

# Joint Symposium on Reducing Taxpayer Burden

November 1, 2006  
Wednesday, 8:00 am to Noon  
Franchise Tax Board

## **Pre-Meeting Materials: Profiles of Low-Income and Middle-Income Taxpayers**

At this meeting, we will be discussing various ideas to reduce taxpayer burden. We will be focusing specifically on assisting low- and middle-income taxpayers. To facilitate the discussion, we have chosen the following four taxpayer groups to profile:

- Single taxpayers with no children
- Single and head of household taxpayers with one child
- Couples married filing jointly with no children
- Couples married filing jointly with two children

If you would like to discuss other groups or have concerns about the definitions in this document, we will welcome your comments at the meeting.

All data is based on tax year 2005 returns. The data is current as of October 20, 2006.

## Joint Symposium on Reducing Taxpayer Burden

### Who are these taxpayers?

Everyone has a picture of who these taxpayers are. However, not everyone's picture may be the same. To ensure we are using the same picture for this meeting, we have put together the following definitions and profiles.

#### **Low Income**

While many different methods exist for determining who can be considered a low-income taxpayer, we have chosen to use the Health and Human Services method of 60% of median income based on household size. We have not made any adjustments for the taxpayer's age. Based on that method:

	Threshold	California Returns Filed by Low-Income Taxpayers
Single taxpayers with no children	\$21,646	2,818,790
Single and head of household taxpayers with one child	\$28,306	695,838
Couples married filing jointly with no children	\$28,306	457,579
Couples married filing jointly with two children	\$41,626	376,636

#### **Middle Income**

For purposes of this discussion, we have defined middle-income taxpayers as those with income at or above the low-income thresholds but not greater than \$60,000.

	California Returns Filed by Middle-Income Taxpayers
Single taxpayers with no children	2,107,047
Single and head of household taxpayers with one child	389,892
Couples married filing jointly with no children	524,314
Couples married filing jointly with two children	182,956

**How these taxpayers prepare and file their returns**

On the following pages, we present charts of how these taxpayers prepare and file their tax returns. We have grouped the returns into four general categories:

- **Preparer (P+E)**  
The taxpayer pays a tax professional to prepare their return or goes to a VITA/TCE site. The return is either e-filed or filed on paper.
- **DIY Paper**  
The taxpayer prepares their return by themselves, either by hand or using computer software. The return is mailed to the Franchise Tax Board.
- **DIY e-file**  
The taxpayer prepares and e-files their return using a commercial software product or Website. These include those filed for free and for a charge.
- **CalFile/ReadyReturn**  
The taxpayer used one of the FTB-provided methods available for tax year 2005. These include paper ReadyReturns.

## **How do we define “burden”?**

Merriam-Webster defines burden as, “something that is a duty, obligation, or responsibility.”

The tax burden includes the taxpayer’s obligation to pay the correct tax, the annual process of gathering their tax records, and the responsibility for preparing and filing a tax return on time. We have identified the following key factors that make up the burden taxpayers experience in relation to doing their taxes.

### **Maintaining and Gathering Tax Records**

While taxpayers with simple tax returns generally only need to have their Forms W-2 and 1099-INT, they often worry there are more things they should be collecting. Some collect boxes full of receipts and other records in the thought that they may be needed to complete the return; sometimes they’re needed, other times they’re not. Others don’t do this during the year and scramble to pull them together when they’re ready to file.

### **Understanding Tax Law Complexities**

State and federal tax laws are complex. It is difficult for non-experts to understand all of the provisions and how they pertain to their personal situations. While we make a concerted effort to explain the law as simply as we can in our forms and instructions, there is often more information than low- and middle-income taxpayers need to correctly complete their returns. Also, for those with languages other than English as their first language, our forms and instructions can be difficult for them to understand. This lack of comprehension leads to taxpayer frustration.

### **Tax Filing Anxiety**

Many taxpayers feel anxious when it comes to doing their taxes. At a certain level, they are afraid of the government and what would happen if they don’t prepare their return correctly. They are also anxious about owing money and what they should do if they can’t pay. They may be anxious about getting their refund quickly to pay bills. They may not know what options are available to them for filing, paying, or getting their refund quickly.

### **Costs, Time, and Resources**

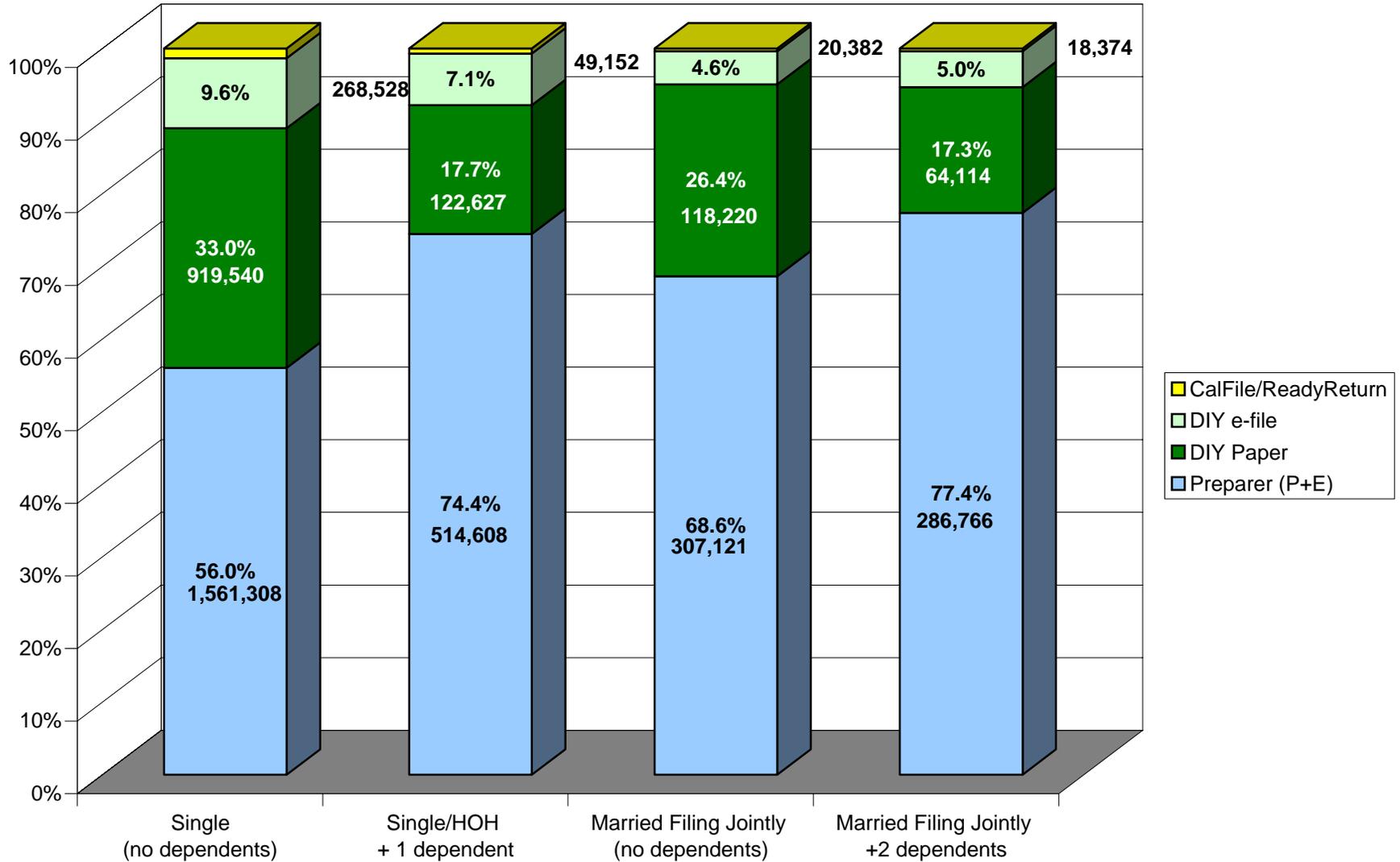
Doing one’s taxes takes time, money, and resources.

- The time it takes taxpayers to complete their returns varies with the complexity of their tax situation. Taxpayers with simple returns have reported that it generally takes them one hour to complete their returns.
- The filing cost can range from the price of a stamp to several hundred dollars, depending on the preparation and filing method.<sup>1</sup> For taxpayers with limited income, any costs may strain an already tight budget.
- Many low-income taxpayers do not have computers in their home. Though many libraries and other social service centers provide free computer and Internet access, many taxpayers do not feel comfortable using these public computers for filing their personal tax return.

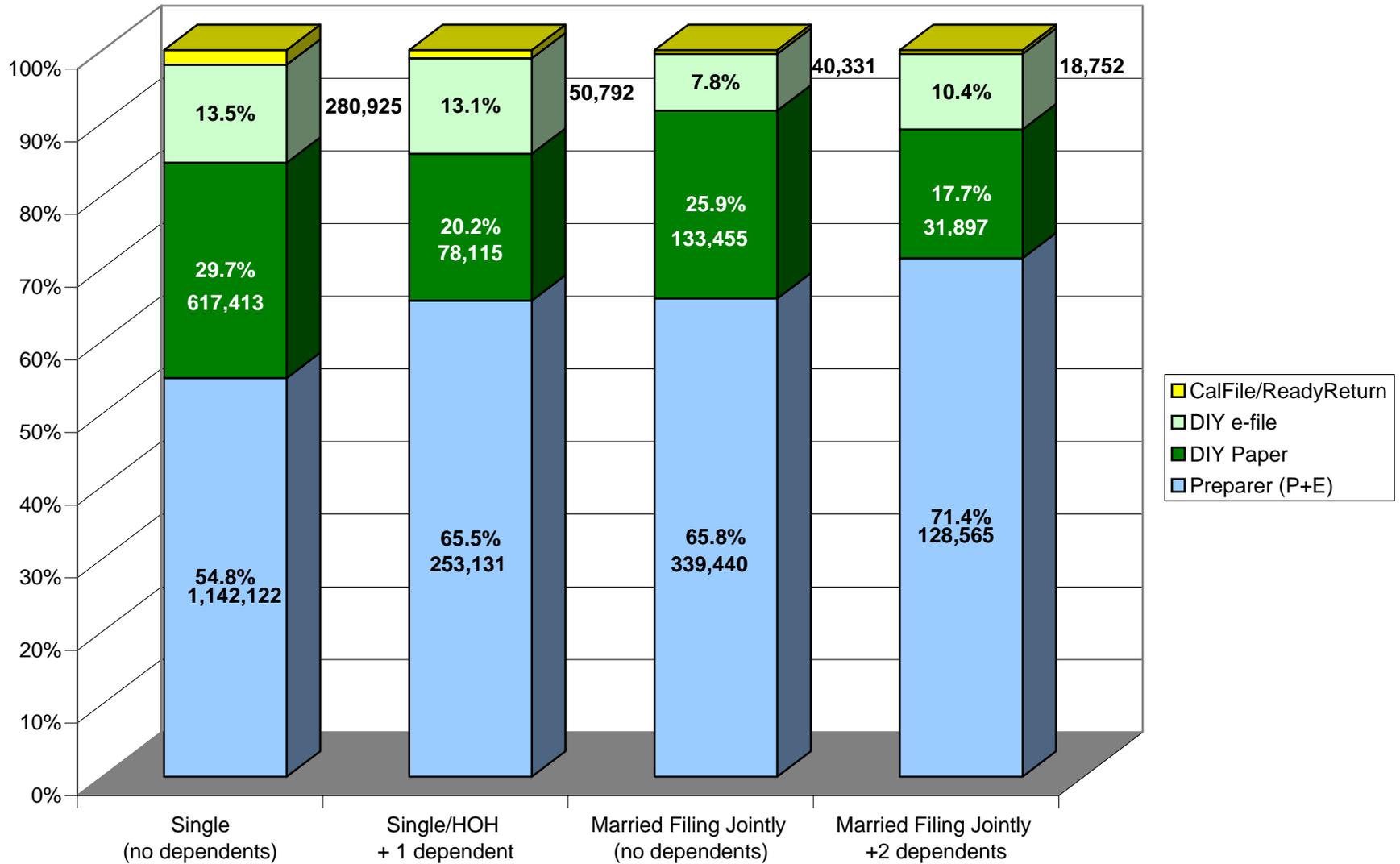
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<sup>1</sup> The average cost for professional preparation ranges from \$100 for wage earners to \$400 for self-employed taxpayers. The average cost at a national tax preparation office is \$150-160.

Taxpayers Considered Low Income for California



Taxpayers Considered Middle Income for California



**Matt Smith**  
Low income taxpayer

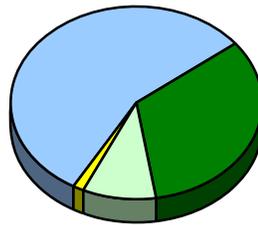


- Single, no children
- Works 30-40 hours a week at a national retailer; attends local community college, too
- Annual income: \$12,500
- 24 years old
- Prepares his tax return by hand
- Mails in his tax returns as soon as he gets his Form W-2

**Taxpayers Like Matt**

- 2.8 million taxpayers earn less than \$21,646
- 61% meet income limit for the earned income tax credit (EITC)
- Include taxpayers who work at full-time minimum-wage jobs
- 53% are below the federal poverty level

**How They File**



- Preparer (P+E)  
57%
- DIY Paper  
33%
- DIY e-file  
10%
- CalFile/ReadyReturn  
1%

**Jennifer Johnson**  
Low income taxpayer

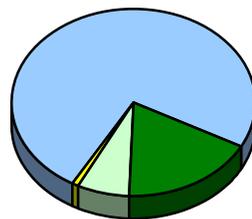


- Single parent, one child (Ashley – 4 years old)
- Works full-time as an administrative assistant
- Annual income: \$21,650
- 37 years old
- Has her return prepared at a retail tax service
- Qualifies for federal EITC, Child & Dependent Care Expenses Credit, and Child Tax Credit

**Taxpayers Like Jennifer**

- 695,000 taxpayers earn less than \$28,306
- All meet income limit for EITC
- Include taxpayers who work at full-time minimum-wage jobs
- 40% are below the federal poverty level

**How They File**



- Preparer (P+E)  
75%
- DIY Paper  
18%
- DIY e-file  
7%
- CalFile/ReadyReturn  
<1%

**James and Mary Miller**  
Low income taxpayers

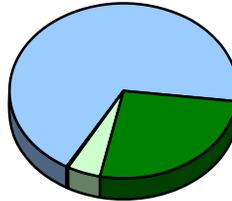


- Married 50 years, 4 grown children
- Mary works part time at a fabric shop; James is retired
- Annual income: \$17,100
- Both are “better than” 65 years old
- They’ve used the same tax preparer for the last 10 years

**Taxpayers Like the Millers**

- 455,000 taxpayers earn less than \$28,306
- 40% meet income limit for the earned income tax credit
- 50% qualify for the senior exemption credit
- 38% are below the federal poverty level

**How They File**



- Preparer (P+E) 69%
- DIY Paper 26%
- DIY e-file 5%
- CalFile/ReadyReturn <1%

**David and Sue Taylor**  
Low income taxpayers

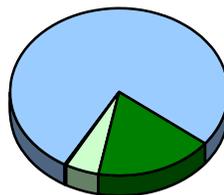


- Married with 2 children (Jacob – 5, Joshua – 2)
- David works full time at a call center; Sue works part-time at Jacob’s school
- Annual income: \$24,000
- With their busy lives, they generally get an appointment with a tax preparer in April

**Taxpayers Like the Taylors**

- 375,000 taxpayers earn less than \$41,626
- 88% meet income limit for EITC
- Include families where both parents work at full-time minimum-wage jobs
- 1/3 are below the federal poverty level

**How They File**



- Preparer (P+E) 77%
- DIY Paper 17%
- DIY e-file 5%
- CalFile/ReadyReturn 1%

**Melissa Williams**  
Middle income taxpayer

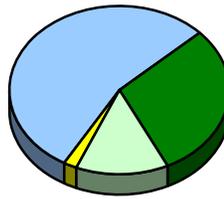


- Single, no children
- Works as a recruiter
- Annual income: \$37,250
- 34 years old
- Uses computer software to prepare her return, but mails it in on paper

**Taxpayers Like Melissa**

- 2.1 million taxpayers make between \$21,646 and \$60,000
- 13% qualify for the senior exemption credit

**How They File**



- Preparer (P+E)  
55%
- DIY Paper  
30%
- DIY e-file  
13%
- CalFile/ReadyReturn  
2%

**Christina Thomas**  
Middle income taxpayer

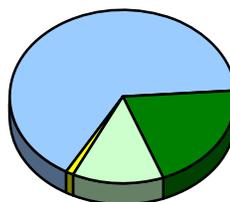


- Single parent, one child (Daniel – 3 years old)
- Works full-time as a public relations specialist
- Annual income: \$40,150
- 29 years old
- Uses the tax preparer who works in her building to file her return

**Taxpayers Like Christina**

- 390,000 taxpayers earn between \$28,306 and \$60,000
- 14% meet income limit for the earned income tax credit (EITC)

**How They File**



- Preparer (P+E)  
66%
- DIY Paper  
20%
- DIY e-file  
13%
- CalFile/ReadyReturn  
1%

**Tim and Kim Moore**  
Middle income taxpayers

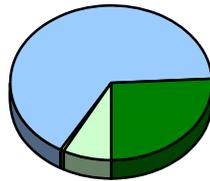


- Married 2 years, no kids (yet)
- Tim is an inside sales rep; Kim is a pharmacy technician
- Annual income: \$43,000
- They hope to buy their first home soon and are using a financial advisor to help them reach this goal
- Their financial advisor offers tax preparation service

**Taxpayers Like the Moores**

- 525,000 taxpayers earn between \$28,306 and \$60,000
- 37% qualify for the senior exemption credit

**How They File**



- Preparer (P+E)  
66%
- DIY Paper  
26%
- DIY e-file  
8%
- CalFile/ReadyReturn  
<1%

**Tom and Karen Martin**  
Middle income taxpayers

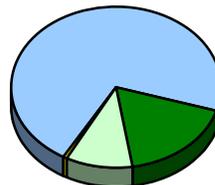


- Married with two teenagers (Chris – 13 and Sarah – 15)
- Tom works in construction; Karen works at a preschool
- Annual income: \$51,000
- Because they both buy tools and supplies for their jobs, they feel a tax preparer can get them the maximum deductions

**Taxpayers Like the Martins**

- 180,000 taxpayers earn between \$41,626 and \$60,000
- 1% qualify for the senior exemption credit

**How They File**



- Preparer (P+E)  
71%
- DIY Paper  
18%
- DIY e-file  
10%
- CalFile/ReadyReturn  
1%