I. Introduction

A. Request for Action

This is a request for approval to move the ReadyReturn pilot to full implementation. If approved, next year ReadyReturn will be available to taxpayers who qualify for the program, based on the same essential eligibility criteria as used for the pilot – single taxpayers with wage income only, no dependents, and who claim the standard deduction.

B. Previous Board Direction

In August 2004, the three-member Franchise Tax Board unanimously directed FTB staff to implement a pilot for "pro forma" return filing and to report on the results. We implemented the pilot in February 2005. The pilot is publicly known as *ReadyReturn*.

C. ReadyReturn Pilot Scope

The tax filing process can be burdensome for many taxpayers. In addition to the taxpayer's obligation to pay the correct tax, the annual process of data gathering and the actual preparation of the return add to the taxpayer's burden. The ReadyReturn pilot scope included providing approximately 50,000 taxpayers the opportunity to partially bypass the traditional tax filing process.

II. ReadyReturn Pilot Findings

As of May 31, we received nearly 9,400 ReadyReturns. About 5,600 ReadyReturn users chose to e-file using our ReadyReturn Website. The remaining 3,800 chose to file the paper ReadyReturn that we mailed to them.

Throughout the pilot design and evaluation process, we consulted with Stanford University experts. Together with these experts, we established a comprehensive survey approach to gather taxpayer feedback on the ReadyReturn pilot. Overall, the initial evaluation results indicate positive findings for the three ReadyReturn pilot measures, as shown below.

1. *Burden reduction*

   The majority of ReadyReturn users indicated that ReadyReturn was easy to understand, lowered stress (anxiety about tax filing) and saved them time.

2. *Taxpayer response and acceptance*

   The majority of ReadyReturn users were very receptive to the ReadyReturn concept and will use it again next year, if made available. Most respondents believe that government should provide this type of service.

3. *Efficient tax administration*

   Overall, the ReadyReturn pilot had a positive impact on FTB's efforts to administer the tax system as efficiently as possible. ReadyReturns were less likely to "fall-out" for errors during processing, consequently, ReadyReturn filers were less likely to receive an error notice from us. ReadyReturn was instrumental in introducing thousands of paper filers to the e-file concept. Of the online ReadyReturn users, 56% converted from paper filing last year to e-filing this year.

III. FTB Staff Recommendation

Based on the positive evaluation results and overall taxpayer satisfaction, FTB staff recommends that the ReadyReturn pilot be moved to full implementation.

State of California

Franchise Tax Board

ReadyReturn Pilot

Preliminary Study Results

June 2005

Study Summary

I. Introduction

A. Board Direction

In August 2004, the three-member Franchise Tax Board unanimously directed FTB staff to implement a pilot for "pro forma" return filing and to report on the results. We implemented the pilot in February 2005. The pilot is publicly known as *ReadyReturn*.

B. ReadyReturn Pilot Scope

The tax filing process can be burdensome for many taxpayers. In addition to the taxpayer's obligation to pay the correct tax, the annual process of data gathering and the actual preparation of the return add to the taxpayer's burden. The ReadyReturn pilot scope included providing approximately 50,000 taxpayers the opportunity to partially bypass the traditional tax filing process.

We selected taxpayers who file the most simple returns. The selected taxpayers received an invitation by mail to participate in the ReadyReturn pilot. The invitation included a letter and a filled-in tax return. The tax return was completed using wage and withholding information that is already reported to the state by employers. The letter provided instructions to recipients on how to file the return as well as how to view and e-file the return via our ReadyReturn Website.

Taxpayers' options included:

- Accept the return, as presented.
- Make modifications.[1]
- Go to FTB's ReadyReturn Website to e-file, or modify the return and e-file it.
- Ignore FTB's invitation.

These available options ensured that taxpayers had choices that included reducing their tax return filing burden.

C. Purpose of this Report

The purpose of this report is to provide the preliminary results of FTB's evaluation of the ReadyReturn pilot. The report provides a factual basis for the three-member Board to make an informed decision regarding the continuation of ReadyReturn.

Though this report is preliminary, we do not anticipate any significant changes to our analysis once we have received all the final data on the pilot. Data that is pending includes final volumes on paper tax returns. Additionally, we continue to receive ReadyReturn surveys on a daily basis. Final survey results and return processing volumes will be available next month.

[1] Typical modifications included: changing filing status; changing address; including additional income information;claiming tax credits; electing for a direct deposit of the refund.

D. *Evaluation Process*

As part of the design and evaluation process, we consulted with Stanford University experts. Together with these experts, we established a comprehensive survey approach to gather taxpayer feedback on the ReadyReturn pilot. We gathered and compared data from four representative taxpayer groups:

1. ReadyReturn paper filers.
2. ReadyReturn e-filers.
3. ReadyReturn non-participants.
4. A Control Group of taxpayers who met the criteria to participate in the program, but were not invited to participate.

II. Key ReadyReturn Objectives and Measures

We considered three objectives that a ReadyReturn program could meet, including reduced taxpayer burden, taxpayers' acceptance of the program, and efficient tax administration. Based on these objectives, we established the following three key measures for the evaluation process. They are:

1. Burden reduction

   Our primary measure for this pilot was to measure taxpayer burden reduction. Selected taxpayers who participated in the pilot were given the opportunity to complete a survey about their ReadyReturn experience. Through these surveys we gathered information regarding the amount of time, effort, and money taxpayers needed to file their returns compared to prior years. This information was used to determine if those participating in the pilot felt that it reduced the burden of filing their taxes in some way.

2. Taxpayer response and acceptance

   Another of our key measures was to see how taxpayers responded to this new service. To determine how interested taxpayers are in the service and how it can best meet their needs, we looked at the number of taxpayers who chose to participate in the pilot. Additionally, we considered survey data and other information. This information was used to determine taxpayer acceptance of ReadyReturn.

3. Efficient tax administration

   Our last key measure was to evaluate whether the use of ReadyReturn resulted in more accurate returns and higher levels of e-filing. If so, FTB could realize a reduction in costs for processing returns and issuing and responding to notices. Also, the pilot provided us with some data we can use to evaluate the overall cost/savings of implementing a ReadyReturn program.

III. Key ReadyReturn Pilot Findings

Overall, the initial evaluation results indicate positive findings for all three ReadyReturn pilot measures, as shown below.

1. *Burden reduction*

   Most survey respondents indicated that ReadyReturn was easy to understand, lowered stress (anxiety about tax filing) and saved them time.

   ReadyReturn Users Results

   - 97% of online users and 99% of paper users stated ReadyReturn was easy to understand.
   - 93% of online users and 92% of paper users stated that they saved time using ReadyReturn.
   - Over 90% of all users,[2] online and paper, stated that ReadyReturn was more convenient than how they filed last year.
   - 90% of online users and 72% of paper users stated that ReadyReturn made them feel less anxious about filing their tax returns.

   Control Group Results

   - 40% of the Control Group[3] indicated that they believed that they would feel less anxious if using ReadyReturn.

2. *Taxpayer response and acceptance*

   The following data indicate that taxpayers were very receptive to the ReadyReturn concept and will use it again next year, if made available. Most respondents believe that government should provide this type of service.

   General Results

   - Received nearly 9,400 ReadyReturns (volume as of May 31)
     - About 5,600 taxpayers chose to e-file using our ReadyReturn Website.
     - The remaining 3,800 chose to file the "ReadyReturn" that we mailed to them.
   - 18% of invitees used ReadyReturn, indicating taxpayers did not feel pressured to use ReadyReturn.

   ReadyReturn Users Results

   - 99% of online users and paper users stated they were either "Very Satisfied" or "Satisfied" with ReadyReturn.
   - 98% of online users and 96% of paper users stated they would use ReadyReturn again next year.
   - 95% of online users and 83% of paper users thought ReadyReturn was a service that the government should provide.

[2] *Users* includes taxpayers who chose ReadyReturn, both paper filers and e-filers.
[3] *Survey control group* includes taxpayers selected from a group of 31,500 who qualified for ReadyReturn, but who were not invited to participate.

- 5% of all users indicated that they believed their personal information was not secure with ReadyReturn.

Control Group Results

- 62% of the Control Group indicated that they were interested in using ReadyReturn.
- 50% of the Control Group thought ReadyReturn was a service that the government should provide.

Non-participants Results

- 47% of non-participants[4] wrote-in the reason they didn't choose ReadyReturn. The most often written-in reason was that the taxpayer had already filed their return.
- 28% of non-participants indicated that they didn't choose ReadyReturn because they prefer to use a tax preparer.
- 13% of non-participants indicated that they believed that using the Internet is not secure.
- 10% of non-participants indicated that they didn't feel comfortable receiving a pre-filled return.
- 3% of non-participants indicated that they prefer using a non-government e-file company.

3. *Efficient tax administration*

Evaluation factors for this measurement include:

- Return accuracy.
- Increase in e-file use.
- Reduction in return processing costs.
- Reduction in the volume of error notices sent to taxpayers.

Overall, the ReadyReturn pilot had a positive impact on FTB's efforts to administer the tax system as efficiently as possible.

- ReadyReturns were less likely to "fall-out" for errors during processing. In fact the fall-out rate for ReadyReturns was about half that for the survey control group, thus reducing processing costs.
- ReadyReturn filers were less likely to receive an error notice from us. Less than 0.5% of ReadyReturn filers received a notice, compared to almost 4% of the Control Group.
- ReadyReturn was instrumental in introducing thousands of paper filers to the e-file concept. Of the online ReadyReturn users, 56% converted from paper filing last year to e-filing this year.

[4] *Non-participants* includes taxpayers who were invited to participate in ReadyReturn, but chose not to.

IV. FTB Staff Recommendation

Based on the positive evaluation results and overall taxpayer satisfaction, FTB staff recommends that the ReadyReturn Pilot be moved to full implementation.

We recommend including taxpayers with the following filing characteristics for participation in the ReadyReturn program:

- Filing status of *single.*
- *No dependents*.
- *Standard deduction*.
- Income derived from *wages only.*

Study Findings

Measure 1: Burden Reduction..... 6

Measure 2: Taxpayer Response and Acceptance 12

Measure 3: Efficient Tax Administration 20

Appendices

A. Profiles (Available online at www.ftb.ca.gov/ReadyReturn/about.html)

A-1 Invitees

A-2 ReadyReturn Users

A-3 Non-Participants

A-4 Control Group

A-5 Profile Comparisons

B. Methodology

B-1 Study Research Methods.....26

B-2 Pilot Methodology 28

C. Surveys (Available online at www.ftb.ca.gov/ReadyReturn/about.html)

C-1 Online Survey

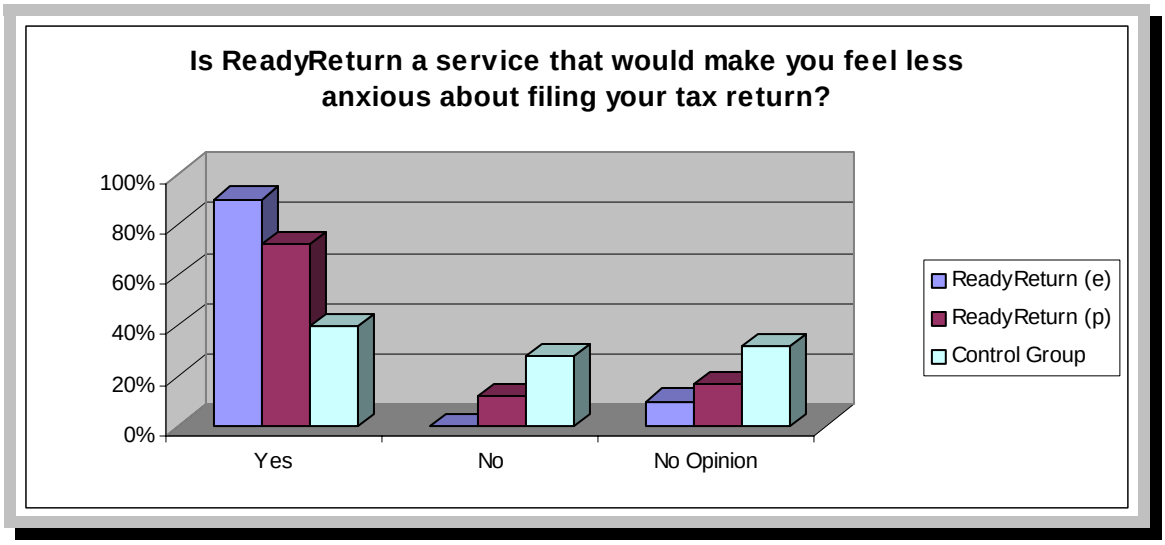
C-2 Combined Group Survey

C-3 Control Group Survey

Study Findings

Measure 1: Burden Reduction

Burden reduction was the primary objective of the ReadyReturn pilot program. One measure of burden is the level of anxiety associated with filing a tax return. When asked if ReadyReturn made them feel less anxious, taxpayers who used the program generally answered, “Yes”. The majority of the control group felt that it would make them less anxious or had no opinion.



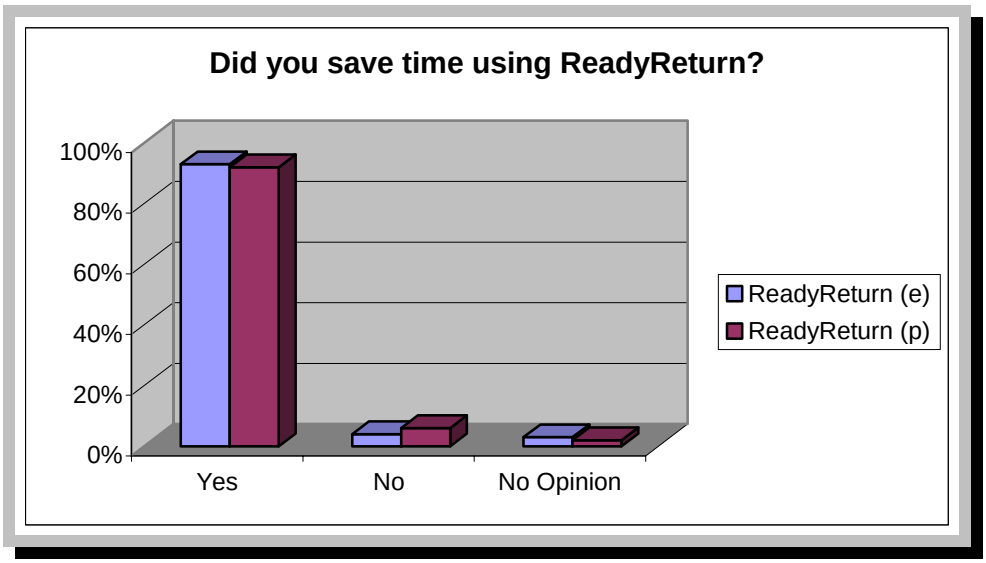
Comments from taxpayers include:

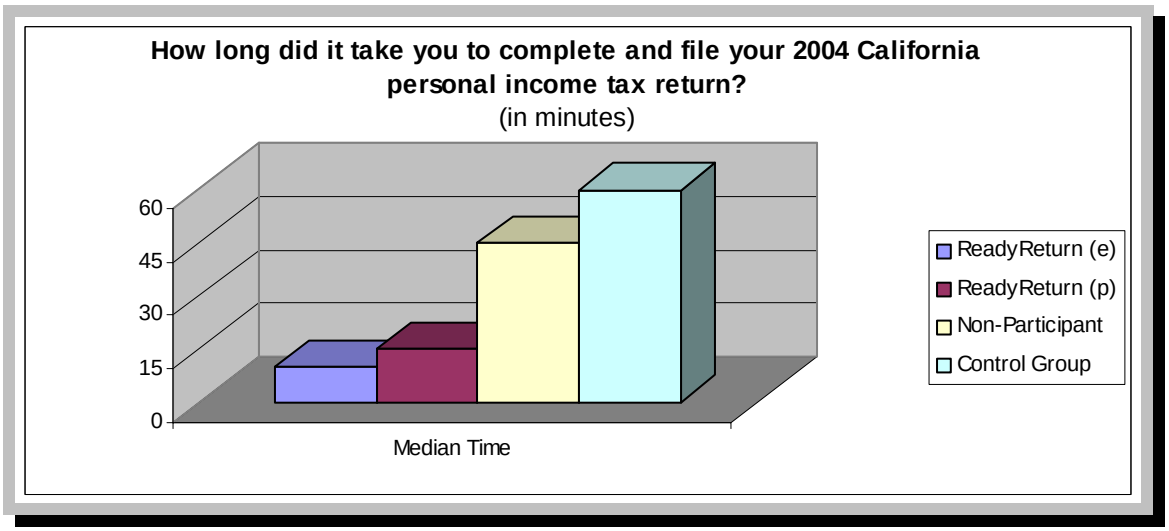
- “Having the form already prepared for me, ready for me to check, was fabulous. It made it so easy and worry free.”
- “This was the best way to file my state taxes. If filing becomes this easy it would eliminate all stress associated with filing your taxes.”
- “Thank you for making something that always is stressful much easier. I was able to understand the procedure and felt that I was in control of what was being done with my taxes.”
- “State tax filing was painless this year.”

Some taxpayers expressed some initial anxiety about the new pilot. Comments include:

- “I was skeptical and a little afraid to use this new program. To my surprise it was the easiest process ever.”
- “I was a bit worried at first when I got this in the mail, but when I realized that this letter was from the State I got excited. I usually use [commercial software] to do my taxes, but this was a lot easier.”

Taxpayers overwhelmingly felt that using ReadyReturn saved them time. This is supported by the amount of time each group reported that they spent to complete and file their 2004 California personal income tax return.

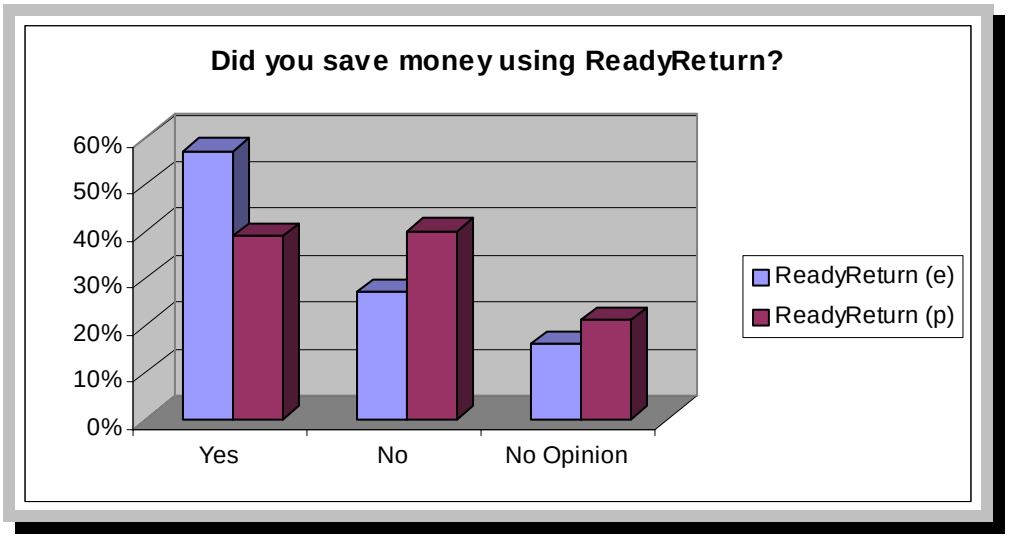


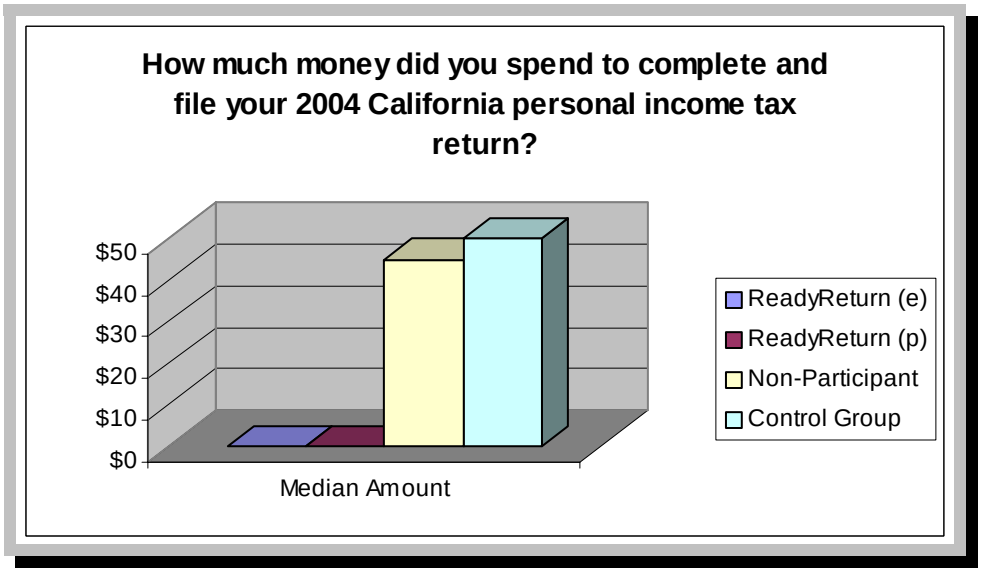


Comments from taxpayers include:

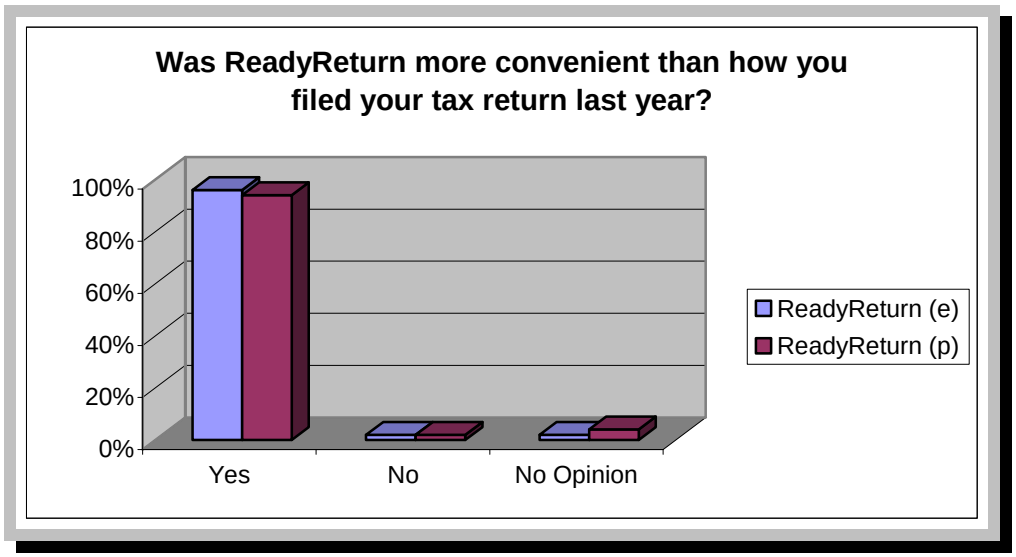
- "You scored a home run with this latest upgrade in e-filing. It saved me a lot of time and headache."
- "This has been a great experience. Never before has it taken 5 minutes for me to file my taxes."
- "I think this is great for single people with no write-offs. It certainly saved me time and to worry of it being incorrect."

The majority of taxpayers felt that ReadyReturn saved them money. Taxpayers who used the ReadyReturn Website were more likely to state that they saved money, where those who used the paper ReadyReturn were neutral. When asked how much money they spent to complete and file their 2004 California personal income tax return, though, the ReadyReturn users reported spending less money than the non-participants and the control group.

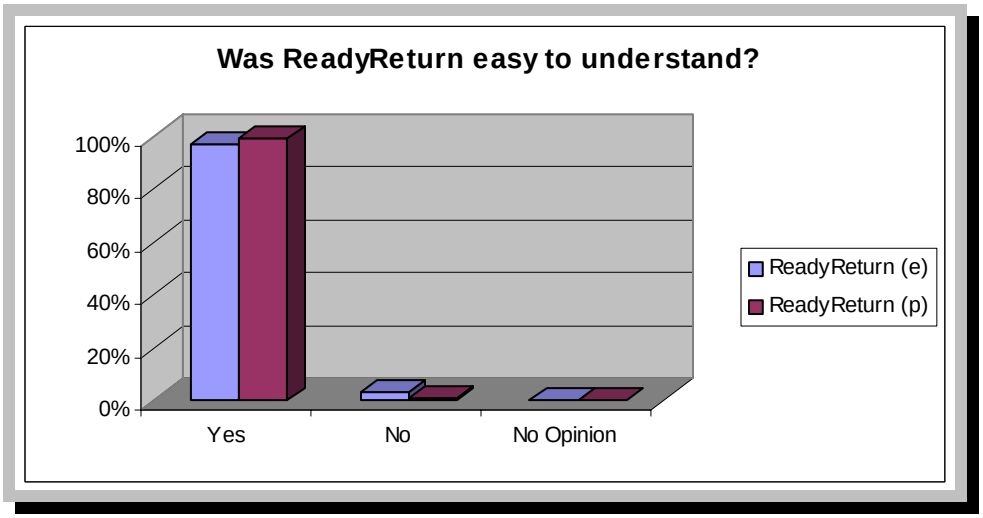




In addition to time and money savings, taxpayers who used ReadyReturn overwhelmingly reported that it was more convenient than how they filed last year.



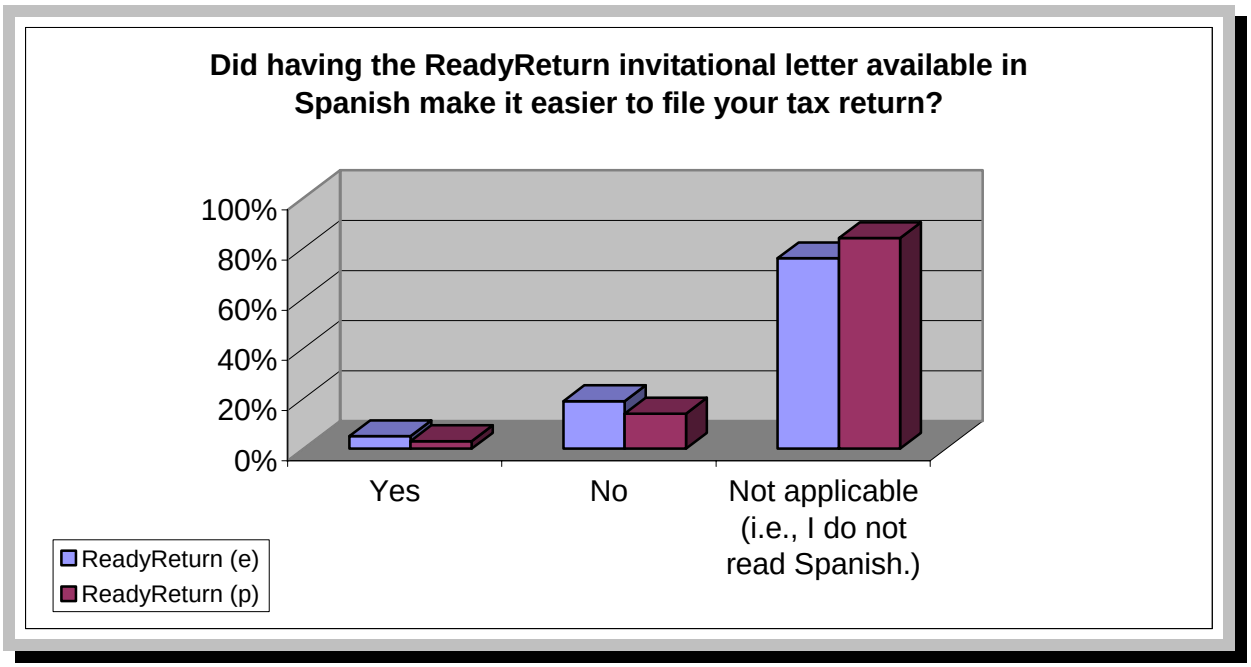
Part of reducing the burden of filing a tax return is making sure the alternative is easy for the taxpayer to understand. Taxpayers who used ReadyReturn overwhelmingly reported that it was easy to understand.

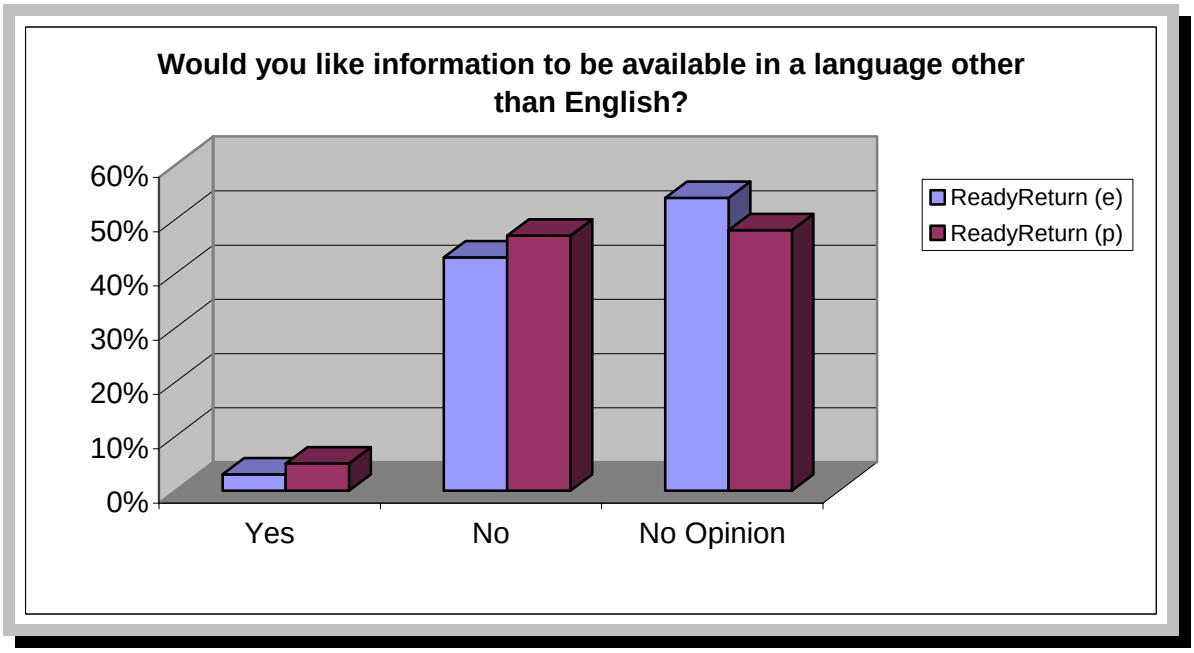


Comments from taxpayers include:

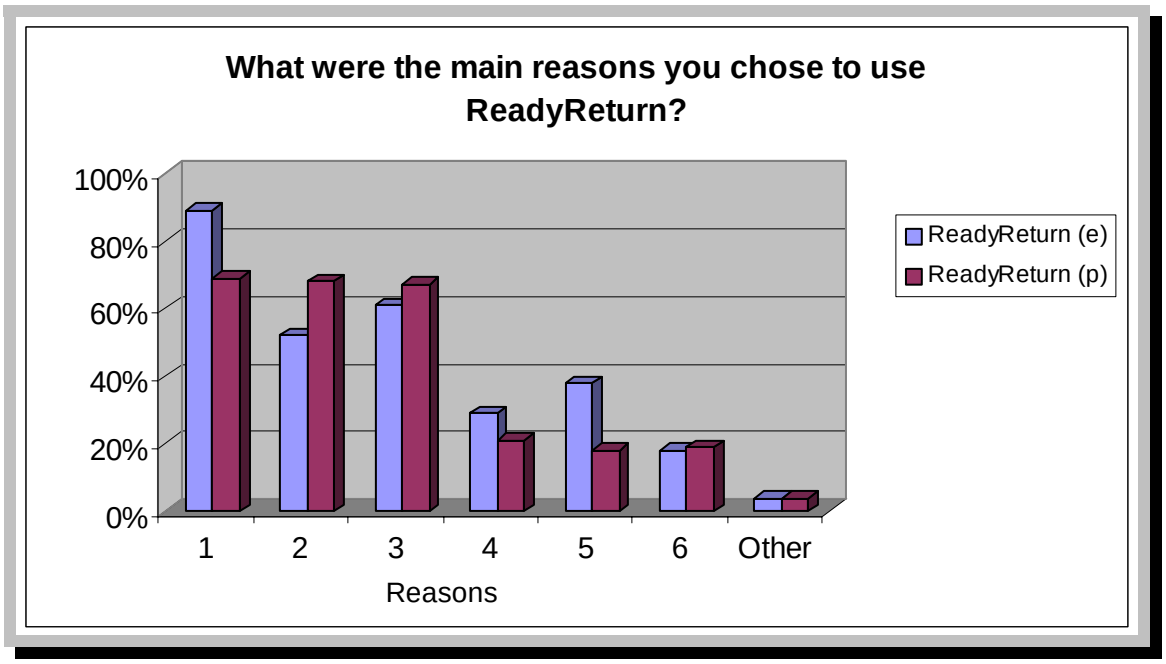
- "*ReadyReturn* saved me a lot of time and it was very easy to understand – not confusing at all."
- "Please send me a *ReadyReturn* next year. Also, please keep the form in its simple and concise format. It was very easy to read."
- "Please keep it this simple."

Due to the large bi-lingual population in California, we offered the invitational letter in Spanish. When asked if this made ReadyReturn easier, users were generally neutral with more than three-quarters reporting that they do not read Spanish. When asked if they would like information available in a language other than English, over 95% answered “No” or “No opinion.” Spanish and Chinese were listed as the two most common languages taxpayers would like information available in.





Finally, we asked taxpayers why they chose to use ReadyReturn. Taxpayers were asked to indicate all that applied. The top responses were that they were invited, that they felt it was more convenient, and that they felt it would save them time. Common reasons that taxpayers also provided were that with ReadyReturn the return was done for them and that ReadyReturn is free and easy.



Reasons (Respondents could select more than one reason.)

1. I was invited to participate in the pilot project.
2. It was easier than how I filed last year.
3. I thought it would save me time.
4. I thought it would save me money.
5. I could get a faster refund.
6. TeleFile is no longer available.

Taxpayer comments include:

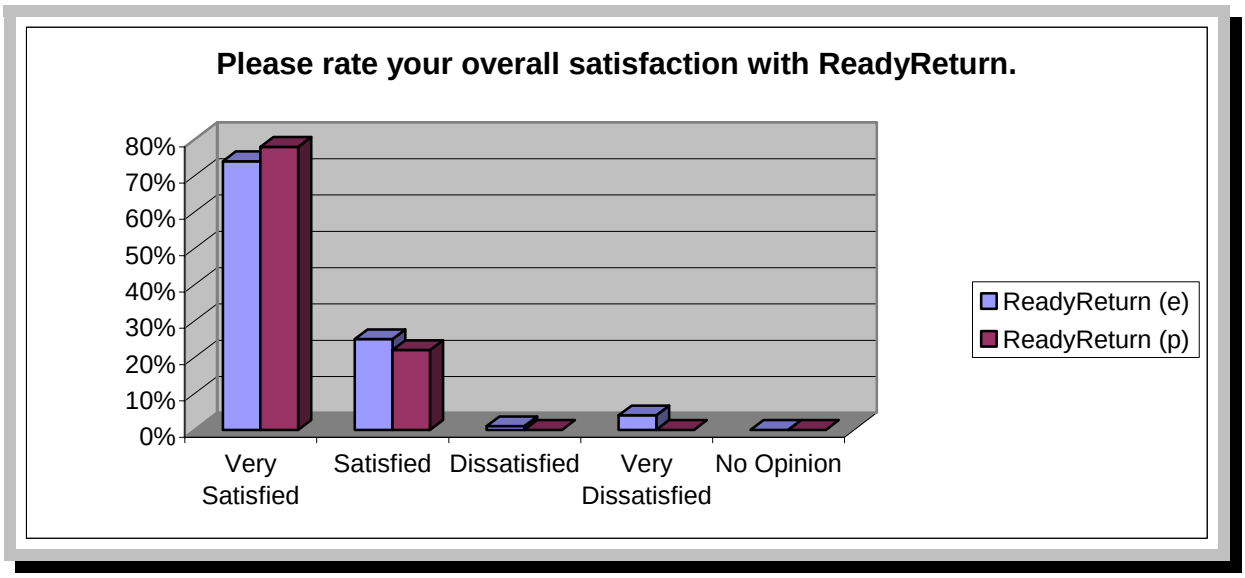
- "Thanks for the invitation. This method of e-filing was absolutely painless and so fast."
- "This was a very easy way to file. Thank you for the invitation."

Measure 2: Taxpayer Response and Acceptance

As of May 31, 2005, approximately 9,400 ReadyReturns were filed by mail and e-file. This is an 18% response rate (11% of invitees responded via the ReadyReturn Website; 7% by mail). Our response rate goal was 20%.

The fact that 82% of taxpayers chose not to participate in the pilot shows that taxpayers did not feel pressured to participate because the invitation came from the government.

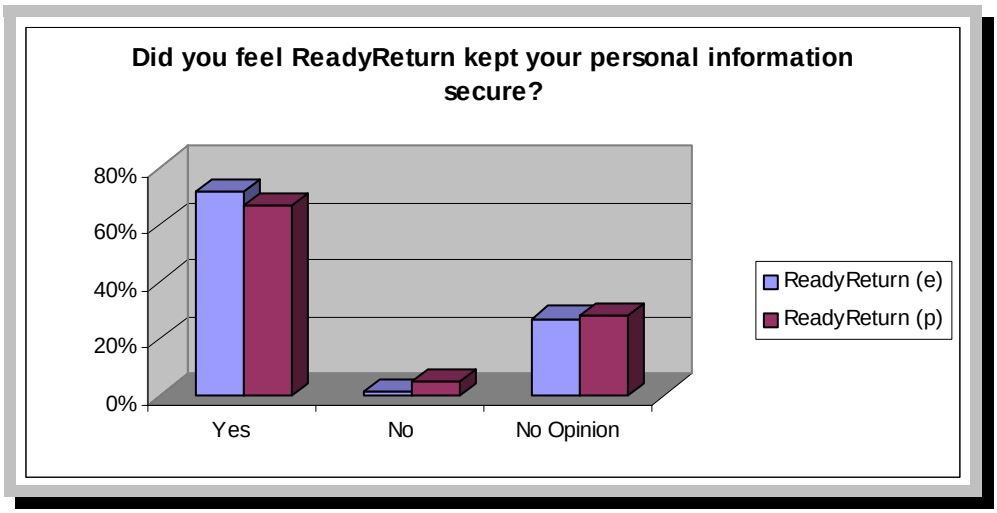
Beyond participation, satisfaction is another measure of taxpayer acceptance. When asked to rate their overall satisfaction, 99% responded that they were “Very Satisfied” or “Satisfied” with ReadyReturn.



Taxpayer comments include:

- “Wonderful service. I’m highly satisfied.”
- “Completely satisfied. Thank you.”
- “I greatly appreciated the Ready Return Service because it was easy and faster than previous years. I hope you find other respondents are equally satisfied.”
- “Very satisfied and impressed with this new method.”

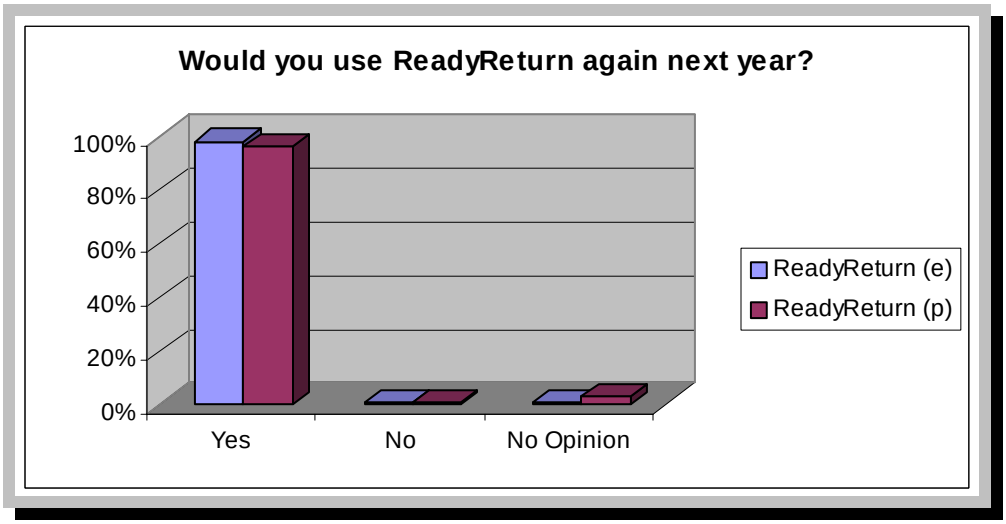
In this age of heightened concerns about identity theft, making sure ReadyReturn is secure is critical to ensuring taxpayer satisfaction. Less than 5% of taxpayers who used ReadyReturn had concerns about the security of their personal information when they used ReadyReturn.



Comments include:

- "Excellent program. Very convenient and secure, will definitely use again."
- "It feels great to be able to do your taxes fast, secure, and simple."
- "Security of personal information is important so please remain focused on that."
- "I am somewhat concerned about placing personal information such as social security numbers and bank account information online. Even so-called "secured" sites have been infiltrated by hackers. Identity theft is a real concern."

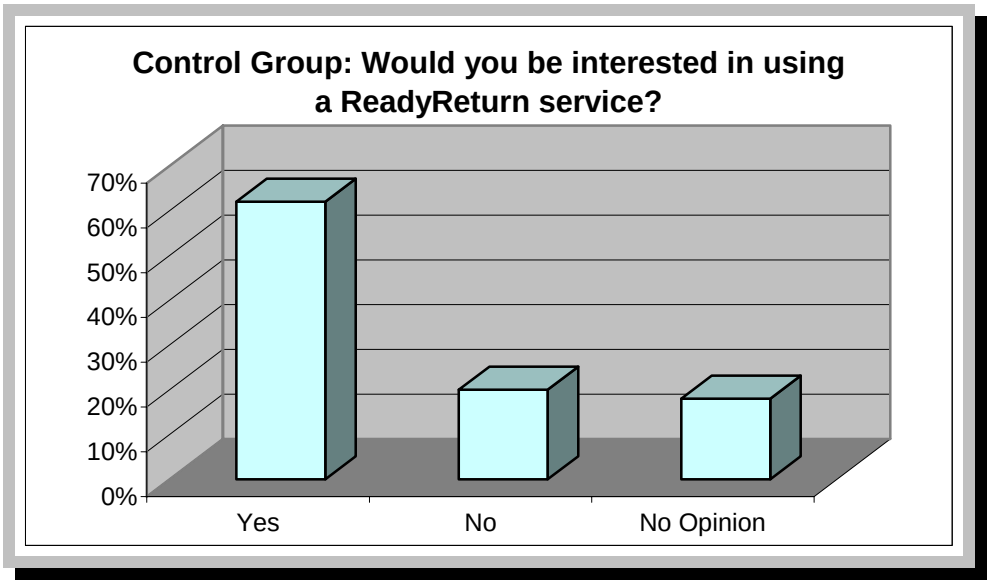
Possibly the biggest indicator of taxpayer acceptance is repeat use. When asked if they would use ReadyReturn again next year, nearly all taxpayers answered, "Yes."



User comments include:

- "Thank you for the invitation. I hope I can do the same next year."
- "I would absolutely do it again if offered."
- "I am definitely satisfied and look forward to using *ReadyReturn* again next year."
- "*ReadyReturn* is an excellent idea. Please send me a *ReadyReturn* again next year."

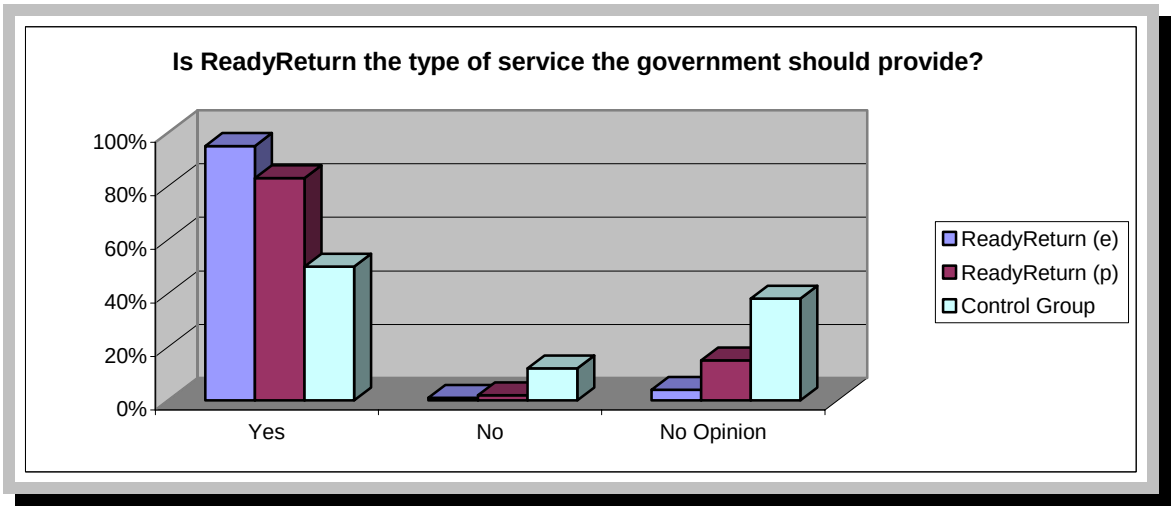
Another indicator of acceptance is the level of interest the control group showed for using the service if it were offered to them. Over sixty percent of the control group indicated they would be interested. The response rate for “No” and “No Opinion” were 20% and 18%, respectively. The control group was making this decision based on a one-paragraph description of the service. (Refer to Appendix C.)



On a related note, several taxpayers who used ReadyReturn expressed a willingness to recommend the program to others:

- “This was fabulous. I would recommend this tool to everyone.”
- “I will definitely recommend *ReadyReturn* to friends and family.”
- “I was satisfied with *ReadyReturn*. My co-workers expressed that they wished they could have used it also.”

Whenever a government entity pursues a new service, it is important that it verifies that it is a service that taxpayers want and one that should be provided by the government. When we asked taxpayers who used ReadyReturn, the majority felt this is the type of service the government should provide. Fifty percent of the control group answered, “Yes,” and 38% stated they had no opinion.



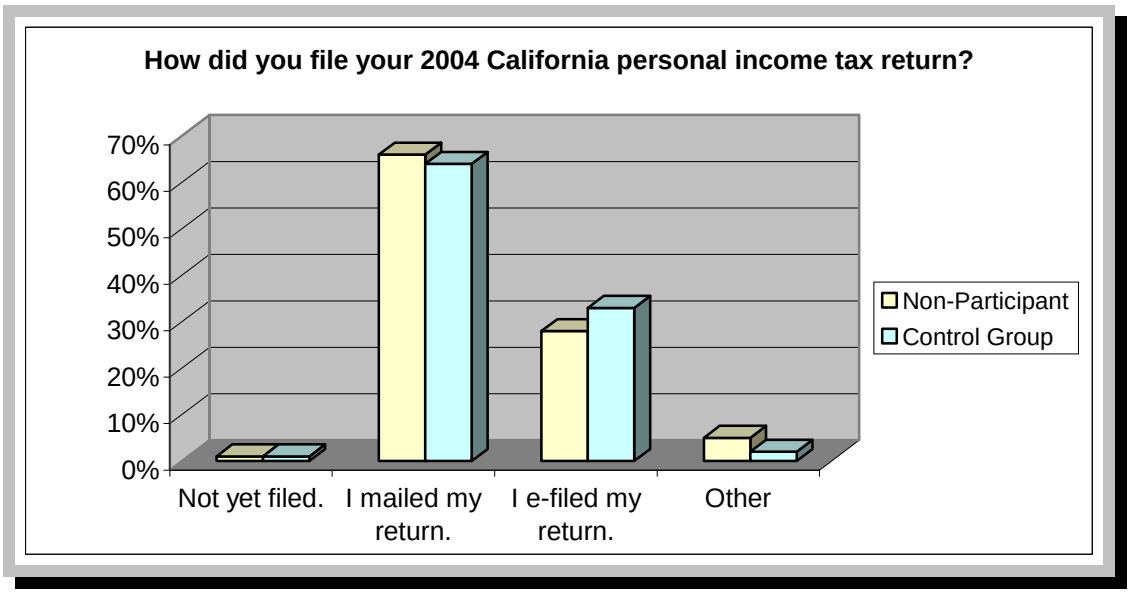
Taxpayers had strong opinions, both positive and negative, on whether or not ReadyReturn is the type of service the government should provide. On the positive side:

- "Wow…Government doing something to make our lives easier for a change…The Feds should take notice."
- "This is a great example of how a state agency can leverage the Internet to better assist the citizens of this state."
- "This is how we should file our taxes. This is the kind of service the state government should provide."
- "I think it is great that the state is finally using technology to benefit the residents. Good job, California."

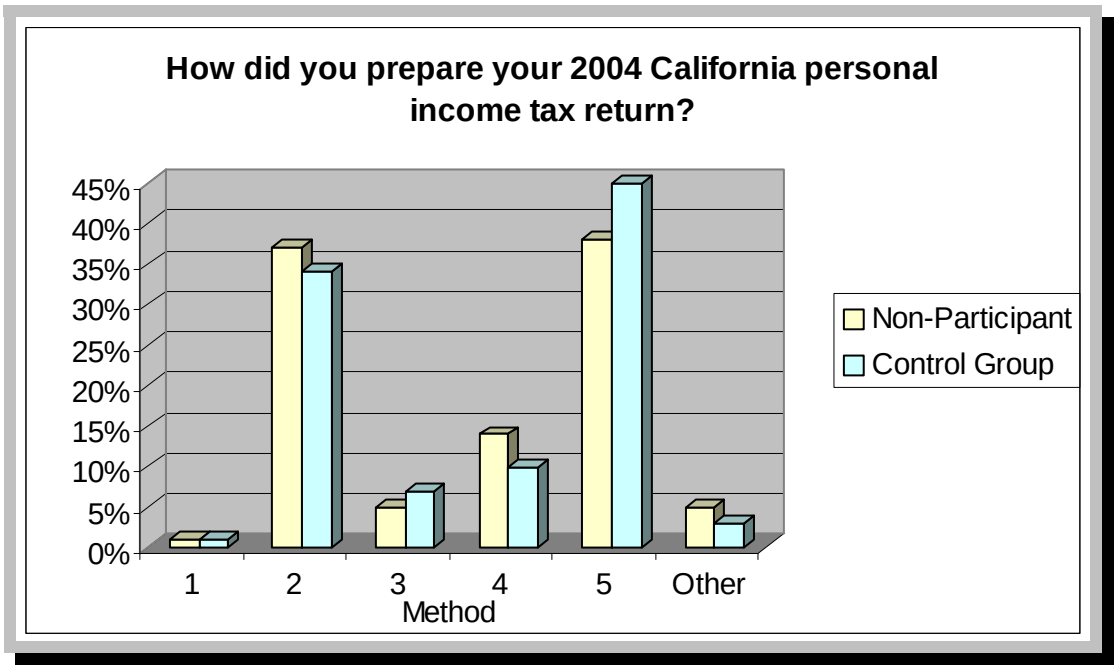
On the negative side:

- "The government should not be involved in completing tax returns for individual taxpayers."
- "It was shocking and disturbing to receive - from the government - my completed return - very big brother-ish. I'd be outraged to receive the same from a private company as well."
- "I don't ever want California Franchise Tax Board to do my taxes."
- "I don't believe you should be in the business of preparing individuals tax returns."

It is also important to measure the current behavior of the taxpayers who could take advantage of a new service. To date in 2005, we have received 58% of all tax returns electronically. In the non-participant and control groups, the e-file rate is significantly lower at 28% and 33%, respectively.



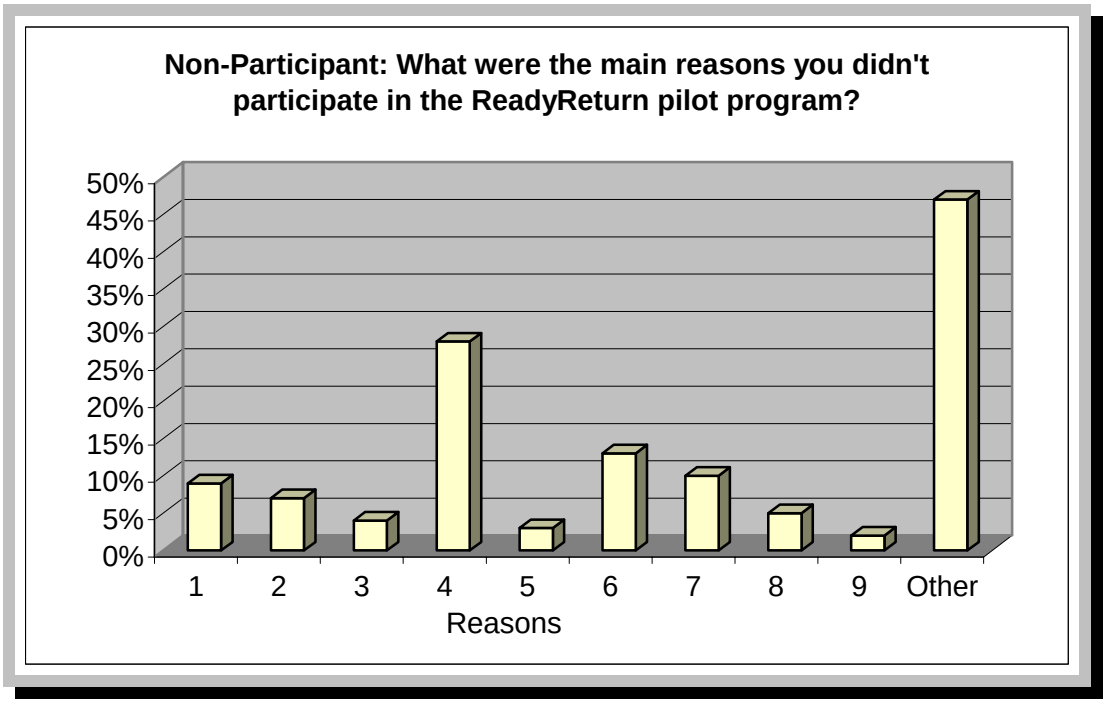
For taxpayers who file the simplest returns[5], approximately 40% use a paid tax preparer or accountant. The numbers for the non-participant and control groups are consistent with this overall number.



Methods
1. Not yet prepared.
2. Completed own paper return.
3. Used CalFile.
4. Used a non-government tax preparation Website or software.
5. Used a tax preparer/accountant.

[5] For this pilot, we define "simplest returns" as those with income only from wages where the taxpayer only claims the personal exemption and standard deduction.

As mentioned at the beginning of this section, 82% of taxpayers who were invited to use ReadyReturn did not participate, indicating they did not feel pressured to use ReadyReturn. When asked, the most common reasons they gave were that they prefer to use a tax preparer/accountant (28%) and that they have concerns about filing online (13%). The most common "Other" reason they reported was that they had already filed their 2004 California tax return (22%). Non-participants were able to select all the reasons that applied to their situation.



Reasons (Respondents could select more than one reason.)

1. I needed to file my federal tax return first.
2. I had to make more changes than the ReadyReturn Website allowed.
3. It was too confusing.
4. I prefer to use a tax preparer/accountant.
5. I prefer to use a non-government e-file company.
6. I don't think filing returns using the Internet is secure.
7. I don't feel comfortable receiving a return completed by the government.
8. I didn't have time.
9. I need the information in another language.

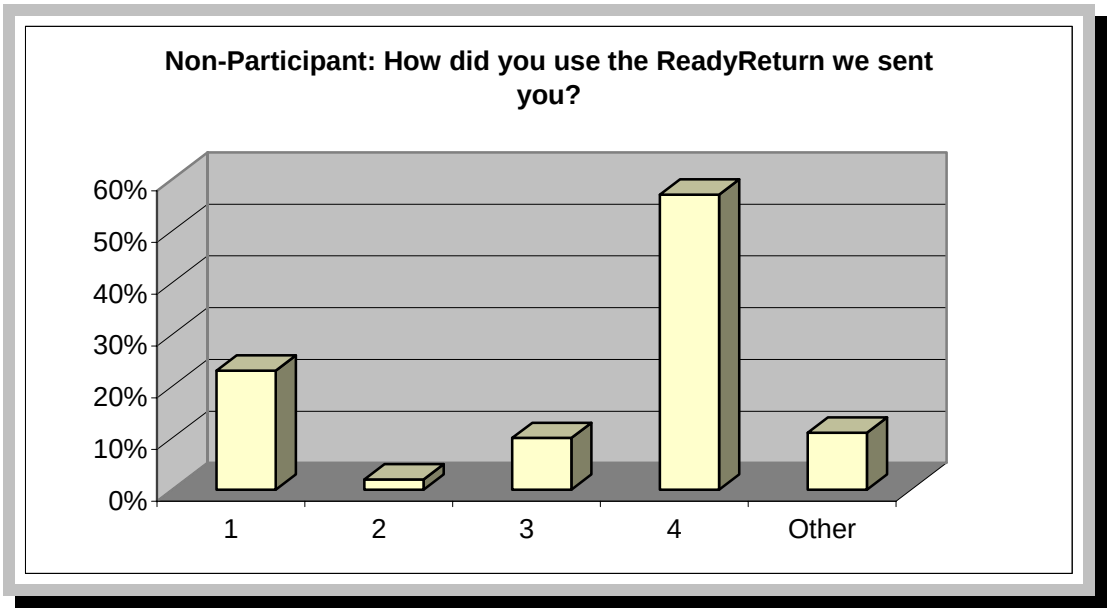
Most common "other" reasons

1. I had already filed.
2. I wasn't sure how to change my income/deductions.
3. I don't have a computer/Internet access.

We mailed the invitations in mid-February, once we had sufficient W-2 data from the Employment Development Department. Given that most companies provide their employees with their Forms W-2 in January, taxpayers said:

- "*ReadyReturn* is a really good idea. Unfortunately I had already filed when I received your mail."
- "Received all your info too late. I had already filed."
- "I would like it if I were able to file earlier."
- "I had already e-filed when I received the information on *ReadyReturn*. I will look for the information next year."

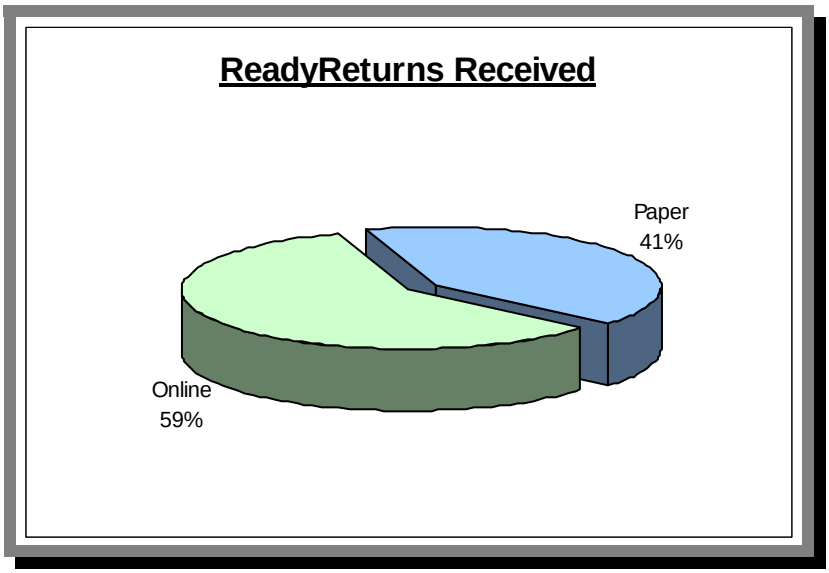
When asked what they did with the ReadyReturn we mailed to them, most taxpayers responded that they did nothing with it. This indicated that they did not feel intimidated or pressured into accepting the ReadyReturn. Twenty-three percent reported that they used it to double-check the figures they had on their own return. The most common “Other” comments were that they did not recall receiving ReadyReturn and that they securely destroyed/shredded it.



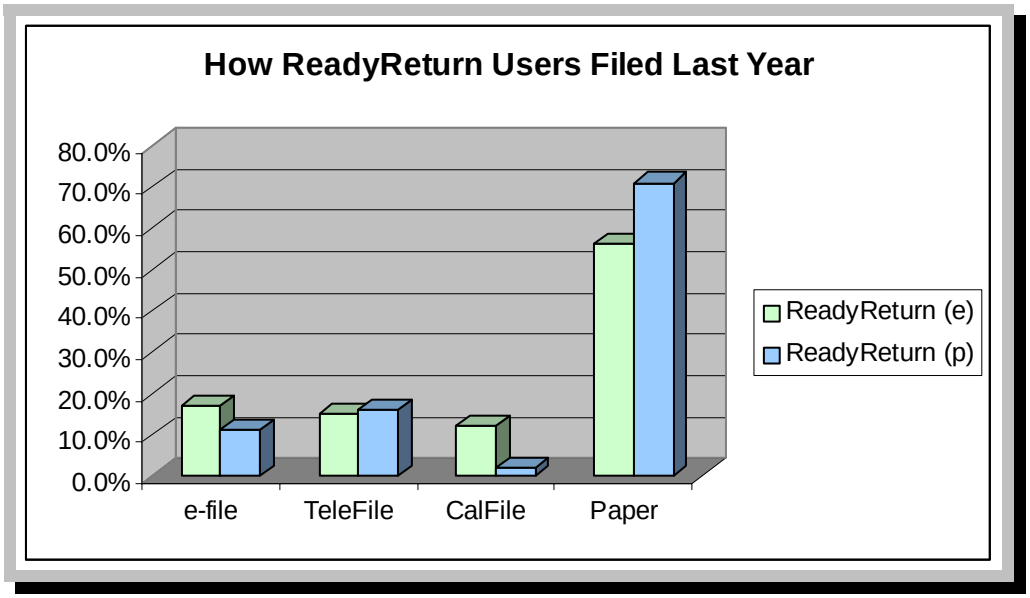
Uses
1. I used it to double-check my figures.
2. I used it to complete my return myself.
3. I gave it to my tax preparer/accountant.
4. I did not use it.

Measure 3: Efficient Tax Administration

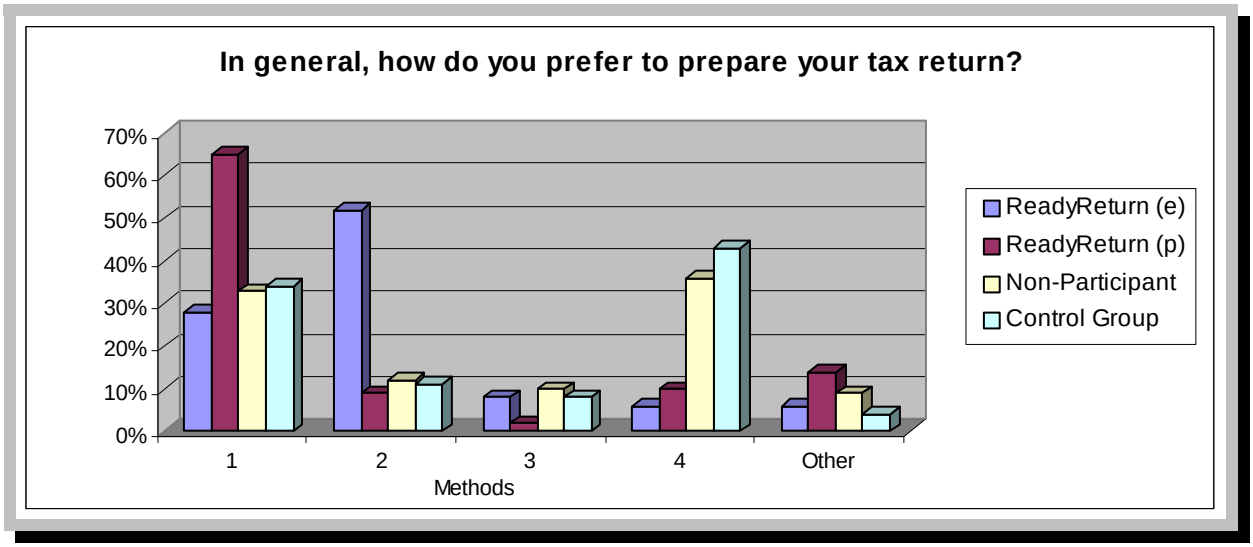
FTB can process e-file returns more efficiently than paper returns. To this end, we are continually looking at ways to increase the use of e-file among taxpayers. For this pilot we created a Website for taxpayers to use to e-file their ReadyReturn. This was the preferred method of filing (59%), and is consistent with the year-to-date general population e-file rate of 58%. It should be noted that a great portion of the 58% is attributable to California's mandatory e-file law for tax practitioners.



Of those who filed their ReadyReturn online, 56% had filed a paper return in the previous year.

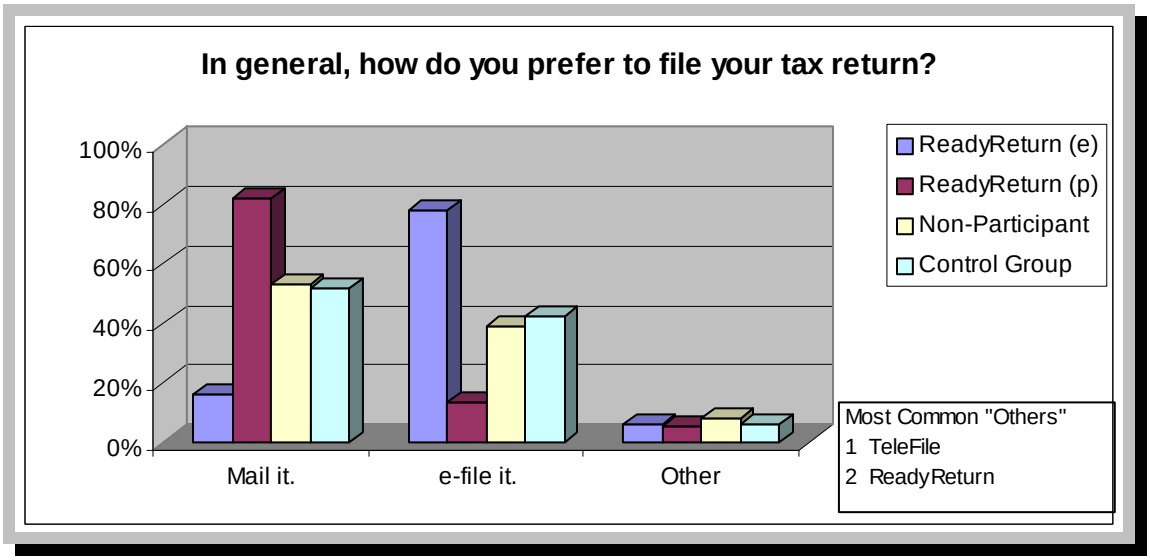


We surveyed the taxpayers about how they generally prefer to prepare and file their tax returns. Not surprisingly, those who filed the paper ReadyReturn were most likely to complete and file their own paper return and those who used the ReadyReturn Website were most likely to use a government Website to prepare their return. The non-participants and control group were most likely to use a tax preparer/accountant and generally preferred to mail in their returns.

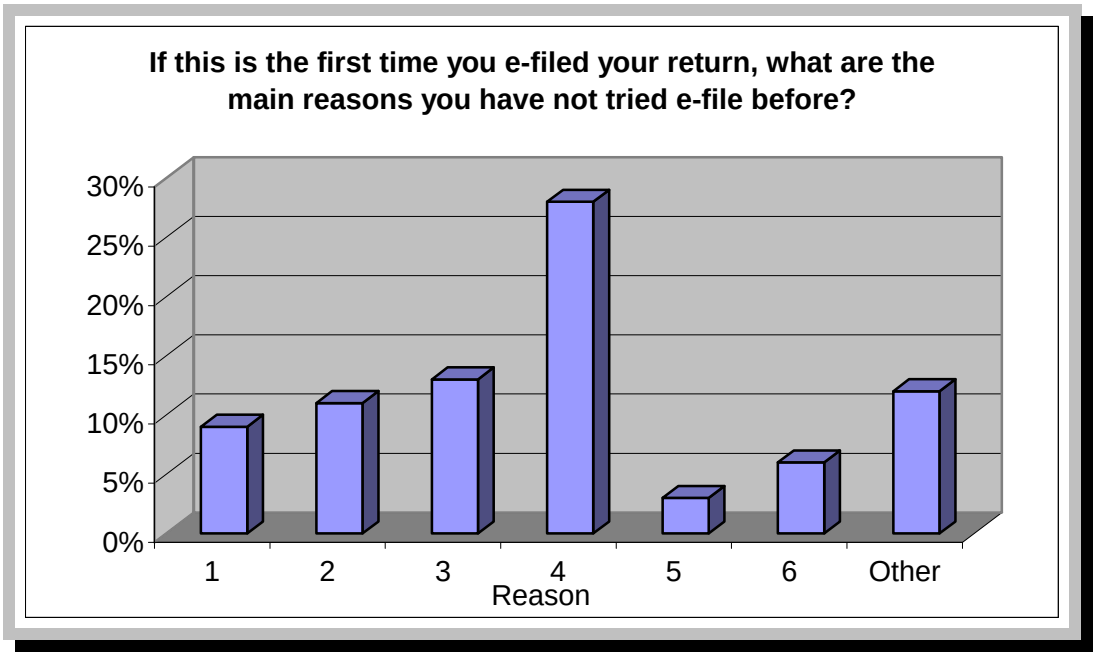


Methods
1. Complete my own paper return.
2. Use a government Website.
3. Use a non-government Website or software.
4. Use a tax preparer/accountant.

Most Common "Others"
1. TeleFile
2. ReadyReturn



The reasons that first-time e-filers choose to e-file are important to FTB as they show where we can focus our efforts on encouraging taxpayers to e-file. We asked taxpayers who used the ReadyReturn Website why they had not tried e-file before. The most common response was that they had traditionally filed on paper. Other frequent reasons were the lack of Internet access or computer equipment and security concerns about online transactions. The most common "Other" reason was that they traditionally used TeleFile.[6]



Reasons (Respondents could select more than one reason.)

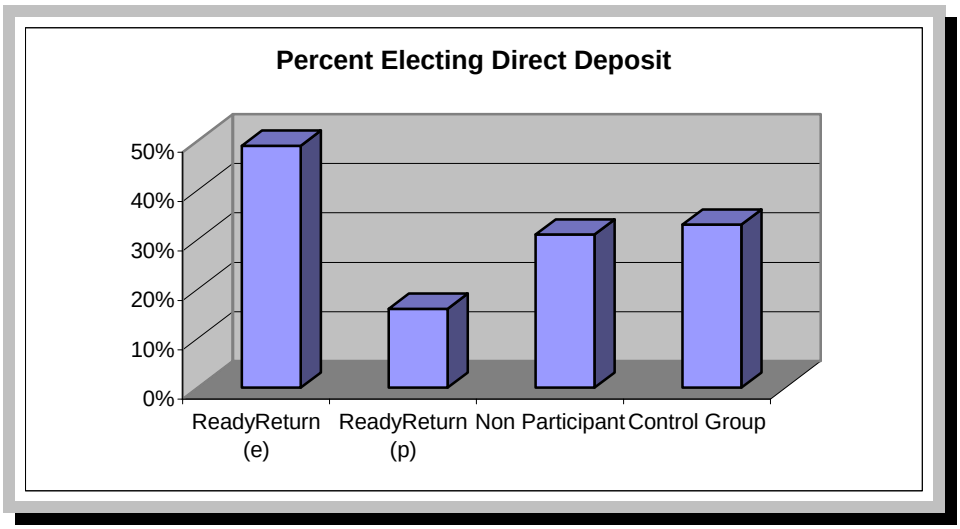
1. It costs too much.
2. I didn't have access to the Internet.
3. I have security concerns about e-filing.
4. I have always filed a paper return.
5. My preparer didn't offer it.
6. It's too complicated.

Taxpayers who used TeleFile in the past commented on the ease-of-use of the ReadyReturn Website:

- "I was disappointed at first not to have TeleFile, but after receiving my invitation and seeing what prepared and done for me I was pleased."
- "I liked using TeleFile in the past but this is faster."
- "This was a lot easier than TeleFile. I love the fact that all my info is filled out for me on the return and all I have to do is accept it and I am done."

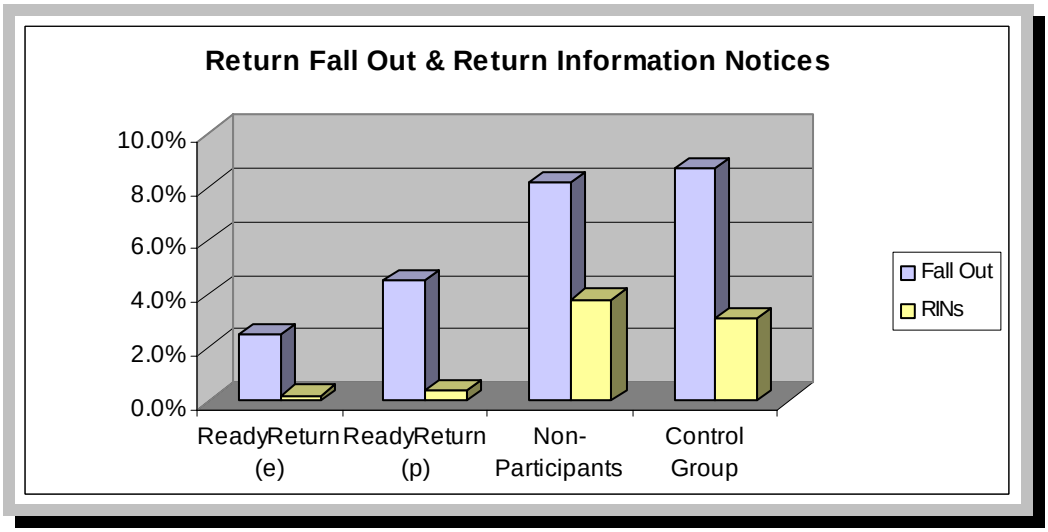
[6] FTB discontinued its TeleFile service in October 2004. The IRS plans to do the same in October 2005.

Direct deposit is the most efficient method we have for providing taxpayers with the refund they are entitled to. Taxpayers who used the ReadyReturn Website were the most likely to sign up for this method while those who used the paper ReadyReturn were the least likely of the four groups we studied.

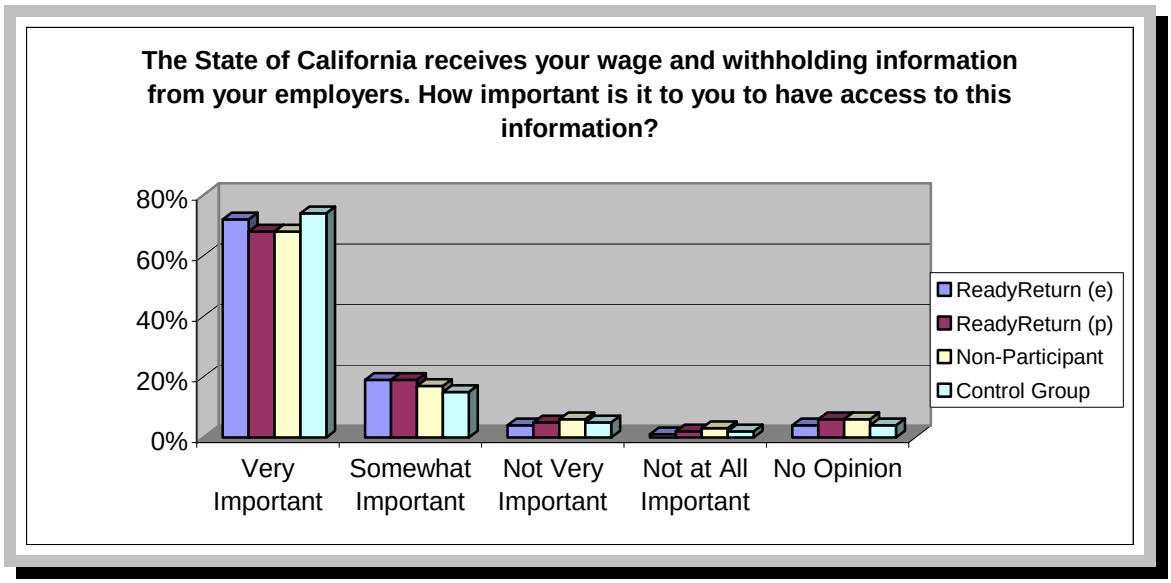


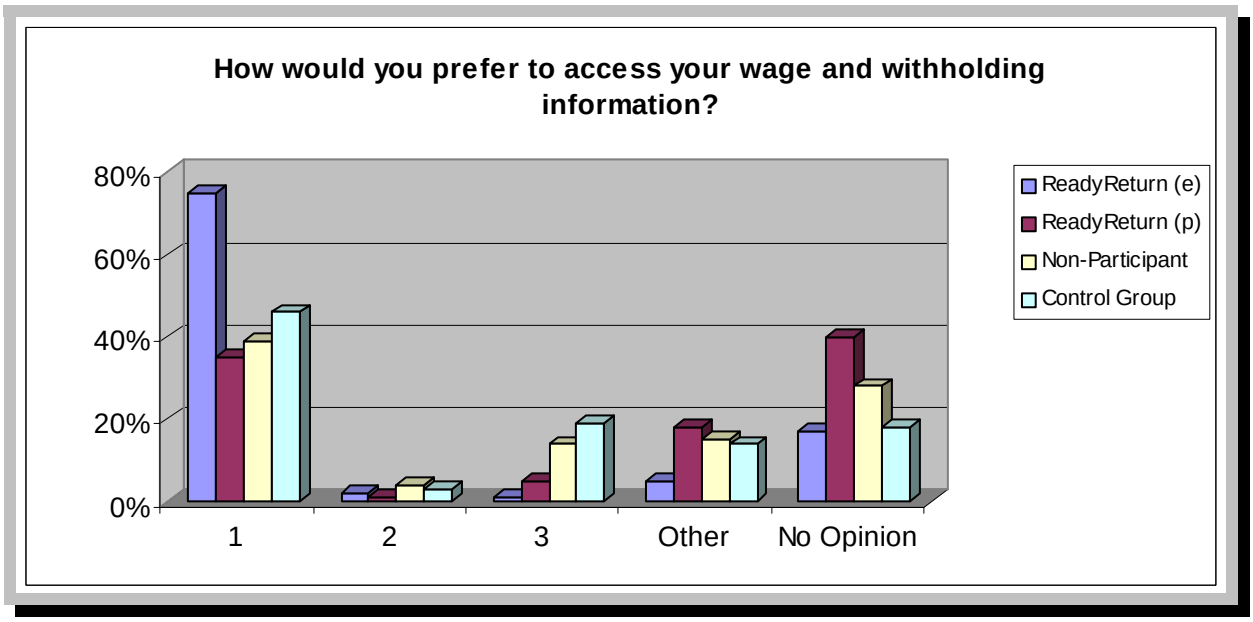
FTB realizes efficiencies when returns don't "fall out" for manual processing. However, returns do routinely fall out when they meet certain criteria. Among other reasons, this is typically caused by return information differing from the information we already have about a taxpayer. Since the information we have is used to complete the ReadyReturn, the fallout rate for ReadyReturns is less than half the rate for the other two groups. The primary cause of fallout for ReadyReturns was an already accepted 2004 tax return on our system. Additional reasons were that taxpayers did not write their Social Security Number on the return, as well as various procedural reasons.

We send Return Information Notices to taxpayers if we make a change to their return during processing. Taxpayers whose returns can be validated without a change being made are not sent notification. The percentage of ReadyReturn users who were sent a notice was proportionally lower than for the other groups. This reduced the number of notices sent and associated contact costs (e.g., telephone calls and correspondence).



As mentioned above, we found that ReadyReturns required less manual processing than other returns. We believe that this is due to the fact that the return originates from the income information we already have about the taxpayer. We asked taxpayers how important it was to them to have access to this information. Approximately 90% of all respondents indicated that it was “Very Important” or “Somewhat Important” to have access. When asked how they would like to gain access to the information, most indicated that they would like to get it using the FTB Website. The next most frequent response was “No Opinion.” Among the common “Other” responses were using Form W-2, by mail, and from their employer.





Methods
1. Online using the FTB Website.
2. Online using tax preparation software.
3. Through a tax preparer/accountant.

Most Common "Others"
1. On Form W-2.
2. From my employer.
3. By mail.

Appendices

Appendix A: Profiles

Available online at: www.ftb.ca.gov/ReadyReturn/about.html

Appendix B: Methodology

B-1 – Study Research Methods

Purpose

The primary purpose of the study was to determine taxpayer acceptance of and interest in a simpler method of filing.

Study Objectives

The study used statistically valid samples of various taxpayers who met the requirements for filing a ReadyReturn. Surveys were conducted with ReadyReturn users, non-users, and a control group in order to determine the success of the pilot project and to gather taxpayer demographic data. Additional demographic and return data was also gathered. The study and surveys were specifically designed to measure whether we could meet the objectives of ReadyReturn:

- Reduce taxpayer burden: Determine if ReadyReturn helped taxpayers. Burden reduction includes variables such as reducing anxiety, saving time, saving money, convenience, ease of use, having information in Spanish, another language.
- Gain taxpayer acceptance: Measure acceptance of the ReadyReturn method. Acceptance includes variables such as use of ReadyReturn, convenience, privacy, refund processing time, and using this method in the future. It also includes assessing reasons for not using the ReadyReturn. And if invitees did not use ReadyReturn, if and how they used the information.
- Efficiently administer the tax system: Determine if ReadyReturn improves the State's ability to administer the tax system. Efficiency includes variables such as moving paper filers to e-filing, reducing errors on returns, and reducing notices mailed to taxpayers.

The Survey Population and Sample Design

For the survey portion of the study, we used taxpayer surveys as follows.

Table B-1: Sample Sizes

Group	Population	Sample Size	Responses	Response Rate	Sampling Error[7]
Online Users	51,850	5,571	2,126	38%	2.1
Combined Group (Paper Users and		8,757	820	9%	3.4

[7] 95% confidence level. This is for a 50% characteristic (so, for instance for the online group, the 95% confidence interval around 50% would be 47.9% to 52.1%).

Non Users)					
Control Group	31,150	7,500	905	12%	3.3
Total	**-**	**16,257**	**3,851**	**-**	**-**

Online Users – all taxpayers who filed their ReadyReturn online were offered the opportunity to fill out the survey after they completed their online filing.

Combined Group – This group consisted of paper users and non-users. In order to ensure an adequate response rate for the paper users, all of the paper ReadyReturns identified as of April 29, 2005, were included in the sample. A simple random sample of non-users was selected.

Control Group - A simple random sample was selected from a group of 31,500 taxpayers who qualified for ReadyReturn, but who were not previously invited to participate in the pilot project.

As much as possible we compared ReadyReturn users' filing situations to a control group of taxpayers who qualified to use ReadyReturn, but were not randomly selected to participate in the pilot.

Bias – To the extent that the non-respondents differ from the respondents, this could lead to statistical bias in the results.

Survey results included in this study are as of May 23, 2005. Return data and statistics are as of May 31, 2005.

Surveys (See Appendix C)

Most of the questions were multiple-choice designed to elicit information regarding the taxpayers' experience with ReadyReturn and their general tax preferences. The last question was open-ended and provided the respondent an opportunity to give additional written comments.

B-2 – Pilot Methodology

Selection Criteria

We designed the ReadyReturn pilot for taxpayers who file the simplest returns. Of California's approximately 14 million resident taxpayers, 11 million are wage earners and nearly 3 million file the simplest returns. For this pilot, we define "simplest returns" as those with income only from wages where the taxpayer only claims the personal exemption and standard deduction.

Taxpayers qualified to participate in the pilot if they met the following criteria:

Based on their 2003 California Personal Income Tax Return:

- Filed a resident return.
- Used the single filing status.
- Claimed no dependents.
- Was not claimed as a dependent on another's return.
- Claimed the standard deduction.
- Had income from wages only.
- Had only one employer.

Based on 2004 information:

- Had no 2004 return on file as of the date the ReadyReturn was mailed.
- Had no payments on file as of the date the ReadyReturn was mailed.
- Had fourth quarter wage data available from the Employment Development Department (EDD).
- Had only one employer.
- Had total wages less than or equal to the itemized deduction phase-out.
- Had income indicating a filing requirement <u>or</u> a refund
- Had a California address on file.
- Other internal administrative requirements.

From the population of qualified taxpayers, we selected 51,850 taxpayers to participate in the pilot. It was understood that a percentage of invitees would have a change in their tax circumstances from 2003 to 2004. This generally did not preclude them from participating in this pilot, as they could come to the ReadyReturn Website and make the appropriate changes.

To ensure the statistical validity of the pilot, taxpayers could not request to participate in the pilot.

Invitations

We sent invitation letters and completed returns to the 51,850 taxpayers we selected to participate in the pilot. The invitation letters were in English on the front side and in Spanish on the reverse. The letters included the taxpayer's Access Code and the name of their employer.[8]

Due to the timing of W-2 data from EDD, we sent the invitations in two waves: 19,205 on February 16, 2005, and 32,645 on February 23, 2005.

We sent follow-up letters, also in waves, on March 23, 2005, and April 4, 2005, to all invitees who did not yet have a 2004 return on file.

[8] Sample invitations are available online at www.ftb.ca.gov. Search for "About ReadyReturn".

Appendix C: Surveys

Available online at: www.ftb.ca.gov/ReadyReturn/about.html.