-SFR are younger.
- More even age distribution among SFR-exam taxpayers.



- A greater number of information documents implies complexity.
- Most taxpayers in the sample have 5 or fewer information documents.

Study Population Characteristics

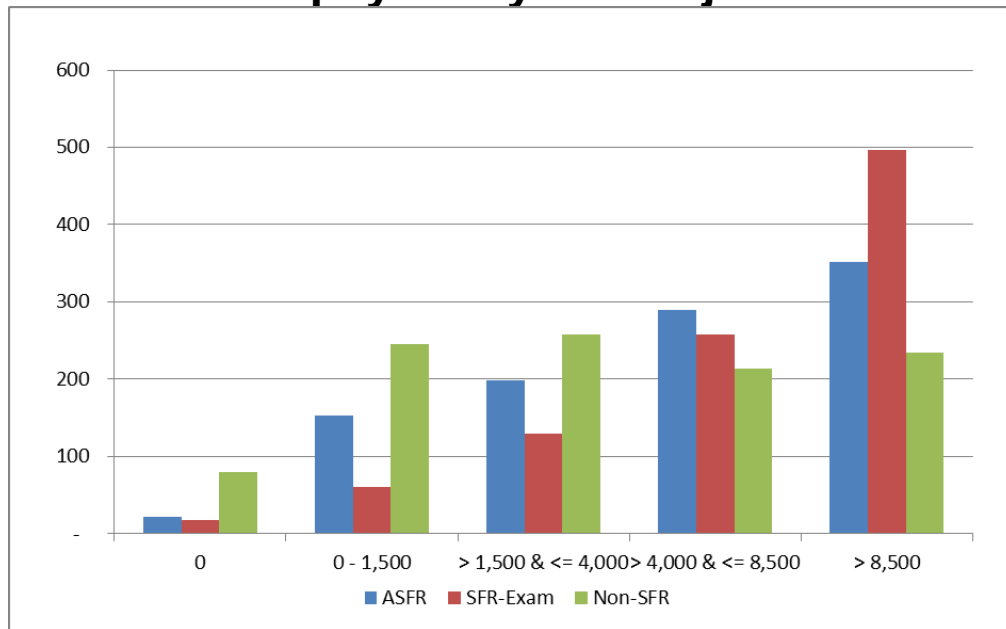
Time to Resolve by Strata



- Non-SFR cases resolve relatively quickly.
- SFR-Exam cases generally have higher income, a higher balance due, take longer to resolve and have more information returns associated with the TIN.
- A larger share SFR-Exam cases are small business taxpayers.
- ASFR default assessment is sent about 200 days after 30 day notice.

Study Population Characteristics

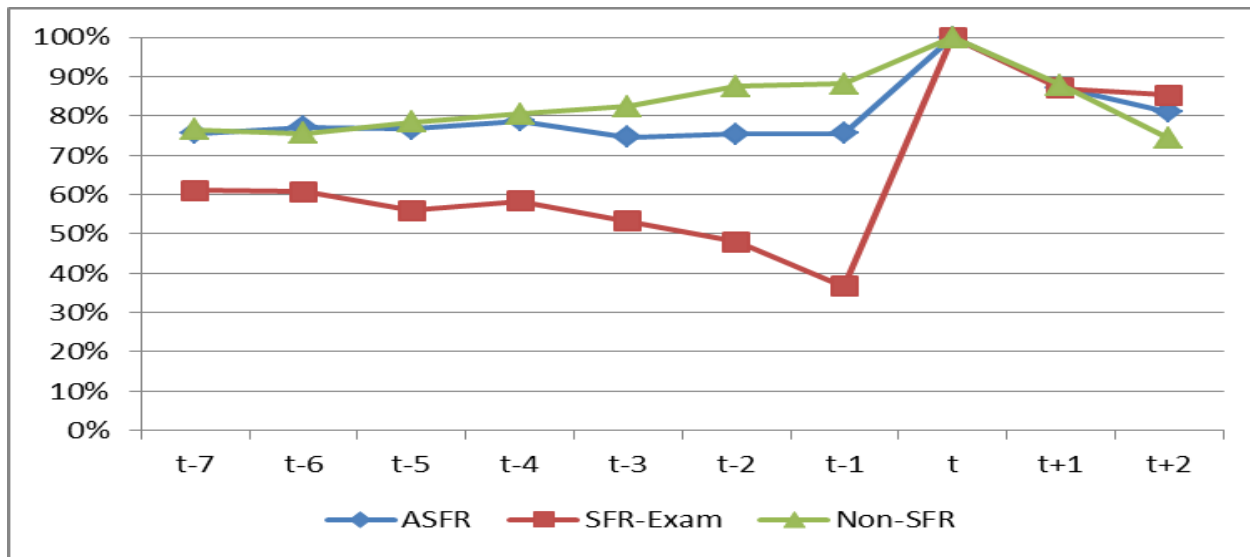
Number of Taxpayers by IRP Adjusted Balance Due



- ASFR and SFR-Exam taxpayers have higher adjusted income and balances due as determined by information returns.

Study Population Characteristics

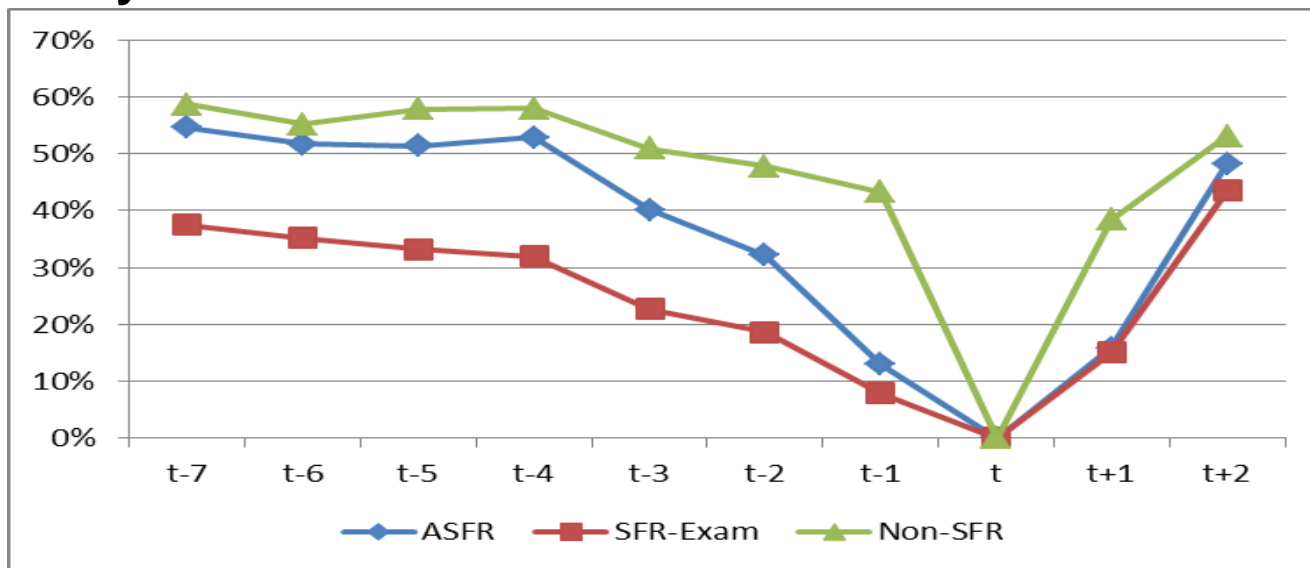
Secured Returns



- ASFR and Non-SFR taxpayers are much more likely than SFR-Exam taxpayers to file a return.
- SFR-Exam filing rate fell below 40% one year prior to nonfiling year.

Study Population Characteristics

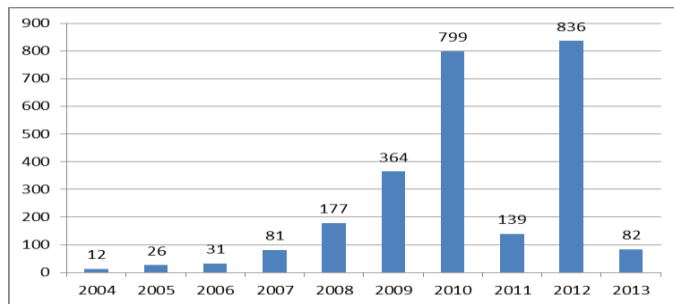
Timely Filed Returns



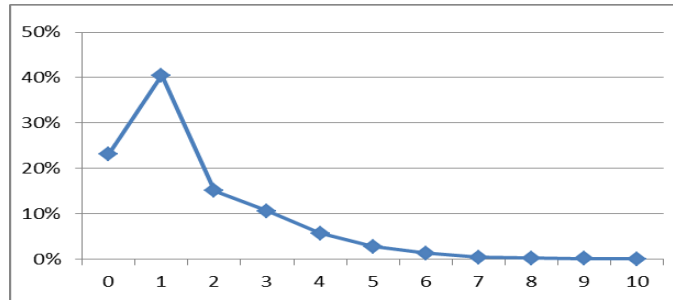
- Much lower timely filing rate among all strata.
- Timely filing started dropping off four years prior to the nonfiling year.
- Rates recover two years later, but late filing continues.
 - Timing? May reflect when notices are received.

Study Population Characteristics

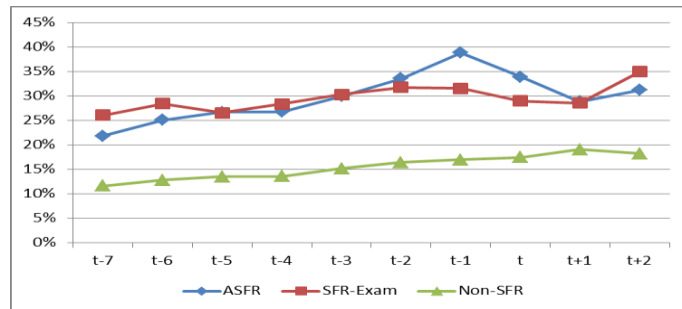
Panel A: Number of Returns Secured after IRS Notified for Nonfiling Year



Panel B: When Late Returns are Filed in Years



Panel C: Extension Filers



Panel A: Taxpayers filed returns from as far back as 2004 after being contacted about the nonfiling year. Most returns filed close to filing year.

Panel B: 20% of late returns are filed the same year they were due; 40% the following year.

Panel C: A large percentage of these taxpayers use extensions to manage their tax filing.

Survey Population and Response Rate

| Strata | Population n | Sample n* | Number of Responses | Response Rate |
|----------|-----------------|--------------|------------------------|------------------|
| ASFR | 16,543 | 1,013 | 212 | 20.9% |
| SFR-Exam | 966 | 960 | 121 | 12.6% |
| Non-SFR | 167,419 | 1,030 | 202 | 19.6% |
| Overall | 184,928 | 3,003 | 535 | 17.8% |

*Cases from TY2011 (~70%), TY2012 (~30%)

Data collection period :

- September 16, 2015 – December 31, 2015

Response rate comparable to surveys of a similar nature, the CY14 Taxpayer Compliance Burden Survey, had a 19.5% response rate.

Preliminary Findings – Taxpayer Activities

| Top Three Responses, Key Taxpayer Activities (weighted) | |
|---|------|
| Reasons for not filing by the due date of the return (Survey Q1) | |
| 1) Balance due on return | 30% |
| 2) Personal reasons (illness, death in the family, unemployment) | 27%* |
| 3) Didn't have all of the necessary tax documents | 14% |
| | |
| Reasons for ultimately filing the return (Survey Q2) | |
| 1) Able to get help completing the return (26%); Had enough time to prepare the return (14%) | 40% |
| 2) Had money to pay a balance due (8%); Set up a payment plan (11%) | 19% |
| 3) Received tax documents | 16% |
| *Includes weighting for respondents who wrote in that a life event caused them not to file. | |

- An estimated 30 percent of the study population didn't file on time because there was a balance due on their return.
- A life event is estimated to be nearly twice as likely to cause late filing than not having all of the necessary tax information.

Preliminary Findings – Time and Money

Estimated Average and Median Time and Money Spent to Resolve Nonfiling Issue (weighted)

| Average time (hours) spent on: | Mean | Median |
|--|-------|--------|
| Gathering tax materials | 32 | 5 |
| Interacting with the IRS/using IRS resources | 17 | 2 |
| Working with a tax professional | 21 | 1 |
| Total Average Time | 70 | 16 |
| Average money spent on: | | |
| Tax professional fees | \$418 | \$9 |
| Software | \$32 | \$0 |
| Postage | \$13 | \$3 |
| Other fees | \$42 | \$0 |
| Total Money | \$505 | \$150 |

Average Taxpayer Burden (from Form 1040 instructions)

| Primary Form Filed or Type of Taxpayer | 2011 | | 2012 | |
|--|------------|------------|------------|------------|
| | Total Time | Money(\$) | Total Time | Money(\$) |
| All taxpayers | 18 | 230 | 13 | 210 |
| Primary forms filed | | | | |
| 1040 | 22 | 290 | 16 | 270 |
| 1040A | 10 | 120 | 7 | 90 |
| 1040EZ | 7 | 50 | 4 | 40 |
| Type of taxpayer | | | | |
| Nonbusiness | 12 | 150 | 8 | 120 |
| Business | 32 | 410 | 23 | 420 |

Source: TY 2013 and 2014 Form 1040 Instructions

- This population is estimated to incur, on average, more burden to resolve the issue with an unfiled return than they would have incurred had they timely filed.
- Factors other than post-filing activity may contribute to the higher reported burden, such as:
 - Including the burden to file several other late returns
 - Tax situations that are more complex than average

Preliminary Findings – Stress

| Stress Level | What to do next | What if I don't respond | Understand notice | Calling the IRS | Respond in writing | Find info/complete return | Find out about payment options | Overall stress |
|----------------------|-----------------|-------------------------|-------------------|-----------------|--------------------|---------------------------|--------------------------------|----------------|
| Not at all stressful | 8% | 8% | 12% | 10% | 10% | 10% | 14% | 11% |
| A little stressful | 14% | 8% | 20% | 10% | 14% | 18% | 10% | 16% |
| Somewhat stressful | 22% | 17% | 24% | 20% | 14% | 24% | 20% | 24% |
| Very stressful | 54% | 60% | 40% | 42% | 26% | 44% | 36% | 49% |
| Did not do | 2% | 7% | 4% | 18% | 36% | 6% | 20% | NA |

*Not all respondents answered these questions. Some respondents elected to only answer some of the items.

- The longer the process takes, the more stressful the experience.
- Respondents who experience the most stress do not necessarily have the highest proposed assessment or ultimately pay the highest tax.
- Younger respondents generally experience more stress than the oldest respondents.

Preliminary Findings - Other

- An estimated 14 percent of the study population do not open the first IRS notice.
 - Fear and stress kept many from taking any action.
- These taxpayers are open to communicating via email or an online taxpayer account.
 - Considerable feedback to improve existing process.
- Earlier notification of an issue, which would minimize penalty and interest, would be appreciated.

Key Preliminary Recommendations

Help Taxpayers Before They Become Noncompliant

- Overcome lack of awareness, misinformation, or incorrect beliefs (e.g., there is no need to file, they already filed, they can't file because they can't pay the tax liability in full, rules around filing an extension)
- Make payment options more transparent
- Send a filing reminder to extension filers and other taxpayers at risk for nonfiling. (This population will likely need more than one nudge to keep them filing compliant.)

Provide Better Electronic Interaction Options

- Younger taxpayers generally prefer to handle financial matters electronically, but older taxpayers may also prefer.

Review the Notice Process

- Help taxpayers understand their tax liability may be lower than the proposed tax.
- Provide clearer information up front about what will happen if they don't respond

IRS Initiatives Supported by Preliminary Study Findings

Technology Initiatives

- On-line accounts
- Electronic payment options
- Get Transcript program
- Online payment agreements and expanded, 'streamlined' payment agreements
- IRS receipt of information returns earlier in the filing season.

Pilots

- Filing reminder notices for past nonfilers. Test a postcard to examine the opening of the letter barrier
- Call site letter redesign
- ASFR letter pilot
 - Promote payment options
 - Highlight IRS assessment vs. what was claimed on the last filed return (e.g., deductions and credits that were claimed by the taxpayer)

Further Research

- Continue analysis and modeling
- Identify the root cause and key drivers of nonfiling behavior
- Conduct pilot studies based on this study's recommendations