

Understanding the Nonfiler/Late Filer: Preliminary Findings

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I. Background

This paper presents preliminary analysis of the Internal Revenue Service (IRS) Calendar Year (CY) 2014 non-filer/late filer survey results. (See Appendix for Survey Instrument.) Our goal was to better understand why certain individuals who have an unfiled return wait to file that return until the IRS contacts them with notices and/or enforcement actions such as a “Substitute for Return” tax assessment. Had the taxpayer filed the return soon after the first notice, many months of concern, numerous IRS notices, and mounting penalties and interest could have been avoided. The survey population consists of taxpayers who were notified about an unfiled 2011 or 2012 return and resolved the issue in CY 2014 either by agreeing to the assessment or filing the requested return. The paper discusses preliminary recommendations for potential outreach, education, and enforcement processes.

There are any number of reasons why an individual may fail to file a return. Prior to the study, the IRS had anecdotal evidence that many taxpayers don’t file because they don’t have the money to pay the balance due on the return. It’s likely that some taxpayers believe they are not required to file. They may be unaware of, or confused by, the filing requirement rules. Some may have been misled by well-meaning friends or relatives who aren’t fully aware of the individual’s tax circumstances. Of particular interest are older individuals who may believe they are no longer required to file because they assume (or are led to believe) that their retirement income is not taxable. Some taxpayers may have experienced personal events that make timely filing difficult, if not impossible, or at least a relatively low priority.

Complexity and compliance burden (the time and money taxpayers expend to comply with tax law) may also affect taxpayers’ decision to file. Tax complexity may influence some taxpayers’ ability to perceive taxes correctly, particularly if they don’t understand the rules or when they don’t make the connection between taxes and the benefits they fund (Congdon, *et al.* (2009)). Complexity may also increase the psychological costs, frustration, and anxiety associated with filing a tax return (Guyton, *et al.* (2005)). Erard and Ho (2003) showed that compliance burden was positively related to noncompliance either through frustration of the taxpayer or ignorance of tax provisions resulting from complexity. More complicated tax returns, such as those filed by the self-employed, are also associated with higher complexity and compliance burden (Slemrod (1985)).

The Return Delinquency Process

Each year, the IRS return delinquency process identifies individual taxpayers who may have a filing requirement but have not filed a tax return by the required due date. A portion of these identified individual taxpayers are contacted about an unfiled return. For various reasons, the number of contacts has decreased over time. Over the last five tax years (2010 through 2014), the IRS went from contacting over three million individual taxpayers for unfiled 2010 tax returns to just over one million for the 2014 tax return.¹

An individual may receive up to two delinquent return notices for an unfiled return. The first delinquent return notice (CP 59) does not provide the taxpayer with any information about the potential balance due and, as shown in Table 1, provides a somewhat “softer” warning about what may lie ahead for them if they

¹ Source: Individual Master File Transaction History table in IRS Compliance Data Warehouse (TC140). Data accessed May 2016.

don't respond.² If a taxpayer does not respond to the nonfiler notices, the case may be escalated and moved to Taxpayer Delinquency Investigation (TDI) status.

TABLE 1. Nonfiler Notices

Notice	Timing	Main Message	Consequence of Not Responding
CP 59 (first notice)	Within 12 months of Return Due Date	You didn't file a Form 1040 tax return	<ul style="list-style-type: none"> • If you don't file a tax return, or dispute this notice if you feel you've received it in error, you may owe penalty and interest charges on the amount of tax due. • We may determine your tax for you.
CP 516 or CP 518* (final notice)	8 weeks from CP 59	You must file your 20XX tax return	<ul style="list-style-type: none"> • We may determine your tax for you, and penalty and interest may continue to accrue. • If you are owed a refund for the current tax year, or any prior year, it may be delayed because of this unfiled return.

*A portion of the individuals receiving a CP 59 may be designated as Primary Code B, where the taxpayer will receive up to two delinquent return notices (CP 59 and CP 516), and they will remain in notice status and not move into a Taxpayer Delinquent Investigation status unless the taxpayer responds.

Some TDI cases go directly to the Automated Substitute for Return (ASFR) inventory, while other cases are transferred to Examination under the manual Substitute for Return (SFR) process from the Automated Collection System (ACS) or a Field Collection office (FC) after unsuccessful attempts to secure or otherwise resolve the delinquent return.

According to a study conducted by the IRS (Datta (2015)) on the impact of ASFR on revenue collection and subsequent voluntary compliance, the ASFR process has significant direct and indirect impact on filing compliance for both payment of tax and subsequent filing. A direct impact reflects a change in the treated taxpayer's behavior. An indirect impact is a change in other taxpayers' behavior based on knowledge or awareness of the treatment. The indirect effects are somewhat smaller than the direct effects for payment of taxes, but the indirect effects on subsequent filing compliance are large relative to the direct effects. It's certain that the taxpayer's experience influences the degree of direct and indirect effects as well as whether compliance is positively or negatively impacted. A better understanding of late filers' behavior, psychology, and moral and social influences will be critical to unraveling and improving the impact of the ASFR process on taxpayer compliance (Andreoni, *et al.* (1998)).

One concern about the SFR process is that the proposed deficiency could be higher in some cases (and sometimes substantially higher) than the balance due that is ultimately calculated on the filed return. There are credits and deductions that can be claimed by the taxpayer only on a filed return. The IRS uses income information reported by third parties (e.g., Forms W-2, 1099-INT, 1099-MISC, 1099-R, etc.) to calculate unreported gross income on a per-taxpayer basis.³ The filing status is assigned based on the individual's previously filed return. If the filing status was either married filing jointly (MFJ) or married filing separately (MFS), the MFS filing status is assigned. Otherwise, or if no prior return was received, the single filing status is used. Because family units are not considered for the proposed SFR deficiency, the more favorable head of household or qualifying widow(er) filing statuses are not used.

To determine taxable income, only one exemption and the standard deduction for the presumed filing status are used. The proposed deficiency is determined by calculating tax on the taxable income and offsetting it with withheld income reported to the IRS (such as wage withholding on Form W-2). Since other deductions—and all credits—to which the taxpayer may be entitled cannot be considered (taxpayers must claim these tax benefits on a filed tax return), the tax liability estimated in this way may be overstated.

An overstatement of the true tax liability may cause the taxpayer not to act. If the individual has an idea of his actual tax liability, he may think that the IRS notice is a hoax because the proposed assessment is much too high. However, if the taxpayer is naïve about his actual tax liability, seeing the large balance due—and interest

² Internal Revenue Service. Internal Revenue Manual 5.19.2.1 (11-06-2015) "What is the IMF Return Delinquency Program?"

³ Internal Revenue Service. Internal Revenue Manual 5.19.2.4.1 (01-16-2015) "IRP Income."

and penalties—may paralyze him with fear. Either way, the deficiency process proceeds because the taxpayer is not responding to IRS notices.

On the other hand, because the IRS doesn't know about other income the taxpayer may have (e.g., self-employment income not reported on Form 1099-MISC or Form 1099-K), the SFR process also has the potential to *understate* actual tax liability. If this is the case, the taxpayer may simply choose to pay the proposed tax amount in the hopes that IRS will not pursue the case further.

Administrative data show that some individuals won't respond to a notice until collection or garnishment procedures begin (or are scheduled to begin). A report by Small Business/Self-Employed Research (2014) showed that a large percentage of individuals with high-dollar ASFR default assessments waited until after a Notice of Federal Tax Lien was filed to file their return and have the assessment adjusted.

IRS Burden Research

The IRS conducts taxpayer burden research in order to support burden estimation and burden reduction efforts throughout the IRS, as well as to meet the Office of Management and Budget (OMB) and public taxpayer burden reporting requirements. IRS burden estimates are also being used for policy analysis and administrative process redesign support. (See Marcuss, *et al.* (2013) and Guyton and Hodge (2015)).

To provide a more holistic view, IRS conducts taxpayer surveys to gather data on the time and money taxpayers spend complying with tax-filing requirements and resolving postfiling issues, as well as the filing or postfiling experience in general. These data are linked to administrative data to create and update econometric taxpayer burden models. Linking taxpayer surveys to tax administration data provides greater context for root cause analysis. Modeling the factors associated with these root causes allows operational use of the general insights for treatment design and alignment while respecting the sensitivity of individual taxpayer survey responses.

The IRS has created models for prefiling and filing burden estimates related to individual taxpayers, business entities, and tax-exempt organizations. It also has an individual taxpayer postfiling burden model and is currently gathering data for a business entity postfiling burden model. IRS is also expanding its model portfolio beyond income tax compliance, with plans to create models of the burden associated with information return documents and employment tax compliance.

II. Study Design

Data collection for the nonfiler/late filer study was conducted in coordination with the IRS CY 2014 Individual Taxpayer Compliance Burden Survey. The study included taxpayers who resolved an enforcement or collection issue or who amended a filed return in CY 2014. These taxpayers received at least one IRS notice indicating the need to file a return and ultimately either filed the return or agreed to the IRS assessment.

This study gathered qualitative and quantitative data regarding taxpayers' experience resolving an issue with an unfiled return. Specifically, this special study gathered information on the drivers of nonfiling and the burden associated with filing a late return after receiving an IRS notice.

IRS adapted an existing compliance burden survey to include items that would help IRS understand barriers to filing on time and gain insight into taxpayer behavior. Specifically, the survey addressed the following questions:

- 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 do taxpayers spend to become compliant?
- How can IRS facilitate filing?

The Survey Population

The Return Delinquency Process has unique intricacies with regard to how and when cases are selected. Because cases may take many years to resolve, and cases from a particular tax year may not yet have been identified for treatment, it is not reasonable to select a single tax year for audit.

Selecting based on when the case was resolved, however, yields a diverse and more representative set of taxpayers for our sampling frame, because cases from different tax years resolve during that year. That said, we focused on a set of taxpayers whose cases resolved in CY 2014, the most recently concluded calendar year. We also stipulated that the taxpayer had to have actively worked to resolve the nonfiling issue.

Ideally, we would want to sample all tax years that fall into the CY 2014 frame, but our research interests limit that possibility. Firstly, we are interested in the taxpayers' experience leading up to nonfiling. Thus, the tax year in question has to be recent enough that the taxpayer can reasonably recall the events that occurred from the time the return should have been filed to the time the taxpayer ultimately filed the return or otherwise resolved the case.

Secondly, tax administration processes in general play a role in determining which set of tax years are available for research purposes and align to our research interests. Tax Year 2014 tax returns were not due to be filed until sometime during CY 2015 and, thus, were excluded from our sampling frame. Tax Year 2013 cases that resolved during CY 2014 were considered atypical and were excluded from the analysis. Tax Years 2011 and 2012 cases were considered to be recent enough for taxpayers to be able to reasonably recall their experiences related to the case and were selected for the analysis.

Having determined the study population, we next needed a sample design capable of producing estimates for both the overall population as well as a wide variety of subpopulations. The goal was an efficient design that would yield survey data that allows the researcher to estimate outcomes of interest. In CY 2014, about 185,000 nonfiler cases met our criteria for inclusion in the study population. To design an adequate sample, we considered how a taxpayer's return delinquency could impact his or her survey responses.

Because taxpayers who went through the SFR treatment stream have a different experience than taxpayers who did not, we developed a stratified sample design along those lines. Taxpayers within the SFR treatment stream were further segmented into an ASFR group and an SFR-Exam group. Hence, the final sample design yields three strata: (1) Non-SFR; (2) ASFR; and (3) SFR-Exam.

As mentioned above, the statistically representative sample includes cases from Tax Years 2011 (~70 percent) and 2012 (~30 percent) (Table 2). Note that the ASFR and Non-SFR cases are a stratified random sample. The SFR-Exam population is a census after ineligible taxpayers were removed.⁴

TABLE 2. Study Population and Survey Sample Size

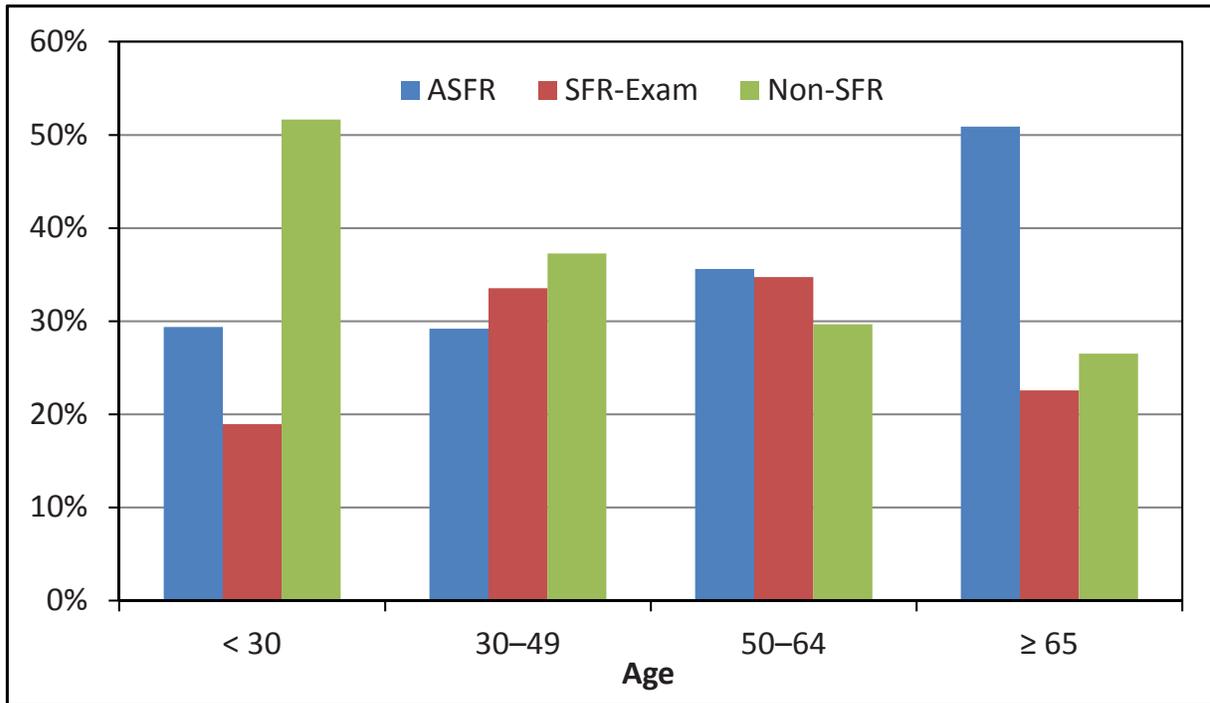
Strata	Population N	Sample n
ASFR	16,543	1,013
SFR-Exam	966	960
Non-SFR	167,419	1,030
Total	184,928	3,003

Characteristics of the Population

Figure 1 shows the age distribution of our study population. Our population is roughly balanced within the stratum for those aged 30–64; however, ASFR taxpayers tended to be older (65 years of age or older), while Non-SFR taxpayers tended to be younger, under age 30.

⁴ Study population was filtered to remove taxpayers with incomplete contact information.

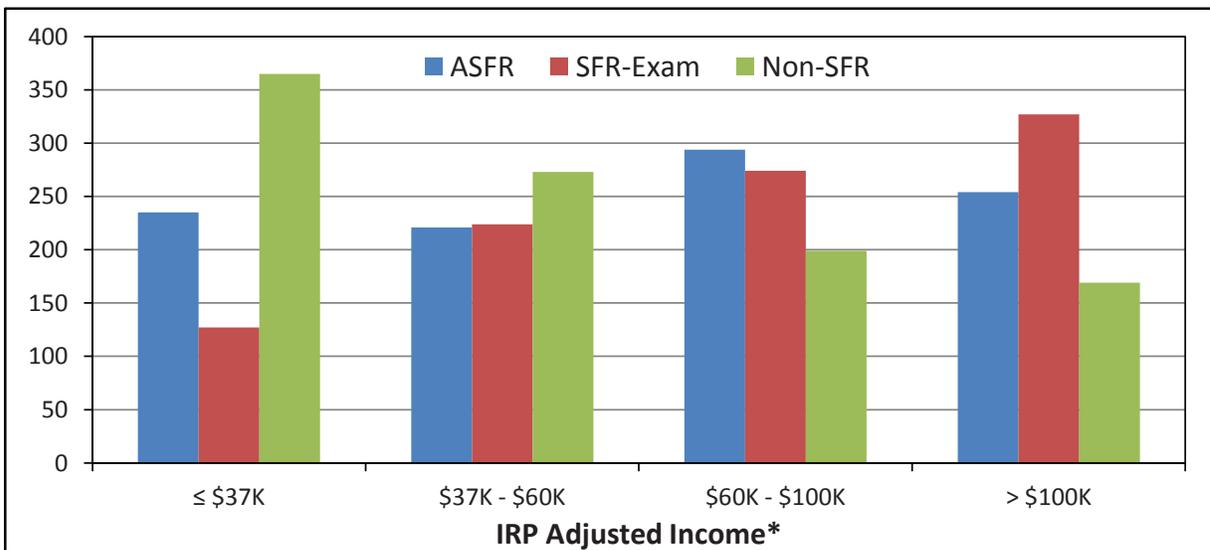
FIGURE 1. Age Distribution by Strata



Approximated Income and Balance Due

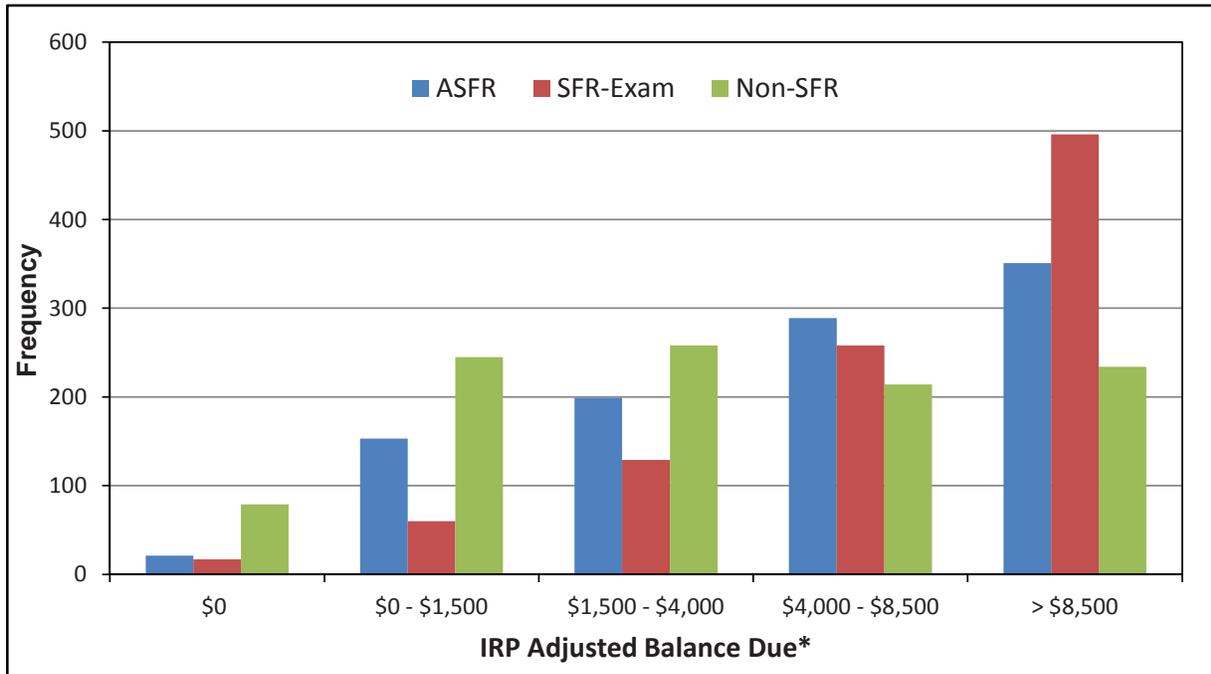
As noted above, nonfilers are identified based on income information reported to IRS. When we look at the distribution of income (Figure 2) and balance due (Figure 3), calculated based on Information Returns Processing (IRP) documents submitted to IRS, we find that SFR-Exam taxpayers had higher income and balance due than taxpayers in the other strata. Likewise, Non-SFR individuals had relatively lower incomes and lower balances due.

FIGURE 2. Number of Taxpayers by IRP Adjusted Income



* Dollar ranges are defined to be over the lower amount and less than or equal to the upper amount.

FIGURE 3. Number of Taxpayers by IRP Adjusted Balance Due

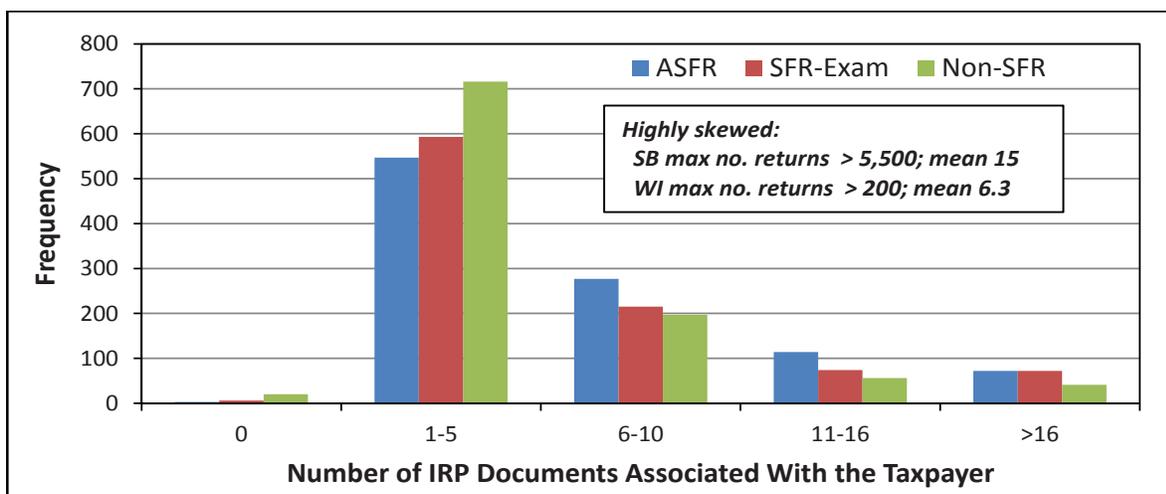


* Dollar ranges are defined to be over the lower amount and less than or equal to the upper amount.

Number of Information Returns as a Proxy for Complexity

Most individuals in the sample had five or fewer information returns (Figure 4), as is the case with the general taxpayer population. Not surprisingly, wage & investment (WI) taxpayers tended to have fewer information returns, while self-employed (SB) taxpayers had, on average, a greater number of information returns, including Forms 1099-MISC and 1099-K.

FIGURE 4. Number of Information Documents Associated with Taxpayer Identification Number (TIN)



Time to Resolve

Taxpayers may have received the first IRS contact in 2012, 2013, or 2014, depending on the year of the unfiled return. We consider the date of first contact in order to determine the time to resolve.

FIGURE 5. Time to Resolve by Strata

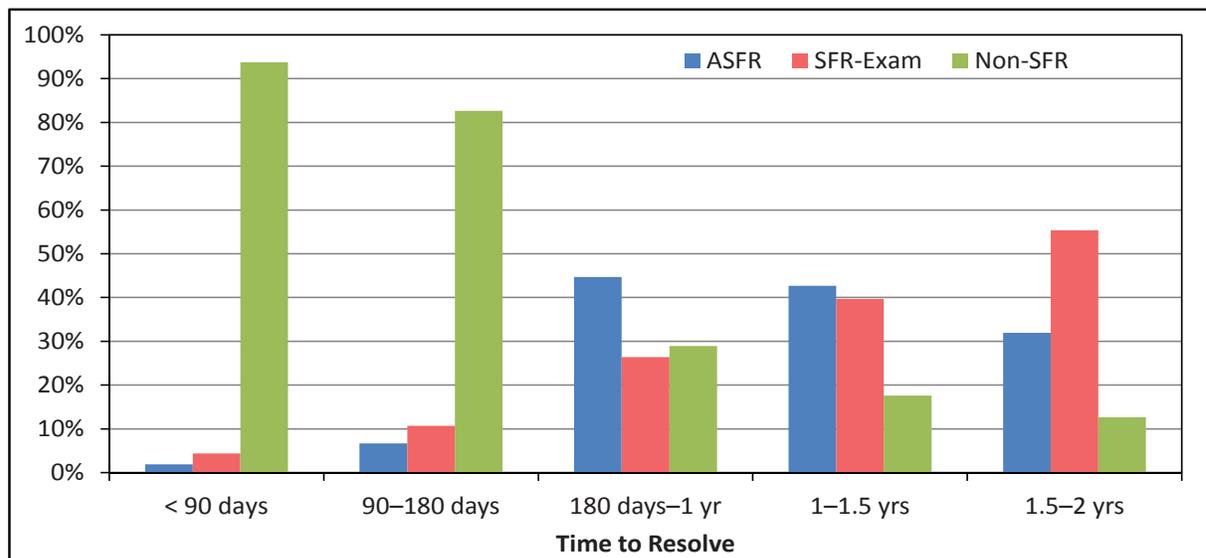


Figure 5 shows that, of the cases that resolve relatively quickly, most are Non-SFR cases. This is because this group is predominantly cases that resolved in the notice phase that comes before the SFR process, for which a default assessment is not sent until about 200 days after the 30-day notice. SFR-Exam cases take longer to resolve than ASFR cases, partly because the SFR-Exam cases enter the SFR process later than the ASFR cases.

SFR-Exam cases have a higher-than-average tax balance due, have more information returns associated with them, and tend to be more complex, small-business cases, whereas Non-SFR taxpayers tend to be younger, have lower income and balance due, are less complex, and resolve relatively quickly. While time to resolve may be a proxy for complexity of the tax situation, it could also be measuring enthusiasm or procrastination on the part of the taxpayer to resolve their issue.

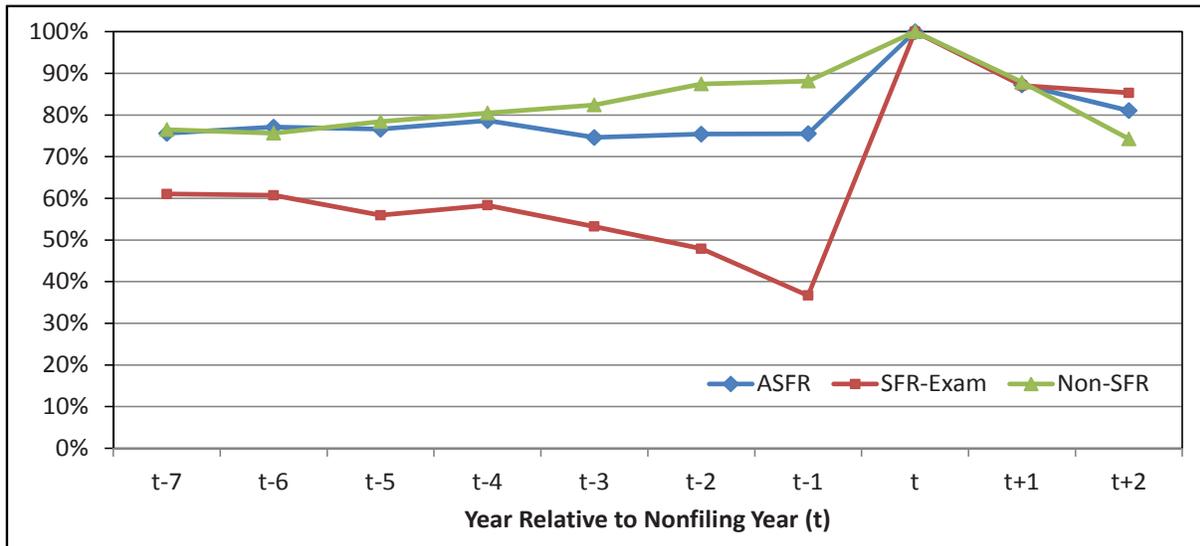
Filing Behavior

As stated above, the survey sample includes individuals who were contacted about an unfiled return for either Tax Year 2011 or 2012, to which we will refer as the “nonfiling year.” To understand the filing behavior of the sample population and the potential impact of the enforcement process, we set the nonfiling year to time “t” and then look at the filed returns before and after the nonfiling year.

Figure 6 shows the filing rate among the full sample. While it isn’t clear whether or not these taxpayers had a filing requirement each year other than the nonfiling year, filing rates among ASFR and Non-SFR taxpayers are relatively high. Everyone either filed or is treated as having filed a return in the nonfiling year. When we look at years other than the nonfiling year, over 75 percent of ASFR taxpayers filed every year, and nearly 90 percent of Non-SFR taxpayers had filed, especially in the years just prior to contact.

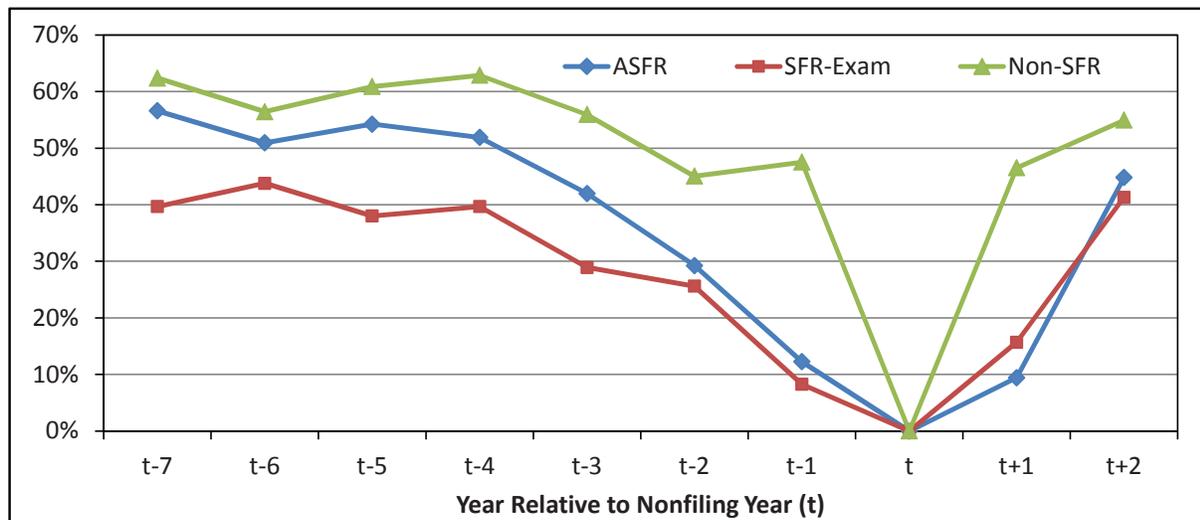
On the other hand, SFR-Exam taxpayers are much less likely to have filed a return, waning steadily from 60 percent 7 years prior to contact to below 40 percent the year just prior to contact. After contact, however, almost 90 percent of taxpayers filed the very next year, but the rate declines somewhat the second year among all strata.

FIGURE 6. Filing Rate for Full Sample in Years Around Nonfiling Year
 (Includes timely and late-filed returns)



When we look at the timely filing rate in Figure 7, we find a more nuanced story. As with the filing rate, ASFR and Non-SFR taxpayers were more likely to file timely than SFR-Exam taxpayers. While none of these taxpayers timely filed a return in the nonfiling year, it appears that timely filing among taxpayers in *each* stratum began declining 4 years prior to contact.

FIGURE 7. Timely Filing Rate for Full Sample in Years Around Nonfiling Year

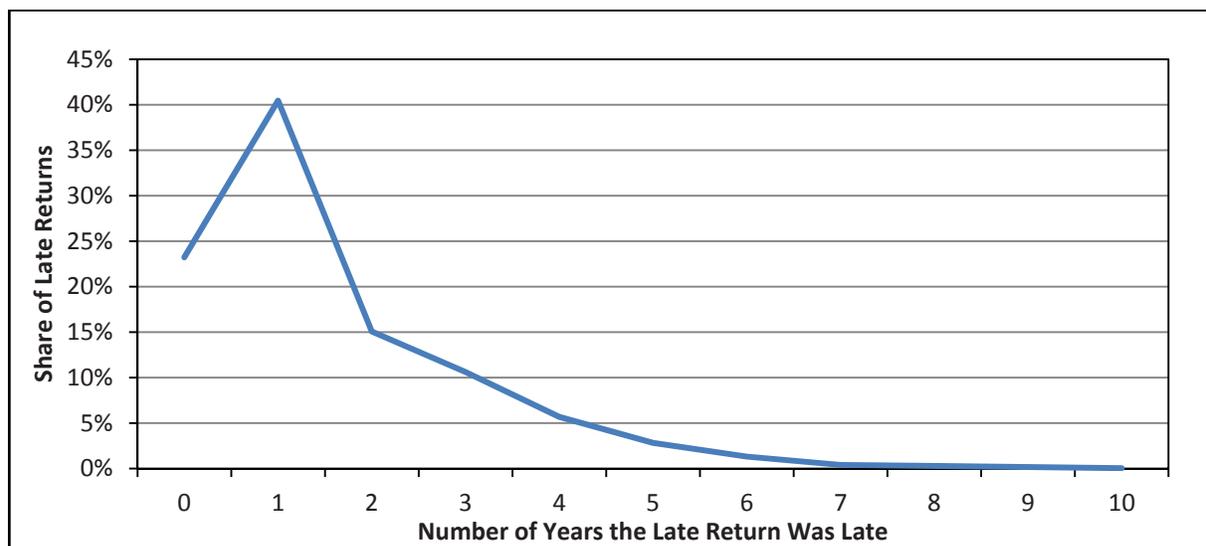


Although 75 percent of ASFR and Non-SFR taxpayers filed a tax return 7 years prior to contact (Figure 6), about 55 percent of these returns were filed on time (Figure 7). Likewise, 20 percent of SFR-Exam taxpayers also filed a late return 7 years prior to the nonfiling year (comparing Figures 6 and 7), even though their filing rate is much lower than the other two strata. By the year just prior to contact, only about 10 percent of ASFR and SFR-Exam taxpayers had filed timely.

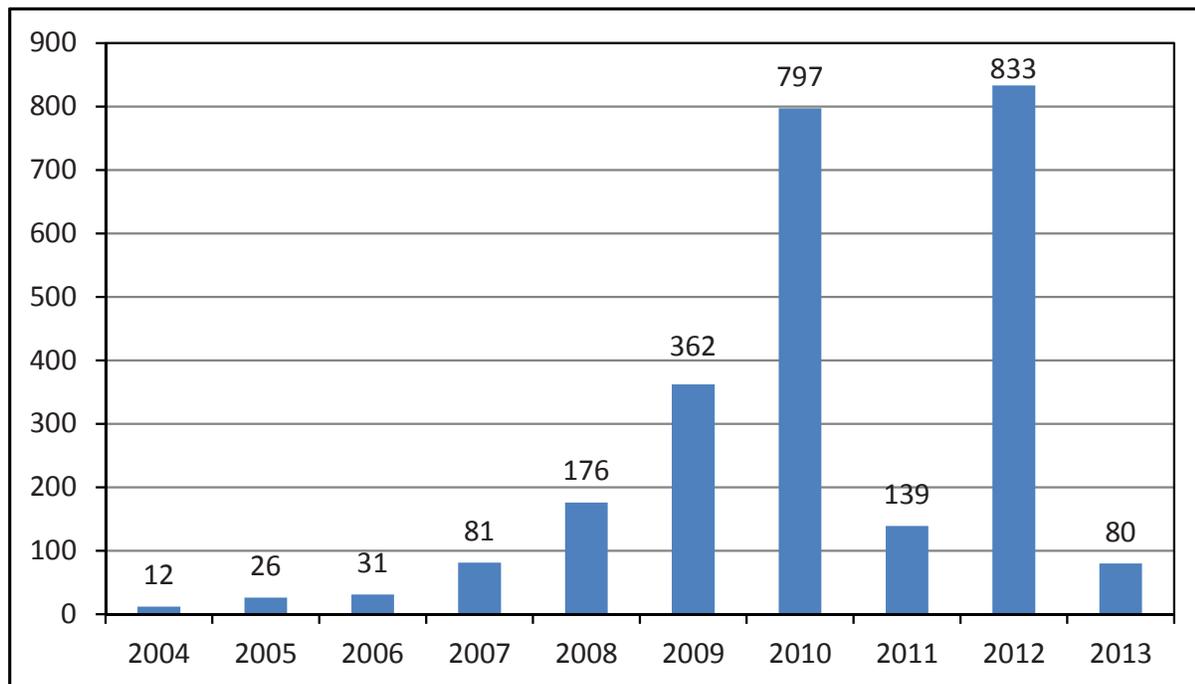
Interestingly, timely filing increases the year after contact, but increases more dramatically the second year, with significant gains among all strata, but most notably among SFR-Exam taxpayers. It is also noteworthy that the timely filing rate hovers just around 50 percent 2 years later. It may be that taxpayers were occupied with resolving this issue, resulting in a late return the years following contact, but it's also possible that they had yet to receive the IRS notice prompting them to file their tax return for the year in question.

In Figure 8 we look at the filing history of the survey population who filed a late tax return any year from 2004 to 2014 to determine how long it took them to file their tax return. Just over 20 percent filed the same year that it was due. Forty percent filed the year after it was due, and 15 percent filed 2 years later. Again, the timing may coincide with receiving an IRS notice.

FIGURE 8. When Taxpayers Filed Their Late Returns



We also found that taxpayers who receive an IRS notice filed tax returns for additional years beyond the year for which they were being contacted. Figure 9 shows the number of late returns, by tax year, that were filed after IRS contact, excluding the tax year for which they were contacted. It was surprising that taxpayers filed returns as far back as 2004, but there were 12 taxpayers who did just that. It was expected, however, that the number of tax returns peaked around the study years. Because we are excluding the study year of contact, the small number for 2011 reflects the relatively smaller sample size for 2012 taxpayers.

FIGURE 9. Number of Additional Late Tax Returns Secured after Contact, by Tax Year

Many of these returns had losses associated with at least one of the schedules, while about 36 percent had a refund associated with them and over half had a balance due. It's interesting that an average refund of \$3,103 for many taxpayers didn't motivate them to file, but it's unclear if they were unaware of the refund and discovered the refund for past years when they filed the year in question, or chose to forego filing altogether.

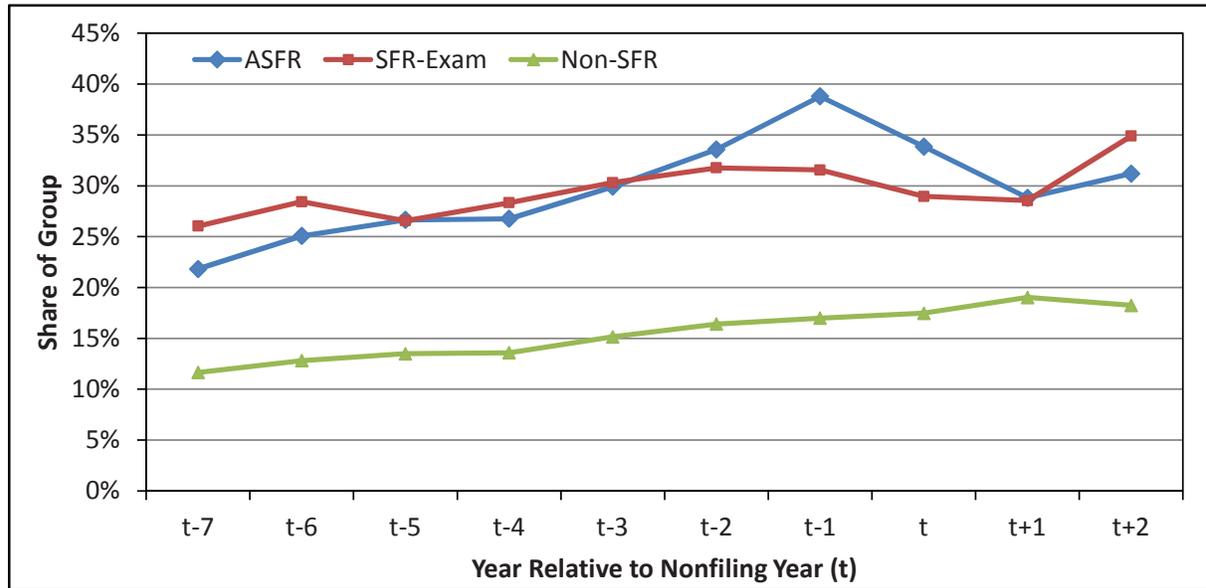
TABLE 3. Characteristics of Additional Late Tax Returns Secured after Contact

Those with a...	Taxpayers		Tax Returns		Average Amounts
	Number	Percentage	Number	Percentage	
Schedule C Loss	197	10.8%	248	9.8%	-\$11,213
Schedule D Loss	164	9.0%	216	8.5%	-\$2,432
Schedule E Loss	156	8.6%	207	8.2%	-\$16,741
Schedule F Loss	19	1.0%	25	1.0%	-\$25,469
Refund	662	36.4%	902	35.6%	-\$3,103
Balance Due	990	54.4%	1422	56.1%	\$5,578
Exactly Paid	169	9.3%	213	8.4%	\$0

Extension Filers

Figure 10 shows the percentage of the study population who filed Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*, around the nonfiling year. We assume that these taxpayers understood the filing requirements and were aware that they were required to file a return. We don't know, however, whether the taxpayers understood that the extension was only to October 15 or that filing Form 4868 does not count as filing a return.

FIGURE 10. Extension Filers Around Nonfiling Year



III. Survey Results

The overall response rate for the survey of 17.8 percent (see Table 4) was not unexpected. Excluding the SFR-Exam stratum, the response rate was in line with the CY 2014 Taxpayer Compliance Burden Survey that surveyed a statistically representative sample of all taxpayers who either amended a return or resolved an issue with a filed return in CY 2014.

TABLE 4. Survey Response Rate*

Stratum	Sample Size	Number of Responses	Response Rate (Percent)
ASFR	1,013	212	20.9
SFR-Exam	960	121	12.6
Non-SFR	1,030	202	19.7
Overall	3,003	535	17.8

*When undeliverable mail is taken into account, the response rates are 21.7%, 13.5%, and 21%, respectively, for an overall adjusted average of 18.8%.

In order to understand the survey results in terms of the full study population, the survey data must be weighted to the population and then adjusted for unit nonresponse (because not all surveys were returned) and item nonresponse (because some respondents chose not to answer all questions).

The discussion below presents population estimates based on the weighted survey data.

Activities

Table 5 shows the top three behavioral responses to four key taxpayer activities.

TABLE 5. Top Three Behavioral Responses to 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) Did not have all of the necessary tax documents	14%
Reasons for ultimately filing the late 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%
Response to first IRS notice (Survey Q3)	
1) Took the notice to a volunteer or paid professional	28%
2) Did not receive an IRS notice	18%
3) Did not open the first notice	14%
What nonfilers do to learn more about filing (Survey Q4)	
1) Consult with a paid or volunteer tax professional	44%
2) Contact IRS	34%
3) Search IRS.gov	16%

*Includes weighting for respondents who wrote in that a life event caused them not to file on time.

Based on our weighted estimates, having a balance due and personal reasons drive nonfiling for this population over half of the time. The responses to Q1 and Q2 are in line with results of focus groups with stop-filers in the construction industry conducted by IRS in 2003.⁵ As in that study, life events and inability to pay a balance due were top reasons respondents didn't file.

Individuals who requested an extension to file appear to have done so for the same reasons as other late filers (see Table 6), although, as we would expect, not having the necessary tax documents is a more common reason for these taxpayers.

TABLE 6. Reasons for Not Filing, Reported by Respondents Who Filed an Extension (Weighted)

Reason	Share
Did not have all of the necessary tax documents	27.0
Personal reasons (illness, death in the family, unemployment)	25.8
Balance due on return	24.2
Other	23.0

It is interesting to note that having a balance due is a reason for not filing on time an estimated 29 percent of the time, but having the ability to pay or setting up an installment plan is a reason for finally filing a return only an estimated 19 percent of the time. However, many of the respondents who said they didn't file on time because they couldn't pay also reported that they were unaware of payment options in Question 9.

We expected "Didn't know I had to file" and "Someone told me I didn't have to file" to be among the top reasons for not filing, but based on the survey results, those are drivers of nonfiling only an estimated 4 and 2 percent of the time, respectively.

⁵ IRS Office of Program Evaluation and Risk Analysis 2003 study of stop-filers in the construction industry, available upon request. "Stop-filers" are taxpayers who stop filing after multiple years of regular filing.

Responses to Questions 3 and 4 confirmed our expectations that tax professionals play a large role in assisting taxpayers in resolving their postfiling issue. Just over 28 percent of these late filers are estimated to contact a tax professional as soon as a notice is received, and we estimate that nearly half (44 percent) of these individuals will turn to a tax professional for information or assistance at some point.

Based on our analysis, approximately 14 percent of the population will not open the first notice. Whether it is out of fear, avoidance, or perhaps the belief that the message inside isn't important, even the best-written notice won't be effective unless the taxpayer reads it.

Time and Money

Not surprisingly, taxpayers who file a return after being contacted by the IRS are estimated to spend more time and money (Table 7) than the estimated average compliance burden related to filing a timely return (Table 8). However, we aren't able simply to assume that all the additional burden is due to postfiling activities (e.g., responding to IRS notices, seeking the services of a taxpayer representative). Higher burden could be related to higher-than-average tax complexity, especially for respondents with self-employment income. Taxpayers who file late may incur higher burden simply because more time has passed. For example, documents have been lost and must be replaced or the tax software they would otherwise use isn't readily available.

TABLE 7. Estimated Average 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	70	16
Average money spent on:	Mean	Median
Tax professional fees	\$418	\$9
Software	\$32	\$0
Postage	\$13	\$3
Other fees	\$42	\$0
Total	\$505	\$150

TABLE 8. Individual Taxpayer Compliance Burden (Weighted)

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: Tax Years 2013 and 2014 Form 1040 Instructions.

We note, too, that after winsorization (removing outliers) set at 90 percent for average time and 95 percent for average money, the estimates are 24 hours and \$511, respectively (Table 7). Median values further highlight the presence of outliers in reported time and money. Because many taxpayers filed tax returns for several years, it's possible that they included estimates beyond the year in question.

Stress

For Question 7, we presented a Likert scale matrix that asked survey recipients to rate the stress level of various activities associated with resolving the issue with their unfiled return. Recipients were also asked to provide an overall stress rating of the experience. Table 9 below summarizes the estimated percentages of stress levels for the population.

TABLE 9. Stress Levels (Weighted)

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.

Considering the reported stress levels for individuals who perform the activities (Table 9A), we estimate that figuring out what to do next and what will happen if the taxpayer doesn't respond are the two biggest sources of stress. Calling the IRS is close behind, however. Responding in writing is the least source of stress, but it's still estimated to be very stressful for nearly half of the taxpayers who do it.

TABLE 9A. Stress Levels for Taxpayers Who Perform an Activity (Weighted)

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%	13%	13%	15%	12%	18%	7%
A little stressful	14%	9%	20%	12%	21%	19%	14%	17%
Somewhat stressful	23%	19%	24%	22%	22%	24%	25%	30%
Very stressful	56%	64%	43%	52%	42%	46%	44%	47%

Upon comparing the stress responses to administrative data, we found that the longer the process took, the more stress was reported. Interestingly, respondents who reported the most stress did not necessarily have the highest proposed assessment or ultimately pay the highest tax. We also found that younger respondents generally reported more stress than the oldest respondents. Almost 20 percent of respondents age 50 or older reported no overall stress.

Preferred Communication Channels

Question 8 of the survey asked the survey recipients to tell us how they would have preferred to communicate with the IRS or find out about the status of their case if other options were available. This question allowed the respondent to choose more than one response.

TABLE 10. Preferred Channel (Weighted)

Channel	Percentage
Email	54%
Secure online taxpayer account	40%
Text messaging	18%
Status quo/prefer mail	22%

Based on our analysis (Table 10), we estimate that just over half of the population would choose to communicate via email if that option were available. Although not as popular as email, many of these taxpayers would be open to using a secure online account. We note that electronic communication options were generally preferred by younger respondents, but many older respondents also selected these options as well.

An estimated 7 percent of the study population are happy with the current process and prefer to communicate via mail. Not surprisingly, these taxpayers are generally older.

Suggestions To Improve Service

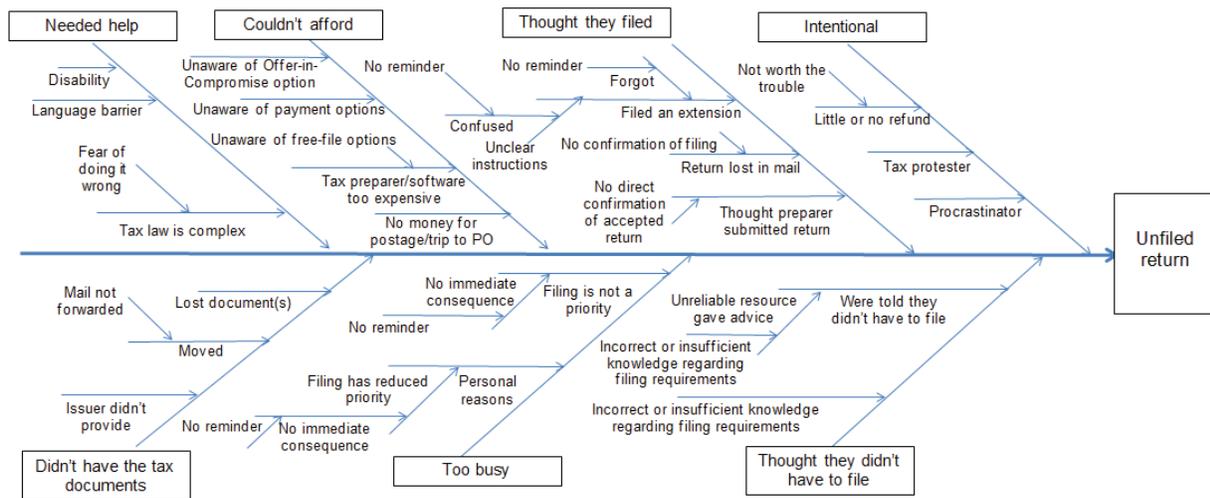
The final question gave respondents the opportunity to provide feedback on how the IRS could improve taxpayer services or make it easier for them to know when they should file a Federal income tax return and what payment options are available. Because only 57 percent of respondents completed this item, survey response rates rather than weighted responses are discussed here.

Of the respondents who answered the question, almost half suggested that the IRS improve existing processes, citing long waits, unreturned phone calls, and having to provide the same information each time they contacted the IRS. The other most common responses requested better information on payment plans and help with making payments. Taxpayers also wanted clearer notices and earlier notification of the issue to minimize penalty and interest. That being said, 10 percent of respondents who answered the question wrote in that they felt the IRS is doing a good job.

IV. Implications for Treatment Design

Results of this study will inform inventory case selection and treatment alignment for nonfilers to reduce compliance burden and improve the taxpayer experience. Insights from the survey data may also help the IRS identify taxpayer segments who will benefit from IRS actions that will encourage and facilitate timely tax filing and payment compliance, thus eliminating the time and money burden—and the stress—associated with undergoing IRS enforcement action.

The fishbone diagram in Figure 11 identifies possible reasons taxpayers might not file on time. After analyzing the survey responses, three of these root causes bubbled to the top: (1) taxpayers have incomplete or inaccurate information about filing requirements (including when there is a balance due); (2) the need to file a return becomes less salient the further one gets from April 15; and (3) once filing is deprioritized, it can easily remain deprioritized.

FIGURE 11. Beginning Fishbone Analysis: Reasons for Not Filing on Time

With these topics in mind, we make a few preliminary recommendations that could reduce the incidence of nonfiling:

- Improve educational resources and outreach to help taxpayers become correctly informed about filing requirements and the need to file even if they can't pay the balance due in full.
- Make payment options more transparent.
- Send reminders to file shortly after the tax season to previous-year filers who did not file by the due date of the return and did not request an extension.
- Send a filing reminder to taxpayers who may be at risk for nonfiling (e.g., extension filers, taxpayers near retirement age, unemployed individuals).
- Contacting extension filers could be facilitated by requesting a taxpayer's email address on Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*.
- Allow taxpayers to provide a reason for requesting an extension on Form 4868.
 - Conduct a randomized control trial to determine if tailored outreach can help taxpayers file (and pay) by October 15.

We also make the following recommendations to reduce burden and improve taxpayers' experience in the enforcement process:

- Provide clearer information up front about what will happen if taxpayer doesn't respond.
- Help taxpayers understand that their tax liability may be lower than the proposed tax, but they must complete and submit their return to claim and justify tax benefits that will reduce their tax assessment.
- Provide more timely communication (early notification of filing issue).
- Focus on expanding electronic communications to email, online accounts, and text messaging.
- Continue work to improve taxpayers' experience with mail and phone contacts, including improving notices to make them clearer.

TABLE 11. Current IRS Initiatives and Pilots Supported by Preliminary Findings

<p>Technology Initiatives Supported by Preliminary Findings</p> <ul style="list-style-type: none"> • Expand electronic payment options • Get the Get Transcript program back online • Improve the online payment agreements page and provide new “streamlined” payment agreements with higher dollar limits and time horizons <p>Pilots Supported by Preliminary Findings</p> <ul style="list-style-type: none"> • Filing reminder notices for past nonfilers. Testing a postcard to examine the opening of the letter barrier • Call site letter redesign • ASFR letter pilot (to promote payment options) • Testing a notice that highlights the IRS assessment vs. what was claimed on the last filed return (e.g., deductions and credits that were claimed by the taxpayer)

Respondents vs. Nonrespondents

Our analysis shows some similarities and differences between respondents and nonrespondents. For example, respondents had, on average, a higher rate of filing compliance prior to IRS contact (Figure 12), lower income levels based on information returns (Table 12), and lower adjusted proposed net tax due based on information returns (Table 13). However there was not much difference in age between respondents and nonrespondents (Table 14).

FIGURE 12. Timely Filing Rate in Years Around Nonfiling Year: Respondents vs. Nonrespondents

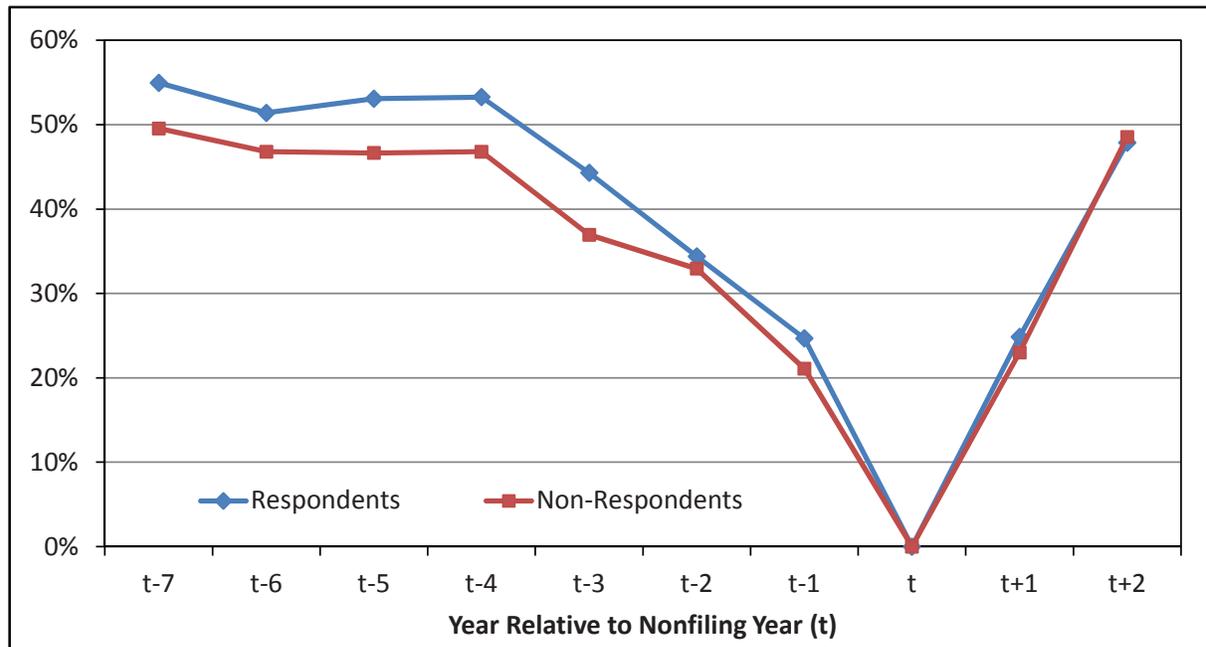


TABLE 12. Nonrespondents vs. Respondents: Income

	Mean	Median
Respondents	\$74,935	\$56,793
Nonrespondents	\$84,207	\$62,128

TABLE 13. Nonrespondents vs. Respondents: Adjusted Proposed Net Tax Due

	Mean	Median
Respondents	\$8,169	\$3,567
Nonrespondents	\$9,887	\$4,103

TABLE 14. Nonrespondents vs. Respondents: Age

	Mean	Median
Respondents	53	53
Nonrespondents	47	47

Further Research

Further research will be carried out to analyze differences between survey respondents and nonrespondents. An associated representative data set that links survey responses to taxpayer characteristics and observed compliance outcomes will aid model development. These models will be used to refine the root cause analysis and develop treatment streams that are better tailored to the root cause of the noncompliance behavior.

Definitions

General Definitions

- **Nonfiler**—An individual who has a filing requirement 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. Taxpayers either filed a return or agreed to the proposed assessment in CY 2014.

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.

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Appendix

Nonfiler/Late Filer Survey Instrument



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Section A. General Questions About Your Tax Year 20XX Filing Issue

1. What reason best describes why you filed your Tax Year 20XX federal income tax return after the due date of the return? **Check only one.**

- | | |
|---|--|
| <input type="checkbox"/> Did not know I had to file | <input type="checkbox"/> Software or paid preparer too expensive |
| <input type="checkbox"/> Someone told me I didn't have to file | <input type="checkbox"/> Didn't have all of the tax documents I needed |
| <input type="checkbox"/> There was a balance due on the return | <input type="checkbox"/> Personal reasons (illness, death in the family, too busy) |
| <input type="checkbox"/> Didn't understand how to complete the return | |
| <input type="checkbox"/> Other, <i>please specify:</i> | |

2. What prompted you to file your Tax Year 20•• federal income tax return? **Check all that apply.**

- | | |
|--|--|
| <input type="checkbox"/> To get my refund | <input type="checkbox"/> Able to get help to complete the return |
| <input type="checkbox"/> Found out I had to file | <input type="checkbox"/> Had enough time to prepare the return |
| <input type="checkbox"/> To show IRS that I owed less than they said I did | <input type="checkbox"/> Had enough money to pay the balance due |
| <input type="checkbox"/> Received the tax documents I needed | |
| <input type="checkbox"/> Other, <i>please specify:</i> | |

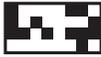
3. What did you do when you received the first IRS notice about your Tax Year 20XX federal income tax filing issue? **Check all that apply.**

- | | |
|---|--|
| <input type="checkbox"/> Did not receive an IRS notice | <input type="checkbox"/> Took the notice to a paid or volunteer tax professional |
| <input type="checkbox"/> Did not think it was important, so I did nothing | |
| <input type="checkbox"/> Did not understand the notice, so I did nothing | <input type="checkbox"/> Did not open the first IRS notice, but did open a subsequent notice |
| <input type="checkbox"/> Other, <i>please specify:</i> | |

4. What did you do to learn more about filing your Tax Year 20XX federal income tax return? **Check all that apply.**

- | | |
|--|---|
| <input type="checkbox"/> Searched a non-IRS website | <input type="checkbox"/> Contacted the IRS |
| <input type="checkbox"/> Consulted with a paid or volunteer tax professional | <input type="checkbox"/> Searched IRS.gov |
| <input type="checkbox"/> Consulted with friends or family members | <input type="checkbox"/> Visited a local IRS office |
| <input type="checkbox"/> Other, <i>please specify:</i> | |

None of the above



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Section B. Time Spent Resolving Your Tax Year 20XX Return Filing Issue

The next questions focus on the time spent by you, family members, friends, or other unpaid volunteers on activities related to resolving your Tax Year 20XX federal income tax filing issue.

Please include time spent:

- By you, family members, friends, or other unpaid volunteers actively working to resolve your filing issue

Please do not include time spent:

- Waiting on the IRS or your tax professional to respond to you
- Filing federal income tax returns not required to resolve your filing issue
- Filing any state income tax returns
- By a paid tax professional who may have helped you resolve your filing issue

5. Of the total time you spent resolving your Tax Year 20XX federal income tax filing issue...

A. How much time did you spend reviewing and gathering tax-related materials?

Include time spent:

- Reading IRS notices, instructions, or publications
- Performing tax-related calculations
- Consulting with family members or friends
- Researching to learn more about the issue
- Obtaining or recreating tax-related documentation
- Taking time off from your job to review and gather tax-related materials
- Copying, printing, or scanning tax-related documents

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Hours Minutes

No time spent

B. How much time did you spend interacting with the IRS and IRS resources?

Include time spent:

- On the telephone or in face-to-face meetings with IRS personnel
- Visiting a local IRS office (include travel time)
- Taking time off from your job to interact with the IRS
- Writing and submitting a letter to the IRS
- Searching IRS.gov
- Obtaining IRS forms, instructions, or publications
- Completing and submitting IRS forms
- Making payments to the IRS

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Hours Minutes

No time spent

C. How much time did you spend working with a tax professional?

Include time spent:

- Searching for and selecting a tax professional
- Discussing fees and payment with a tax professional
- Submitting tax-related documentation to a tax professional
- Completing any forms at the request of a tax professional
- In face-to-face meetings with a tax professional (include travel time)
- Taking time off from a job to work with a tax professional
- On the telephone or exchanging email with a tax professional

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Hours Minutes

No time spent

Not applicable



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Section C. Money Spent Resolving Your Tax Year 20XX Return Filing Issue

The next questions ask about the money you spent to resolve your Tax Year 20XX federal income tax filing issue.

Please include:

- Money spent by you while actively working to resolve your filing issue

Please do not include:

- Any tax, penalties, and interest related to your filing issue
- Costs related to filing any federal or state income tax returns not required to resolve your 20XX filing issue

6. Of the total money you spent resolving your Tax Year 20XX federal income tax filing issue...

A. How much did you spend on tax professional fees to resolve your filing issue?

Include money paid:

- To a tax professional, at any point, to assist you in resolving your filing issue

\$.

Dollars Cents

No money spent

Not applicable

B. How much did you spend on a tax preparation website or software to resolve your filing issue?

Include the purchase price as well as live advice fees.

Do **not** include any general purchase accounting software, such as Quicken, MSN Money, or QuickBooks.

\$.

Dollars Cents

No money spent

C. How much did you spend on postage or other related costs to resolve your filing issue?

Include money paid other than tax, penalties, and interest:

- For postage, envelopes, and other mail-related costs
- For copying, faxing, or scanning of documents
- For travel and commuting related to resolving your filing issue
- For any other products and services necessary to resolve your filing issue

\$.

Dollars Cents

No money spent

D. How much did you spend on fees to resolve your filing issue, such as a credit card processing fee or an offer-in-compromise application fee?

Do **not** include tax, penalties, or interest.

\$.

Dollars Cents

No money spent



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Section D. Your Experience Resolving Your Tax Year 20XX Filing Issue

7. When resolving your Tax Year 20XX federal income tax filing issue, how stressful was each of the following?

	Not at all stressful	A little stressful	Somewhat stressful	Very stressful	Did not do
A. Figuring out what to do next	<input type="checkbox"/>				
B. Figuring out what would happen if you didn't respond	<input type="checkbox"/>				
C. Trying to understand IRS notices	<input type="checkbox"/>				
D. Calling the IRS	<input type="checkbox"/>				
E. Responding to the IRS in writing	<input type="checkbox"/>				
F. Finding the tax information you need to complete your return	<input type="checkbox"/>				
G. Finding out about payment options	<input type="checkbox"/>				

When resolving your Tax Year 20XX federal income tax filing issue, how stressful was the following?

	Not at all stressful	A little stressful	Somewhat stressful	Very stressful
H. Overall experience resolving this filing issue	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. If there had been other ways to provide information to the IRS or find out about the status of your 20XX filing issue, which method(s) would you have used?

Check all that apply.

- Email
- Secure online taxpayer account
- Text messaging
- Other, please specify:

9. Please share any suggestions you have for how the IRS could improve taxpayer services or make it easier for you to know when you should file a federal income tax return and what payment options are available.