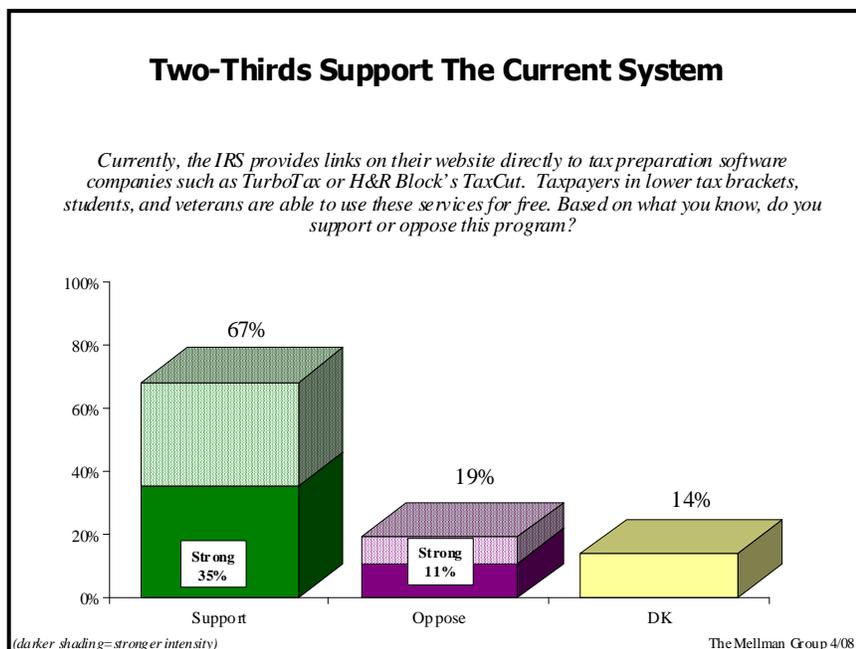


To: The Information Technology and Innovation Foundation
From: The Mellman Group, Inc.
Re: Public Attitudes Towards The IRS And Tax Preparation Software
Date: May 1, 2008

This analysis represents the findings of a national survey of 800 registered voters. Interviews were conducted by telephone April 25th – April 29th, 2008 using random digit dialing techniques to ensure an unbiased sample. The margin of error for this survey is +/-3.5% at the 95% level of confidence. The margin of error is higher for subgroups.

Voters do not support and indeed express significant concerns about an IRS sponsored web site that would prepare tax returns. Most do not trust the IRS to prepare their taxes, seeing an inherent conflict of interest between collecting taxes and preparing them. As a result, voters believe they will end up paying more in taxes if returns are prepared by an IRS sponsored web site. In fact, the public is much more supportive of the current system under which taxpayers in lower brackets, students and veterans get access to privately developed tax preparation software such as TurboTax or H&R Block's TaxCut for free. Voters believe these private software makers are more likely to minimize their taxes, increase their refunds, look out for their interests, and provide an easier-to-use product than would a system developed by the IRS.

Voters Do Not Want The IRS To Develop Its Own Tax Preparation Software, Preferring The Current System Which Provides Access To Private Software Programs



After hearing a description of the current system under which the IRS provides links on their website directly to tax preparation software companies which taxpayers in lower tax brackets, students and veterans are able to use for free (known as the Free File Alliance), nearly two-thirds of voters (65%) support it while just 21% oppose this system.

On the other hand, a proposal for the Internal Revenue Service (IRS) to develop its own online tax preparation system is significantly less well received.

After hearing a description of the program, a majority (50%) oppose it, compared to only 41% who support it. Opposition to the proposal is strong, while support for the proposal is moderate. Thirty-six percent (37%) *strongly* oppose the idea of an IRS online tax preparation system, compared to only 19% who *strongly* support such a system.¹

Opposition to the IRS proposal grows as voters become more aware of the cost of the proposal and the current options that are available. Seventy-four percent (74%) agree that “the federal government should not spend hundreds of millions of taxpayer dollars on tax preparation software when citizens can access private tax preparation software for free to taxpayers in lower tax brackets, students and veterans,” with a large majority (59%) *strongly* agreeing with that statement. Only 21% disagree.

With 85% of the public unaware of the current program, publicizing it may be more effective than trying to develop a system most Americans would not like. In fact, among those already familiar with the current Free File Alliance, 80% support the program, including 51% who *strongly* support it.

Tax Software Programs Created By Private Companies Evoke More Trust Than The IRS

To probe beneath the surface of voters’ perceptions of privately produced tax software and that which might come from the IRS, we asked voters how confident they would be about each system providing them a series of benefits.² On every single measure, voters expressed greater confidence in private tax-preparation software than in an IRS-run website.

Private tax preparation software has a distinct advantage over an IRS-run website in protecting voters’ self interest. By a 24-point margin, voters are confident rather than not confident (56% confident, 32% not confident) that private tax preparation software will maximize their refund. By contrast, voters are not confident that an IRS website will do so (43% confident, 49% not confident: net confidence -6). Similarly, while a majority is confident that private tax-preparation software would “look out for my interests” (53% to 33%), a majority is *not* confident that the IRS-run website would do so (41%, confident, 53% not confident).

How much confidence do you have that ___ will ___? <i>(net confidence: confident – not confident)</i>	Private tax prep software	IRS-run website
Will maximize my refund	+24 (56%/32%)	-6 (43%/49%)
Is simple to use	+36 (57%/21%)	+8 (44%/36%)
Is looking out for my interests	+20 (53%/33%)	-12 (41%/53%)
Has the expertise to do my taxes correctly	+41 (64%/23%)	+32 (63%/31%)
Trustworthy	+38 (62%/24%)	+16 (54%/38%)

Voters are also much more likely to see private tax-preparation software as “trustworthy” (+38) than to express that view about an IRS-run website (+16). Private software also enjoys a substantial advantage for simplicity (+36 net confident private, +8 IRS).

Private software even has a slight advantage on quality. Sixty-four percent (64%) are confident in private tax preparation software and sixty-three percent (63%) are confident in an IRS-run website to have the requisite expertise, though there is a somewhat greater likelihood to give a vote of no-confidence to the expertise of the IRS (31% not confident about the IRS, 23% not confident about private software).

¹ The IRS is considering a proposal to develop their own government-run online tax preparation system. The government would pay an estimated \$150 million to build the system, but the service would be free to use. Under this plan, a taxpayer could go to an IRS or state tax agency website and prepare their returns on government servers.

² Now I’m going to list some things people say are important when they decide how to file their taxes. After each, please tell me how much confidence you have that (*private tax preparation software such as TaxCut and TurboTax / an IRS run website*) will exhibit that trait. Are you very confident, somewhat confident, not too confident or not at all confident?

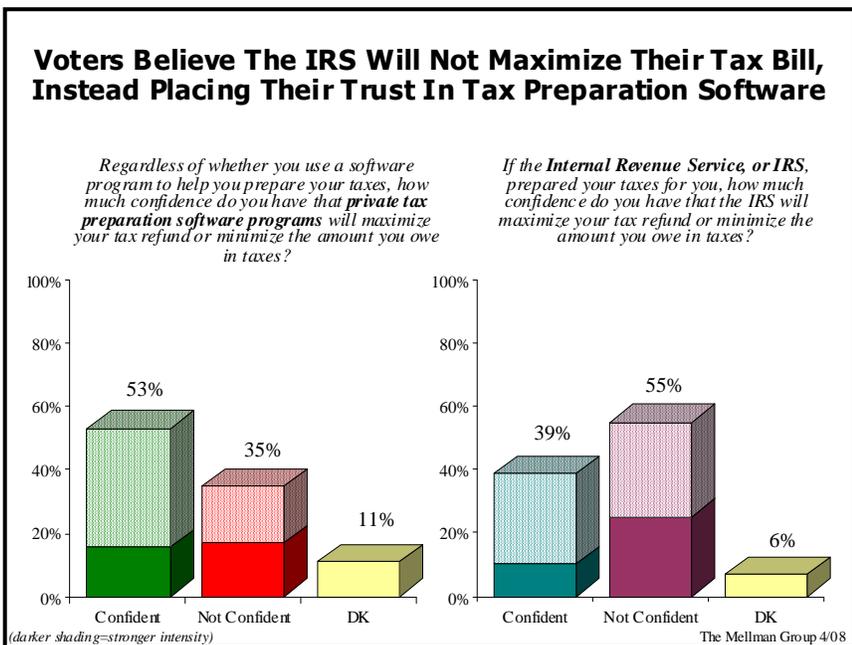
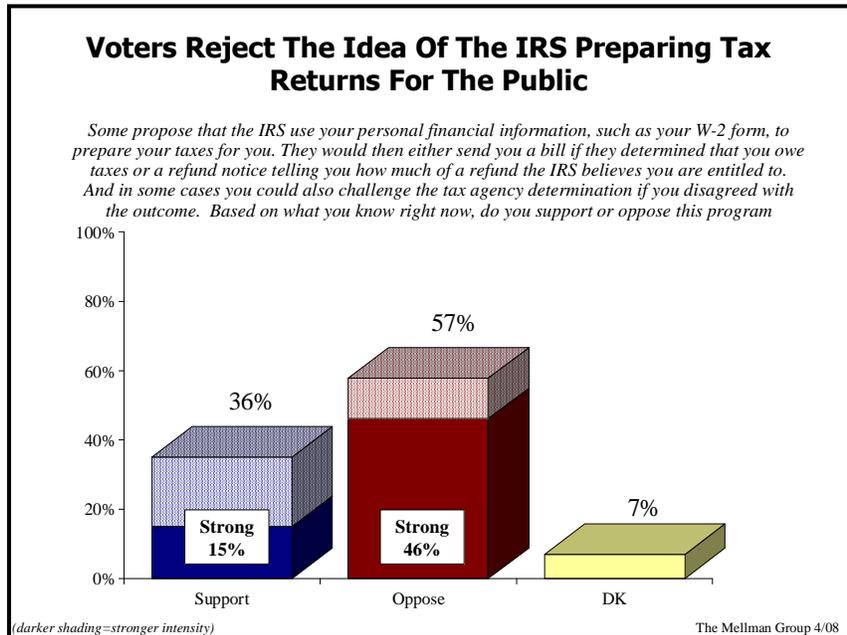
Voters Reject The Idea Of The IRS Preparing Taxes

When the prospect of the IRS preparing taxpayers' income tax returns for them is broached, a majority (57%) oppose the plan while only one third (36%) support it. Moreover, opposition to the plan is intense with a near majority *strongly* opposing the proposal (46%), while strong supporters are few (15%).

Beneath the surface, there are signs that the public is even more opposed to the idea of the IRS preparing returns for taxpayers than is initially

apparent. Nearly three-quarters of voters (72%) disagree that "the best solution to make filing income taxes more simple would be for the IRS or state tax agency to do it for me," including 57% who *strongly* disagree. Sixty-three percent (63%) disagree with the statement "I trust the IRS to prepare my taxes for me," including 48% who *strongly* disagree.

Seventy-four percent (74%) believe it is a conflict of interest for the same government agency to be responsible for collecting taxes on the one hand and preparing tax returns on the other, while only 19% believe such an approach would provide a useful service to the public.



Perhaps most strikingly, voters believe the IRS would overcharge them. A majority (57%) believes that, if the IRS prepared their taxes, they would pay more than they really owed, compared to 28% who believed that the IRS would give people all the deductions to which they are entitled. And just 39% of voters express confidence that an IRS prepared return would minimize their tax bill, while 55% are not. Instead, voters place their trust in private tax-preparation software, in which a majority (53%) is confident that their tax bill will be maximized.