

OMB Supporting Statement EFTPS Research Among 1040-ES Paper Payers

Background

Each year, the U.S. Department of the Treasury receives approximately 30 million 1040-ES (Estimated Tax) paper payments. Estimated tax is the method used to pay tax on income that is not subject to withholding (for example, earnings from self-employment such as for a sole proprietorship, interest, dividends, rents, alimony, and so on). Estimated tax payments can be made in a single transaction in April or in quarterly payments in April, June, September, and January.

Those required to make estimated tax payments typically expect to owe at least \$1,000 in taxes after subtracting withholding and credits, and expect their withholding and credits to be less than the smaller of either 90 percent of the tax paid the previous year or 100 percent of the tax paid two years earlier.

According to the Internal Revenue Service (IRS), 21.5 million individual income tax returns reported non-farm sole proprietorship activity in tax year 2005. Profits from these sole proprietorships totaled \$269.9 billion, up 9 percent from the previous year. IRS data also show that unpaid balances for tax returns with sole proprietorship activity are increasing.

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest business organization to start and maintain, and has no existence separate from the owner. The owner undertakes the risk for all assets owned and includes the business income and expenses on his or her personal tax return.

Currently, the IRS does not have information on the incidence of sole proprietors who file 1040-ES papers.

Many sole proprietors make 1040-ES estimated tax payments. Many “moonlight” and increase their withholding through their employer or “day job” to take care of self-employment taxes on the outside income rather than make estimated tax payments via the 1040-ES. However, many 1040-ES estimated tax payments are generated by non-sole proprietors due to passive income on dividends, interest, rents, alimony, and the like.

IRS encourages 1040-ES filers to make their payments electronically via the Electronic Federal Tax Payment System (EFTPS), electronic funds withdrawal, or credit card. EFTPS is a free service of the IRS and the Financial Management Service (FMS), sister Treasury bureaus, that allows payment of any Federal tax by phone or Internet. As of the 2005 tax year, those who made an electronic estimated tax payment no longer receive paper vouchers from the IRS and instead are encouraged to continue paying electronically.

In general, an electronic payment transaction costs the Federal government 53 cents less than a paper transaction. A key goal for FMS is timely collection of Federal government receipts, at the lowest cost, through an all-electronic Treasury.

FMS and the IRS are very interested in exploring attitudes and perceptions about electronic tax payment systems among sole proprietors who file 1040-ES payments to determine whether techniques similar to those successfully used among businesses with employees would encourage sole proprietors to move to electronic payment.

Businesses with employees pay employment taxes using Federal Tax Deposit (FTD) coupons. If a business's aggregate deposits for a year total more than \$200,000, it is required to use EFTPS. FMS and IRS in the past two fiscal years have aggressively sought to reduce the number of FTD coupons and encourage electronic deposits by:

- Express Enrolling into EFTPS new businesses and a percentage of businesses currently using paper Form 8109 (FTD coupon);
- enhancing the batch provider software used by tax professionals to pay taxes for their clients; and
- marketing the advantages of EFTPS to small businesses, tax professionals, and financial institutions.

Through these efforts, FMS and IRS have achieved a 15 percent reduction in FTD coupon processing.

Research Objectives

The primary objective of the proposed research is determining the cost and feasibility of conducting more extensive research on awareness and attitudes toward electronic tax payment systems among sole proprietors who make paper 1040-ES payments. To do this, we would need to determine the incidence, or percentage, of these taxpayers we could expect in a survey of sole proprietors. Currently, the IRS does not have information on the incidence of sole proprietors within the universe of 1040-ES paper payments.

Once we know the incidence, we can determine whether it is cost effective to conduct additional in-depth research among this audience. Ultimately, the information collected will be used to develop strategic plans aimed at eliminating or significantly reducing use of 1040-ES paper payments.

This short, voluntary survey will have minimal impact on the sole proprietors who are given the opportunity to participate.

Methodology

To meet these objectives, KRC Research will conduct a national random sample telephone survey of 300 sole proprietors using a list sample. The survey would be approximately five minutes long and would include questions to determine the type of tax

payments sole proprietors make. Based on the findings, we can estimate the percentage, or incidence, of all sole proprietors who are making paper 1040-ES payments.

Estimated Burden Hours

Completing 300 interviews among a listed sample of sole proprietors is expected to take a total of 26.4 hours of time for those who are contacted and participate in the survey or screening process.

This estimate is based on completing 300, 5-minute interviews (300 interviews x 5 minutes)/60 = 25 hours.

We are assuming that the incidence of 1040-ES users among all sole proprietors will be approximately 65 percent. Therefore, we anticipate making an additional 165 contacts of individuals who will be asked screening questions to determine qualification to participate in the survey but do not qualify. Each contact should last approximately 30 seconds. Therefore, in addition to the 25 hours for interviewing respondents, there will be approximately 3.9 hours spent surveying those who are contacted but do not participate:

$165 \text{ contacts} \times \frac{1}{2} \text{ minute} / 60 = 1.4 \text{ hours}$

Contact

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