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ReadyReturn Pilot Preliminary Studies

For Tax Year 2005

return

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September 2006

State of California | Franchise Tax Board



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Executive Summary

The ReadyReturn Pilot is a completed tax return program where the Franchise Tax Board (FTB) fills out the taxpayers' return by using information already provided to the state by employers, via their Form W-2 data.

ReadyReturn is intended to ease the filing burden on taxpayers who file the simplest returns, such as those whose only source of income and tax payments are from wages and withholding.

Of California's approximately 14 million resident taxpayers, nearly 3 million file the simplest returns consisting of income solely from wages and where the taxpayer claims only the personal exemption and standard deduction. Once the return is reviewed for accuracy, taxpayers invited to participate had the option to file it as presented (either on paper or via our Website), make modifications, or disregard it completely.

The FTB conducted a two-year pilot program to evaluate taxpayers' interest in receiving a completed tax return. The voluntary pilot program received a nearly 21 percent response rate from invited taxpayers who were mostly supportive of this service.

Background

On August 25, 2004, the three-member Franchise Tax Board directed us to implement the ReadyReturn Pilot for tax year 2004 (process year 2005).

We eventually conducted the ReadyReturn Pilot for two tax years (2004 and 2005). On February 15, 2005, we began mailing completed tax year 2004 ReadyReturns and invitations to 51,850 taxpayers. Of those we invited, 11,620 filed a ReadyReturn.

We developed ReadyReturn to make tax filing easier. ReadyReturn can reduce taxpayer burden during the tax filing process, by:

- Reducing the stress of the tax filing process because we handle collecting taxpayers' filing data for them.
- Providing taxpayers online, secure and private access to their tax data.
- Reducing the possibility of taxpayers receiving notices for wage and withholding discrepancies.
- Providing former TeleFilers with a convenient filing alternative.
- Providing participants with the benefits of e-file.
- Addressing the language barrier and filing process for some Spanish-speaking taxpayers.

On June 15, 2005, we presented a preliminary report to the three-member Board regarding the ReadyReturn Pilot project. Based on the pilot's positive results, the Board voted unanimously to fully implement ReadyReturn as a permanent program. However, on July 19, 2005, Assembly Bill 139 (CH. 74) mandated the ReadyReturn program remain a Pilot for fiscal year 2005/2006.

On March 15, 2006, we began mailing completed ReadyReturns to 50,820 taxpayers. As of July 21, 2006, 10,581 invitees filed a ReadyReturn.

Key Findings

Taxpayers generally liked the ReadyReturn. Most said they would use it again, and they believe that government should be providing this kind of service. However, some in the public argued that a ReadyReturn program may turn tax filing into “a game in which taxpayers try to exploit tax agency mistakes to their advantage” and that taxpayers would not update their tax returns to include income not reflected on their ReadyReturn.

Burden reduction was a primary objective of the ReadyReturn Pilot. 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.” Also, the majority of the taxpayers surveyed who met the criteria to participate in the program, but was not invited to participate (called the “control group”) felt that it would make them less anxious.

While some in the public acknowledged that there might be a level of burden reduction with ReadyReturn, they questioned whether ReadyReturn really reduces taxpayer burden if the taxpayers must double-check the return.

Participants 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 2005 California tax return.

The majority of participants 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 more neutral.

Public commentary also noted that ReadyReturn does nothing to address the complexity of the tax code.

Study Methodology

Study Research Methods

As part of the original study 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 for the tax year 2004. While we substantively followed this design for 2005, we made two modifications to the design:

1. We divided the survey universe into their two distinct taxpayer groups: participants and non-participants.
2. We added a “not applicable” option on comparison questions for taxpayers who used ReadyReturn in the previous year.

We gathered and compared data from four representative taxpayer groups:

1. ReadyReturn paper filers.
2. ReadyReturn e-filers.
3. ReadyReturn non-participants.
4. The Control Group of taxpayers (those who met criteria to participate, but were not invited).

The study used statistically valid samples of various taxpayers who met the requirements for the ReadyReturn Pilot. We mailed surveys to each of the four representative taxpayer groups to determine the success of the Pilot and to gather taxpayer demographic data. We also gathered other demographic and return data. The study and surveys were specifically designed to measure our four ReadyReturn key measures:

1. Burden reduction – determine if ReadyReturn helped taxpayers. Taxpayers who participated in the Pilot were asked to complete a survey about their ReadyReturn experience. Through these surveys, we gathered information about filing anxiety and the amount of time, effort, and money taxpayers needed to file their returns compared to prior years. Also, selected taxpayers in the non-participant and control groups were asked to complete a survey to gauge their opinion on how ReadyReturn might reduce their filing burden and gather the time, effort, and cost they spent filing their 2005 return to compare to those filing a ReadyReturn.
2. Program acceptance – determine acceptance of the ReadyReturn method. To learn if taxpayers are interested in this service and how it can best meet their needs, we looked at participation rates and asked the participants questions. We surveyed some non-participants to determine why they did not use it. We also asked taxpayers in the control group if they would be interested in using a ReadyReturn.
3. Processing efficiency – determine if ReadyReturn improves the State’s ability to administer the tax system. We reviewed processing statistics to determine efficiency. Also, the Pilot provided us with some data we can use to evaluate the overall cost savings of implementing a ReadyReturn program.
4. Adjusted gross income (AGI) differences and tax impact – determine what the California and federal AGI differences were and the tax impact of the differences. AGI is a tax term that describes a taxpayer’s total income less specific deductions. We will retrieve California and federal AGI data for the participants and compare the differences and cumulative AGI amount totals. Using the cumulative AGI amount totals we will estimate the tax effect based on the differences between the California and federal AGI reported by ReadyReturn participants.

The Survey Population and Sample Design

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

Group	Population	Sample Size	Responses	Response Rate	Sampling Error ¹
Online Participants	5,001	5,001	2,160	43%	1.6
Paper Participants	5,452	5,452	853	16%	3.1
Non-participants	40,367	5,000	314	6%	5.4
Control Group	63,337	5,002	755	15%	3.3
Total	-	20,455	4,082	-	-

Online Participants – all taxpayers who filed their ReadyReturn online were asked fill out the online survey after they completed their filing.

Paper Participants – all taxpayers who were identified as of July 3, 2006, as filing their ReadyReturn on paper were mailed a survey.

Non-participants – a simple random sample of 5,000 was selected from the group of 40,367 non-participants and they were mailed a survey.

Control Group – a simple random sample of 2,232 was selected from the control group of 63,337 taxpayers who qualified for ReadyReturn, but who were not invited to participate in the Pilot project. They along with a random selection of 2,770 taxpayers that filed a tax year 2004 ReadyReturn were mailed a survey.

Where possible, we compared ReadyReturn participants' filing situations to the non-participant and control groups.

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 August 21, 2006. Return data and statistics are as of July 21, 2006.

Surveys

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 a chance to provide written comments. Copies of the surveys can be found in [Appendix E](#).

¹ Ninety-five percent confidence level. This is for a 50 percent characteristic (for instance for the online group, the 95 percent confidence interval around 50 percent would be 47.9 percent to 52.1 percent).

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 2004 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 2005 information:

- Had no 2005 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.
- Had only one employer.
- Had total wages less than or equal to the itemized deduction phase-out.
- Had income indicating a filing requirement **or** a refund.
- Had a California address on file.
- Met other internal administrative requirements.

From the population of qualified taxpayers, we selected 50,820 taxpayers to participate in the Pilot. We understood that some invitees would have a change in their tax circumstances, e.g., became married, from 2004 to 2005. This generally did not preclude them from participating, 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 selected taxpayers. 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.²

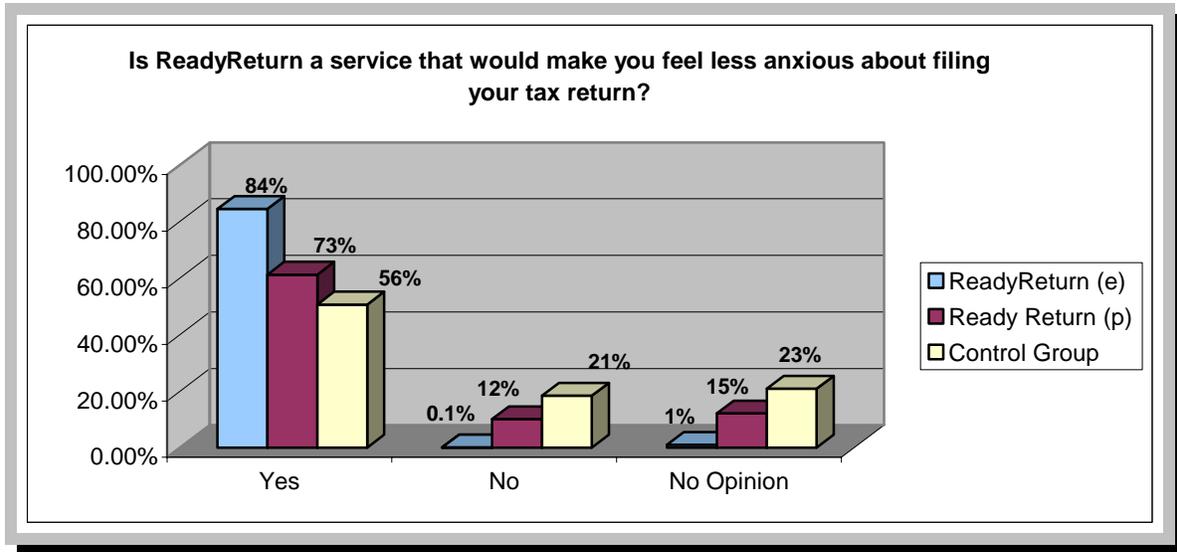
As compared to the first year 2004 Pilot, we delayed mailing of invitations and tax returns for 2005 Pilot until March 15, 2006. This allowed more time for us to receive more complete wage information from employers. We received approximately 14 million more wage records by delaying our mailing. We expect this will lead to less income differences between the federal and state AGI. The Pilot assumed that California AGI would equal federal AGI for the invitees but provided instructions and a mechanism for the taxpayer to adjust income amounts to correctly represent their specific tax situation.

² Sample invitations are available online at www.ftb.ca.gov. Search for **About ReadyReturn**.

Appendix A – Findings

Measure 1: Burden Reduction

Burden reduction was a primary objective of the ReadyReturn Pilot. 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.” Also, the majority of the control group felt that it would make them less anxious.



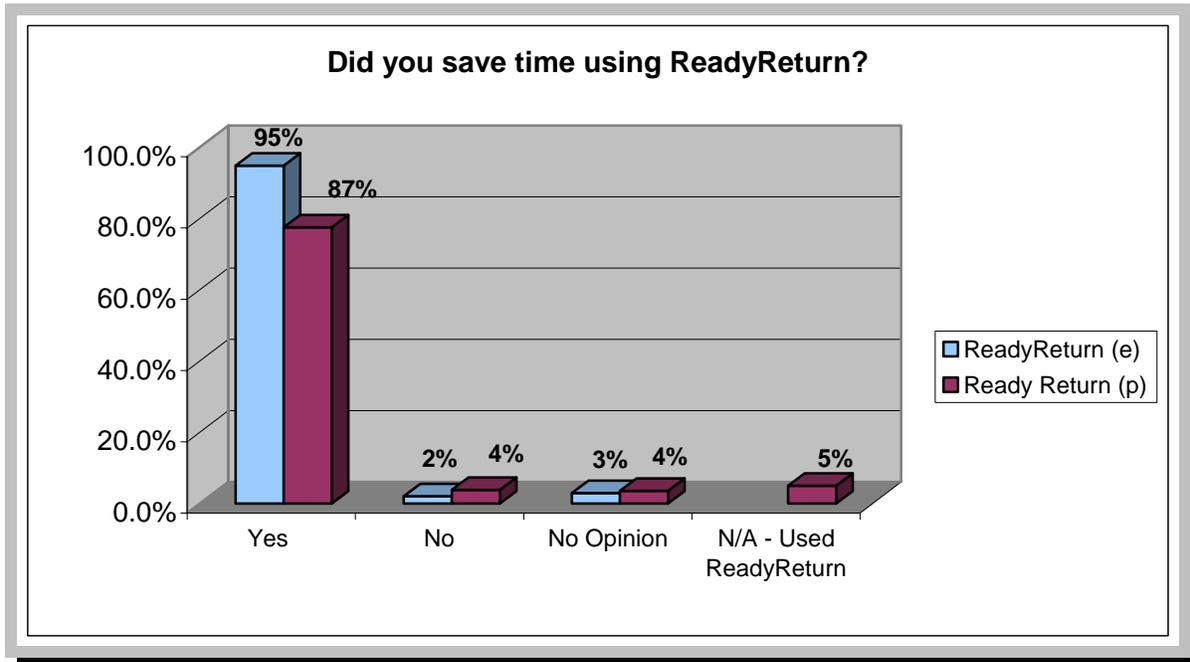
Comments from taxpayers include:

- “Really liked using ReadyReturn it took the stress out of filing.”
- “It absolutely makes filing your income tax return less anxious, accurate and no longer a negative task.”
- “Please, please do this again for me next year...how easy to file this way and NO STRESS.”
- “In the past, I have had problems with taxes, such as an employer not paying them, being afraid, hiring accountants. I just took a tax preparation course myself so that I would never have to deal with the awful things I have dealt with in the past. Then I received ReadyReturn in the mail. It was perfect. I will always go directly to the source rather than pay someone else to do it in my place.”

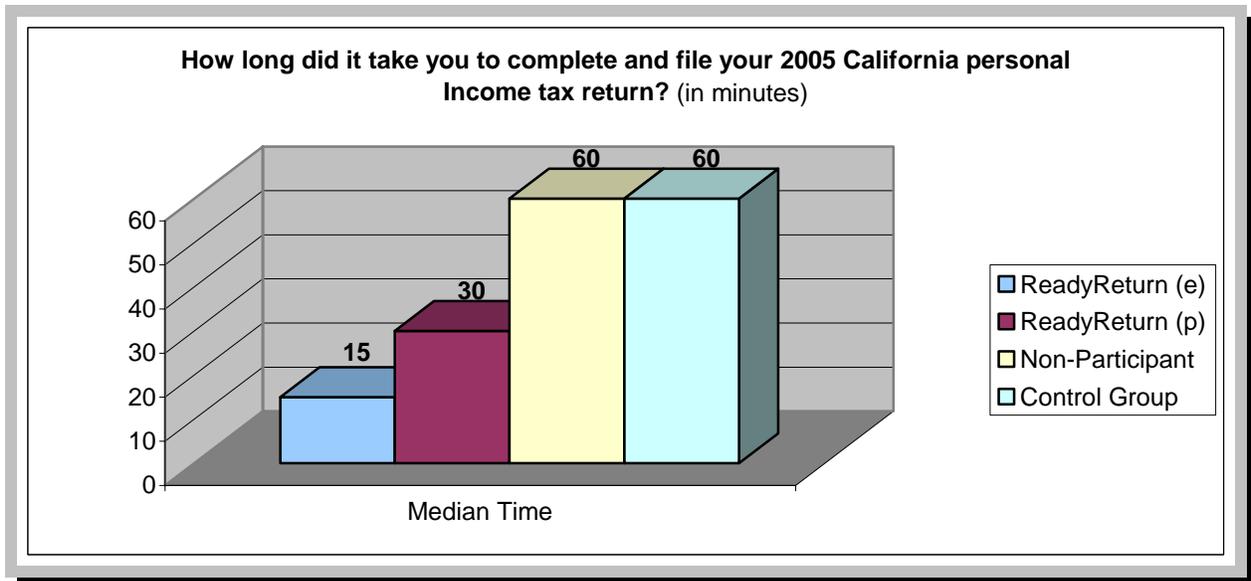
Some participants expressed some initial anxiety about the Pilot. Comments include:

- “Very pleasant experience. I was anxious before I used this but the experience was a good one.”
- “At first ReadyReturn was intimidating, but ended up being a piece of cake.”

Participants 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 2005 California personal income tax return.



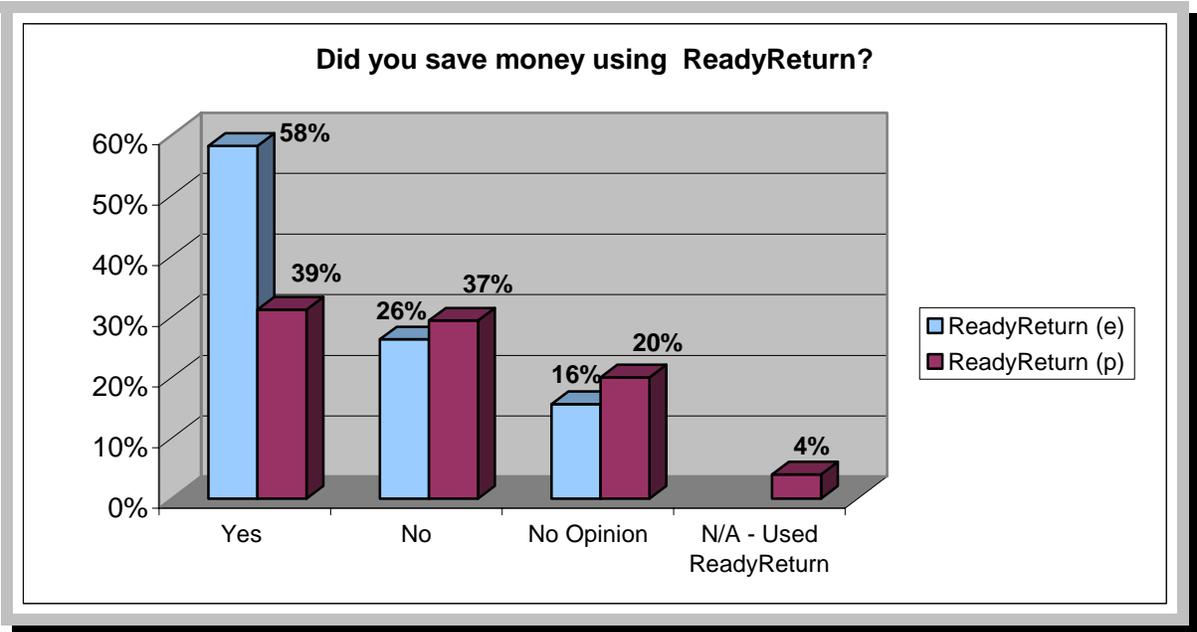
ReadyReturn participants reported that it took less time to complete their return as compared to taxpayers in the non-participant and control groups.



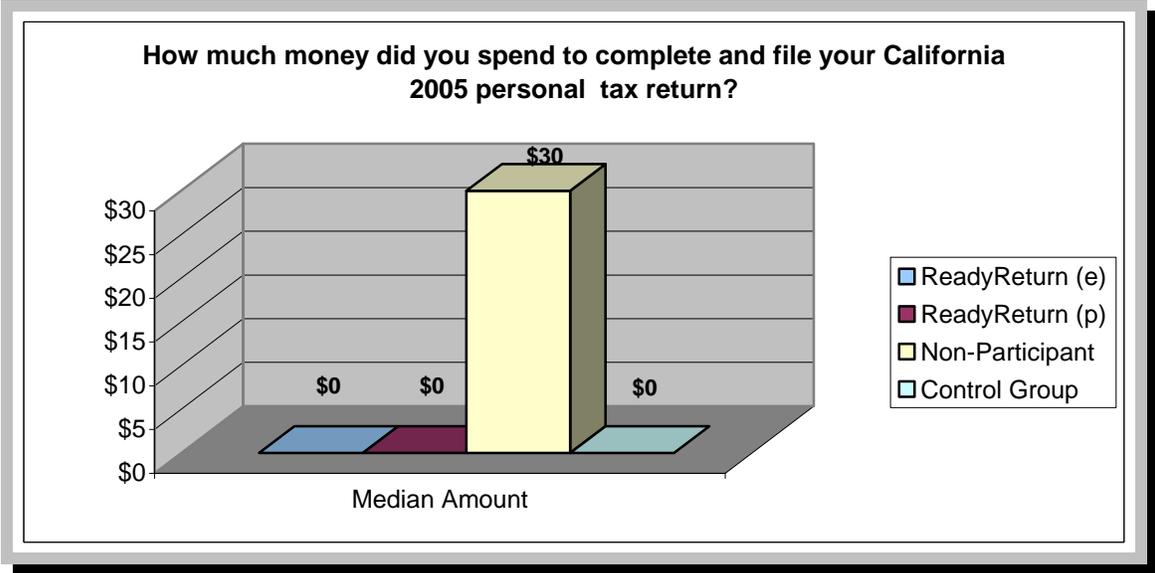
Comments from taxpayers include:

- “Thought the whole process was great. It took 5 minutes to complete.”
- “This is an amazing program, it simplified the process, alleviated the stress of tax preparation, and most importantly of all: SAVED precious TIME.”
- “This was a great and very easy service, I am really glad I was included in this pilot program. I saved money and tons of time, and I did it in my pajamas. Thank you for the opportunity.”

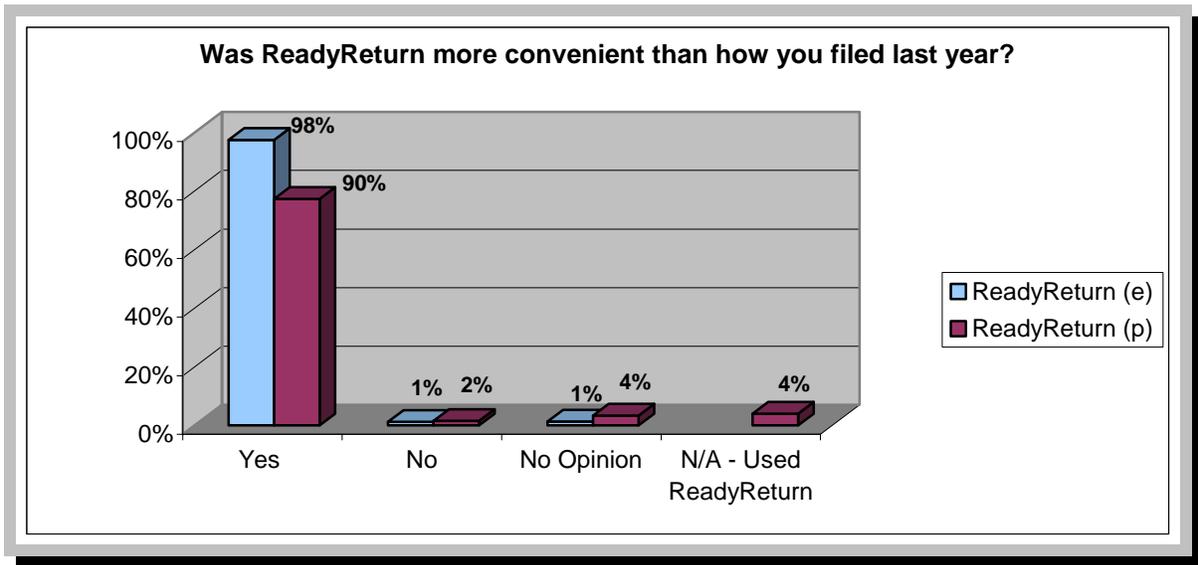
The majority of participants felt that ReadyReturn saved them money. Taxpayers who used the ReadyReturn Website were more likely to state that they saved money, where those who used the paper ReadyReturn were more neutral.



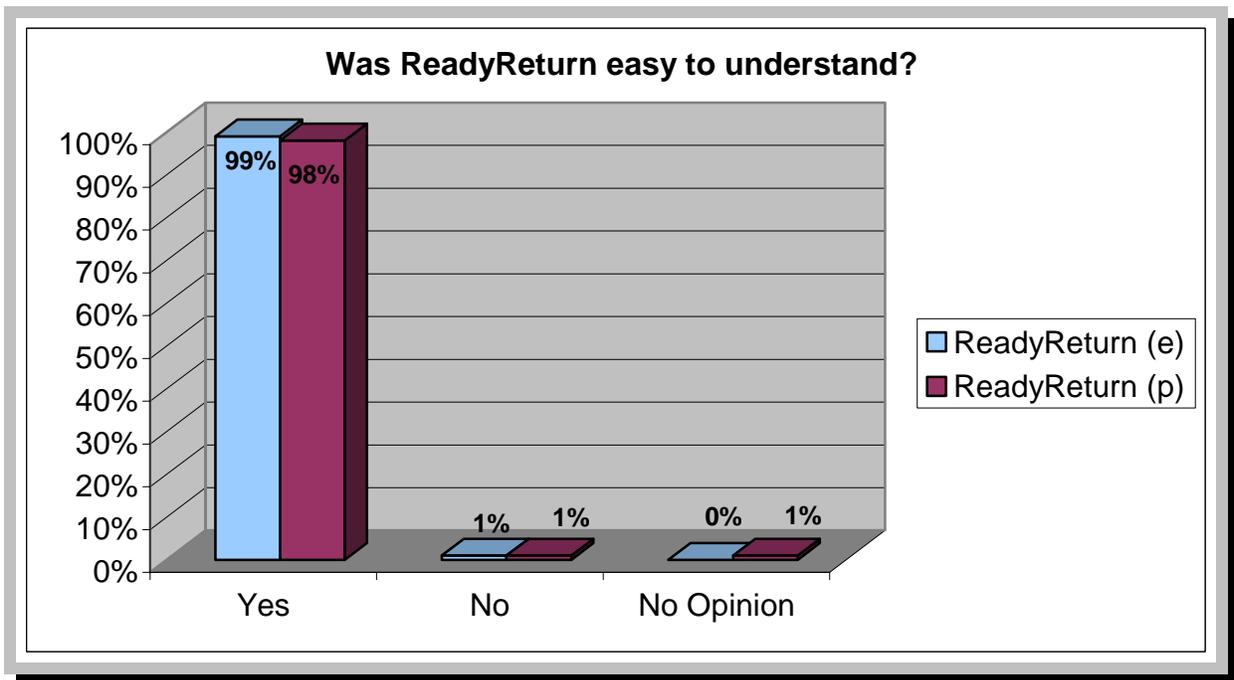
When asked how much money they spent to complete and file their 2005 California personal income tax return, the ReadyReturn participants reported spending less money than the non-participants.



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



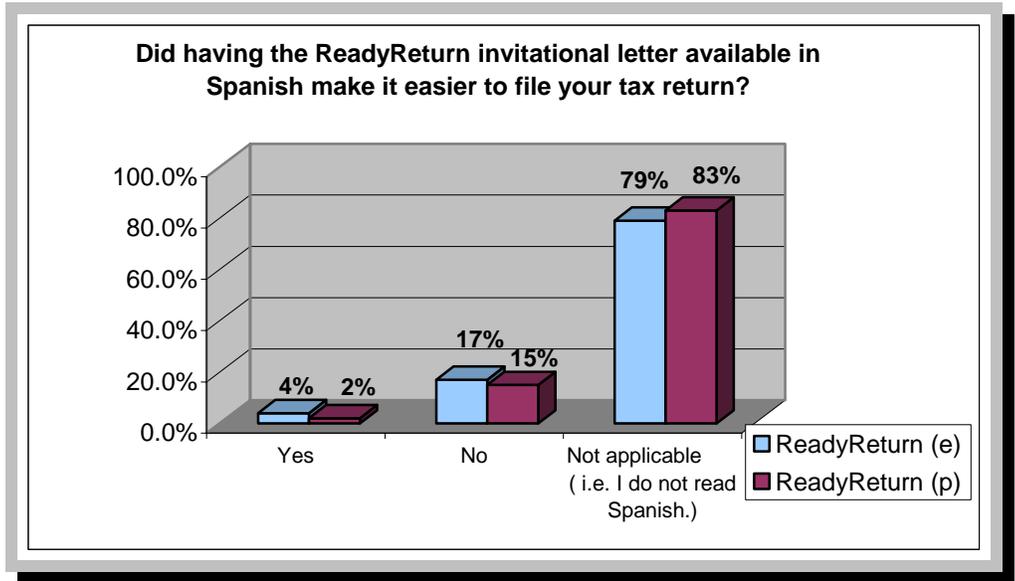
Part of reducing the burden of filing a tax return is making sure the alternative is easy for the taxpayer to understand. ReadyReturn participants overwhelmingly reported that it was easy to understand.



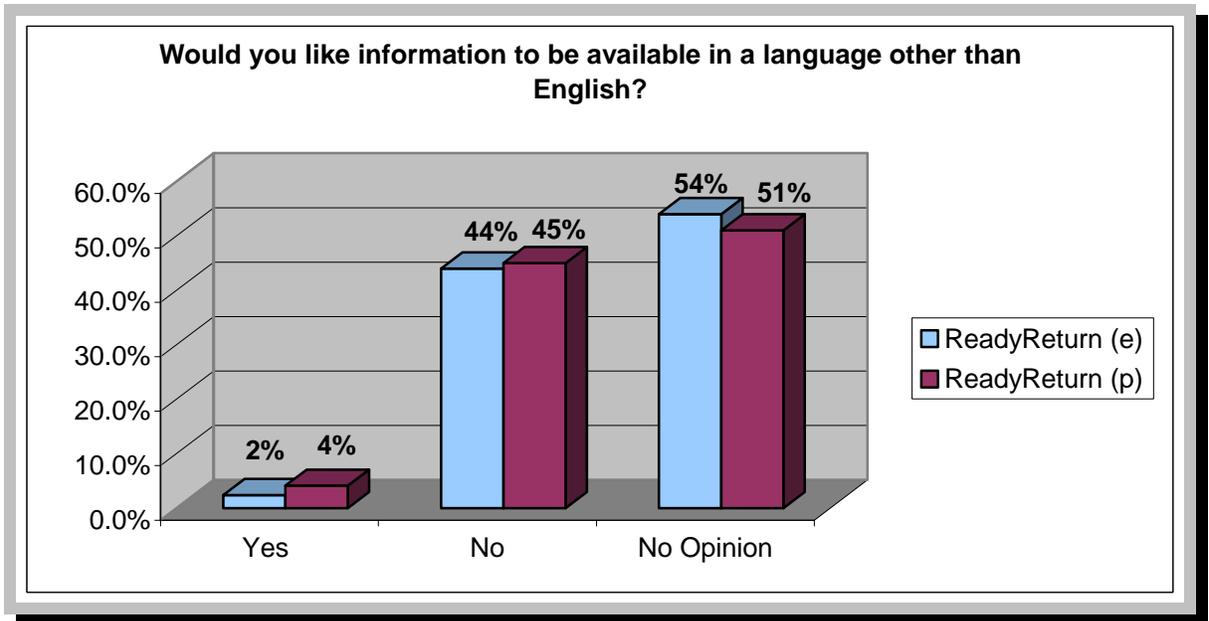
Comments from taxpayers include:

- “If anyone can do their taxes the easy way then this is the answer 1-2-3-Done.”
- “I was surprised when I received my invitation and delighted that it was so easy.”
- “This was so simple to use.”

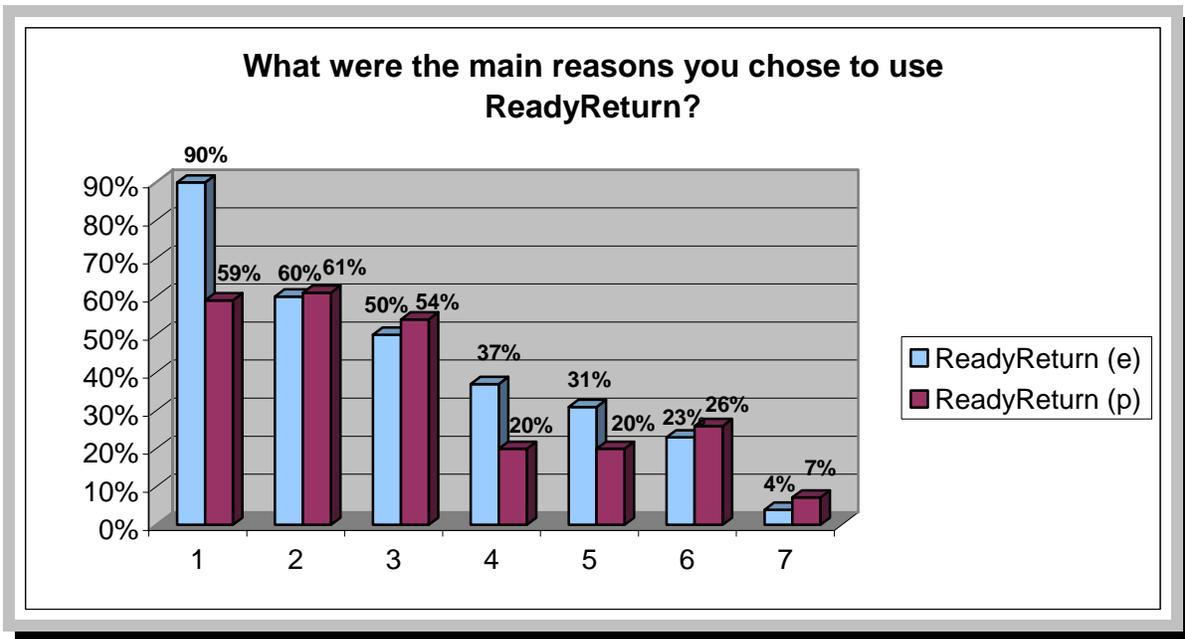
Due to the large bi-lingual population in California, we offered the invitational letter in both English and Spanish. When asked if this made ReadyReturn easier, participants were generally neutral with more than three-quarters reporting that they do not read Spanish.



When asked if they would like information available in a language other than English, more than 96 percent answered “No” or “No opinion.” However, 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. I thought it would save me time.
3. It was easier than how I filed last year.
4. I could get a faster refund.
5. I thought it would save me money.
6. TeleFile is no longer available.
7. Other.

Participant comments include:

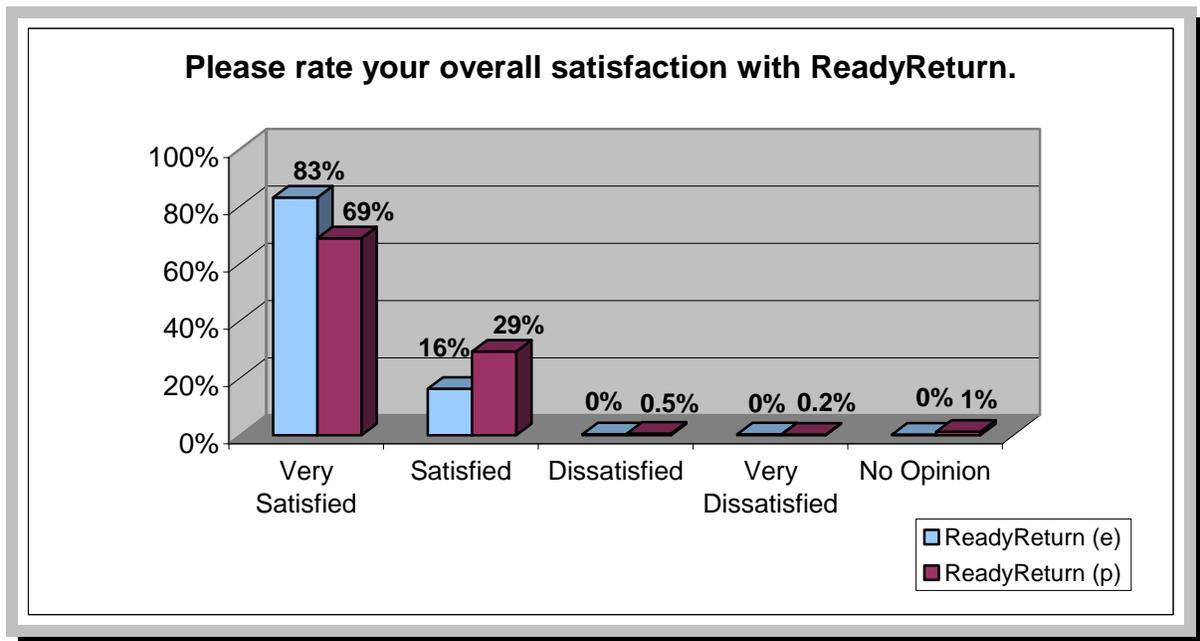
- “I was glad to be invited to be part of the ReadyReturn pilot. It was very easy and I was pleasantly surprised when I received it in the mail. I hope to be able to do this every year.”
- “Thank you for making it easy, quick, and convenient to file my taxes.”

Measure 2: Program Acceptance

As of July 21, 2006, approximately 10,581 ReadyReturns were filed by mail and e-file. This is a 21 percent response rate (47 percent of invitees filed via the ReadyReturn Website; 52 percent filed by mail). Our participation rate goal was 20 percent.

The fact that 79 percent 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.

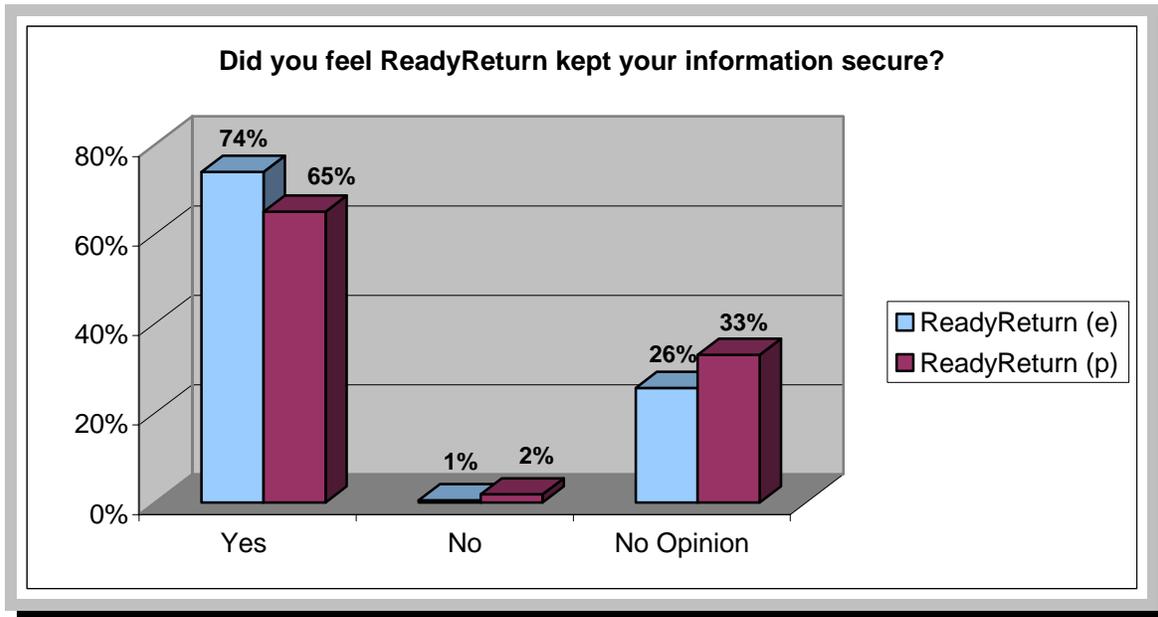
Beyond participation, satisfaction is another measure of taxpayer acceptance. When asked to rate their overall satisfaction, 99 percent of online participants responded that they were “Very Satisfied” or “Satisfied” with ReadyReturn.



Participant comments include:

- “I am extremely satisfied with the ReadyReturn service. I hope that this service will continue.”
- “I’m very satisfied with this process. Thank you.”
- “Very satisfied with this way of filing my state taxes, wish it was this easy to do federal taxes as well.”
- “This was wonderful. You did all the work and it didn’t cost me anything other than my tax dollars. You were proactive and caring for your customer’s needs. That is something special these days.”

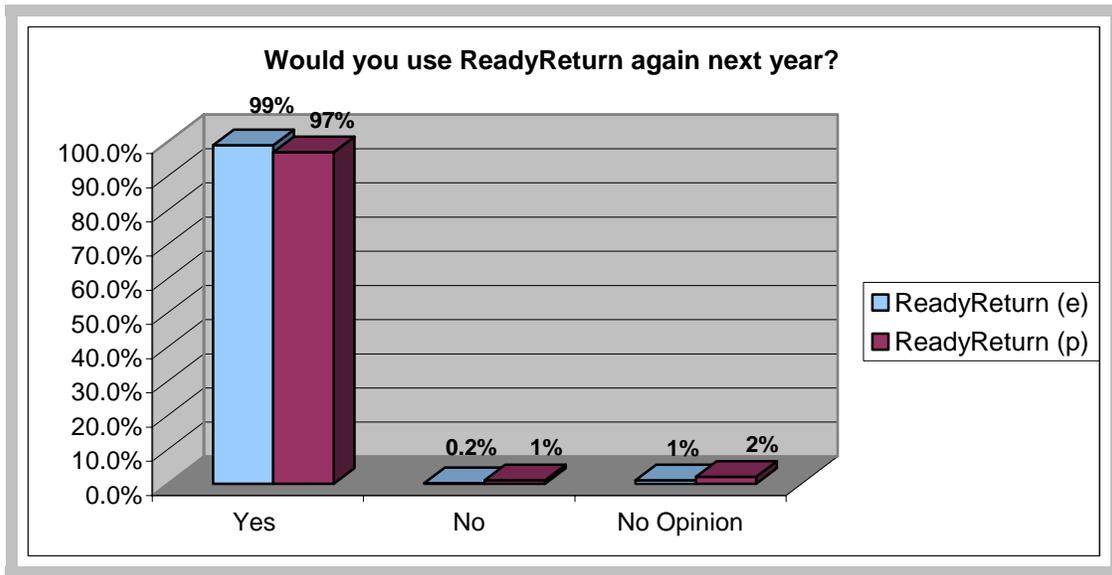
In this age of heightened concerns about identity theft, making sure ReadyReturn is secure is critical to ensuring taxpayer satisfaction. Less than 2 percent of the ReadyReturn participants had concerns about the security of their personal information when they used ReadyReturn.



Participant comments include:

- “I am concerned about privacy and security over internet. I would prefer filing directly to govt. site – more confidence in your ability to protect privacy and security.”
- “Security, Security, and Security over the internet. That’s my biggest concern and did I mention Security? All joking aside, you get the point. Thanks for the opportunity of this pilot program.”
- “I like accessing your personal information directly from the State or the IRS. It feels more secure than a Website that allows you to use their tax software due to privacy protection.”
- “I liked that I got to see the return before it was e-filed. But it is also scary security concern if someone else got that information via the mail or Internet.”

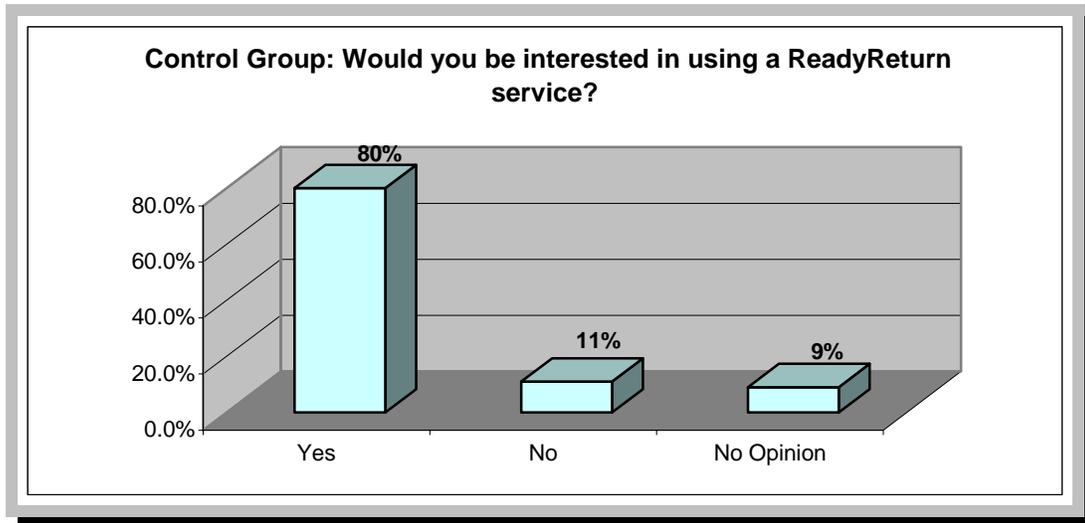
Possibly the biggest indicator of program acceptance is repeat use. When asked if they would use ReadyReturn again next year, nearly all participants answered, "Yes."



Participant comments include:

- "I certainly hope that this process is adopted and all taxpayers will be able to utilize it by next year."
- "Filing my state taxes was the easiest thing I've done all day. This tax filing option is something I would definitely use again if it is available every year."
- "The 'government' has finally done something I can personally experience as a positive. You go. This is wonderful. I can only hope that this pilot turns into a standard process. Thank you, Thank you, Thank you."
- "The only thing nice about taxes is ReadyReturn."

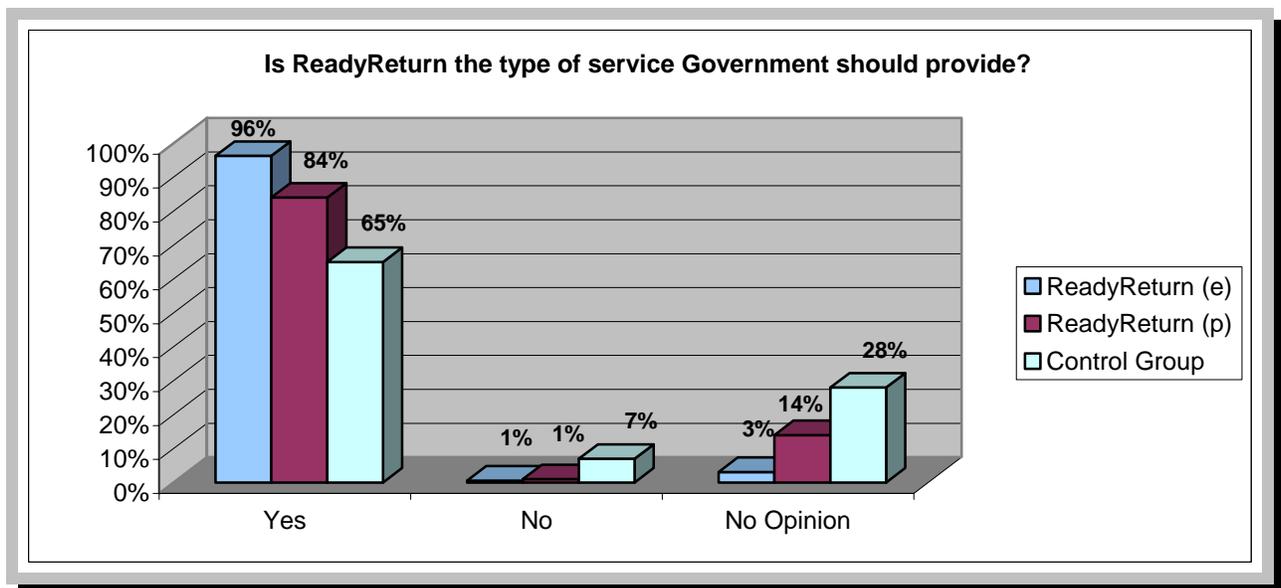
Another indicator of program acceptance is the level of interest the control group showed for using the service if it were offered to them. More than 80 percent of the control group indicated they would be interested. The response rate for “No” and “No Opinion” were 11 percent and 9 percent, respectively. The control group was making this decision based on a one-paragraph description of the service.³



On a related note, several ReadyReturn participants expressed a willingness to recommend the program to others:

- “Mentioned to friends and family and they were all very interested in the program.”
- “This was great. All my friends were jealous that I got to do it and they didn’t.”

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 ReadyReturn participants, the majority felt this is the type of service the government should provide. Nearly 65 percent of the control group answered, “Yes,” and 28 percent stated they had no opinion.



³ The paragraph is included in the Surveys in Appendix E.

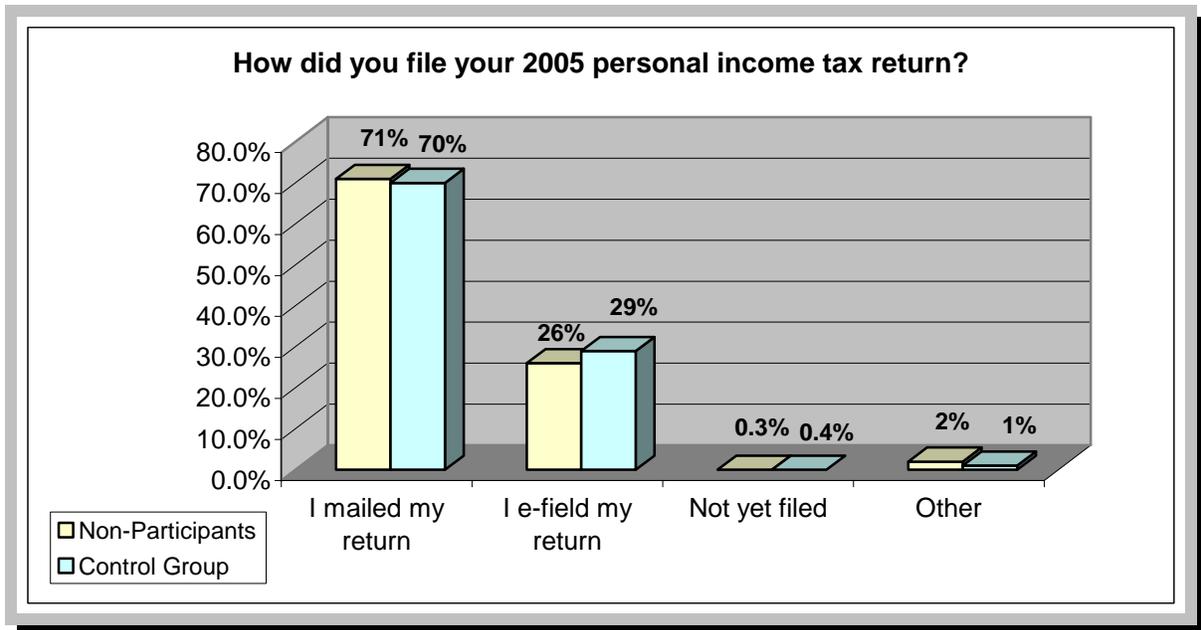
While overwhelmingly the responses were positive, taxpayers had strong opinions, both positive and negative, on whether or not ReadyReturn is the type of service the government should provide. On the positive side:

- “Thank you – this is a service that the government should provide for free. It is fast and convenient.”
- “This is a wonderful, helpful, great, program that makes me happy to live in California.”
- “ReadyReturn is absolutely hands down the best thing California has come up with in regards to filing taxes.”
- “I think it is great that the state government is providing this service for free. Your system is great and I hope it continues next year.”

On the negative side:

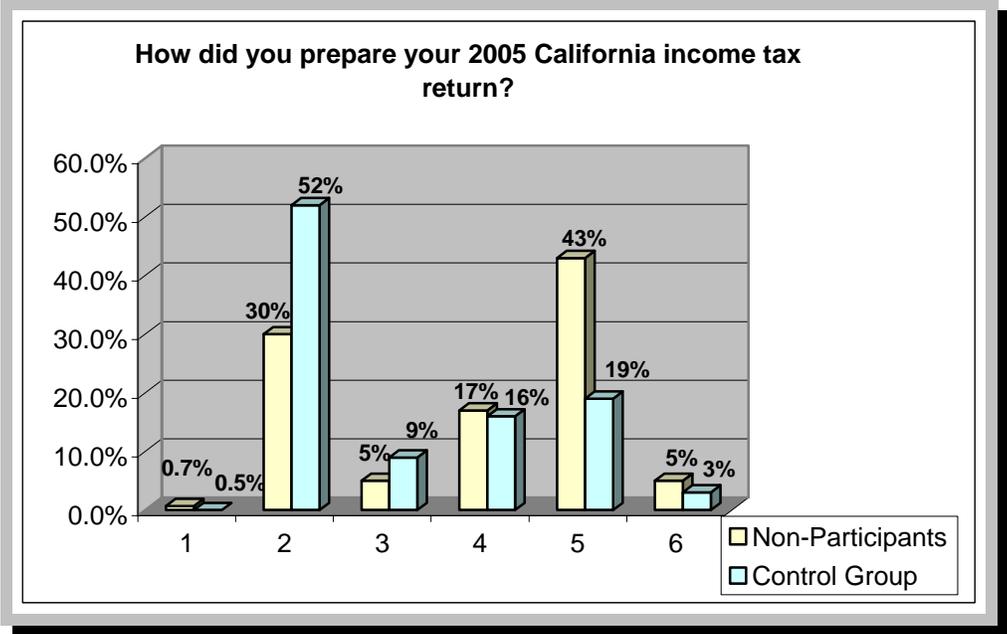
- “I don’t think the government should be spending money on this program.”
- “My only concern is the “Big Brother aspect” of the State saying how much I owe.”
- “I don’t think the government should be spending money on preparing our taxes.”

It is also important to measure the current behavior of the taxpayers who could take advantage of a new service. To date in 2006, we have received 60 percent of **all** tax returns electronically.⁴ In the non-participant and control groups, the e-file rate is significantly lower at 26 percent and 29 percent, respectively.



⁴ Beginning January 1, 2004, (for tax year 2003) FTB implemented mandatory e-file that requires tax practitioners who prepare more than 100 returns annually to e-file all of their returns. This has been a key factor in raising our e-file percentage to 60 percent.

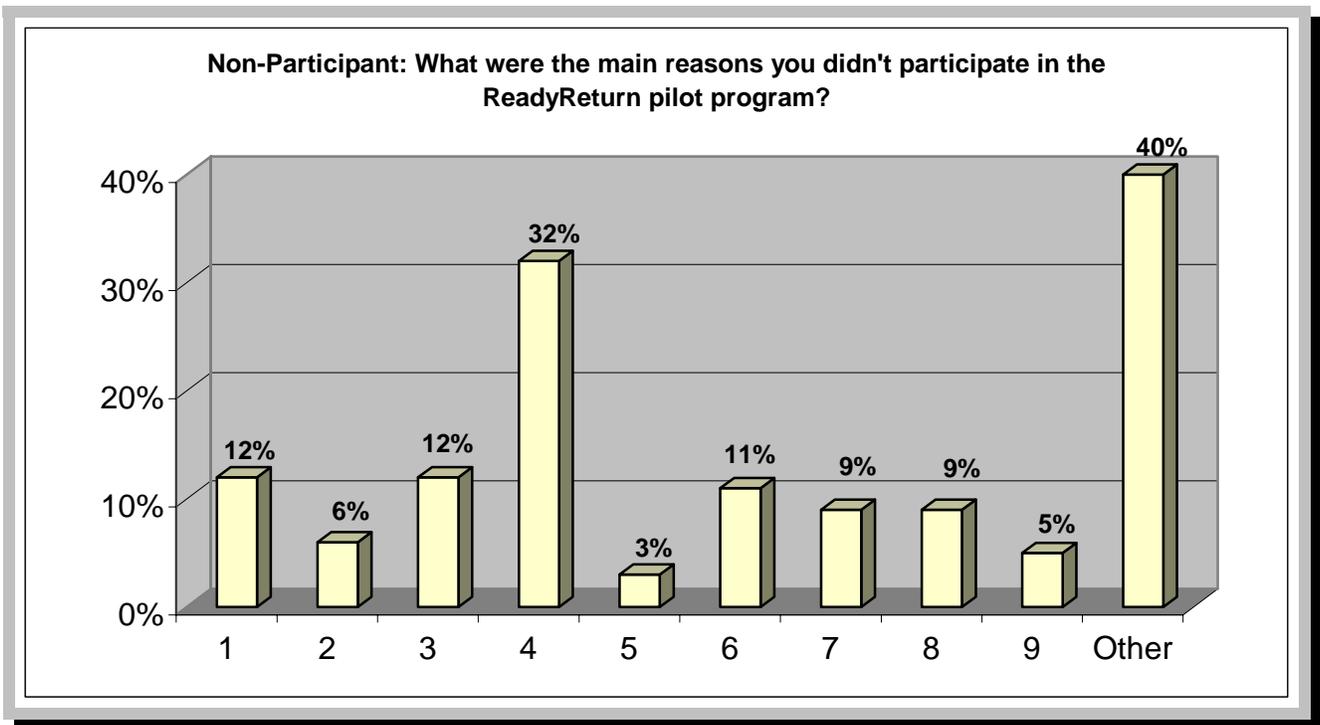
For taxpayers who file the simplest returns, approximately 40 percent use a paid tax preparer or accountant. The numbers for the non-participant group is consistent with this overall number, while the control group was less likely to use a paid tax preparer.



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.
- 6. Other.

As mentioned at the beginning of this section, 79 percent of taxpayers who were invited to use ReadyReturn did not participate; indicating they did not feel pressured to use ReadyReturn. When taxpayers were asked why they did not participate, the most common reasons they gave were that they prefer to use a tax preparer/accountant (32 percent) and that they needed to file their federal tax return first (12 percent). 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.

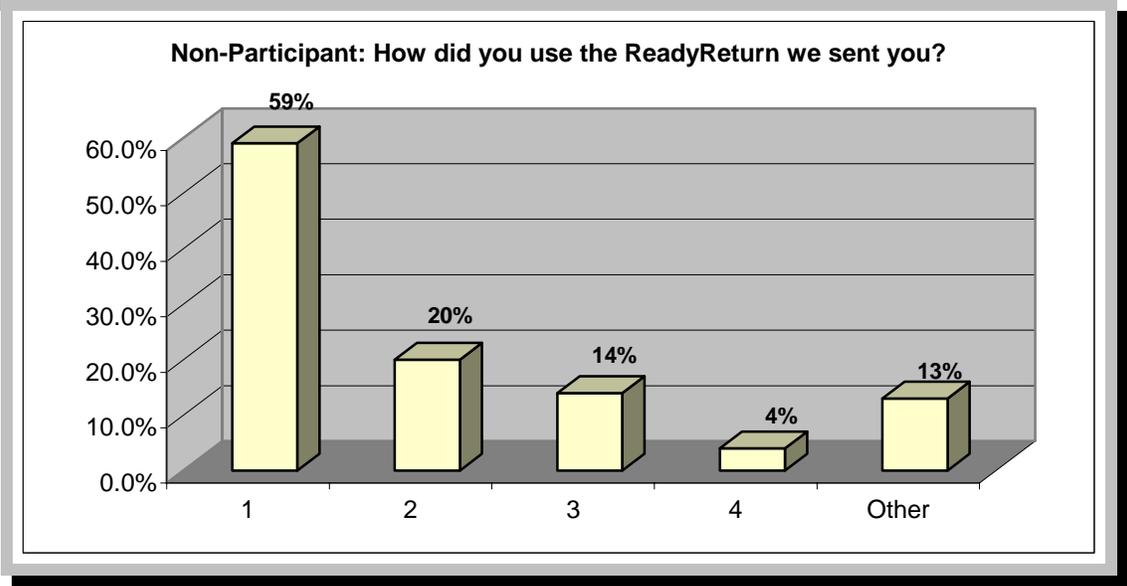
Most common "other" reasons

1. I don't remember receiving the ReadyReturn.
2. Already filed my 2005 tax return.
3. I wasn't sure how to change my income/deductions.

We mailed the invitations in mid-March, 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:

- "By the time it arrived, I had already mailed my tax form."
- "Filed before receiving pilot program."

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 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 or that they securely destroyed/shredded it.

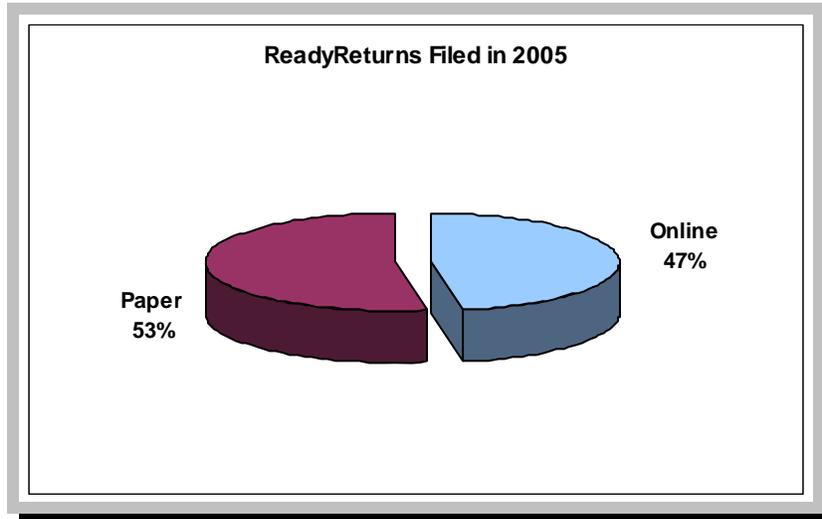


Uses (Respondents could select more than one reason.)

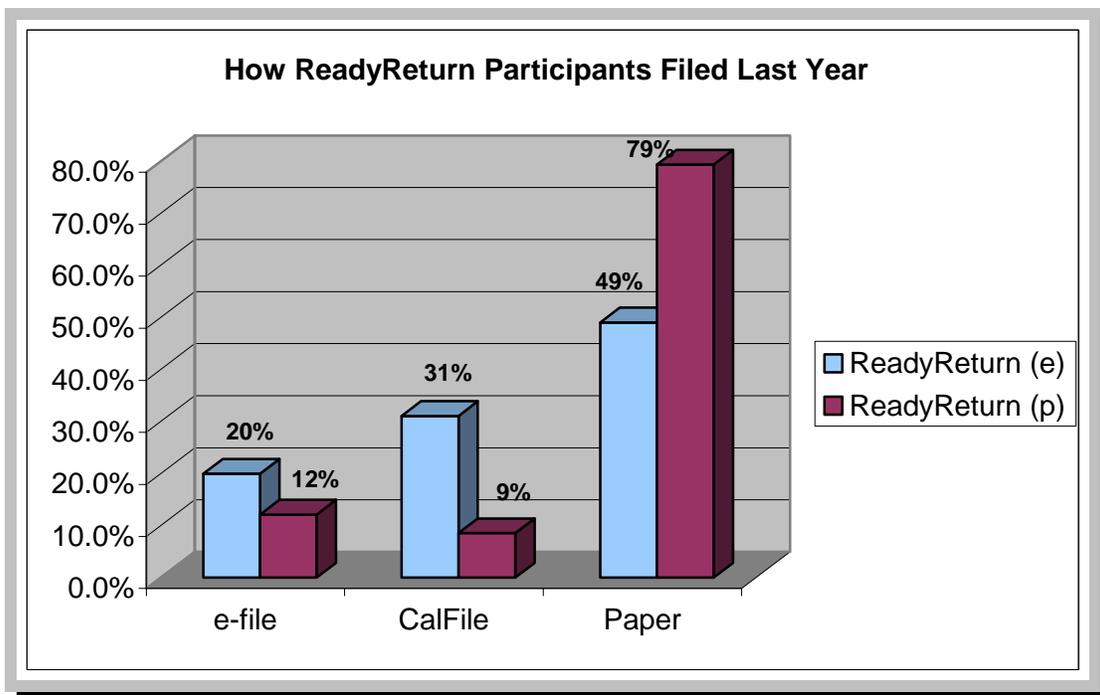
- 1. I did not use it.
- 2. I used it to double-check my figures.
- 3. I gave it to my tax preparer/accountant.
- 4. I used it to complete my return myself.

Measure 3: Processing Efficiency

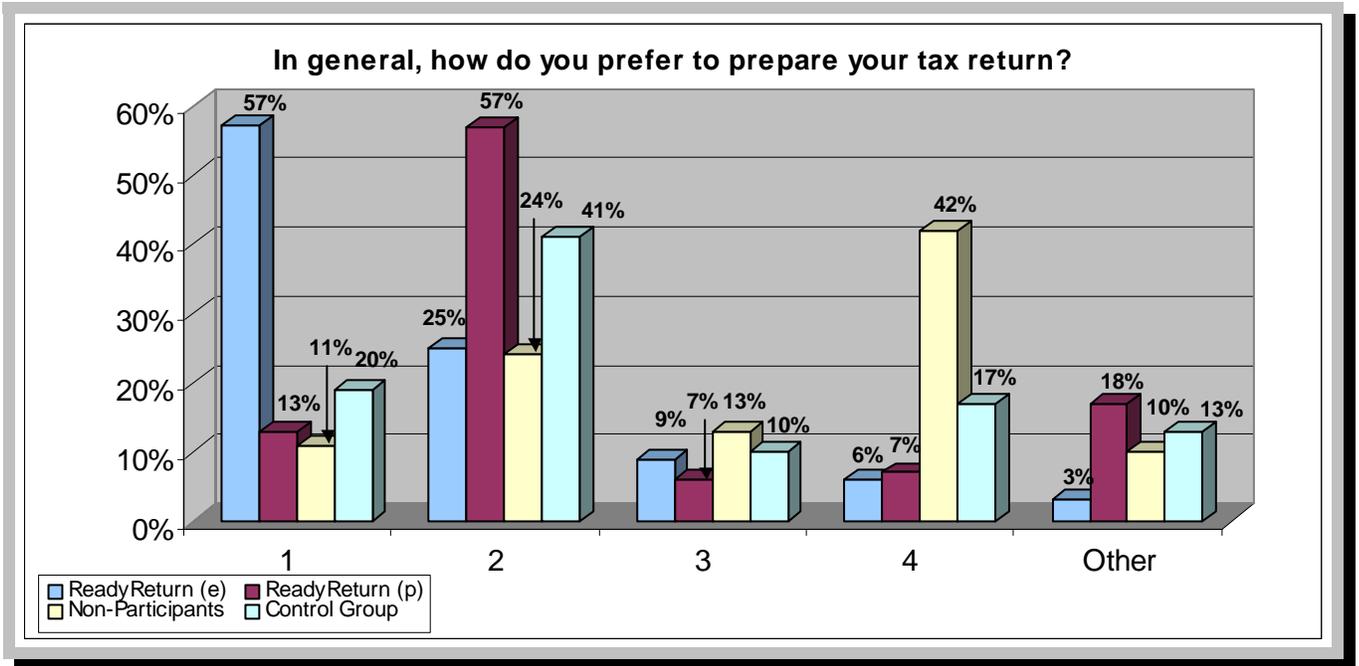
FTB can process e-file returns more efficiently than paper returns. To this end, we are continually looking at ways to increase the use of e-file among taxpayers. For this Pilot we created a Website for taxpayers to use to e-file their ReadyReturn. Forty-seven percent of participants made use of the e-file opportunity, while 53 percent of participants mailed in their paper returns.



Of those who filed their ReadyReturn online, 49 percent 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.

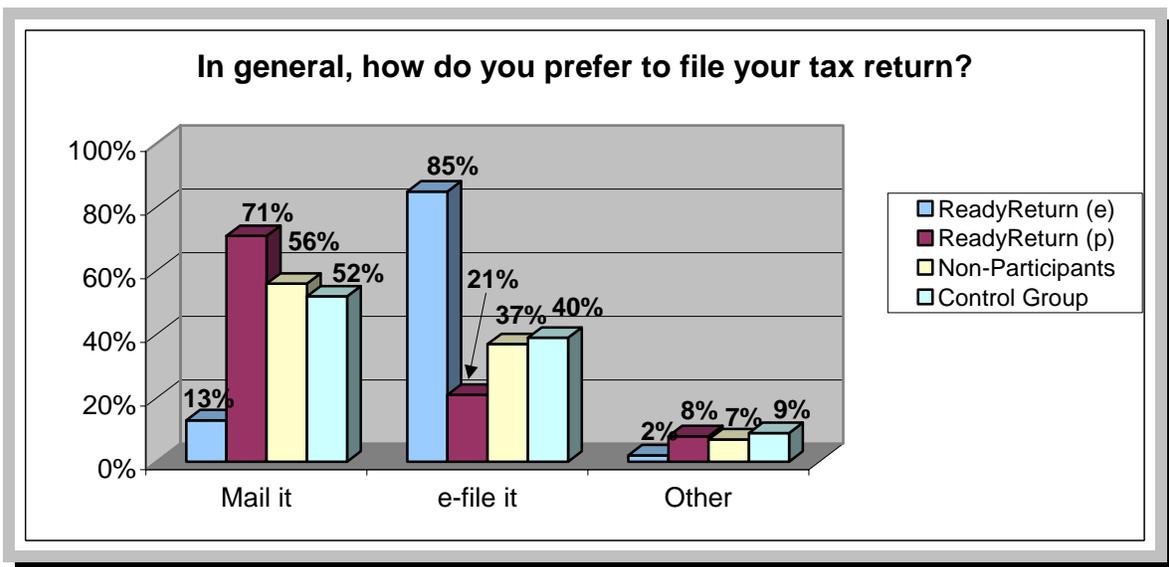


Methods

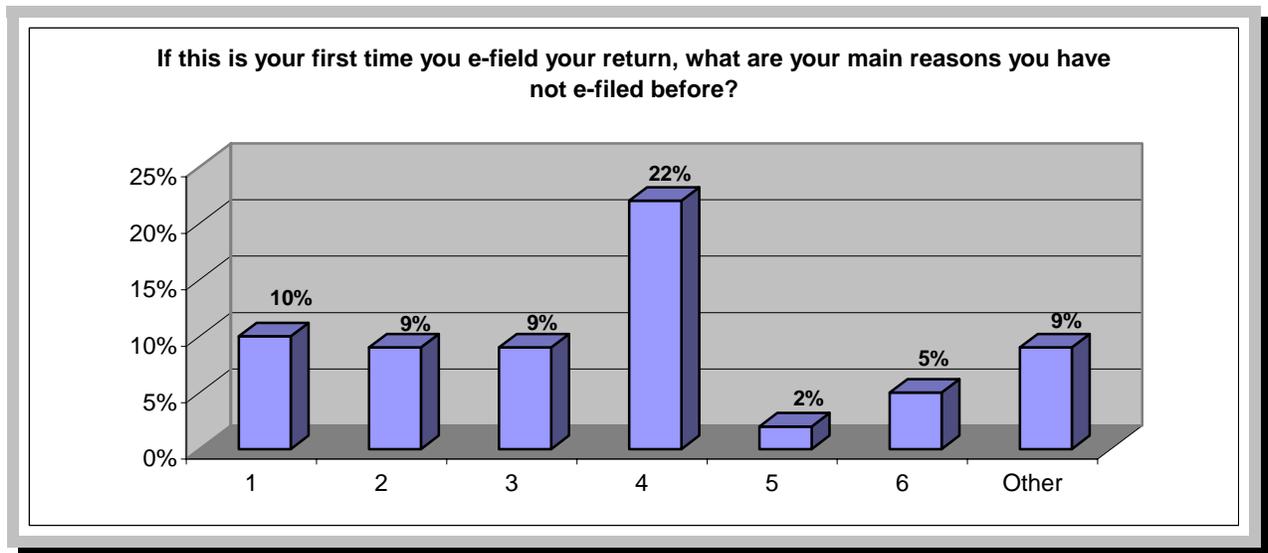
1. Use a government Website.
2. Complete my own paper return.
3. Use a non-government Website or software.
4. Use a tax preparer/accountant.

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 participants 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 cost generally associated with e-file and security concerns about online transactions. The most common “Other” reason was that they traditionally used TeleFile.⁵



Reasons (Respondents could select more than one reason.)

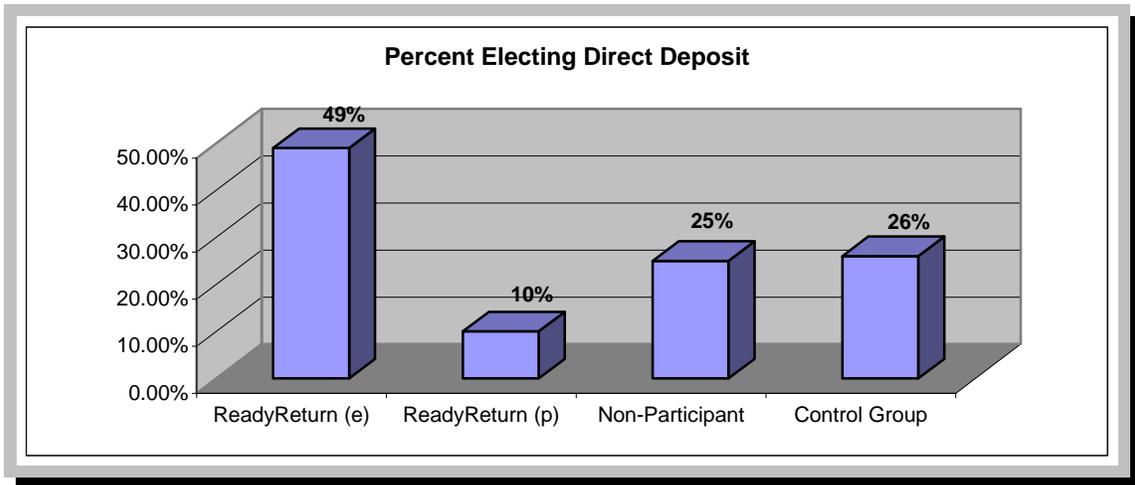
1. It costs too much.
2. I didn't have access to the Internet.
3. I have security concerns about e-filing.
4. I have always filed a paper return.
5. My preparer didn't offer it.
6. It's too complicated.
7. Other.

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

- “I have used TeleFile for a number of years and thought it was great, I think ReadyReturn is the most logical replacement. Thanks.”
- “I used to TeleFile my state taxes. Since that no longer exists, having instant access via the Internet e-file is just as great and faster.”
- “ReadyReturn was very convenient and efficient. I have used TeleFile in the past, which was very convenient, but ReadyReturn is even more so. I am very happy with it.”

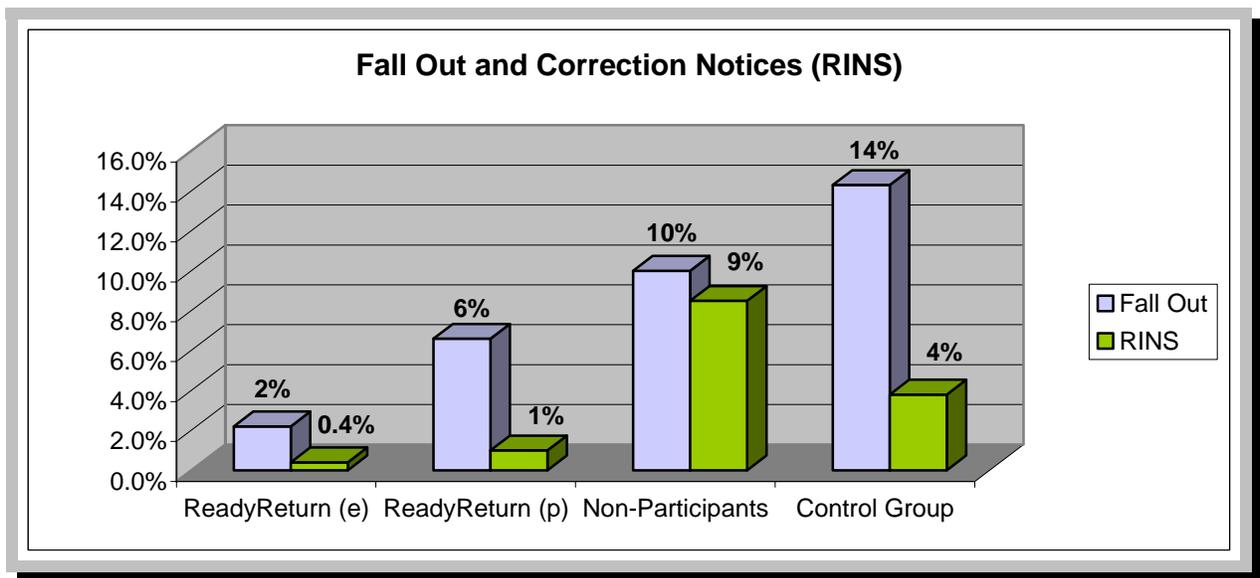
⁵ FTB discontinued its TeleFile service in October 2004. The IRS did the same in October 2005.

Direct deposit is the most efficient method we have for providing taxpayers with the refund they are entitled to. Participants who used 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.

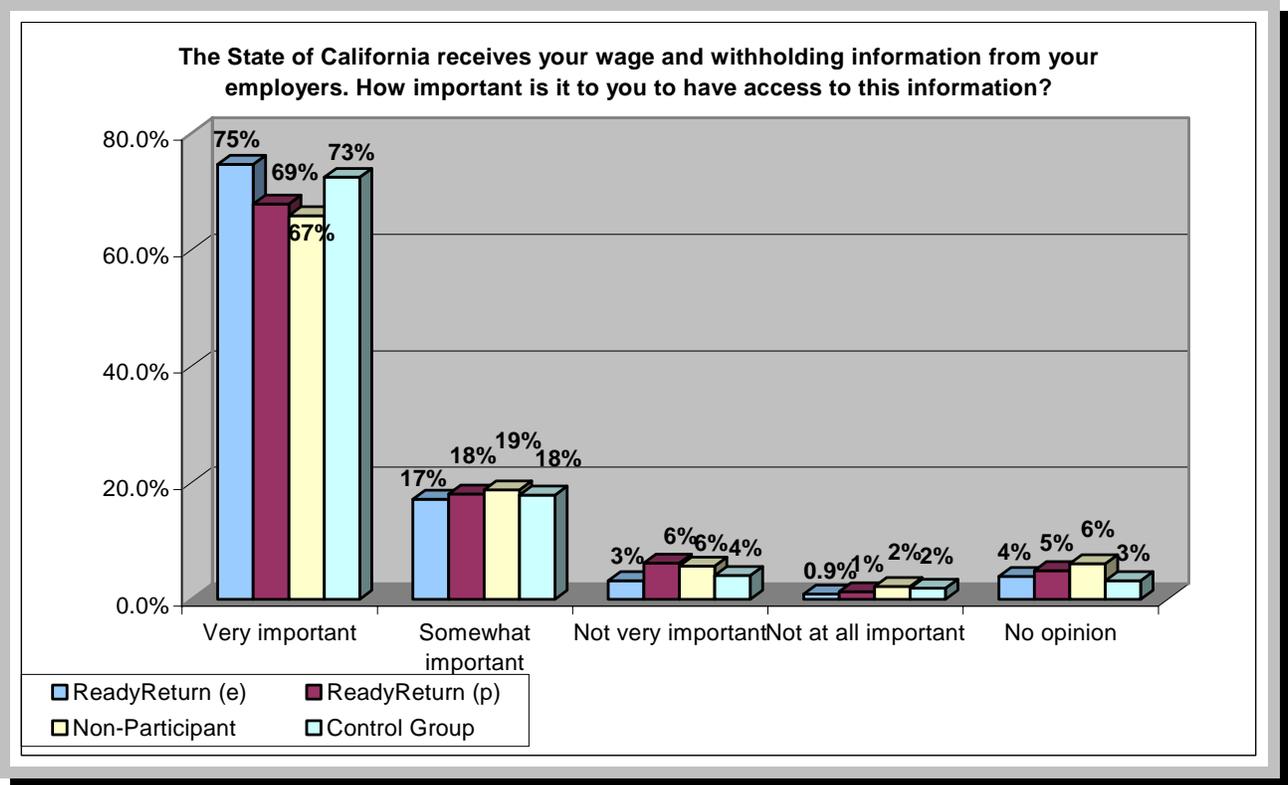


FTB realizes efficiencies when returns don't "fall out" for manual processing. However, returns do routinely fall out when they meet certain criteria. Among other reasons, this is typically caused by return information differing from the information we already have about a taxpayer. Since the information 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 2005 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.

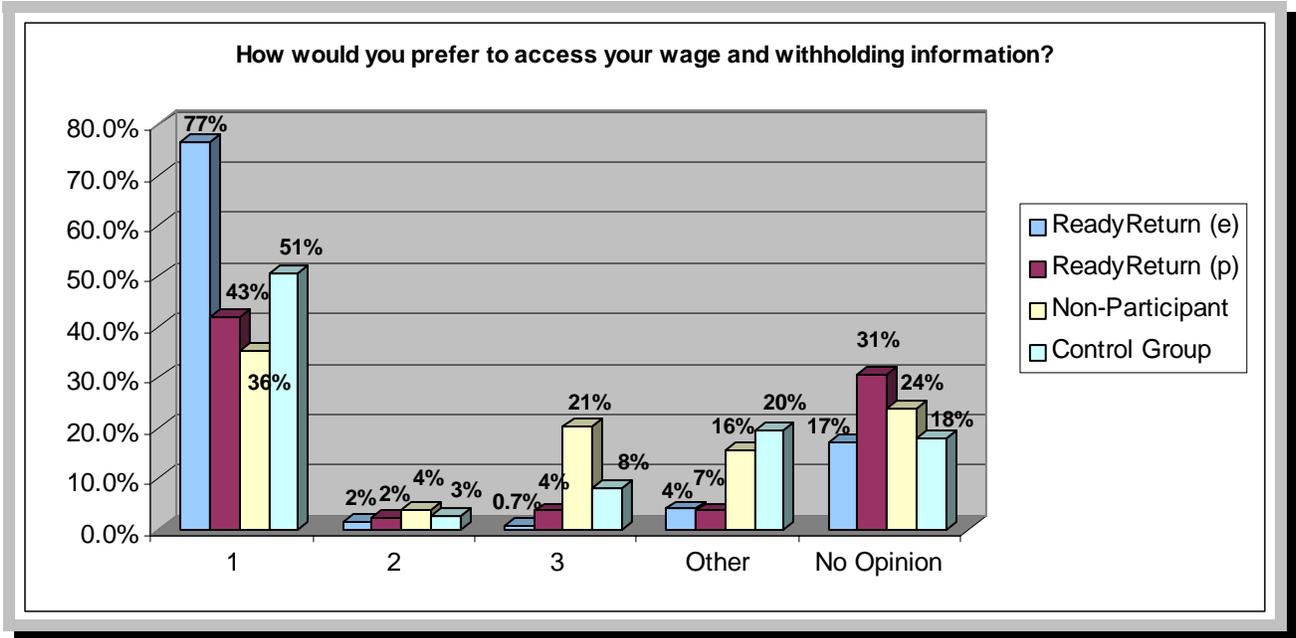
We send correction notices to taxpayers if we make a change to their return during processing. Taxpayers whose returns can be validated without a change being made are not sent notification. The percentage of ReadyReturn participants who were sent a notice was proportionally lower than for the other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



As mentioned previously, 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 percent 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.

How Tax Year 2004 Participants Filed for Tax Year 2005

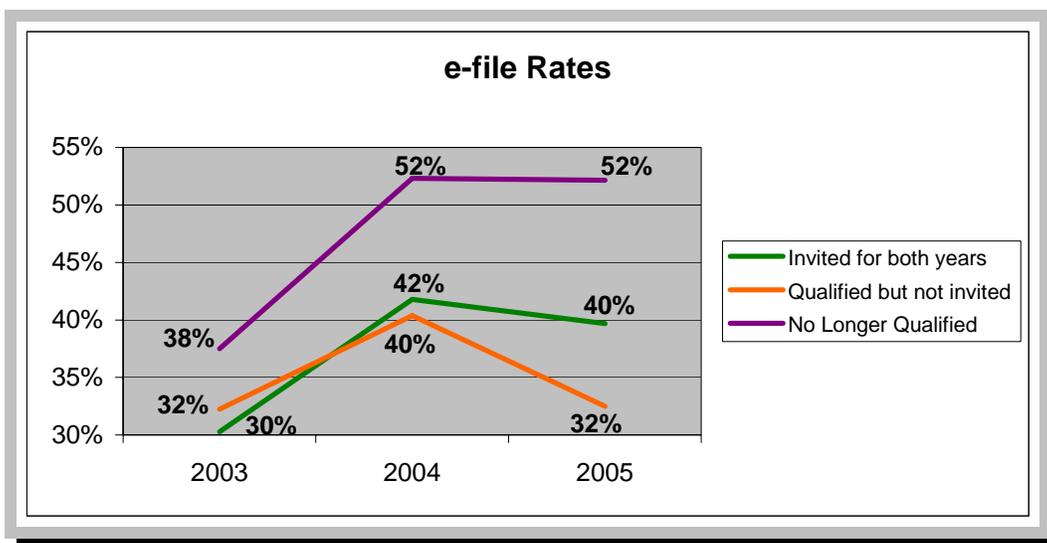
e-file Behavior

During the tax year 2004 Pilot, 11,620 taxpayers used ReadyReturn. Of those, 48 percent filed their ReadyReturn online. More than half of those taxpayers did not e-file the year before. To see if this introduction to e-file motivated them to e-file on a regular basis, we studied how these taxpayers filed their 2005 tax return.

For this analysis, we separated the 2004 Pilot participants into three groups:

- Those who met the ReadyReturn selection criteria for tax year 2005 and were sent a ReadyReturn. (2,782)
- Those who met the ReadyReturn selection criteria for tax year 2005 and were **not** sent a ReadyReturn. (2,770)
- Those who did not meet the ReadyReturn selection criteria for tax year 2005. (5,971)

Of these groups, only those no longer eligible for ReadyReturn maintained their e-file rate. Those who were sent a ReadyReturn both years showed a slight decrease in e-filing. The group of taxpayers who were eligible but not invited had the most significant decrease, reverting to their pre-ReadyReturn e-file rate.



Repeat ReadyReturn Behavior

For this analysis, we looked at the actual participation rate and method of those taxpayers who were sent a ReadyReturn both years. We compared these to the data from last year's study.

In last year's survey, 98 percent of participants indicated that they would use ReadyReturn again. In actuality, for tax year 2005 we received ReadyReturns from 55 percent of the taxpayers who received invitations in both years. While this number is lower than we could have expected, the later implementation date and changes in the taxpayer's situation may explain this difference.

As noted above, the invitee group e-filed 40 percent of their returns for tax year 2005. When looking at just those who used ReadyReturn for 2005, the rate jumps to 45 percent. This indicates that these taxpayers slightly prefer to use the ReadyReturn Website over other e-file methods.

Appendix: B – Public Comments on ReadyReturn

Over the two years of the Pilot, we received comments supporting and opposing ReadyReturn. These comments came from the general public, the tax preparation community, the legislature, and the media. Following is our analysis of the most common comments as they relate to each of our key measures.

Measure 1: Burden Reduction

Is This Goal Measurable?

In April 2005, public comment was received that because FTB would be using “the rather inexact, and perhaps purposefully vague, goal of easing the pain associated with filing a return, it will be difficult to evaluate the true effectiveness of the ReadyReturn program.”⁶

At that point in time, we had not released how we planned to measure our attainment of this goal. Since then, we have defined the variables we used to measure burden reduction:

- Reported anxiety reduction.
- Time and money saved using ReadyReturn.
- Perceived convenience and ease of use of ReadyReturn.
- Utilization of translated information we provided about ReadyReturn.

Through the survey responses, we have gained statistical evidence that taxpayers felt ReadyReturn was convenient, easy to use, and saved them time and money. For additional data, refer to the [Findings](#) section of this report.

Additional Burden of Double-Checking a ReadyReturn

While some in the public acknowledged that there might be a level of burden reduction with ReadyReturn, they questioned whether ReadyReturn really reduces taxpayer burden if the taxpayers must double-check the return. They point out, “the conscientious taxpayer [is] doing the same amount of work, if not more.”⁷

Taxpayer feedback both supports and contradicts this statement. They have told us they are double-checking the numbers on the ReadyReturn and they are reporting that the over all process is still less burdensome:

- “I’m glad that I was invited to participate in the pilot program, I used tax software and ReadyReturn came up with the exact figures that I had. Thank you very much.”
- “I had done my taxes by hand and was waiting to mail it since I owed [money]. I received the filled out form in the mail and was happy to see it matched my own. I signed yours and mailed it on April 15!”
- “Thank you for ReadyReturn that was really easy and it saves a whole lot of time, I don't have any deductions so it was just matching the information on my W-2 and putting a stamp on the envelope that easy, thanks.”

⁶ Jeff Dirksen, National Taxpayer Union, “California’s ReadyReturn Program: Fool’s Gold in the Golden State”, April 14, 2005, <http://www.ntu.org/main/press_issuebriefs.php?PressID=712&org_name=NTU>, accessed on April 15, 2005.

⁷ Mike O’Donnell, “ReadyReturn: Trusting the Government with Your Tax Return?” April 5, 2006, <<http://www.valleybusinessjournal.com/?cat=13>>, accessed on August 14, 2006.

Measure 2: Program Acceptance

Participation Rate

For each of the two years of the Pilot, the participation rate was 21 percent. While this met our objective of 20 percent, critics use this number as an indication of the Pilot's failure.

As this Pilot targeted a limited population and had no supporting advertising, we have compared our response rate to that of direct-mail marketing campaigns. A study by the Direct Marketing Association indicates 2.61 percent is the average response rate for this type of campaign to be considered successful.⁸ While recognizing that response rates to government mailings tend to be higher, we feel the participation rate indicates the Pilot's success.

Pressure to Participate

As noted above, response rates to government mailings tend to be higher than average. This could be caused by the general perception that government only contacts its citizens when an action is required on the citizens' part. The fact that the ReadyReturn was sent in an FTB envelope could make taxpayers feel pressured to respond.

To address this concern, we added language that reinforced the voluntary nature of the Pilot. The feedback we received from both participants and non-participants suggests they did not feel pressured to use ReadyReturn:

- "I just felt comfortable doing it the way I always did."
- "[The program is] too new to participate in right away."
- "Thank you for the invite to participate in the pilot program."
- "[The ReadyReturn came with] no warning. I was not sure if a scam until I compared address with regular tax forms."

Measure 3: Processing Efficiency

Duplicate Return Filing

While we made every effort not to send a ReadyReturn to taxpayers who had already filed, we knew that some taxpayers would receive their ReadyReturn invitation "just days" after they mailed their tax return. We have heard concerns from the public that these taxpayers would send in the ReadyReturn (with a payment, if applicable) after they had already met their filing requirement.

We analyzed the rate of duplicate filing for ReadyReturn participants and found that one and one-half percent of ReadyReturns were duplicate returns for the tax year. This rate is significantly higher than that for the non-participant and control groups (five-tenths of one percent each). While our processing systems are designed to handle duplicate returns, the confusion and inconvenience to the taxpayer is something we should strive to overcome. This would require additional analysis and taxpayer contact.

⁸ "Nonprofit Response Rates Soar," *Multichannel Merchant*, November 1, 2003.

Non-filers and the Complexity of the California Tax Code

Two general tax issues the public regularly mentioned in association with ReadyReturn are getting non-filers into the tax system and simplifying the tax code.

As designed, “ReadyReturn would do nothing to increase compliance by non-filers.”⁹ This is true; we limited the invitee population to those who filed a tax return for the previous year.¹⁰ We did not pursue non-filers as we have a separate non-filer compliance program for that purpose.

It is also correct to say that ReadyReturn “does nothing to address the complexity of the tax code.”¹¹ This Pilot was designed only to make interacting with the tax code less burdensome for a limited group of taxpayers. If this “obscures the need for real tax reform,”¹² it was unintentional.

Measure 4: AGI Differences and Tax Effect

Addressing the Tax Gap

The tax gap is one of the most pressing issues facing revenue agencies nationwide. California’s current tax gap is estimated at \$6.5 billion. ReadyReturn was not designed to specifically address this deficit, but we must examine the Pilot’s interaction with this issue. We have received criticisms that the ReadyReturn Pilot does not help address the tax gap issue and may actually contribute to it.

“Taxpayers who receive the types of income that are most commonly underreported would not be eligible to participate in [ReadyReturn].”¹³ This is correct—ReadyReturn was intended for taxpayers who file the simplest tax returns.

There has been public argument that a ReadyReturn program may turn tax filing into “a game in which taxpayers try to exploit tax agency mistakes to their advantage”¹⁴ and that taxpayers would not update their tax returns to include income not reflected on their ReadyReturn. (Who’s going to argue with the government telling you how much you owe, especially when it’s less?)¹⁵

In our analysis of last year’s Pilot, we found that, in general, taxpayers did accurately report their income. Underreporting was determined to be minimal with an average tax effect of \$3 per return.¹⁶

⁹ Jeff Dirksen, National Taxpayer Union, “California’s ReadyReturn Program: Fool’s Gold in the Golden State”, April 14, 2005, <http://www.ntu.org/main/press_issuebriefs.php?PressID=712&org_name=NTU>, accessed on April 15, 2005.

¹⁰ For complete selection criteria, refer to [Pilot Methodology](#).

¹¹ Mike O’Donnell, “ReadyReturn: Trusting the Government with Your Tax Return?” April 5, 2006, <<http://www.valleybusinessjournal.com/?cat=13>>, accessed on August 14, 2006.

¹² Ibid.

¹³ Robert A. Boisture, ESQ, Albert G. Lauber, ESQ, and Holly O. Pas, ESQ, “Policy Analysis of “Return-Free” Tax System,” April 2006, Commissioned by The Computer & Communications Industry Association, p.12, <<http://www.ccianet.org/papers/Return-Free WP.pdf>> accessed August 11, 2006.

¹⁴ Ibid.

¹⁵ O’Donnell, Valley Business Journal.

¹⁶ Franchise Tax Board, ReadyReturn Pilot Tax Year 2004 Study Results, <<http://www.ftb.ca.gov/readyReturn/TY04RRFinalReport.pdf>>, April 2006, accessed August 28, 2006.

Appendix C - Profiles

[C-1 Invitees](#)

[C-2 Participants](#)

[C-3 Non-Participants](#)

[C-4 Control Group](#)

[C-5 Profile Comparisons](#)

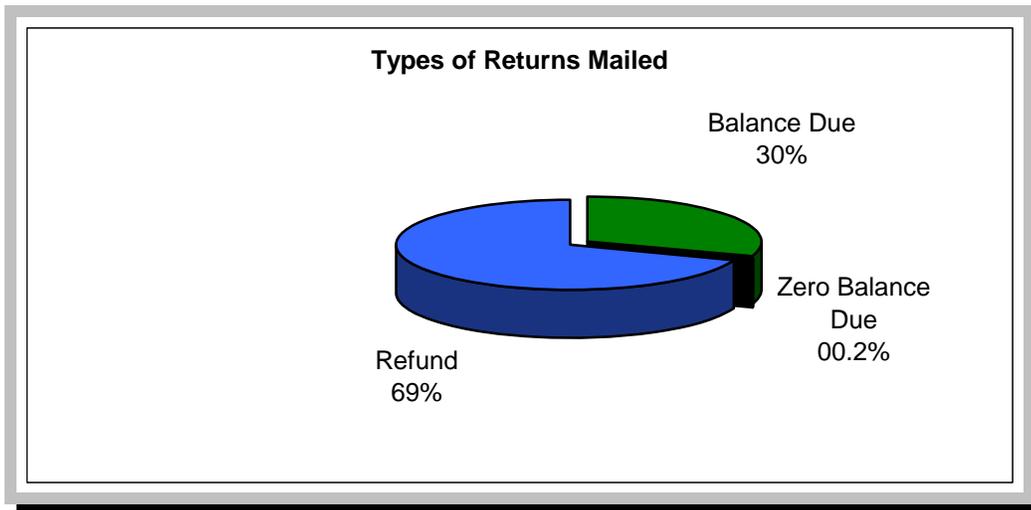
C-1 – Invitees

ReadyReturn Information

The 50,820 ReadyReturns we mailed were “simple returns.” However, this does not mean that these were necessarily the lowest-income taxpayers. The **median adjusted gross income (AGI)** for invited taxpayers was **\$33,168**. The **largest AGI** was **\$143,139**.

The tax returns we sent indicated:

- Sixty-nine percent of invitees were owed a refund.
- Thirty percent had a balance due.
- Two-tenths of one percent had a zero balance.
- The median refund amount was \$83, while the largest was \$7,638.
- The median balance due amount was \$95, while the largest was \$10,080.



Demographics

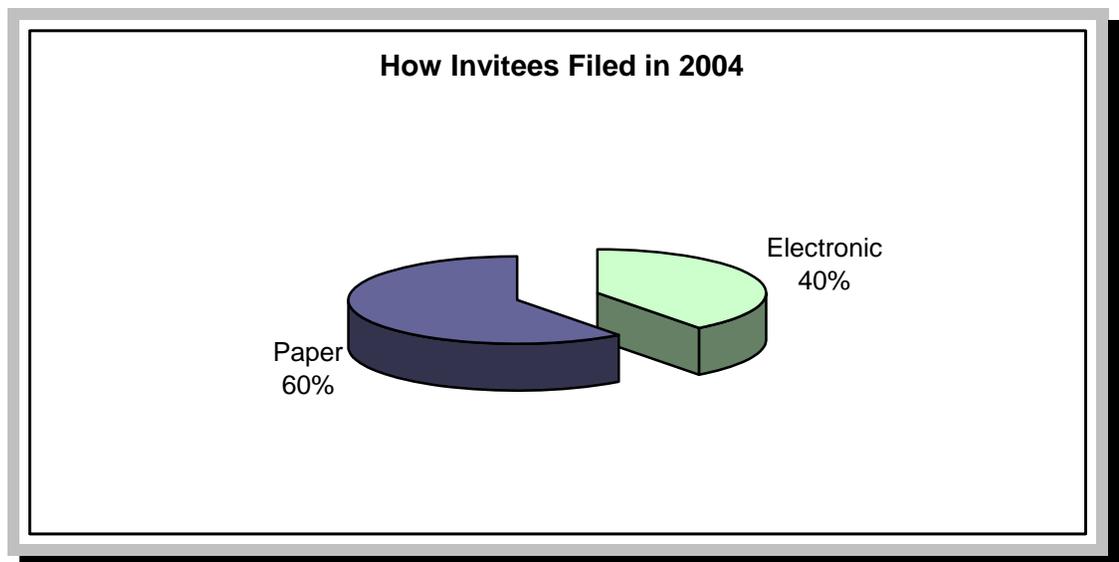
We sent invitations to random taxpayers who met the ReadyReturn requirements throughout the state. The top five cities closely mirror the largest cities in California:

Table C-1: Top 5 Cities (Invitees)

City	ReadyReturn Rank	Population Rank ¹⁷
Los Angeles	1	1
San Francisco	2	4
San Diego	3	2
San Jose	4	3
Sacramento	5	7

Filing History (Tax Year 2004)

Taxpayers invited to participate in the Pilot historically used all of the various filing methods available for California returns. Less than 40 percent chose an electronic method (e-file and CalFile) while the rest filed on paper.

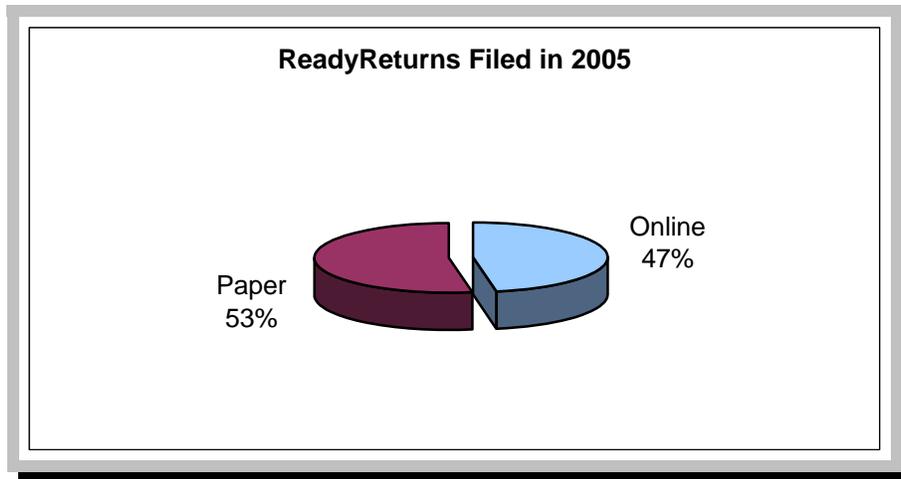


Invitees filed their 2004 tax returns in similar time periods as California taxpayers on the whole, with about 14 percent filing by mid-February. Fifty percent of invitees filed their returns between April 1 and the April 15 filing due date. Approximately four percent filed their returns after April 15.

¹⁷ Based on 2003 population data.

C-2 – Participants

As of July 21, 2006 approximately **10,581 ReadyReturns were filed** by mail and e-file. This is a **21 percent response rate**. More than 47 percent of participants chose to file their ReadyReturn online at our Website.



Return Information

Based on the ReadyReturns we received:

Table C-2: Return Characteristics (Participants)

	e-file	Paper	All ReadyReturns
Received a refund	79%	55%	66%
Median refund amount	\$91	\$67	\$79
Chose direct deposit of refund ¹⁸	49%	10%	28%
Had a balance due	20%	43%	32%
Median balance due amount	\$ 73	\$92	\$86
Chose to pay electronically ¹⁹	78%	N/A	78%
Median adjusted gross income	\$37,618	\$36,065	\$36,825

Ninety-nine percent of ReadyReturn participants used the “Single” filing status on their return. Less than one percent changed their filing status to married filing jointly, married filing separately, or head of household. This type of change mainly occurred on returns filed via the Website.

We expected taxpayers to make other changes, in addition to updating their filing status. Approximately three percent of e-filers claimed the Nonrefundable Renters Credit, while less than one percent of paper participants did. One ReadyReturn participant claimed the Child and Dependent Care Expenses Credit.

¹⁸ Percent of refund returns with direct deposit elected.

¹⁹ Percent of balance due returns with an electronic funds withdrawal request. It is unknown the number of taxpayers who chose post-filing electronic payment methods, such as credit card payments and FTB’s WebPay.

Two percent of e-filed ReadyReturns fell out of our automated processing programs for manual correction. Of these:

- Five-tenths of one percent were a second return from the taxpayer for the year.
- Four-tenths of one percent generated a correction notice to the taxpayer.

Seven percent of paper ReadyReturns fell out. Of these:

- Two percent were the second return received.
- One percent generated a correction notice to the taxpayer.

Demographics

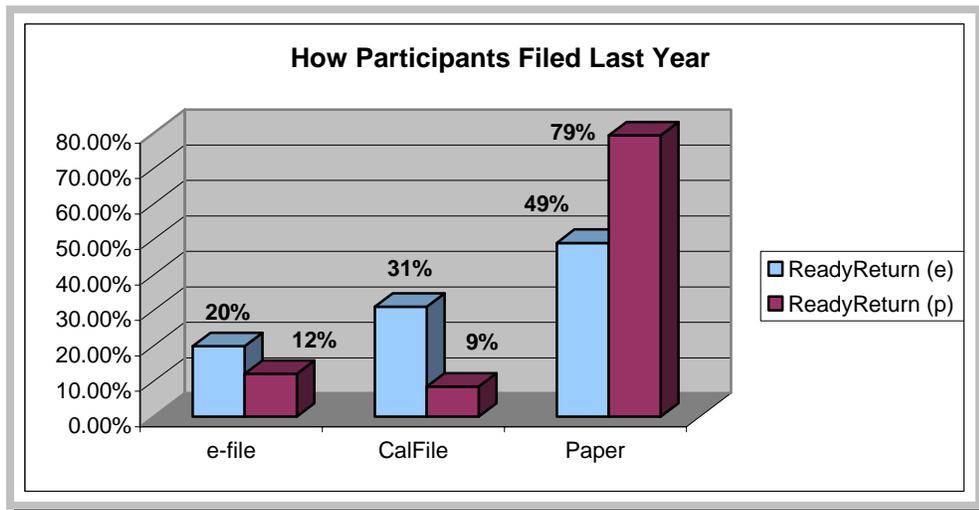
The top cities for e-file and paper ReadyReturn participants closely mirror the top cities for invitations:

Table C-3: Top Five Cities (Participants)

City	Invitation Rank	e-file Rank	Paper Rank
Los Angeles	1	3	2
San Francisco	2	1	1
San Diego	3	2	3
San Jose	4	5	5
Sacramento	5	4	4

Filing Behavior

Approximately half of the participants who used the ReadyReturn Website to file their return had filed their 2004 tax return on paper. Less than 20 percent of paper participants had used an e-file method in the previous year.



Because we mailed the ReadyReturn invitations in mid-March, the actual filing dates are a little later than the invitees' history on the whole. The majority of returns filed under both methods were filed in April.

C-3 – Non-Participants

As of July 21, 2006, approximately 27,000 invitees had filed a return other than a ReadyReturn. The remaining 13,475 taxpayers had not yet filed a 2005 tax return.²⁰ Of those who have filed, 42 percent used e-file while 58 percent filed on paper.

Return Information

Based on the returns filed by non-participants:

- Seventy-three percent of non-participants were owed a refund.
- Twenty-seven percent had a balance due.
- Less than one percent had a zero balance.
- The median refund amount was \$106.
- The median balance due amount was \$112.
- Twenty-five percent of refunds were distributed through direct deposit.
- The median adjusted gross income was \$33,198.

434 of the non-participants returns fell out of automated processing for a fallout rate of 10 percent. Of these:

- Five-tenths of one percent were a second return from the taxpayer for the year.
- Four percent generated a correction notice to the taxpayer.

Demographics

The top cities for non-participants exactly mirror the top cities for invitations:

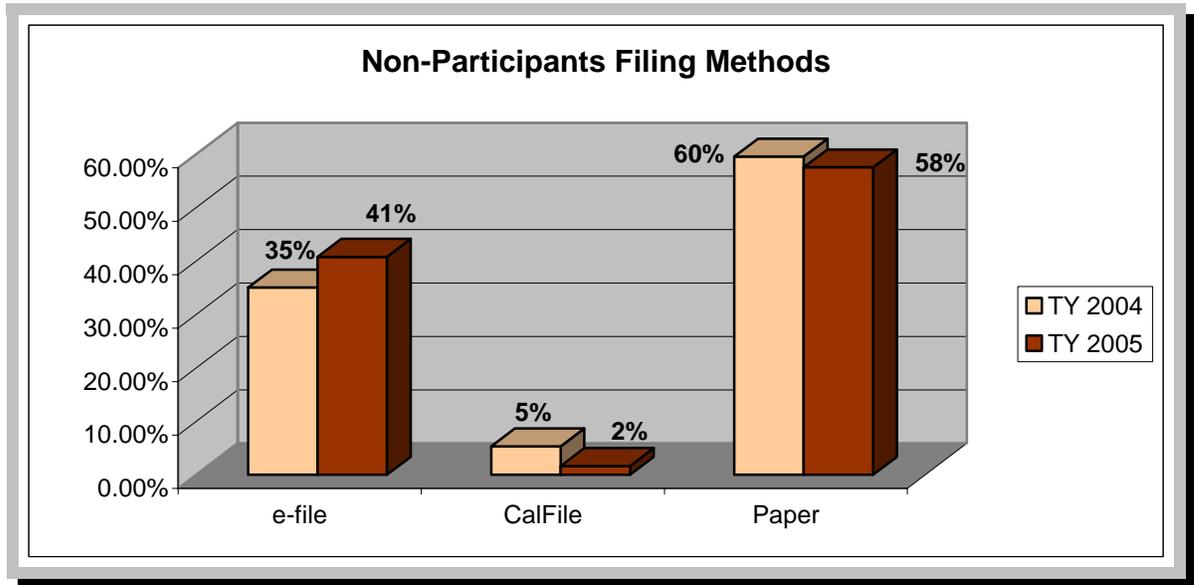
Table C-4: Top Five Cities (Non-Participants)

City	Invitation Rank	Non-Participant Rank
Los Angeles	1	1
San Francisco	2	2
San Diego	3	3
Sacramento	4	4
San Jose	5	5

²⁰ California has an automatic six-month extension of time to file.

Filing Behavior

The non-participants showed a slight increase in the use of electronic filing methods for their 2005 returns when compared to their 2004 returns.



Approximately 20 percent of the non-participants filed before we sent them an invitation. Most of these (59 percent) were sent to us 10 days or less before the day we sent the invitations. Given the standard paper processing time, this is an acceptable level of error in eliminating taxpayers who have already filed.

C-4 – Control Group

The control group consisted of 63,337 taxpayers who qualified for ReadyReturn but were not invited to participate in the Pilot. This group included 2,770 taxpayers who used ReadyReturn last year.

As of July 21, 2006, more than 87 percent of the control group had filed their 2005 tax return. Forty-one percent chose an electronic filing method while 59 percent filed on paper.

Return Information

Based on the returns filed by the control group:

- Seventy-three percent of the control group received a refund.
- Twenty-six percent had a balance due.
- One percent had a zero balance.
- The median refund amount was \$103.
- The median balance due amount was \$105.
- Twenty-six percent of refunds were distributed through direct deposit.
- The median adjusted gross income was \$33,842.

649 of the control group's returns fell out for a fallout rate of 14.3 percent. Of these:

- Five-tenths of one percent were a second return from the taxpayer for the year.
- Nine percent generated a correction notice to the taxpayer.

Demographics

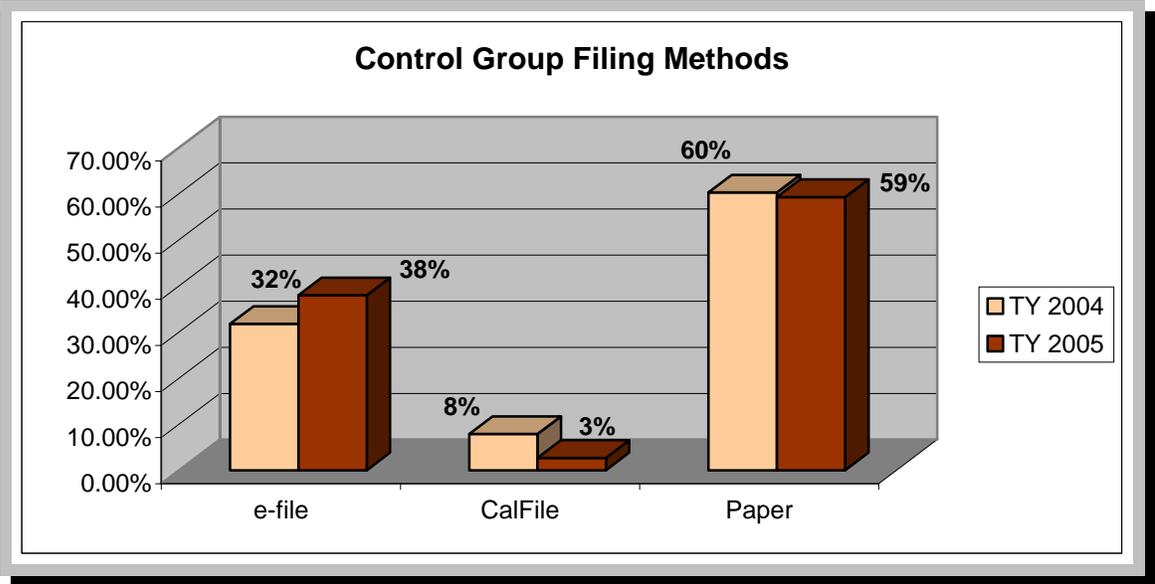
The top cities for the control group exactly mirror the top cities for invitations:

Table C-5: Top Five Cities (Control Group)

City	Invitation Rank	Control Group Rank
Los Angeles	1	1
San Francisco	2	2
San Diego	3	3
Sacramento	4	4
San Jose	5	5

Filing Behavior

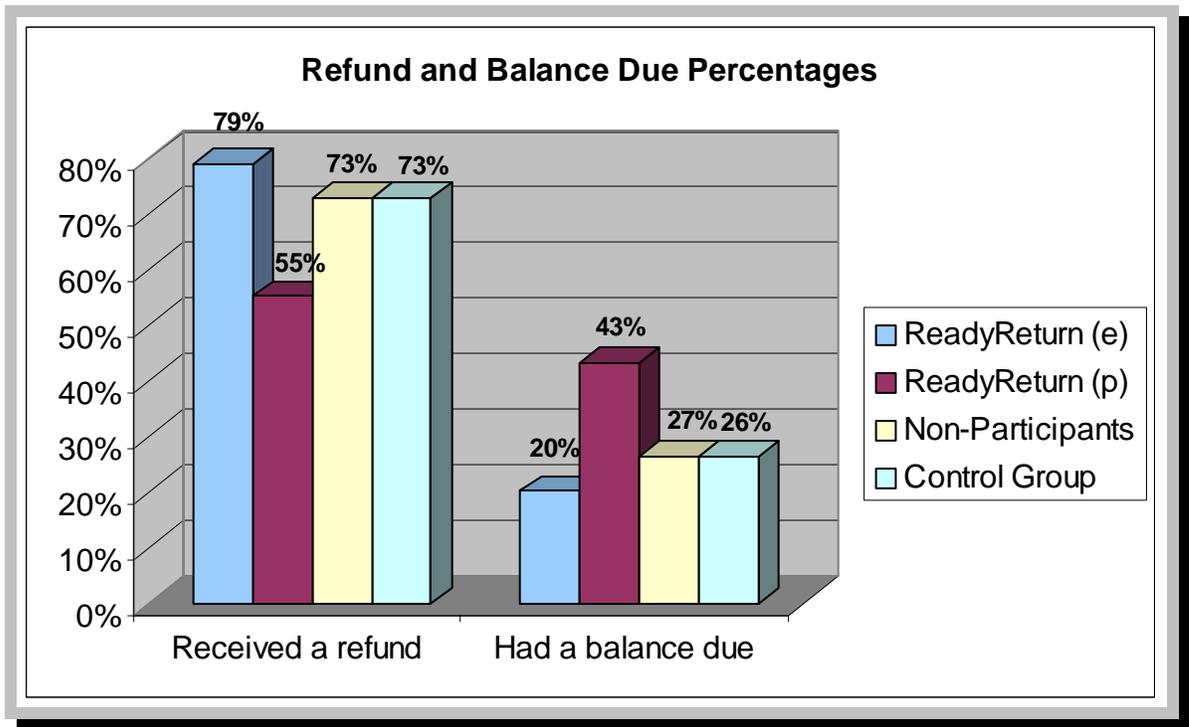
The control group showed a similar trend toward e-file as the non-participant group did.



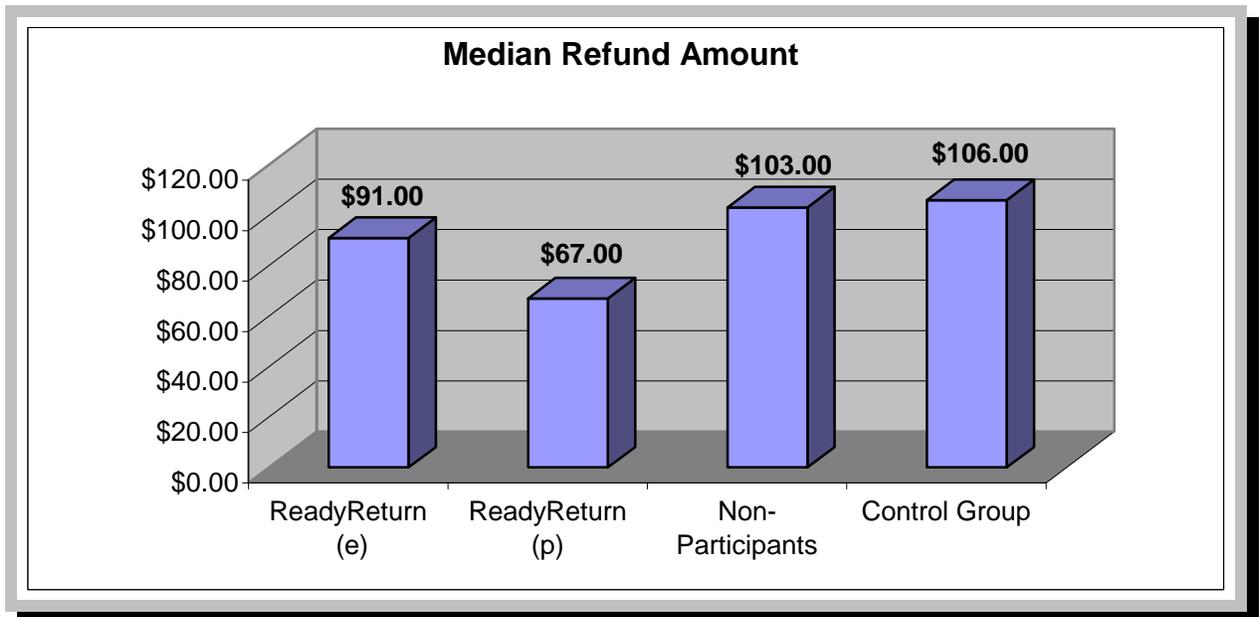
Approximately 26 percent of the control group had filed before the date we would have sent them an invitation.

C-5 – Profile Comparisons

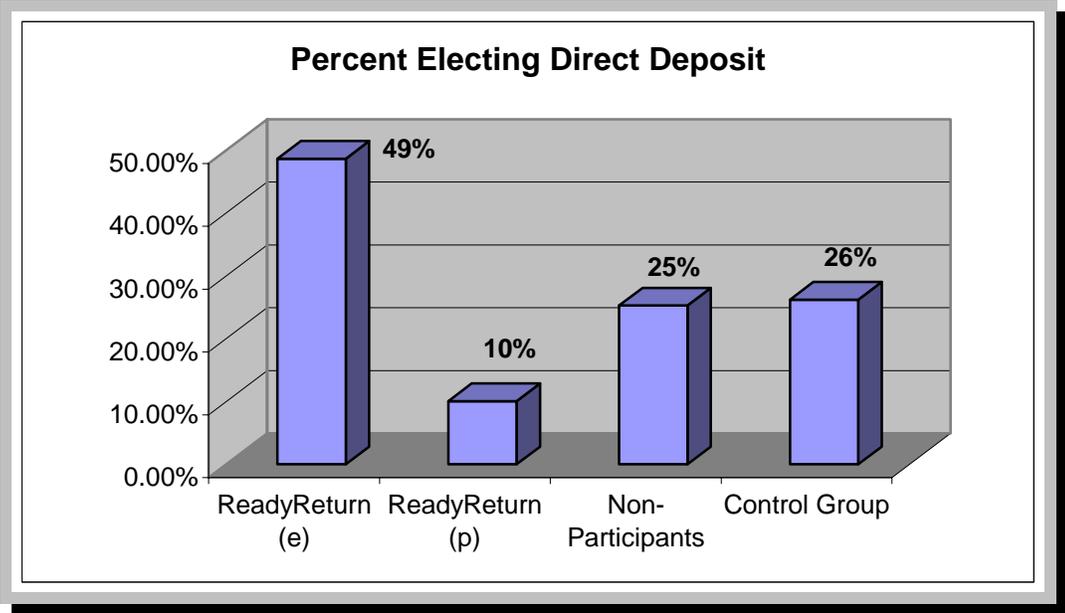
In all groups, more taxpayers received a refund than had a balance due.



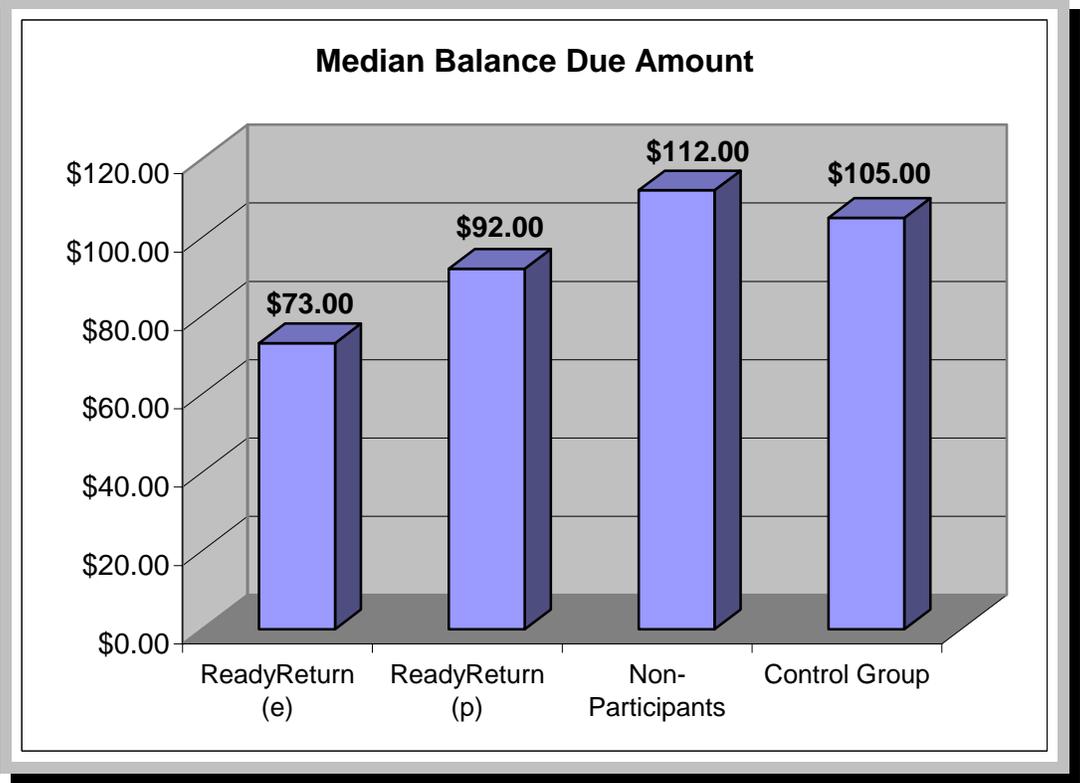
The control group had the highest median refund at \$106.



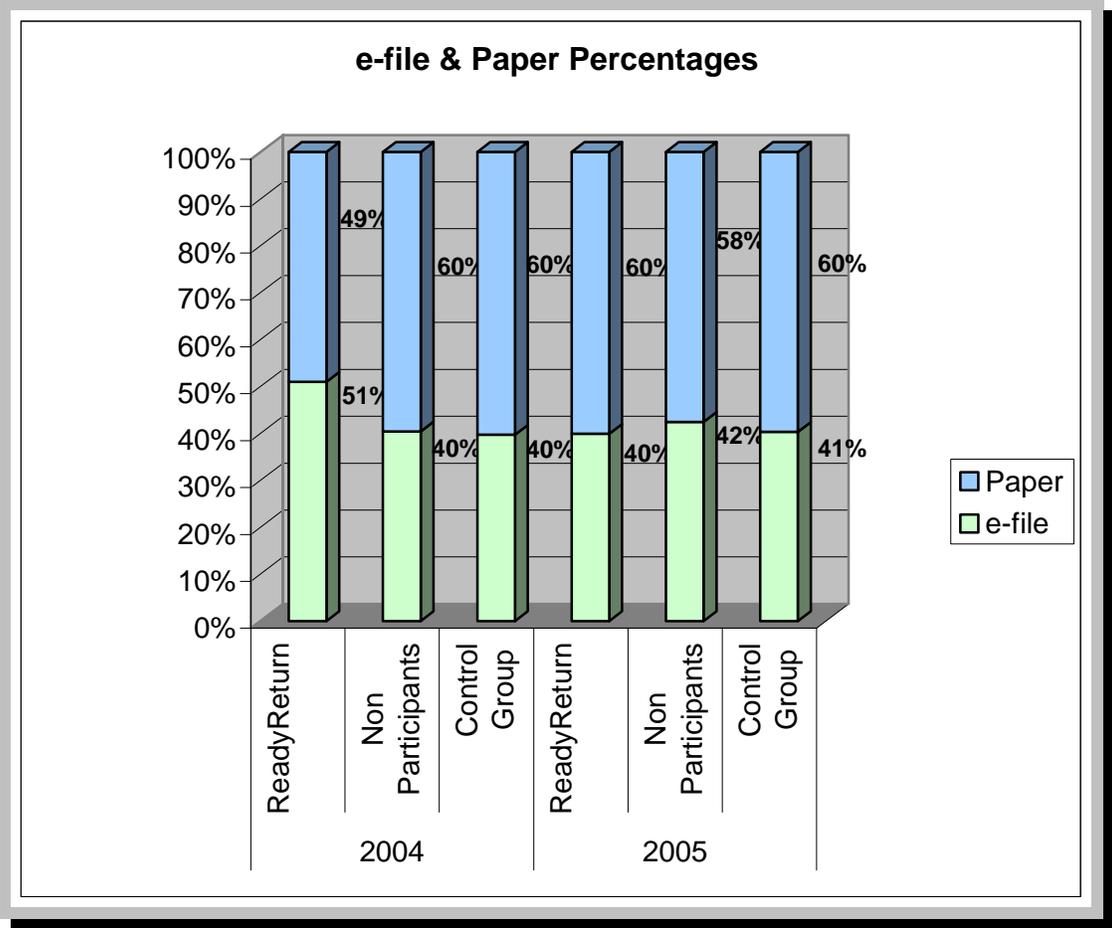
Participants who e-filed their ReadyReturns were the most likely to elect to have their refund deposited directly into their bank account.



Non-participants had the largest median balance due at \$112.



The e-file use for tax year 2005 compared to tax year 2004 was fairly consistent for the non-participant and control groups. However, there was an 11 percent decrease in e-file use for ReadyReturn participants from tax year 2004 to tax year 2005.



Appendix D – ReadyReturn Timeline – Key Dates in History

August 2004	On August 25, 2004, the three-member Franchise Tax Board directs FTB staff to conduct the ReadyReturn Pilot for tax year 2004 and to report our findings to them.
February 2005	<ul style="list-style-type: none"> Beginning on February 15, 2005, we mailed ReadyReturns and invitations to 51,850 taxpayers. On February 16, 2005, we launched the secure ReadyReturn Website, which provided a way for these taxpayers to e-file their ReadyReturns.
May 2005	Beginning on May 4, 2005, we mailed surveys to 16,257 taxpayers: <ul style="list-style-type: none"> 3,757 to paper participants. 5,000 to non-participants. 7,500 to a control group.
June 2005	<ul style="list-style-type: none"> On June 3, 2005, we released the preliminary report on the ReadyReturn Pilot for tax year 2004. On June 15, 2005, FTB staff presented the report to the Board, along with a plan to make the program permanent. The permanent program would be open to up to 1 million taxpayers with participation growing to 230,000 by 2010. The Board voted unanimously to fully implement ReadyReturn.
July 2005	On July 19, 2005, Assembly Bill 139 was chaptered (CH. 74). This bill restricted funding for ReadyReturn for fiscal year 2005/2006 and mandated FTB offer ReadyReturn as a pilot for tax year 2005.
February 2006	On February 24, 2006, Assembly Bill 2905 was introduced. This bill called for making ReadyReturn a permanent program.
March 2006	<ul style="list-style-type: none"> Beginning on March 15, 2006, we mailed ReadyReturns and invitations to 50,820 taxpayers. On March 16, 2006, we launched the ReadyReturn Website.
April 2006	On April 20, 2006, we released the final report on the ReadyReturn Pilot for tax year 2004.
May 2006	On May 31, 2006, Assembly Bill 2905 was moved to the inactive file.
June 2006	<ul style="list-style-type: none"> On June 22, 2006, Assembly Bill 1046 was revised to include the language calling for FTB to make ReadyReturn a permanent program. On June 28, 2006, the hearing for this bill was canceled.
July 2006	Beginning July 17, 2006, we mailed surveys to 15,454 taxpayers: <ul style="list-style-type: none"> 5,452 to paper participants. 5,000 to non-participants. 5,002 to a control group.
September 2006	On September 6, 2006, we released the preliminary report on the ReadyReturn Pilot for tax year 2005.

Appendix E – Surveys

Surveys are available online at www.ftb.ca.gov/ReadyReturn/about.html.



September 15, 2006

The Honorable Steve Westly
Member, Franchise Tax Board
300 Capitol Mall, 18th Floor
Sacramento, CA 95814

Subject: Franchise Tax Board's Ready Return Program

Dear Mr. Westly:

Cal-Tax is opposed to the Ready Return Program and we hope that you will support its elimination. Our opposition is based on the following concerns:

- There is real concern over whether the government should be preparing a taxpayer's tax return and sending a tax bill. This type of intrusion places the individual taxpayer in the position of having to audit the government's staff's calculations – an act likely to be more anxiety producing and burdensome than leaving the initial reporting requirement on the taxpayer. This proposal raises serious privacy/security, conflict-of-interest charges, and fear of reprisal if the government-generated document was rejected.
- The program is a very costly expansion of government with very little benefit. This is a waste of taxpayer's dollars. Funds used for this program could be more productively used to augment the FTB collection backlog or other more important programs.
- The FTB staff has just reported on the status of the second pilot program and 80% of the candidate's chosen decided NOT to use the service. This is not a successful result. When, in the history of government, have four-fifths of those eligible for a government "freebie" turned it down?
- If the FTB continues to estimate taxpayer's tax, they can be contributing to the "tax gap" because there may be other income (such as gambling winnings) that they are not aware of, that will not be included in the FTB generated return.
- The state Legislature chose not to extend the program by rejecting AB 2905 (Frommer) this past session.

Please contact me if you have any questions or need additional information. Thank you.

Sincerely

Teresa Casazza
Vice President and Legislative Director

cc: John Chiang, Michael Genest

HOWARD JARVIS
TAXPAYERS
ASSOCIATION



HOWARD JARVIS, Founder (1903-1986)
ESTELLE JARVIS, Honorary Chairwoman
JON COUPAL, President
TREVOR GRIMM, General Counsel
TIMOTHY BITTLE, Director of Legal Affairs

September 19, 2006

Honorable Chair Steve Westley
Honorable Member John Chiang
Honorable Member Michael C. Genest
Chair, California Franchise Tax Board
300 Capitol Mall, 18th Floor
Sacramento, CA 95814

**SUBJECT: Franchise Tax Board's ReadyReturn Program
Scheduled for Hearing on Wednesday September 20, 2006
OPPOSE**

Dear Honorable Chair and Members of the Board:

The Howard Jarvis Taxpayers Association must respectfully **OPPOSE** any continuation of the ReadyReturn program. It has come to our attention that the ReadyReturn program is scheduled for hearing for possible Board action on September 20, 2006 and we hope you will support its elimination.

We wish to express our opposition to any continuation of the program or any renewed request to the Legislature to continue the program for the following reasons:

- The Legislature mandated the termination of the program in 2006. In 2005, funding for the program was only approved through fiscal year 2005-06. New legislative authorization would be needed to continue the program. In 2006, FTB sought but did not receive legislative authorization to continue the program. Therefore, the law requires the program's termination.
- There is real concern over whether the government should be preparing a taxpayer's tax return and sending a tax bill. This type of intrusion places the individual taxpayer in the position of having to audit the government's staff's calculations – an act likely to be more anxiety producing and burdensome than leaving the initial reporting requirement on the taxpayer. This proposal raises serious privacy/security, conflict-of-interest charges, and fear of reprisal if the government-generated document was rejected.

- The program is a very costly expansion of government with very little benefit. This is a waste of taxpayer's dollars. Funds used for this program could be more productively used to augment the FTB collection backlog or other more important programs.
- The FTB staff has just reported on the status of the second pilot program and 80% of the candidate's chosen decided NOT to use the service. This is not a successful result.
- The State should not spend funds creating a new program that is already fully met by the private sector, including low-cost tax preparation services and software.
- The state Legislature chose not to extend the program by rejecting AB 2905 (Frommer) this past session.

While we are supportive of steps by the FTB to modernize and streamline government functions through technology, we strongly oppose the FTB crossing over the line from tax collection and enforcement to preparation of tax returns for taxpayers.

Sincerely



Jon Coupal
President



September 19, 2006

Mr. Steve Westly
Chair, Franchise Tax Board
300 Capital Mall, 18th Floor
Sacramento, CA 95814

Subject: California Ready-Return Program

Dear Mr. Westly,

The Ready-Return pilot program has clearly saved time, money and reduced burden for the taxpayers that “chose” to use the service, but a closer look at the results of the program and survey shows that:

- The program is serving higher income, better informed taxpayers, probably not the group that needs more help with preparing and filing returns.
- The late availability of accurate and complete wage, income information and the tendency of early filing of low-income taxpayers illustrate the inherent limitations of the program. The error rate of Ready-Return is probably inversely related to the time of program invitation.
- The survey result is strongly biased toward the taxpayers who “chose” to use the service. The survey cannot be generalized to represent the general taxpayer population, nor the value and the fairness of the program to all taxpayers.
- 20% participation for the “free” program is not a high percentage, comparing against other free file programs like the IRS Free file alliance. The high interest of the control group (80%), low actual participation (21%), the high interest of repeat use (98%) and low actual repeat use (55%) clearly indicates the huge gap between possible interest and actual taxpayer action.

The following table is based on the survey result for the Ready-Return program.

	Population	Responses	Response Rate	Median AGI
Online participant	5,001	2,160	43%	\$37,618
Paper participant	5,452	853	16%	\$36,065
Non-partitipant	40,367	314	6%	\$33,198
All invitees	50,820	3,327	8%	\$33,168
Control Group	63,337	755	15%	\$33,842
Statewide (2004)	13.6 million			\$32,242

The median adjusted gross incomes for the general population and all invitees are about the same, but the median AGIs of the participants are significantly higher.



The response rate of the participants is much higher than that of the non-participants. Even the control group (25%) had about 2.5 times the response rate than the non-participants (6%).

The following tables show the survey and the actual participation. The result seems to suggest the value or the perceived value is high but the real value to invitees is low.

Control group, will use	80%
2004 participation	20%
2005 participation	21%

Will use next year (2004)	98%
2005 repeat users	55%

It is easy to give a positive survey answer (a few seconds), but it takes much longer to actually read, understand and use something. The hidden “burden”, though not quantified by the survey, is probably the reason for the actual low participation.

Jackson Hewitt, a major tax preparation and filing service provider reported in its recent annual report that 75% of its customers have filed their returns before 2/28. 77% of their customers have Federal AGI of less than \$35,000. Late season customers tend to have higher AGI and are generally less concerned with the speed of receipt of their tax refunds.

The Ready-Return may not be serving the persons who could possibly need or use it the most.

When the question “Is Ready-Return the type of service Government should provide?” is asked, the following responses were reported.

	Yes
Online participant	96%
Paper participant	84%
Control Group	65%
Non-partitipant	? (10%)
Non-invitees	? (5%)

Since the response of the non-participants was excluded from the report, I wonder if it is due to low positive responses. The 10% approval for non-participants and the 5% for non-qualified taxpayers are just wild guesses. Though if the question is coupled with “cost” and “alternatives”, the positive response could possibly be even lower.

Comparing a government direct, free service offer to the private mail order offer is probably not a fair comparison. The IRS has reported the result of the Free File Alliance for 2006. Of the 17 million clicks out of the Free File page, about 4 millions free tax returns were completed. The 17 million clicks include many multiple clicks by the same taxpayer. The



usage rate, even though the Free service is offered by private companies, is higher than that of the Ready-Return program.

In summary, the Ready-Return pilot program of the past two years has clearly demonstrated the benefits to taxpayers that “chose” to use it. However, the inherent timing, information limitations of the program, the complexity of the tax law and the actual taxpayer behavior indicated the limited benefits to probably the majority of taxpayers.

The survey, though contains many very positive comments, may not be representative of the general tax population due to sampling plan and bias. The relatively low 20% participation rate and the gap between survey and actual taxpayer action indicates significant improvement or marketing efforts may be required to bridge the gap. Thus the cost of the program will increase and the debate on the best use of resources will continue.

Considering all possible programs to provide better information and service to taxpayers, the Ready-Return program is, in my opinion, not a fair, nor a good choice.

If you have any question or need additional information, please contact me at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Chia-Chieh Chen".

Chia-Chieh Chen
President, eSmartTax, C&S Technologies, Inc.

cc: John Chiang, Michael C. Genest