Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results[1]

---

[1] The principal authors of this study are Tom Beers, Senior Research Advisor, Eric LoPresti, Senior Attorney Advisor, and Eric San Juan, Senior Attorney Advisor, of the Office of the Taxpayer Advocate.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

Compliance Study

EXECUTIVE SUMMARY

The Taxpayer Advocate Service (TAS) surveyed sole proprietors (*i.e.*, those filing Form 1040, *U.S. Individual Income Tax Return*, Schedule C) to better understand the factors that may affect their income tax reporting compliance. Identifying how to improve compliance among this segment is particularly important because sole proprietor income is generally not subject to information reporting, is difficult for the IRS to detect, and represents the largest portion of the tax gap — tax that is not timely and voluntarily paid.

Because actual reporting compliance is difficult to measure, TAS used IRS tax compliance estimates to identify sole proprietors most likely to have high or low levels of reporting compliance. Unlike researchers outside the IRS, TAS was uniquely positioned to know these IRS estimates. TAS surveyed a stratified random national sample of each group (the "National Survey").

As discussed in prior reports, a large body of research discusses the potential effect of various factors on tax compliance, but this study is the first to link survey responses to IRS estimates of the respondent's actual tax compliance. Thus, the National Survey provides an unprecedented look at the differences between the views of the Schedule C filers that are the most and least compliant, at least according to IRS estimates.

Because some of the factors thought to influence compliance could be affected by local conditions and attitudes, TAS also sought to identify geographic communities where a disproportionate number of taxpayers were in the high- or low-compliance group. TAS surveyed taxpayers at random in certain communities (the "Community Survey") using the same survey questions.

TAS designed survey questions to reveal the effect, if any, on reporting compliance of various factors, such as deterrence, tax morale, compliance norms, trust in the government and the tax administration process, complexity and the convenience of complying, and the influence of preparers. TAS contracted with a consulting firm, Russell Research, to refine the questions and conduct the surveys by telephone.

TAS's preliminary analysis of the National Survey results revealed the following key findings:

- Taxpayers in the high-compliance group expressed more trust in government and the IRS.
- Those in the low-compliance group expressed less trust in preparers. Although most used a preparer, they were less likely to follow the preparer's advice.
- Taxpayers in the low-compliance group were more likely to participate in local organizations. They were also significantly more likely to report that other participants view the law and the IRS negatively.
- Both groups professed a "moral" obligation to report income accurately.

- Responses do not show that economic deterrence motivates compliance decisions. Those in the low-compliance group were less likely to agree that noncompliance goes unpunished.

- Most respondents agreed the tax rules are so complicated that it is very difficult to get a tax return exactly right. Those in the high-compliance group were somewhat more likely to agree with this statement, potentially suggesting they were more concerned about getting a return exactly right.

TAS's preliminary analysis of the Community Survey results revealed the following key findings:

- There were more low-compliance communities than high compliance communities because taxpayers with high compliance were not concentrated in communities.

- Respondents from the low-compliance communities were suspicious of the tax system and its fairness, whereas those from the high-compliance communities viewed government positively.

- Respondents from the high-compliance communities were more likely to rely on preparers.

- Among business classifications, the biggest cluster in low-compliance communities was under "professional, scientific, or technical services"; in high-compliance communities, the "other" service industry (*e.g.*, repair & maintenance, personal & laundry, and private household services).

- The low-compliance community respondents reported more participation in civic institutions than their high-compliance counterparts.

- The high-compliance community respondents were motivated by morals and deterrence.

- The effect on compliance of financial concerns was unclear.

- Those in the high- and low-compliance communities responded similarly to questions addressing tax complexity.

In sum, all groups and communities agreed that it is morally wrong to cheat and that they would feel embarrassed if others learned they were not reporting all of their income. Surprisingly, those in the low-compliance group were also more likely than those in the high-compliance group to believe that the IRS detects and penalizes noncompliance. Thus, other factors appeared to overshadow these positive moral, social, and economic pressures for those in the low-compliance group and communities.

Specifically, the results of both surveys associate distrust of the national government and the IRS with the low-compliance groups and communities. For example, respondents from the low-compliance group were more likely to report that the government is too big and wastes tax dollars, that tax laws are unfair, and that the IRS is unfair (*e.g.*, often believing

Compliance Study

| Compliance Study | EITC Tax Court Cases | Lien Study | Rights and Remedies | Revenue Officers Impact | Penalty Study |

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

the IRS is more concerned with collecting as much as possible instead of the correct amount, and indicating less satisfaction with IRS services).

The Community Survey selection process also revealed that those with low compliance levels clustered in geographic communities, while those with high compliance levels were more dispersed. Perhaps those with low levels of compliance are more likely to associate with each other.

In addition, those in the low-compliance group and communities were more likely to participate in local organizations and to report that other members of those organizations believe the law and the IRS are unfair. The closer association with local organizations by members of the low-compliance group and communities could have undermined their connection with the nation and the national tax system as a whole. The negative views they attributed to other members appeared to mirror their own views. In other words, they affiliated with others who reinforced noncompliance norms locally, feeling a closer connection here than nationally.

Those in the low-compliance group were somewhat more likely to use a preparer, who could have persuaded them to comply or facilitated noncompliance. However, they were also less likely to follow the preparer's advice than those in the high-compliance group, potentially weakening any positive influence that the preparer may have sought to exert.

These preliminary findings may suggest that traditional enforcement measures designed to deter could be ineffective, both because those likely to respond may be predisposed to comply and because the survey results did not suggest that asocial behavior (*i.e.*, behavior that may be addressed by increasing deterrence) is prevalent. Rather, they may suggest that the government could improve reporting compliance by improving the perceived fairness and efficiency of the government, the tax law, and the IRS; and by simplifying the tax code, improving procedural protections, and minimizing the IRS's reliance on procedures that may seem unfair (*e.g.*, excessive automation and lack of personal contact). As a practical matter, this might include tax simplification, an expansion of taxpayer protections and remedies, improved or expanded tax services, and taxpayer education.

To address the perception by members of local organizations that the tax law and the IRS are unfair, the IRS might retain a local presence and conduct outreach and education events, particularly in low-compliance communities. Such treatments might pay for themselves if they improve reporting compliance by those responsible for the largest portion of the tax gap and most resistant to other treatments.

INTRODUCTION

A principal goal of the IRS is to maximize the rate at which taxpayers pay their taxes voluntarily. To do so, the IRS needs to understand why they comply. The National Taxpayer Advocate 2007 Annual Report to Congress, which included a review of existing research (the "2007 Review") and the National Taxpayer Advocate 2010 Annual Report to Congress, which included a proposal for this research (the "2010 Proposal") identified numerous types of noncompliance, as shown below. [2]

TABLE 1, Typology of Noncompliance[3]

Type	Description
Procedural	Failed to follow complicated procedural rules, such as quarterly filing requirements
Lazy	Failed to follow burdensome procedural rules, such as recordkeeping requirements
Unknowing	Misunderstood the legal rules
Asocial	Motivated by economic gain
Brokered	Acted on the advice of a professional
Symbolic	Perceived the law or the IRS as unfair
Social	Acted in accordance with social norms and peer behavior
Habitual	Knowingly repeated previous noncompliance

The 2007 Review and 2010 Proposal also identified various factors driving taxpayer compliance decisions. TAS conducted a study to investigate whether and how these factors affect voluntary compliance by sole proprietors (*i.e.,* those who file Form 1040, Schedule C, *Profit or Loss from Business*), as described in the 2010 Proposal. The factors are reflected in the following table:

---

[2] *See* National Taxpayer Advocate 2007 Annual Report to Congress vol. 2, 138-50 (Marjorie E. Kornhauser, *Normative and Cognitive Aspects of Tax Compliance*) [hereinafter "2007 Review"]; National Taxpayer Advocate 2010 Annual Report to Congress vol. 2, 71-88 (*Researching the Causes of Noncompliance: An Overview of Upcoming Studies*) [hereinafter "2010 Proposal"]. Because the 2007 Review and the 2010 Proposal cite much of the literature discussing each of the relevant factors, this discussion does not revisit the underlying literature or theoretical basis for the factors previously identified.

[3] *See* 2010 Proposal at 81 (Table 2.4.1, *Typology of Noncompliance and Potentially operative Factor(s) Identified by the Literature*) (*citing* Robert Kidder and Craig McEwen, *Taxpaying Behavior in Social Context: A Tentative Typology of Tax Compliance and Noncompliance*, 2 Taxpayer Compliance 57, 56-62 (1989) and Leslie Book, *The Poor and Tax Compliance: One Size Does Not Fit All*, 5 Kans. L. Rev. 1, 23-33 (2003)).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 2, Factors Identified as Potentially Driving Voluntary Compliance[4]

Factor	Description
Deterrence	"[P]eople comply when the potential sanction multiplied by the perceived likelihood of getting caught outweighs the economic gain from cheating." [However,] "the deterrence model is incomplete because it seems economically irrational for so many taxpayers to comply given the low probability of getting caught cheating."
Norms	"According to social norms and reciprocity theories, taxpayers who believe most other taxpayers comply are more likely to reciprocate by complying."
Tax morale	Taxpayers "who cheat may feel guilty when they break the norm if it has been adopted as the taxpayer's own tax morale." In addition, "those who trust the government and feel the tax laws and procedures are fair and fairly enforced may be more likely to feel a moral obligation to comply, even if the outcome of those procedures is unfavorable."
Trust	Taxpayers "may use unfair rules or procedures, unreasonable penalties, bad experiences with the IRS, or a lack of faith in government or the IRS to justify either reducing efforts to comply or active noncompliance."
Complexity and convenience	"Taxpayers who face complicated rules may be unable to comply, or may use complexity as a reason to justify noncompliance."
Preparers and other third parties	"Tax preparers may have a significant effect on tax compliance."

TAS also asked questions about demographics and affiliations. While these items may not directly affect compliance decisions, TAS included them because they may be correlated with or help explain the factors that do. For example, information about a person's affiliations could help TAS draw conclusions about the person's norms, tax morale, and related factors.[5]

TAS focused on sole proprietors because underreporting by sole proprietors represents the largest portion of the tax gap (*i.e.*, taxes not voluntarily and timely paid).[6] The IRS is unlikely to be able to detect or deter noncompliance by this segment without expending significant enforcement resources because most sole proprietor income is not subject to third-party information reporting. Relatively inexpensive measures, such as document matching and correspondence examinations, cannot reliably detect such income. Thus, it is particularly important for the IRS to gain a better understanding of how to improve compliance among sole proprietors using levers other than economic deterrence.

TAS contracted with Russell Research to help conduct a telephone-based survey of two groups: a nationally representative sample of sole proprietors (the "National Survey"); and sole proprietors located in high- and low-compliance communities (the "Community Survey"). The discussion below describes the methodology and key preliminary results of both surveys.

---

[4] The factors and their descriptions come from the 2010 Proposal (pages 76-81), which synthesized them from tax compliance literature, including the 2007 Review.

[5] 2010 Proposal at 87.

[6] IR-2012-4, *IRS Releases New Tax Gap Estimates; Compliance Rates Remain Statistically Unchanged From Previous Study* (Jan. 6, 2012), *available at* http://www.irs.gov/uac/IRS-Releases-New-Tax-Gap-Estimates;-Compliance-Rates-Remain-Statistically-Unchanged-From-Previous-Study.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

DISCUSSION

Methodology

TAS sorted taxpayers with DIF scores in the highest or lowest deciles into low- or high-compliance groups.

TAS relied on internal IRS computer-generated estimates that an audit would produce an adjustment (called a Discriminant Index Function or "DIF" score) as a proxy for a person's tax compliance, as described in the 2010 Proposal.[7] The IRS develops DIF scores for taxpayers in each "examination activity code" or EAC. For sole proprietors, EACs are based on the taxpayer's total gross receipts (TGR) on Schedules C and F and total positive income (TPI), which is positive income from all sources before adjusting for deductions, exemptions, or negative income (*e.g.*, negative income from post-holiday returns). TAS excluded the EACs for low income taxpayers claiming the earned income tax credit (EITC) because they may present a unique set of tax compliance issues.[8] For 2009, six EACs included all sole proprietors residing in the United States who did not claim the EITC, as shown in the following table.

TABLE 3, Total Gross Receipts (TGR) and Total Positive Income (TPI) Limits for Certain Schedule C Examination Activity Codes (EACs)[9]

EAC	TGR	TPI
274	<$25,000	<$200,000
275	$25,000 - $99,999	<$200,000
276	$100,000 - $199,999	<$200,000
277	>$199,999	<$200,000
280	-	$200,000 – $999,999
281	-	>$999,999

For each of the six EACs, TAS sorted 2009 returns by DIF score, then divided them into ten deciles. Taxpayers with returns in the first and second deciles have the lowest DIF scores and are assumed to be the most compliant. Those in the ninth and tenth deciles have the highest DIF scores and are assumed to be the least compliant.[10] All other deciles are considered moderately compliant.

---

[7] The DIF is a computer algorithm that estimates the likelihood that an audit of a particular return would produce an adjustment. The DIF is based on data obtained and periodically updated from IRS National Research Program examinations. *See* 2010 Proposal at 86 n. 49 (and sources cited therein).

[8] Because it is sometimes difficult to distinguish between a hobby and a real business, TAS considered, but ultimately rejected, the idea of excluding those in the lowest income ranges. Thus, the survey may have captured the views of some taxpayers who were conducting a hobby. However, the number of respondents likely to fall into that category was limited because TAS stratified the sample by EAC, as described below.

[9] IRS, Document 6209, *IRS Processing Codes and Information* 12-16 (Jan. 2012). Many parts of Document 6209 are designated as "official use only," but these EAC definitions are not.

[10] As noted below, this assumption is a significant limitation of the study. TAS relied on DIF scores because taxpayers — particularly noncompliant taxpayers — might not respond accurately to questions about their tax compliance.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

To minimize selection bias and the number of surveys required, TAS selected a random sample of taxpayers in high- and low-compliance groups in each EAC for the National Survey. However, TAS combined the four EACs with the fewest taxpayers into two groups (or "strata") with two EACs in each of these two strata. TAS also selected one group of taxpayers with medium levels of compliance from all EACs for comparison purposes. TAS received 3,306 responses to the National Survey, as shown on the following table.

TABLE 4, National Survey Responses by Strata and Population

National Sample Strata		Population	Responses
EAC 274	DIF Deciles 1 – 2	2,053,331	350
EAC 274	DIF Deciles 9 – 10	2,053,331	350
EAC 275	DIF Deciles 1 – 2	571,075	351
EAC 275	DIF Deciles 9 – 10	571,075	384
EACs 276, 277	DIF Deciles 1 – 2	268,565	359
EACs 276, 277	DIF Deciles 9 – 10	268,565	350
EACs 280, 281	DIF Deciles 1 – 2	256,306	383
EACs 280, 281	DIF Deciles 9 – 10	256,306	379
All EACs	DIF Deciles 3 – 8	9,447,830	400
Total		**15,745,384**	**3,306**

The national sample was large enough that we can be at least 95 percent confident that the results reflect the views of the universe of taxpayers in each stratum with a margin of error of five percent or less.

TAS identified communities with median DIF scores in the highest and lowest deciles as low- or high-compliance communities, but found few high-compliance communities.

TAS originally intended the Community Survey sample to have two strata with 350 respondents each, from high-compliance communities and low-compliance communities, cities, towns, and other geographic areas across the country identified by addresses with Zip codes reported by the taxpayers on their returns. To be considered "high compliance," a community's residents must have a median DIF score in the bottom 30 percent (*i.e.*, the bottom three deciles). To be considered "low compliance" a community's residents must have a median DIF score in the top 30 percent (*i.e.*, the top three deciles). However, the location of taxpayers with high levels of compliance (or at least low DIF scores) was such that TAS could not identify enough high-compliance communities to generate 350 respondents. Simply put, there were few high-compliance communities. In particular, the criteria above yielded three U.S. geographic communities.[11] The distribution of high- and low-compliance

---

[11] In addition, the high-compliance criteria identified a military and a Native American community. This identification allows for future study, potentially observing mechanisms of authority and cohesion in those communities. For this phase of the study, however, the Army Post Office did not identify a geographic community as did other addresses, and the Native American community, with a quasi-sovereign history, had a fiduciary relation to the federal government (which was the subject of some survey questions).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

taxpayers and communities was a significant discovery. In the end, the Community Survey had 535 respondents — 362 from low-compliance communities and 173 from high-compliance communities.[12]

TAS developed survey questions and contracted with Russell Research to administer the survey.

TAS developed telephone-based survey questions to investigate the factors suggested by the tax compliance literature, as described above. TAS used the same questions for both the National and Community Surveys.

TAS contracted with Russell Research to refine the survey questions, administer the surveys, and compile summary statistics. The actual survey questions, along with a topline analysis by Russell Research, are reproduced in Appendices I and II, respectively.

Russell Research conducted all interviews by telephone from January 3, 2012, to April 19, 2012. It contacted potential respondents up to four times. The response rate was 56 percent for the national sample and 54 percent for the community sample. This better-than-average response rate should help to minimize the likelihood that the survey results were affected by selection bias — the possibility that the views of non-respondents are significantly different from the views of respondents.[13]

Important Assumptions and Limitations

TAS used DIF scores as a proxy for compliance by those in the top and bottom DIF deciles.

As discussed in the 2010 Proposal, it is difficult to measure actual compliance with perfect accuracy. Taxpayers are not likely to confess any noncompliance in response to a survey, and even detailed audits conducted by the IRS's National Research Program (NRP) are likely to contain errors. Even assuming that NRP audit results, as adjusted by IRS researchers, reflect actual compliance, the audit itself has an effect on the taxpayer's attitude about the tax system, potentially biasing the taxpayer's response to any subsequent survey. Thus, TAS decided not to survey taxpayers who had been subject to an NRP audit. While surveying taxpayers immediately before they were subject to an NRP audit might have been more productive, TAS deemed it overly deceptive. Thus, TAS opted to rely on DIF scores as an imperfect, but acceptable, measure of actual compliance, at least for those in the top and bottom DIF deciles.[14]

---

[12]   The DIF score for a particular survey respondent, however, may not correspond to the DIF score of the community. For example, the response of a taxpayer with a DIF score suggesting a high level of noncompliance could have been selected as a representative of a high-compliance community.

[13]   See, e.g., Scott Keeter et. al., Gauging the Impact of Growing Nonresponse on Estimates from a National RDD Telephone Survey, 70 Pub. Op. Quart. 759-79 (2006). It may also suggest that taxpayers were somewhat more interested in discussing their views about taxes than other subjects.

[14]   Although some taxpayers in our sample had been subject to IRS examination or collection activity, we did not exclude them or place them into the noncompliant group, as the activity could have had an effect on their subsequent compliance behavior. Of course, any direct contact with the IRS could affect their views about the IRS and the survey results.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

As noted above, this study assumes that taxpayers with high DIF scores (*i.e.,* in the ninth or tenth decile) are noncompliant and that those with low DIF scores (*i.e.,* in the first and second decile) are compliant. To the extent this assumption is incorrect, the survey results could be misleading. However, by excluding those in the middle deciles from the high- and low- compliance groups, TAS sought to improve the likelihood that taxpayers in those groups did, in fact, have high or low levels of reporting compliance.

The Community and National Surveys are different in kind.

While the National Survey is statistically representative of the United States, the Community Survey of select communities relates to a different kind of data. The National Survey may reflect a response of the general population, but given the necessarily varied circumstances across the country, may not relate that response to any particular set of local conditions that could provide a deeper context. On the other hand, the Community Survey facilitates analysis of responses in relation to a more specific set of social circumstances. Thus, the Community and National Surveys are complementary.

TAS did not design the Community Survey sample for projection to any larger group of taxpayers. As set forth above, noncompliance (and by extension, compliance) may vary according to a typology. Focusing on a community permits identification of types, if any, that may not be nationally prevalent. The purpose of the Community Survey would not be to project an ideal type on other parts of the country, but rather to identify relevant factors or characteristics, such as trust in government or traditions of authority, that may occur out-side the community context as well.[15] Similarly, in American studies, Middletown stands as a landmark (eponymously popularized by Public Broadcasting System (PBS) television) not because research on Muncie, Indiana (for which it was a pseudonym) was representative of the U.S. but because of the depth in which investigation of one community contextualized national trends.[16] In short, the Community Survey may be prototypical rather than typical.

TAS randomly selected taxpayers for the Community Survey from high- and low-compliance communities without excluding taxpayers with unrepresentative DIF scores. Accordingly, the high-compliance community sample includes taxpayers who are non-compliant and who would be included in the low-compliance group for purposes of the National Survey. Conversely, the low-compliance community sample includes taxpayers who are compliant and who would be included in the high-compliance group for purposes of the National Survey. Thus, responses from high-compliance communities may not be similar to responses from the high-compliance group, and responses from the low-compli-ance communities may not be similar to responses from the low-compliance group.

---

[15] For example, one military community appeared to be highly compliant, but that is not the only U.S. military population, where others may be embedded in different contexts.

[16] Middletown (Muncie, Indiana) has been the subject of voluminous research on American social institutions. *See The First Measured Century* (PBS 2000); *Middletown* (PBS 1982); Theodore Caplow, *et al.*, *All Faithful People: Change and Continuity in Middletown's Religion* (Minneapolis: Univ. of Minn. Press, 1983), *Middletown Families: Fifty Years of Change and Continuity* (Minneapolis: Univ. of Minn. Press, 1982); Rob't & Helen Lynd, *Middletown in Transition: A Study in Cultural Conflicts* (NY: Harcourt Brace, 1937), *Middletown: A Study in Modern American Culture* (NY: Harcourt Brace, 1929).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

Key Findings of the National Survey[17]

The National Survey results are statistically representative of the views of Schedule C filers in the high- and low-compliance groups. As discussed in the 2007 Review and 2010 Proposal, a large body of research discusses the potential effect of various factors on tax compliance, but this study is the first to link survey responses to IRS estimates of the respondent's actual tax compliance. Thus, the National Survey results provide an unprecedented look at the differences between the views of the Schedule C filers that are the most and least compliant, at least according to IRS estimates.

Taxpayers in the high-compliance group were more likely to trust the government and the IRS.

Taxpayers in the high-compliance group were more likely to trust the government than those in the low-compliance group, potentially suggesting that negative views about the government promote symbolic noncompliance, as described in the typology (above). For example, those in the high-compliance group were less likely to agree that the government is involved in areas best left to the private sector (59 percent of the high-compliance group agreed vs. 66 percent of the low-compliance group), more likely to support higher taxes in exchange for improved government services (37 vs. 30 percent), and more likely to believe that the federal government spends tax dollars wisely (80 percent of the low-compliance group disagreed vs. 70 percent of the high-compliance group).[18] These results are generally consistent with research suggesting that trust in government has a positive effect on compliance.[19]

---

[17] This discussion of the National Survey cites aggregate figures that are weighted by EAC and DIF decile to reduce selection bias when projecting the summary statistics to the population of sole proprietors. For example, if five percent of the survey responses came from members of a stratum that made up ten percent of the sole proprietor population, TAS gave the responses from that stratum more weight when computing summary statistics. Except as otherwise indicated, the discussion in this section generally focuses on findings where there are statistically significant differences (at a 95-percent level of confidence) between the high and low-compliance groups.

[18] Most taxpayers in both groups (70 percent) also agreed or strongly agreed that taxes fund important government benefits and services.

[19] *See, e.g.*, Swedish Tax Agency, *Right From The Start, Research and Strategies* 6-7, 38-51 (Aug. 2005) (after surveying many papers from various disciplines, concluding that trust for tax agencies is an important determinant of voluntary compliance); Kristina Murphy, *The Role of Trust in Nurturing Compliance: A Study of Accused Tax Avoiders,* 28 Law and Human Behavior 187 (Apr. 2004) (finding that perceptions of procedural fairness and trust in the taxing authority had an impact on the motivation to comply); Tom R. Tyler, Why People Obey the Law 58-62 (Princeton Univ. Press 2006) (finding that "legitimacy" (defined as the perceived obligation to follow the law even if it is morally wrong, and respect and support for legal institutions, such as police and courts) has a significant positive impact on compliance after controlling for other variables). *See also* Joint Committee on Taxation, JCS-6-98, *General Explanation of Tax Legislation Enacted in 1998*, 19 (Nov. 24, 1998) (describing the 1998 IRS reorganization as needed to restore public confidence in the IRS, in large part, because "the Congress believed that most Americans are willing to pay their fair share of taxes, and that public confidence in the IRS is key to maintaining that willingness."); *Taxpayer Compliance, Volume 1: An Agenda for Research* 118 (Jeffrey A. Rother, John T. Scholtz, and Ann Dryden Witte eds., Univ. of Penn. Press 1989) (summarizing various studies that suggest commitment, attitudes toward the IRS, law, and government may have an impact on tax compliance).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 1, Trust in the Federal Government by Compliance Group

Trust in Government by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

Fed Gov't is involved in areas best left to the private sector
-16% 59%
-15% 66%

Taxpayers would tolerate higher taxes if it meant improved Fed Gov't services
-43% 37%
-54% 30%

Fed Gov't spends tax dollars wisely
-70% 8%
-80% 6%

DISAGREE/ STRONGLY DISAGREE   AGREE/ STRONGLY AGREE

☐ High Compliance   ☐ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

MOST TAXPAYERS BELIEVE TAX LAWS ARE UNFAIR.

Only 15 percent of both groups agreed or strongly agreed that the tax laws are fair. Rather, most taxpayers believe that:

- Large businesses have loopholes to reduce their taxes that smaller businesses do not have;

- The wealthy have ways of minimizing their taxes that are not available to the average taxpayer;

- Not everyone pays his or her fair share; and

- The federal tax laws are unfair.

However, the low-compliance group was somewhat more likely to view the tax law as unfair than the high-compliance group (65 percent vs. 61 percent for the high-compliance group), which would be consistent with symbolic noncompliance.[20] These views may lend support to calls for tax simplification as a way to increase tax compliance.

---

[20] This difference is not statistically significant at a 95-percent level of confidence.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 2, Views About Tax Law Fairness by Compliance Group

Views on Tax Law Fairness by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

Federal tax laws are fair: -61% / 15%; -65% / 15%

Under current federal tax laws, everyone pays their fair share: -77% / 13%; -77% / 16%

Wealthy taxpayers minimize their federal taxes in ways an average taxpayer cannot: -10% / 74%; -19% / 69%

Large businesses have more loopholes to reduce federal taxes than small businesses: -7% / 77%; -7% / 75%

DISAGREE/STRONGLY DISAGREE — AGREE/STRONGLY AGREE

High Compliance — Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

THOSE IN THE LOW-COMPLIANCE GROUP EXPRESSED LESS FAITH IN THE IRS.

The low-compliance group generally held more negative views about the IRS, potentially suggesting that negative views of the IRS promote symbolic noncompliance.[21] For example, those in the high-compliance group were more likely to believe that the IRS treats taxpayers fairly (47 percent of the high-compliance group agreed vs. 42 percent of the low-compliance group). The low-compliance group, by contrast, was more likely to report that the IRS is disrespectful (20 vs. 15 percent), and more concerned with collecting as much as it can than with collecting the correct amount of tax (42 vs. 25 percent — a 17 point difference!). Without adequate safeguards, the IRS's increasing use of automated procedures could give taxpayers this impression, which in turn, may contribute to noncompliance. These results may suggest the IRS could increase compliance by treating taxpayers fairly and publicly committing to initiatives promoting procedural justice and respect for taxpayers, thus promoting positive views about itself.[22]

---

[21] This inference is consistent with previous research. *See, e.g., Taxpayer Compliance, Volume 1: An Agenda for Research* 93-96 (Jeffrey A. Rother, John T. Scholtz, and Ann Dryden Witte eds., Univ. of Penn. Press 1989) (discussing various studies).

[22] When IRS computers automatically propose adjustments and issue liens without reviewing all of the available information, the IRS appears more interested in collecting as much as possible than in collecting the correct amount. The National Taxpayer Advocate has suggested a wide range of steps the IRS could take to give taxpayers more confidence in the results of correspondence examinations, math error adjustments, and assessments against nonfilers. *See, e.g.*, National Taxpayer Advocate 2011 Annual Report to Congress vol. 2, 63 (correspondence examination recommendations); National Taxpayer Advocate 2011 Annual Report to Congress 74 (math error recommendations); National Taxpayer Advocate 2011 Annual Report to Congress 93 (nonfiler recommendations). She has also recommended the IRS discontinue the practice of automatically filing the notice of federal tax lien (NFTL). *See, e.g.*, National Taxpayer Advocate 2011 Annual Report to Congress 109, 128 (NFTL recommendations). Moreover, recent research suggest that collection alternatives (*i.e.*, offers and installment agreements) are more closely associated with payment compliance than the automatic filing of a notice of federal tax lien. *See Investigating the Impact of Liens on Taxpayer Liabilities and Payment Behavior, infra*.

FIGURE 3, Views About IRS Fairness by Compliance Group

Views on IRS Fairness by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

The IRS is more concerned with collecting as much as it can, than with collecting the correct amount of tax
-40% / 25%
-28% / 42%

The IRS treats taxpayers with respect
-15% / 47%
-20% / 47%

The IRS treats taxpayers fairly
-19% / 47%
-31% / 42%

DISAGREE/STRONGLY DISAGREE   AGREE/STRONGLY AGREE

■ High Compliance   ▨ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

On the other hand, the low-compliance group was somewhat more likely to agree "that the IRS will work with you if you have difficulty paying your taxes," as 55 percent agreed vs. 49 percent for the high-compliance group. However, this view might have a greater effect on payment compliance than on reporting compliance. It could also reflect differences in knowledge about IRS procedures held by the groups. As noted below, the low-compliance group generally had more contact with the IRS.

THOSE IN THE LOW-COMPLIANCE GROUP EXPRESSED LESS SATISFACTION WITH IRS SERVICES.
Those in the low-compliance group were more likely than those in the high-compliance group to report that the IRS does not offer the tax services they need (25 vs. 18 percent), that it is difficult to access the services the IRS provides (25 vs. 17 percent), and that they were more dissatisfied with the quality of the IRS services (27 vs. 21 percent). Thus, a lack of satisfaction with IRS services may contribute to noncompliance (*e.g.*, symbolic, procedural, lazy, or even unknowing noncompliance in terms of the typology), and the provision of better taxpayer services might increase tax revenue by improving compliance.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 4, Views About IRS Services by Compliance Group

Views on IRS Services by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

Statement	Disagree (High)	Disagree (Low)	Agree (High)	Agree (Low)
I am satisfied with the quality of the federal tax services the IRS provides	-21%	-27%	40%	39%
It is easy for me to access the federal tax services that the IRS provides	-17%	-25%	45%	48%
The IRS offerers all of the federal tax services I need	-18%	-25%	43%	43%

DISAGREE/STRONGLY DISAGREE — AGREE/STRONGLY AGREE

■ High Compliance   ▨ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

Those in the low-compliance group expressed less trust in a preparer.

Those in the low-compliance group were more likely to report using a preparer than those in the high-compliance group (76 vs. 66 percent). This could be because the low-compliance group contained larger businesses (as noted below), facing larger tax preparation burdens. At least 90 percent of both groups reported that they always follow their preparer's advice, underscoring the importance of brokered compliance and noncompliance.[23] While both groups (79 and 80 percent of the low- and high-compliance groups, respectively) indicated they make sure they understand their return before signing, those in the high-compliance group were more likely to follow their preparer's advice than those in

---

[23]   As noted in the 2010 Proposal, the impact of the preparer on compliance probably depends on a combination of both the taxpayer's and the preparer's views toward compliance. Assume there are three types of preparers and taxpayers: (1) those who want to comply; (2) those who are willing to be more aggressive; and (3) those who are willing to cheat. Type one preparers may increase compliance by type two and type three taxpayers. Alternatively, those taxpayers may seek out type two or type three preparers. However, type two and type three preparers may reduce compliance by type one taxpayers unless those taxpayers either seek out type one preparers or are particularly resistant to the preparer's suggestions for tax savings. Similarly, type three taxpayers may pressure type one or type two preparers to be more aggressive than usual. *See* National Taxpayer Advocate 2008 Annual Report to Congress, vol. 2, § 3, 73 at 79-81 (Leslie Book, *The Need to Increase Preparer Responsibility, Visibility, and Competence*) (setting forth "The Types of Taxpayers and Preparers").

the low-compliance group (96 vs. 90 percent). This may suggest that preparers more often facilitate compliance instead of noncompliance.[24]

Those in the high-compliance group were also more likely than those in the low-compliance group to indicate that the person who prepares their return finds creative ways to minimize their taxes (35 vs. 28 percent). Perhaps the groups had different views about what it means to find creative ways to minimize taxes, with the low-compliance group expecting the preparer to propose more aggressive positions. Another possibility is that those from the low-compliance group may view their preparers as part of the tax system, which they do not trust, as the IRS increasingly enlists preparers in its efforts to improve tax compliance (*e.g.,* by imposing due diligence requirements under Circular 230). Alternatively, those in the high-compliance group may simply seek out better preparers or at least have more meaningful conversations with them.

---

[24] Some research suggests preparers may improve compliance. *See* Steven Klepper, Mark Mazur, and Daniel Nagin, *Expert Intermediaries and Legal Compliance: The Case of Tax Preparers*, 34 J. L. and Econ. 205 (1991). *See also* Kim M. B. Bloomquist, Michael F. Albert, and Ronald L. Edgerton, *Evaluating Preparation Accuracy of Tax Practitioners: A Bootstrap Approach*, Proceedings of the 2007 IRS Research Conference 77 (2007) (finding preparers reduce math errors, but increase the incidence of potential misreporting). Other research suggests they do not reliably enhance compliance. *See* General Accounting Office (GAO), GAO-02-509, *Tax Deductions: Further Estimates of Taxpayers Who May Have Overpaid Federal Taxes by Not Itemizing* (2002) (finding in 1998 about two million taxpayers overpaid their taxes by failing to itemize even though about half used a preparer); Treasury Inspector General for Tax Administration (TIGTA), *Analysis of Statistical Information for Returns with Potentially Unclaimed Additional Child Tax Credit* (2003) (finding about 230,000 returns filed by paid preparers in 2002 where taxpayers appeared eligible for Additional Child Tax Credits they did not claim); Janet Holtzblatt and Janet McCubbin, *Issues Affecting Low-Income Filers*, in The Crisis in Tax Administration 148, 159 (Henry Aaron and Joel Slemrod eds., 2004) (observing that about two-thirds of EITC returns, which have high levels of noncompliance, were prepared by paid preparers); Government Accountability Office (GAO), GAO-06-563T, *Paid Tax Return Preparers: In a Limited Study, Chain Preparers Made Serious Errors* 5, 23 (Apr. 4, 2006) (finding preparers made significant mistakes on 17 of the 19 returns prepared for GAO employees posing as taxpayers, including the omission of income on ten); TIGTA, Ref. No. 2008-40-171, *Most Tax Returns Prepared by a Limited Sample of Unenrolled Preparers Contained Significant Errors* 2 (Sept. 3, 2008) (finding preparers made mistakes on 17 of the 28 returns prepared for TIGTA employees posing as taxpayers, including six willful or reckless errors).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 5, Preparer Trust and Relationship by Compliance Group

Preparer Trust and Relationship by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

I make sure that I understand every item that is included or omitted from my return before signing it
-14% / 80%
-15% / 79%

The person who prepares my return finds creative ways to minimze taxes
-28% / 35%
-35% / 28%

I always follow the instructions or advice from the person who prepares my return
-2% / 96%
-2% / 90%

DISAGREE/STRONGLY DISAGREE — AGREE/STRONGLY AGREE

■ High Compliance   ▧ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

Taxpayers in the low-compliance group were more likely to participate in local organizations and to report that other participants view the law and the IRS negatively.

Taxpayers in the high-compliance group were less likely than those in the low-compliance group to belong to a local business organization (11 vs. 16 percent), a local trade, labor, or other occupational organization (15 vs. 18 percent), or religious congregation (61 vs. 71 percent). To the extent association with these groups transmits local compliance norms, those norms appear to have a negative effect on compliance, rather than a positive one.

THOSE IN THE LOW-COMPLIANCE GROUP WERE MORE LIKELY TO PARTICIPATE IN LOCAL ORGANIZATIONS.

Among respondents who belong to local organizations, those in the low-compliance group were more likely to report that they usually participate. This was true for various organizations identified by the survey, including local business organizations (50 percent from the low-compliance group usually participate vs. 30 percent from the high-compliance group), local trade, labor, or occupational organizations (40 vs. 24 percent), and local civic, community, or fraternal organizations (67 vs. 47 percent). Thus, active participation in these groups appears to be negatively correlated with tax compliance, possibly promoting social noncompliance in terms of the typology. Perhaps those with a closer connection to local groups feel a weaker connection to the federal government, and a weaker obligation to comply with federal tax laws. They may also chose to associate with those who hold similarly negative views about the federal government and tax compliance, which reinforced their own views.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 6, Local Organization Participation by Compliance Group

Local Organization Particpation by Compliance Group
RESPONDENTS ANSWERING ALWAYS/USUALLY vs. RARELY/NEVER

Local civic league, community organization, fraternal society, or club
-19% 47%
-10% 67%

Local trade association, labor union, or occupational organizatons
-41% 24%
-25% 40%

Local business organization
-25% 30%
-22% 50%

RARELY/NEVER   USUALLY/ALWAYS

■ High Compliance   ▨ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

THOSE IN THE LOW-COMPLIANCE GROUP WERE MORE LIKELY TO REPORT THAT OTHER MEMBERS OF LOCAL ORGANIZATIONS VIEW TAX LAWS AND THE IRS NEGATIVELY.

Those in the low-compliance group were more likely than those in the high-compliance group to report that other members of local business organizations believe tax laws are unfair (48 percent of the low-compliance group vs. 28 percent of the high-compliance group) or that the IRS treats taxpayers unfairly (37 vs. 21 percent). They were more likely to report that other members of local trade, labor and occupational organizations believe tax laws are unfair (42 vs. 38 percent)[25] or that the IRS treats taxpayers unfairly (46 vs. 28 percent). They were also more likely to report that other members of local civic, community, and fraternal organizations believe the tax laws are unfair (50 vs. 23 percent) or that the IRS treats taxpayers unfairly (36 vs. 18 percent).[26] Participation in these organizations may have allowed taxpayers to learn that noncompliance is an acceptable norm among other participants, or perhaps they assumed that other participants shared their negative views. In any event, the differences in the responses to these questions by members of the high- and low-compliance groups may suggest that a person's perception about whether other participants in local organizations feel the tax law or the IRS is fair has an effect on their own compliance behavior (*e.g.,* social and symbolic noncompliance), perhaps eroding tax morale.

---

[25] This difference is not statistically significant at a 95-percent level of confidence.

[26] Curiously, 53 percent of those in the moderate-compliance group also disagreed or strongly disagreed that other members of these organizations believe the IRS treats taxpayers fairly, and the difference between their response and the average response of members of both other groups was statistically significant at a 95-percent level of confidence. Perhaps those in the moderate-compliance group are more concerned about any perceived mistreatment of others by the IRS because they are still trying to comply, whereas more of those in the low-compliance group are slightly less concerned about fairness because they have either given up on the IRS or are noncompliant for other reasons.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 7, Respondents' Perceptions of Other Members' Views About the Fairness of the Tax Law and the IRS by Compliance Group[27]

Respondents' Perceptions of Other Members' Views on Tax Law & IRS Fairness by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

Disagreements with the statements are shown as negative numbers for differentiation purposes
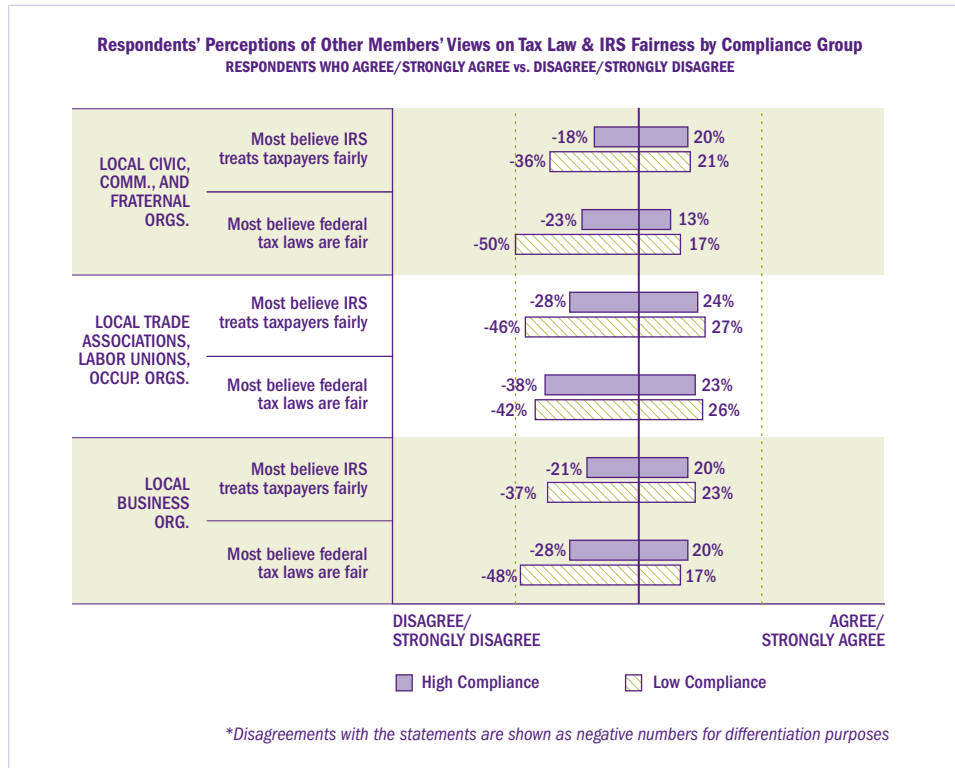
WHILE MOST RESPONDENTS REPORTED THAT SMALL BUSINESSES COMPLY, THOSE IN THE HIGH-COMPLIANCE GROUP WERE MORE LIKELY TO REPORT THAT THEIR COMPETITORS DO NOT.

According to social norms and reciprocity theories, taxpayers who believe most other taxpayers comply are more likely to reciprocate by complying.[28] However, the survey did not find that those in the high-compliance group were more likely to report that competitors were complying. Rather, those in the high-compliance group were less likely to do so — agreeing that most of their competitors report all of their income only 22 percent of the time as compared to 31 percent for the low-compliance group.[29] Moreover, there was no significant difference in the views of each group about whether many small businesses report all of their income (26 percent of the high-compliance group agree and 15 percent disagree, but 27 percent of the low-compliance group agree and 16 percent disagree).[30]

---

27 Taxpayers were asked to provide a response with respect to members of the local organization(s) with which they most closely associate.

28 *See, e.g.,* Dan M. Kahan, *The Logic of Reciprocity: Trust, Collective Action, and Law,* 102 Mich. L. Rev. 71 (Oct. 2003).

29 However, most respondents (60 percent overall) were non-committal, indicating they "don't know" or "neither agree or disagree."

30 Both groups also reported that small businesses could survive even if they reported all of their income (54 percent of the high-compliance group vs. 56 percent of the low-compliance group). These differences are not statistically significant at a 95-percent level of confidence.

Most members of both groups also reported that they would be embarrassed if others found out they did not report all of their income. It is possible that the low-compliance group answered these questions defensively or feigned innocence — to avoid giving the impression that they were cheating or that the government should do more to address non-compliance. Nonetheless, these results do not directly support the notion that social norms and reciprocity (at least among "most competitors") drive compliance decisions. As noted above, the views of other members of local organizations toward the IRS seemed to have a greater correlation with compliance than whether most competitors comply. Perhaps the norms of that peer group are more important than the norms of competitors, though both groups said they would be embarrassed if others learned they were noncompliant.

In other words, the tax compliance decision may be less about the views of others or economics, and more about how the business views itself in relation to the federal government. As noted above, those with negative views toward the federal government more often associate with like-minded individuals at the local level.

FIGURE 8, Views on Others' Compliance by Compliance Group

Views on Others' Compliance by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

	Disagree/Strongly Disagree	Agree/Strongly Agree
If others found out I did not report all of my income, I would be embarrassed (High Compliance)	-6%	78%
If others found out I did not report all of my income, I would be embarrassed (Low Compliance)	-9%	79%
Many small businesses do not report all of their income (High Compliance)	-15%	26%
Many small businesses do not report all of their income (Low Compliance)	-16%	27%
Most of my competitors report all of their income (High Compliance)	-9%	22%
Most of my competitors report all of their income (Low Compliance)	-12%	31%

DISAGREE/STRONGLY DISAGREE   AGREE/STRONGLY AGREE

■ High Compliance   ▨ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

SMALLER BUSINESSES WITH LOCAL CUSTOMERS AND THOSE IN PROFESSIONAL OR TECHNICAL BUSINESSES WERE MORE OFTEN IN THE HIGH-COMPLIANCE GROUP.

The low-compliance group had larger businesses. The low-compliance group had an average of about seven employees, as compared to about four for the high-compliance group. Similarly, the low-compliance group had average gross receipts of about $87,000, as compared to about $46,000 for the high-compliance group.[31] The low-compliance group also identified its customers as "primarily national" more frequently — 19 percent of the time — as compared to 17 percent for the high-compliance group. While the difference is small, this finding is somewhat curious in light of the finding that those in the low-compliance group feel a closer connection to local organizations than national ones, though some local organizations may be local chapters of national ones. Of course, business owners may feel more of a connection to local organizations that they chose to associate with than to customers with whom they may not interact in this age of e-commerce.

Another explanation could be that as businesses grow, the economic benefit of noncompliance increases but the expected penalty does not — a finding consistent with economic deterrence theory. However, this explanation seems inconsistent with the notion that smaller businesses, which are more likely to have informal accounting systems and deal in cash, are less likely to be compliant than larger ones that need to have formal financial accounting systems to prevent theft and to reflect any positive net income on those systems and their tax returns to obtain financing.[32] However, even businesses in the low-compliance group were relatively small, possibly small enough to retain informal accounting systems.

Taxpayers in construction-related and real estate-related industries appeared to be less compliant than those in other industries, as they each comprised nine percent of the low-compliance group, but only four percent of the high-compliance group. By comparison, those in professional and technical service industries appeared to be more compliant, comprising 26 percent of the high-compliance group and 17 percent of the low-compliance group.[33] Perhaps information reporting, which generally promotes compliance, was more prevalent among professional and technical service industries than in construction and real estate. Industry-related norms, the type of noncompliance involved, or the type of taxpayers involved, as described below in our analysis of the Community Survey, could also have played a role.

---

[31] Concerned that some taxpayers might have lower DIF scores simply because they have less income that is not subject to information reporting, and thus less opportunity to cheat, TAS analyzed the sample further. TAS looked at all income sources (not just Schedule C income) and found that taxpayers in the high-compliance group from each EAC strata reported a significant amount of income that is not subject to information reporting. Thus, while income transparency likely affects reporting compliance, its effect on a person's DIF score, if any, does not always overshadow other factors.

[32] As noted above, the accuracy of the DIF scoring algorithm could affect the results. For example, if the DIF overestimates the actual compliance of small cash businesses, which generate income that is difficult to detect, then the results would indicate that small businesses are more compliant than they actually are.

[33] Under "professional, scientific, and technical services," the North American Industry Classification System (NAICS) includes legal, accounting, engineering, design, computer, management, research, and advertising services.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 9, National Survey Respondents' Industry by Compliance Group

Survey Respondents' Industry by Compliance Group
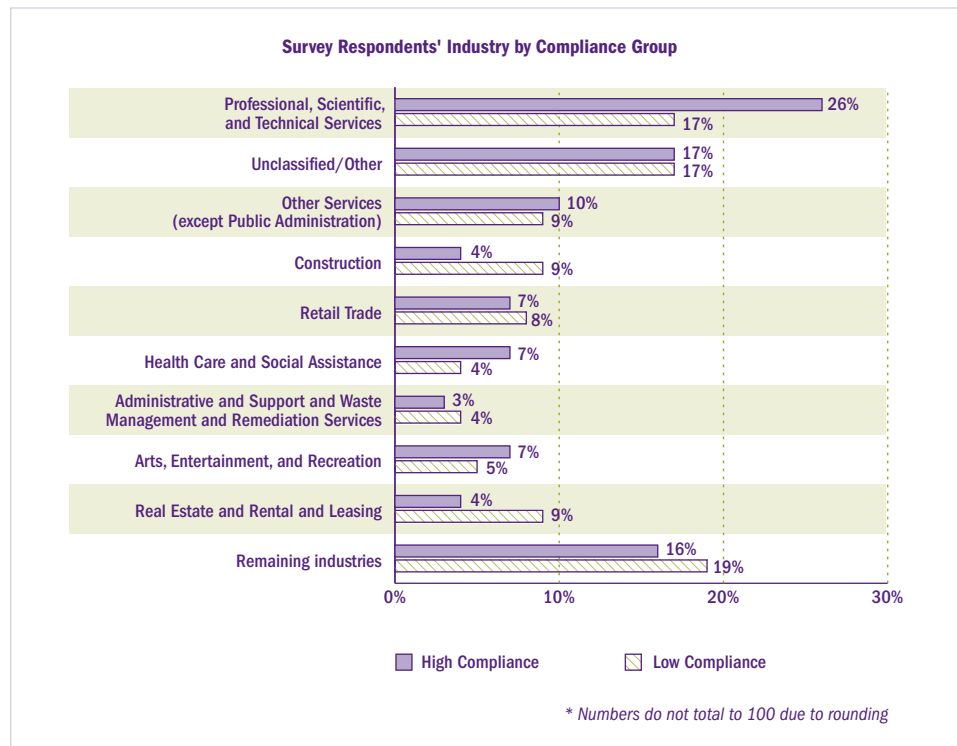
Both high- and low-compliance groups professed a "moral" obligation to report income accurately.

Nearly all — 96 percent of both groups — feel a moral obligation to report all of their income correctly. Moreover, those in the low-compliance group were more likely to say that everyone should correctly report all of their income — 97 percent of the low-compliance group agree vs. 94 percent of the high-compliance group.[34] However, the low-compliance group may have answered these questions aspirationally (*e.g.*, they may not be living up to their aspirations because tax morale does not drive their tax compliance behavior) or defensively, to avoid making an admission.

Economic deterrence may not drive compliance decisions by those in either the high- or low-compliance groups.

Those in the low-compliance group were more likely than those in the high-compliance group to report that achieving financial success is important (88 vs. 85 percent) and that taking risks is necessary to achieve financial success (68 vs. 61 percent).[35] One might

---

[34] This difference was not statistically significant at a 95-percent level of confidence.

[35] Those in the low-compliance group were also more likely to be male. Males are often thought to have less aversion to risk. *See, e.g.*, Alexandra Niessen and Stefan Ruenzi, *Sex Matters: Gender Differences in a Professional Setting*, Ctr. for Fin. Research, Working Paper No. 06-01, 14 (Feb. 2007), *available at* http://hdl.handle.net/10419/57738.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

expect people who express financial concerns, as both groups did, to be motivated by economic deterrence.

FIGURE 10, Views on Financial Success & Risk by Compliance Group

Views on Financial Success & Risk by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

Taking risks is necessary to achieve financial success: -25% / 61% (High Compliance), -20% / 68% (Low Compliance)

Achieving financial success is important to me: -6% / 85% (High Compliance), -4% / 88% (Low Compliance)

DISAGREE/STRONGLY DISAGREE — AGREE/STRONGLY AGREE

■ High Compliance   ▨ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

However, the survey responses provide little support for the view that economic deterrence has an effect on reporting compliance. In terms of the typology, the survey did not reveal asocial noncompliance. On one hand, those in the low-compliance group were more likely to agree that hearing about people who were caught underreporting makes them more careful with their own taxes (66 percent vs. 61 percent for those in the high-compliance group), a response consistent with the notion that economic deterrence (or a lack thereof) has a stronger effect on their compliance decisions than on those of respondents in the high-compliance group.[36]

On the other hand, those in the low-compliance group were also more likely to agree that the IRS probably knows when people do not report all of their income (52 percent vs. 39 percent for those in the high-compliance group); and that people who do not report all of their income are more likely to end up paying even more in penalties and interest (75 vs. 68 percent). If economic deterrence was a motivating factor for those in the low-compliance group, then (if answering truthfully) they might agree more often than those in the high-compliance group that it pays to cheat. They did not. Thus, the responses to these questions do not support the notion that a lack of economic deterrence drives noncompliance for those in the low-compliance group.[37]

---

36   This difference was not statistically significant at a 95-percent level of confidence. Of course, most people in both groups did acknowledge that such statements make them more careful, lending some support to economic deterrence theory.

37   Of course it is possible that those in the low-compliance group answered these questions defensively – to avoid the implication that they may not have reported all of their income.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 11, Views on the Consequences of Underreporting by Compliance Group

Views on the Consequences of Underreporting by Compliance Group
RESPONDENTS WHO AGREE/STRONGLY AGREE vs. DISAGREE/STRONGLY DISAGREE

People who do not report all of their income are likely to end up paying even more in penalties and interest
-10% | 68%
-11% | 75%

IRS probably knows when people do no report all of their income
-33% | 39%
-23% | 52%

DISAGREE/STRONGLY DISAGREE   AGREE/STRONGLY AGREE

■ High Compliance   ▨ Low Compliance

Disagreements with the statements are shown as negative numbers for differentiation purposes

Alternatively, even though those in the low-compliance group generally do not believe it pays to cheat, they have slightly larger businesses, slightly more employees and may be willing to take more risk on their taxes if necessary to expand their businesses or to meet payroll, particularly if the alternative is to discontinue operations.[38] These are the same reasons that small businesses sometimes fail to make employment tax deposits.[39]

Another possibility is that responses by the small subset of the low-compliance group that had actually been caught cheating affected the results. Those in the low-compliance group had been subject to IRS examination or collection contacts more often than those in the high-compliance group. Nine percent of the low-compliance group had been subject to an IRS examination, as compared to two percent of the high-compliance group.[40] Similarly, three percent of the low-compliance group had been subject to IRS collection activity as compared to one percent of the high-compliance group.[41]

---

[38] Indeed, the low-compliance group was more likely to agree that you have to take risks to succeed.

[39] *See, e.g.*, SB/SE Research, 2009 Nationwide Tax Forum Focus Groups, DEN0116, *Your Clients and the Economy – How Can the IRS Help?* 3 (Jan. 2010) ("Because there is no money to pay expenses and meet obligations, participants stated that small business taxpayers are experiencing a number of secondary effects to include: falling behind on payments; not filing tax returns on time (or at all); going 'underground'; and 'burying their heads in the sand'.... [t]he IRS is not seen as a priority because small business taxpayers do not experience any immediate consequences of noncompliance. Therefore, payroll taxes and estimated taxes are last on the list."). Consistently, IRS research finds that taxpayers who owe a balance upon filing their returns are more likely than others to understate their tax liabilities. *See* Charles Christian, Phoenix District Office of Research and Analysis, *The Association Between Underwithholding and Noncompliance* 1-2 (July 14, 1995) (finding that "[o]n average, understated tax on balance due returns is ten times as large as understated tax on other returns.").

[40] IRS, Collection Data Warehouse (2012).

[41] *Id.*

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 12, Percentage of National Survey Respondents Subject to IRS Examination or Collection Activity by Compliance Group

National Survey Respondents with Examination or Collection Activity by Compliance Group
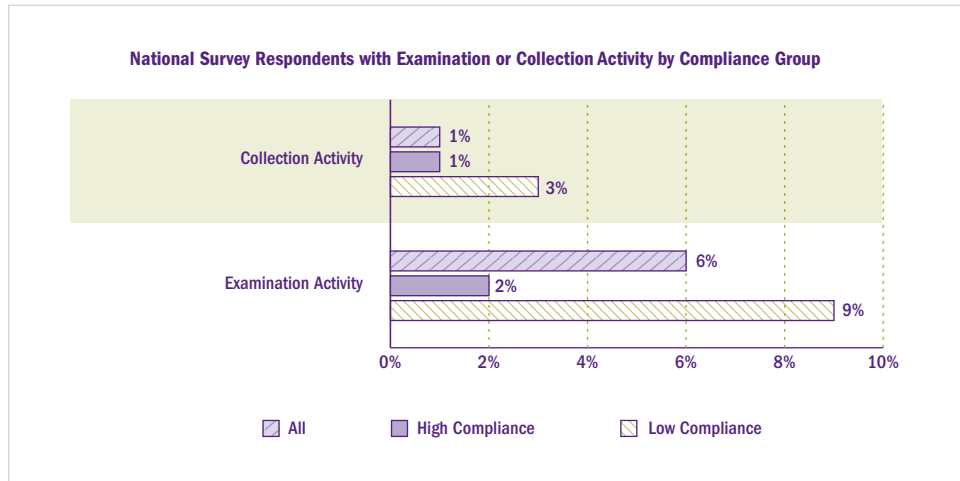
Views about complexity were mixed, but most agreed the tax rules are so complicated it is very difficult to get a tax return exactly right.

Researchers have suggested that taxpayers who face complicated rules may be unable to comply, or may use complexity as a reason to justify noncompliance.[42] Survey responses about complexity were mixed and provide little insight about how complexity or burden affects compliance. On one hand, most taxpayers (more than 73 percent in both groups) agreed that their record-keeping system made it easy to compute their income tax. Most (about 64 percent overall) also agreed that the rules about what to report as income are clear. Thus, while complexity may have been a barrier to compliance for some, it was not a significant barrier for most respondents.

On the other hand, as noted above, most (70 percent of those who had tax preparation assistance) reported that they did not know the tax laws well enough to prepare their own returns. In addition, most agreed that the tax rules are so complicated that it is very difficult to get a tax return exactly right (56 percent overall agreed). However, taxpayers in the high-compliance group were more likely to agree with this statement than those in the low-compliance group (62 vs. 58 percent). Perhaps taxpayers in the high-compliance group were more concerned about making inadvertent errors than those in the low-compliance group.

___

42   *See, e.g., Taxpayer Compliance, Volume 1: An Agenda for Research* 118, 128-129 (Jeffrey A. Rother, John T. Scholtz, and Ann Dryden Witte eds., Univ. of Penn. Press 1989).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

Summary of the National Survey Results

Respondents from the low-compliance group were more likely to report that the government is too big and wastes tax dollars, that tax laws are unfair, and that the IRS is unfair (*e.g.*, often believing the IRS is more concerned with collecting as much as possible instead of the correct amount, and indicating less satisfaction with IRS services). Members of the low-compliance group may have used these beliefs to justify noncompliance.

Surprisingly, respondents in the low-compliance group were more likely than those in the high-compliance group to believe that the IRS detects and penalizes noncompliance. This finding may seem inconsistent with the popular belief that small businesses cheat on their taxes because they do not think they will get caught (*i.e.*, insufficient economic deterrence).[43]

Both groups were idealistic, professing that it is morally wrong to cheat. Most members of both groups also reported that they would be embarrassed if others discovered they did not report all of their income. For those in the low-compliance group, however, other factors may have overshadowed these positive moral convictions and social pressures.

Those in the low-compliance group were more likely than those in the high-compliance group to participate in local organizations, which one might expect to be a source of positive tax compliance norms. However, they were more likely to report that other members of these organizations believe the law and the IRS are unfair, potentially countering the positive influence these affiliations might otherwise have had on tax compliance. Moreover, the closer association with local organizations by members of the low-compliance group could have undermined their connection with the nation and the national tax system as a whole.

The norms of competitors appeared to have little correlation with compliance. This may suggest that norms do not operate by reference to competitors. Rather, the views of other participants in local organizations may be more important.

Those in the low-compliance group operated slightly larger businesses and were somewhat more likely to use a preparer who could have persuaded them to comply or facilitated noncompliance — brokered compliance (or noncompliance) in the typology above. However, they were also less likely to follow the preparer's advice than those in the high-compliance group, potentially weakening any positive influence that the preparer sought to exert.

---

43 *See, e.g.*, Susan Morse, Stewart Karlinsky, and Joseph Bankman, *Cash Businesses and Tax Evasion*, 20 Stan. L. & Pol'y Rev. 37 (2009) (discussing anecdotal accounts of cash businesses that did not expect the IRS to discover underreporting). This finding does not necessarily imply that taxpayers are economically irrational, particularly if they have no other source of financing and face the choice of either going out of business or underreporting. If a taxpayer could possibly use the temporary tax "savings" from underreporting to earn more than the likely tax, penalties and interest, which the IRS might collect later, then it may be rational for the taxpayer to underreport income even if he or she expects that the IRS will detect the noncompliance and impose penalties and interest. Moreover, other survey responses suggest that the low-compliance group was less risk averse than the high-compliance group.

By contrast, respondents from the high-compliance group, while slightly smaller and less likely to use a preparer, were more likely to follow the preparer's advice. They were also less likely to participate in local organizations, suggesting that their compliance level was not social but motivated rather by morality, trust in government, trust in the IRS, or other internal factors contributing to high tax morale. It is unclear if affiliations and communications with those in local organizations who have little faith in government, federal tax law, and the IRS erodes the force of one's tax morale, or if those who become noncompliant seek to affiliate with those who would be more likely to feel that noncompliance was justified.

In either case, these results may suggest that the government could improve reporting compliance by improving the perceived fairness and efficiency of the government, the tax law, and the IRS; and by simplifying the tax code, improving procedural protections, and minimizing the IRS's reliance on procedures that may seem unfair (*e.g.*, excessive automation and lack of personal contact).[44] To address the perception by members of local groups that the tax law and the IRS are unfair, the IRS might retain a local presence and conduct outreach and education events for these groups, particularly in low-compliance communities (discussed below).[45]

Key Findings of the Community Survey.

According to the 2010 Proposal, the Community Survey was to address:

> What types of communities have homogeneous compliance attitudes? What local social practices, institutions (*e.g.*, volunteer, educational, and religious institutions), or attitudes increase or decrease compliance at the community level and why? Do taxpayers in communities with notably high or low levels of compliance identify more with the nation as a whole or the local community?[46]

One possibility was that the high-compliance communities would be homogeneous towns where residents have strong ties to local groups and institutions. This view could arise from the theory that social norms promote compliance. The Community Survey results offer a significantly different view. In short, like those in the low-compliance group, those in low-compliance communities appear to exhibit a stronger association with local

---

44   *See, e.g.*, National Taxpayer Advocate 2009 Annual Report to Congress 3 (Most Serious Problem: *The Time for Tax Reform is Now*) (summarizing tax simplification proposals); *Complexity and the Tax Gap: Making Tax Compliance Easier and Collecting What's Due*, hearing before the S. Comm. on Finance (June 28, 2011) (testimony of Nina E. Olson, National Taxpayer Advocate) (same); National Taxpayer Advocate 2007 Annual Report to Congress 275 (Most Serious Problem: *The Accuracy-Related Penalty in the Automated Underreporter Units*) (recommending that IRS computers stop proposing negligence penalties); National Taxpayer Advocate 2008 Annual Report to Congress, vol. 2, at 2 (*A Framework for Reforming the Penalty Regime*) (proposing improvements to the penalty regime); National Taxpayer Advocate 2011 Annual Report to Congress 524 (recommending limits on expansion of IRS math error authority); *Options for Expanding the Remedies to Address Taxpayer Rights Violations, supra* (proposing remedies to strengthen procedural protections).

45   *See, e.g.*, National Taxpayer Advocate 2009 Annual Report to Congress 346-50 (legislative recommendation to require at least one appeals officer and one settlement officer in each state); National Taxpayer Advocate 2008 Annual Report to Congress 176, 192 (Most Serious Problem: *Local Compliance Initiatives Have Great Potential but Face Significant Challenges*) (recommending ways to enhance local compliance initiatives). TAS has at least one office in each state and Local Taxpayer Advocates routinely conduct outreach to local groups.

46   2010 Proposal at 86-87.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

institutions than national ones such as the federal government. Moreover, in constructing the Community Survey sample (described above), TAS discovered that taxpayers with high-compliance are not concentrated in homogeneous communities, at least not very many of them. Taxpayers in the low-compliance communities appeared in more concentrated geographic clusters across the country, especially in the South and West, as set forth below.

Taxpayers in the high-compliance communities were more geographically dispersed than those in the low-compliance communities.

As discussed above, to identify survey respondents, who were sole proprietors, TAS used the DIF, an IRS index of the probability of audit changes based on reported line items and their values. While this measure may be imperfect, it is not geographically biased. Consequently, it was uncertain whether returns with similar compliance levels, as measured by DIF, would cluster geographically. From all areas, cities, and towns, in the U.S., those with median DIF scores in the top or bottom 30 percent constituted the low- or high-compliance communities, respectively.[47] As it turned out, populations ranging from 20,000 to 414,000 had measurably low compliance in 365 areas, cities and towns. At the same time, populations ranging from 22,000 to 60,000 had measurably high compliance in a few sites. The site selection process confirms a geographic aspect of tax compliance. In particular, low compliance levels clustered in geographic communities, while high compliance levels were more individually dispersed.

The map below shows that low-compliance communities appeared in twenty-four states. The map shows concentrations of low compliance, as measured, where it may become socially acceptable. The map reflects the locations of low-compliance communities but not their populations, some of which were larger than others. The site selection process was not an enforcement screen, lacking indicators of type or magnitude of noncompliance. Instead, the map helps visualize the social nature of noncompliance. The geographic observation raises issues about fostering communities of compliance given a social aspect to noncompliance.[48]

---

[47] TAS identified geographic communities from the addresses with Zip codes reported by the taxpayers on their returns, generally cities, towns, or other distinct areas as denominated by the U.S. Postal Service.

[48] Geographers have classified regions of the U.S. based on local history, values, behavior, and culture. *See* Colin Woodard, AMERICAN NATIONS: A HIST. OF THE ELEVEN RIVAL REGIONAL CULTURES OF NO. AMER. (N.Y.: Viking, 2011); Joel Garreau, NINE NATIONS OF NO. AMER. (Boston: Houghton Mifflin, 1981); Raymond Gastil, CULTURAL REGIONS OF THE U.S. (Seattle: Univ. of Wash. Press, 1975); Wilbur Zelinsky, CULTURAL GEOGRAPHY OF THE U.S. (Prentice Hall, 1973).

FIGURE 13, Map of Low-Compliance Communities
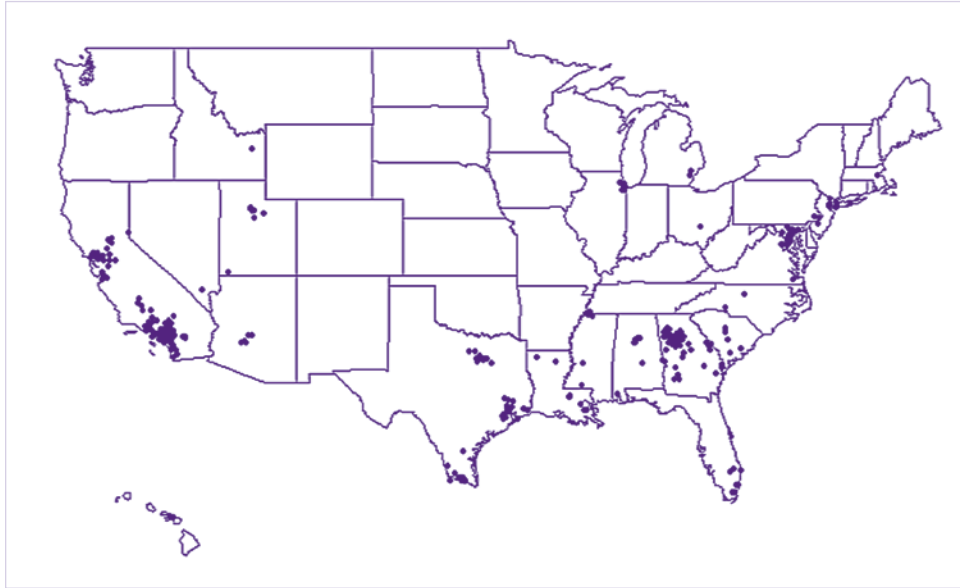
Respondents from low-compliance communities were suspicious of the tax system and its fairness, whereas those from high-compliance communities responded positively to government.

Respondents from low-compliance communities believed that large businesses and wealthy taxpayers have loopholes or advantages with the IRS (80 percent *vs.* 71 percent of those from the high-compliance communities, and 62 *vs.* 52, respectively), which is more concerned with collecting as much as it can rather than the correct amount (48 *vs.* 35 percent). On the other hand, those from high-compliance communities felt that taxes fund important benefits (86 *vs.* 67 percent of those from low-compliance communities); taxpayers would pay more for improved services (54 *vs.* 37); tax laws are fair (33 *vs.* 24); everyone pays their fair share under federal tax laws (24 *vs.* 11); and the government spends taxes wisely (22 *vs.* 11). Similarly, those from high-compliance communities felt the IRS treats taxpayers respectfully (63 *vs.* 53) and fairly (68 *vs.* 42) with accessible (60 *vs.* 51) and satisfactory services (68 *vs.* 42).

Compliance Study

FIGURE 14, Community Views of Tax System

Community Views of Tax System
Percent Agreeing with Statements by Community

Statement	High-Compliance Community	Low-Compliance Community
IRS services are satisfactory	68%	42%
IRS services are accessible	60%	51%
IRS treats taxpayers fairly	68%	42%
IRS treats taxpayers respectfully	63%	53%
Government spends taxes wisely	22%	11%
Everyone pays their fair share under federal tax laws	24%	11%
Tax laws are fair	33%	24%
Taxpayers would pay more for improved services	54%	37%
Taxes fund important benefits	86%	67%
IRS is more concerned with collecting than correct amount	35%	48%
Wealthy taxpayers have advantages with IRS	52%	62%
Large businesses have loopholes	71%	80%

While taxpayers in the low-compliance communities may tend to identify less with federal agencies, respondents from the high-compliance communities identified with the nation as a whole. In terms of the factors introduced above, respondents from high-compliance communities expressed trust in government, while the responses of the low-compliance group suggested a symbolic type of noncompliance.

Respondents from high-compliance communities were more likely to rely on preparers.

A substantial majority of the respondents from high-compliance communities used a third-party preparer (86 *vs.* 65 percent of low-compliance respondents) and always followed that person's advice (98 *vs.* 89 percent). Nevertheless, those from high-compliance communities made sure to understand the return before signing (91 *vs.* 84 percent from low-compliance communities).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

Among business classifications, the biggest cluster in low-compliance communities was under "professional, scientific, or technical services"; in high-compliance communities, the "other" service industry.

Respondents from the high-compliance communities most frequently clustered in "other services" (22 percent *vs.* 11 percent of low-compliance respondents), whereas those from the low-compliance communities most frequently clustered in "professional, scientific, or technical services" (22 *vs.* 11 percent from the high-compliance communities).[49] Those from the high-compliance communities were more than twice as likely to speak a language other than English at home (22 *vs.* 9 percent from the low-compliance communities). The Community Survey may have identified a unique type of "social" compliance related to a particular socio-economic experience, that of a linguistic minority employed in the service industry who expressed trust in government.

Low-compliance community respondents reported more participation in civic institutions than their high-compliance community counterparts.

Low-compliance community respondents were more likely than high-compliance community respondents to belong to a trade association (20 percent *vs.* 10 percent), volunteer organization (67 *vs.* 58), or church or other religious congregation (81 *vs.* 74),[50] and to vote (73 *vs.* 64) or send children to local schools (52 *vs.* 37).[51] Within those affiliations, those from low-compliance communities were more likely to disagree (or strongly disagree) with the propositions that most members believe the tax laws and IRS are fair (respectively, 29 *vs.* 18 and 25 *vs.* 15 for volunteer organizations; 32 *vs.* 16 and 26 *vs.* 13 for churches; and 29 *vs.* 14 and 20 *vs.* 9 for elected officials).[52] In other words, those from the low-compliance communities tend to belong to groups, which they believe share the view that taxes are unfair. In terms of the factors introduced above and the typology of noncompliance, set forth in Table 1, *Typology of Noncompliance*, above, these affiliations may be a form of social noncompliance.[53]

---

[49] Under "other" services, NAICS includes repair & maintenance, personal & laundry, civic & social, and private household services.

[50] This difference is not statistically significant at a 95-percent level of confidence.

[51] This trend was generally consistent with that in the National Survey, except there frequency of voting among the low-compliance group was not higher than that of the high-compliance group.

[52] Additional comparisons, not statistically significant at a 95-percent level of confidence, were 55 vs. 47 percent and 46 vs. 36 for trade associations, and 42 *vs.* 15 and 37 vs. 9 for parents.

[53] If taxpayers from a low-compliance community feel that they have a support group in certain institutions — social noncompliance — then civic education addressing those institutions could leverage enforcement efforts. Civic education would mean not technical training on particular tax provisions, but "the cultivation of the virtues, knowledge, and skills necessary for political participation." Amy Gutmann, DEMOCRATIC EDUCATION (Princeton Univ. Press, 1987) 287. Maintaining a low level of tax compliance may be a form of political non-participation motivated by a skepticism of fairness in taxation — symbolic noncompliance — as described in the typology of noncompliance. Thus, popular dissemination of information about the institutions that ensure fairness, *e.g.*, the checks and balances created by an independent judiciary and Congressional oversight, could be a responsive form of civic education.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FIGURE 15, Taxpayer Participation by Type of Association and Community

Taxpayer Affiliations

School — High Compliance 37%, Low Compliance 52%
Voting — High Compliance 64%, Low Compliance 73%
Church/Congregation — High Compliance 74%, Low Compliance 81%
Volunteer Organization — High Compliance 58%, Low Compliance 67%
Trade Association — High Compliance 10%, Low Compliance 20%

0% 20% 40% 60% 80% 100%

■ High Compliance   ▨ Low Compliance
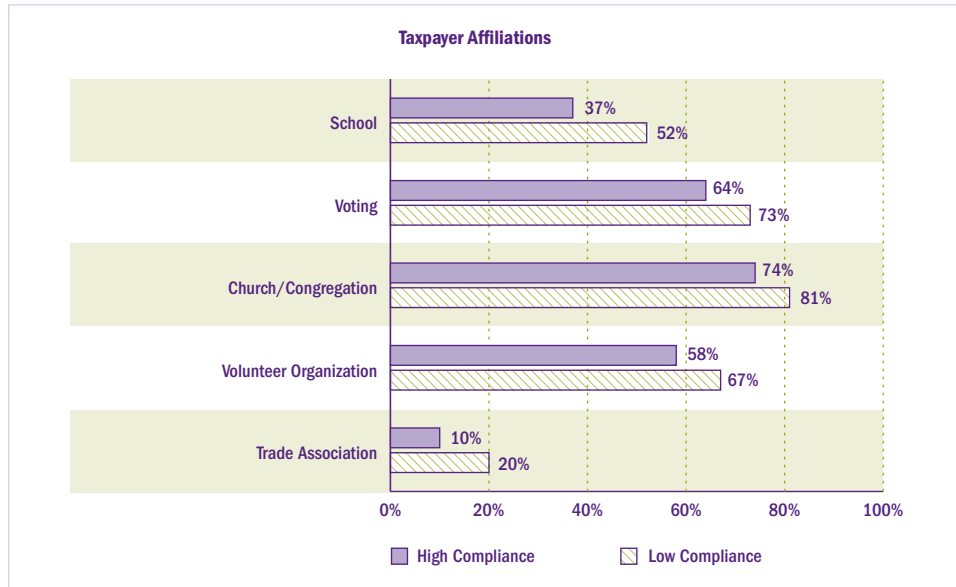
FIGURE 16, Respondents' Perceptions that Members of These Identified Groups Believe Tax Laws & the IRS are Fair

Respondents' Perceptions that Members of these Identified Groups Believe Tax Laws & the IRS are Fair

MOST MEMBERS BELIEVE IRS TREATS TAXPAYERS FAIRLY
- Elected Official — High Compliance -9%, Low Compliance -20%
- Church/Congregation — High Compliance -13%, Low Compliance -26%
- Volunteer Organization — High Compliance -15%, Low Compliance -25%

MOST MEMBERS BELIEVE FEDERAL TAX LAWS ARE FAIR
- Elected Official — High Compliance -14%, Low Compliance -29%
- Church/Congregation — High Compliance -16%, Low Compliance -32%
- Volunteer Organization — High Compliance -18%, Low Compliance -29%

-0% -10% -20% -30% -40%

PERCENT WHO DISAGREE OR STRONGLY DISAGREE DISAGREE

■ High Compliance   ▨ Low Compliance

* Disagreements with statements are shown as negative numbers

High-compliance community respondents were motivated by morals and deterrence.

High-compliance community respondents felt that tax reporting was a moral obligation (98 percent *vs.* 92 percent of those from low-compliance communities) and would be embarrassed if others found out they had under-reported (90 *vs.* 76 percent). Similarly, the high-compliance community respondents were risk-averse, more frequently agreeing that hearing about people who were caught under-reporting would make them more careful (86 *vs.* 70 percent). Conversely, respondents from low-compliance communities evidently were not deterred despite their belief that the IRS probably knows when people under-report income (62 *vs.* 52 percent from the high-compliance communities). An inference could be made that deterrence efforts affect those predisposed to compliance.

The effect on compliance of financial concerns by those in high- or low-compliance communities was unclear.

Paradoxically, respondents from high-compliance communities were more likely to feel that most small businesses could not survive if they reported all of their income (23 percent *vs.* 16 percent of low-compliance community respondents). However, the National Survey did not reproduce this result (12 *vs.* 15 percent of the low-compliance group).[54] In terms of the factors discussed above, it is unclear that deterrence motivated compliance. In terms of the typology introduced above, "asocial" noncompliance due to financial incentives did not appear as a major force in the Community Survey.

Those in the high- and low-compliance communities responded similarly to questions addressing complexity.

Both groups responded without significant difference to questions about how complicated the tax rules are (64 percent of the highly-compliant *vs.* 63 percent of low-compliance respondents) and the clarity of income reporting rules (73 *vs.* 68 percent). Consequently, the Community Survey did not reveal significant procedural, "lazy," or unknowing noncompliance.

Summary of the Community Survey Results

The Community Survey focused on areas that did not represent the nation as a whole but did represent locales where tax compliance levels were markedly low or high. The site selection process identified hundreds of low-compliance communities, indicating a social aspect of noncompliance consistent with questionnaire responses showing a high degree of social affiliations. On the other hand, there were so few high-compliance communities as to make them prototypical rather than typical. The high-compliance communities may have had unique experiences with government contributing to an ideal type of "social compliance" that could be the obverse of social noncompliance typology. Additionally, the high-compliance communities responded positively to morals and preparers as well as deterrence. By contrast, the low-compliance communities evidently were not deterred even

---

54   This difference is not statistically significant at a 95-percent level of confidence.

though they believed that the IRS could detect under-reporting. The combination of risk tolerance and geographic concentration of low-compliance communities could form the basis for targeted innovation in tax administration that would go beyond deterrence toward the social and moral factors underlying compliance.

Preliminary Observations

As reflected in the 2007 Review, social norms and related factors may explain tax compliance. As discussed above, TAS designed a survey questionnaire to probe into norms and related factors. While this survey elicited direct responses from taxpayers, the "social" nature of norms should be observable even beyond these responses, potentially by observing characteristics of the high- and low-compliance communities or regions. Future research could build upon the survey results by investigating social noncompliance and social compliance in sites where they occur.[55] While tax reporting may be a private decision, compliance levels appear to depend on values that are shared or at least commonly understood.[56]

Commonly understood values are social or geographic, and therefore susceptible to study through market research or public sources beyond the questionnaire. What is the "means of communicating these learned beliefs, memories, perceptions, traditions, and attitudes that serves to shape behavior"?[57] Not all behavior stems from local interaction.[58] Yet geographically-dispersed populations, such as diasporas with common origins in the past, or virtual communities on the Internet, may be exceptions that prove the rule.[59] Like tax administration as a whole, compliance research could advance by meeting taxpayers where they are, in geographic locations where they build communities around common behavior.

In this study, tax compliance has turned out to be "retail." Clusters of measurably similar compliance levels may lie in a cultural region. While individual predispositions like risk aversion are factors, they are expressed within regional norms.[60] Seemingly non-geographic behavior may exhibit regional effects that researchers have isolated using statistical techniques such as "regression analysis" — analysis used to understand how a "dependent

---

[55] Whereas the survey method may be consistent with "[m]ost theories in social science today" which "are based on the assumption that individuals are atomistic and thus independent of one another," this assumption "leaves unresolved the problem of accounting for the order one finds in society." James Duncan, *The Superorganic in American Cultural Geography*, 70 ANNALS OF ASSOC'N OF AMER. GEOGRAPHERS 181, 183 (1980).

[56] "Culture is public, because meaning is." Clifford Geertz, *Thick Description: Toward an Interpretive Theory of Culture*, INTERPRETATION OF CULTURES (N.Y.: Basic Books, 1973) 12.

[57] Mona Domosh, Terry Jordan-Bychkov, *et al*. THE HUMAN MOSAIC: A THEMATIC INTRO. TO CULTURAL GEOGRAPHY 12th ed. (N.Y.: W.H. Freeman & Co., 2012).

[58] "As a cerebral entity, a culture may flourish, move and about, and propagate itself solely within the heads of a number of footloose individuals. Such extreme cases do occur, of course, but normally the facts of location and the processes of interaction with other localized or spatially structured phenomena do matter greatly." Wilbur Zelinsky, CULTURAL GEOGRAPHY OF THE U.S. (Prentice Hall, 1973) 76.

[59] Even Internet use depends on users' geographic location. *See, e.g.*, Eric Gilbert, Karrie Karahalios & Christian Sandvig, *Network in the Garden: An Empirical Analysis of Social Media in Rural Life*, Conf. on Computer-Human Interaction of Assoc'n for Computing Machinery, Florence (2008).

[60] Why would tax compliance, among other characteristics, be part of cultural geography? "Imagine someone who is, among other things, a Czech-American Lutheran plumber, a member of the VFW, an ardent Cleveland Indian fan, a radio ham, a regular patron of a particular bar, and a member of a car pool, the local draft board, the Book-of-the-Month Club, and the Republican party, and a parent whose son attends a particular college. Each of these subcultures will tend to have its own array of gear and physical arrangements, spectrum of economic and social beliefs and practices, cluster of abstract concepts, and, not least important for our purpose, distributional spread in physical space." Zelinsky, CULTURAL GEOGRAPHY at 74.

variable" (*e.g.,* legal compliance) changes when any one of the "independent variables" (*e.g.,* location or other relevant factor) changes.[61]

By identifying high- and low-compliance communities, this survey prepares the way for potential research in particular geographic areas. Relevant aspects of high compliance, such as trust in government or respect for authority, may occur throughout the country, even if not in a high-compliance community. Future research could go beyond the factors underlying compliance to test how tax administration may respond to regional traditions with certain services in particular geographic regions.[62]

Future research could also use more sophisticated tools to analyze the National Survey data. While this preliminary analysis identified important correlations between (estimated) tax compliance and responses to the survey questions, applying "regression analysis" (described above) to the data might provide further insight into which responses (or other observable factors) have the greatest effect on (estimated) tax compliance. For example, while this preliminary analysis reveals a correlation between estimated tax compliance and attitudes about the government, the law, and the IRS, a regression analysis might reveal the relative importance of these attitudes after controlling for the effect of other factors.

Alternatively, data mining techniques (*e.g.,* "segmentation" or "cluster" analysis) could identify groups of survey responses that are most frequently associated with each other. Such analysis might enable researchers to identify various distinct types of noncompliance. For example, this analysis might find a particular segment of the low-compliance group for whom complexity presents a barrier to compliance. It might distinguish this segment from another for whom complexity is not a barrier, but justifies noncompliance on the basis of negative views about the IRS, the law, and the government. Such analysis might help to inform policymakers about how to tailor an effective approach to address different types of noncompliance and different segments of the population.

---

[61] "While differences in standard demographic or economic variables such as age composition, median education, or median income account for a good deal of the variance among sections of the country" in particular social statistics, "there is a significant remainder that may be related" solely to geographic characteristics. Raymond Gastil, CULTURAL REGIONS OF THE U.S. (Seattle: Univ. of Wash. Press, 1975) 116.

[62] *See* Most Serious Problem: *The IRS Is Substantially Reducing both the Amount and Scope of its Direct Education and Outreach to Taxpayers and Does Not Measure the Effectiveness of its Remaining Outreach Activities, Thereby Risking Increased Noncompliance, supra*; National Taxpayer Advocate 2009 Annual Report to Congress 346 (Legislative Recommendation: *Strengthen the Independence of the IRS Office of Appeals and Require at Least One Appeals Officer and Settlement Officer in Each State*); National Taxpayer Advocate 2007 Annual Report to Congress 162 (Most Serious Problem: *Service at Taxpayer Assistance Centers*); National Taxpayer Advocate 2003 Annual Report to Congress 145 (Most Serious Problem: *Taxpayer Assistance Centers*).

CONCLUSION

In conclusion, the TAS survey has helped to identify which factors significantly influence compliance. In turn, analyses of the factors and related data point to the operative types of noncompliance. Finally, knowledge of these factors and types of noncompliance can inform service and enforcement programs.

The results of both surveys suggest that norms and distrust of the national government, the law, and the IRS may promote noncompliance. Respondents from both the low-compliance groups and from low-compliance communities held negative views about government and the IRS and were more likely to participate in local organizations. They were also more likely to believe that other members of those organizations held similarly negative views, which appeared to reinforce their own views, though they generally professed that non-compliance was morally wrong. In other words, they affiliated with others who reinforced noncompliance norms at the local level, and probably feel a closer connection to a local collective than to the national collective. In terms of the typology discussed above, this tendency to affiliate where distrust of government is the norm may be a form of social and symbolic noncompliance.

Consistently, the results also suggest that tax morale and trust in government, the law, the IRS, and preparers may promote compliance. Respondents from the high-compliance group and the high-compliance communities were less likely to participate in local orga-nizations, suggesting that their compliance level was not social but motivated rather by morality, trust in government, trust in the IRS, or other internal factors contributing to high tax morale.

Those in both the high- and low-compliance groups also expressed a high level of trust in a preparer, but those in the high-compliance group expressed more trust. Similarly, a greater reliance on preparers by respondents from the high-compliance communities suggested a type of "brokered compliance." Thus, the survey results suggest that "brokered compli-ance" may be a potential benefit of a well-regulated preparer profession, which the National Taxpayer Advocate has long championed.[63]

The survey results did not reveal as much about the effect of deterrence and complexity on reporting compliance. With respect to deterrence, this may have been because some respondents answered defensively — to avoid explicitly implicating themselves in non-compliance. With respect to complexity, the survey did not specifically identify procedural, "lazy," or unknowing noncompliance as posing major concerns. Nonetheless, complexity

---

[63] *See* 2010 Proposal at 81 (Table 2.4.1, *Typology of Noncompliance and Potentially operative Factor(s) Identified by the Literature*); National Taxpayer Advo-cate 2008 Annual Report to Congress 423 (Legislative Recommendation: *The Time Has Come to Regulate Federal Tax Return Preparers*); National Taxpayer Advocate 2004 Annual Report to Congress 67 (Most Serious Problem: *Oversight of Unenrolled Return Preparers*); National Taxpayer Advocate 2003 Annual Report to Congress 270 (Legislative Recommendation: *Federal Tax Return Preparers Oversight and Compliance*); National Taxpayer Advocate 2002 Annual Report to Congress 216 (Legislative Recommendation: *Regulation of Federal Tax Return Preparers*).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

likely promotes the view that the government, the law, and the IRS are unfair or cannot be trusted, and the survey responses suggest that these views may reduce compliance.

Given the emergence of social and symbolic noncompliance as the primary types of noncompliance among small businesses, treatments that promote trust in government, the law, and the IRS may be most effective. As a practical matter, this might include tax simplification, an expansion of taxpayer protections and remedies, and taxpayer education.[64] This kind of education would be normative, relating to trust in government, rather than technical.[65] Traditional enforcement measures designed to deter could be ineffective, both because those likely to respond may be predisposed to comply and because the survey results did not suggest that asocial behavior (*i.e.*, behavior that may be addressed by increasing deterrence) is prevalent.

---

[64] For a discussion of procedural protections that could improve trust in government, see National Taxpayer Advocate 2011 Annual Report to Congress 493-518 (Legislative Recommendation: *Enact the Recommendations of the National Taxpayer Advocate to Protect Taxpayer Rights*) and National Taxpayer Advocate 2007 Annual Report to Congress 478-489 (Legislative Recommendation: *Taxpayer Bill of Rights and De Minimis "Apology" Payments*). For a summary of the National Taxpayer Advocate's simplification proposals, see *Complexity and the Tax Gap: Making Tax Compliance Easier and Collecting What's Due, Hearing Before the S. Comm. on Finance* (June 28, 2011) (statement of Nina E. Olson, National Taxpayer Advocate).

[65] For a discussion of the types of education that might be effective, see 2007 Review at 162-170.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

APPENDIX I: SURVEY QUESTIONS

RESPONDENT INFO PAGE

ENTER RESPONDENT'S 5-DIGIT I.D. #   ☐   ☐   ☐   ☐   ☐

PHONE # (AC-_____)   _____

CITY_____ ST_____ ZIP_____ c(xxx,xxx) ST CODE_____ c(xxx,xxx)

DESIGN & SAMPLE SIZES OF EACH STUDY:

NATIONAL SURVEY – Total Sample Size = 3,200

		Total Population	Sample Size Per Stratum	Estimated Response Rate	Est'd RR Starting Sample
Stratum 1)	EAC 274—Deciles 1 - 2	2,053,331	350	50%	700
Stratum 2)	EAC 274—Deciles 9 - 10	2,053,331	350	50%	700
Stratum 3)	EAC 275—Deciles 1 - 2	571,075	350	50%	700
Stratum 4)	EAC 275—Deciles 9 - 10	571,075	350	50%	700
Stratum 5)	EACs 276, 277—Deciles 1 - 2	268,565	350	50%	700
Stratum 6)	EACs 276, 277—Deciles 9 - 10	268,565	350	50%	700
Stratum 7)	EACs 280, 281—Deciles 1 - 2	256,306	350	50%	700
Stratum 8)	EACs 280, 281—Deciles 9 - 10	256,306	350	50%	700
Stratum 9)	All EACs—Deciles 3 - 8	9,447,830	400	50%	800
	Grand Totals	**15,745,384**	**3,200**	**50%**	**6,400**

COMMUNITIES SURVEY – Total Sample Size = 700

Cell 1)   Total Schedule C Filers In A LOW-DIFF/HIGH-Compliant Community (n=**350**) 1
Cell 2)   Total Schedule C Filers In A HIGH-DIFF/LOW-COMPLIANCE Community (n=**350**) 2

CALL TIMES ARE 9 AM TO 9 PM IN EACH TIME ZONE. KEEP RR RECORDS **FOR EACH CELL** WITHIN EACH STUDY, PER BELOW:

			NA/ Busy/ VM	Phone Not In Service	Lang. Not Eng/Span	Refused (Stop After 3 Tries)	Over-Quota Gender	Over-Quota Age	Owner Not Reachble	Qualified, But Not Compld	Com-pleted Survey
01	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
02	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
03	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
04	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
05	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
06	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
07	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
08	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
09	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9
10	DATE:_____	TIME:_____	(am) (pm) 1	2	3	4	5	6	7	8	9

INTERVIEWER ID _____

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

INTERVIEW ONLY THE OWNER OF A COMPANY ON EACH LIST PROVIDED BY TAS. INTRODUCE YOURSELF WITH: HELLO, I'M _____ OF RUSSELL RESEARCH, A NATIONAL RESEARCH FIRM. WE ARE CONDUCTING AN ANONYMOUS NATIONAL SURVEY OF BUSINESS OWNERS, IN WHICH WE WILL BE ASKING ABOUT ATTITUDES AND OPINIONS ABOUT FEDERAL INCOME TAXES. WE WILL BE ASKING QUESTIONS BOTH ABOUT YOUR ATTITUDES AND ABOUT YOUR PERCEPTION OF THE ATTITUDES OF OTHERS YOU KNOW THROUGH YOUR PARTICIPATION IN LOCAL ORGANIZATIONS. MAY I SPEAK WITH THE OWNER OF (READ NAME OF COMPANY FROM LIST)?

IF OWNER NOT AVAILABLE, RECORD THIS AND SECURE BEST TIME TO TRY AGAIN. AFTER REACHING OWNER (AND IF NECESSARY, REPEATING THE ABOVE INITIAL INTRO), CONTINUE WITH…

YOUR PARTICIPATION IN THIS SURVEY IS ENTIRELY VOLUNTARY AND YOUR RESPONSES WILL BE KEPT STRICTLY ANONYMOUS AND NEVER REVEALED TO ANYONE. THE SURVEY WILL TAKE NO MORE THAN 15 MINUTES AND WE'D APPRECIATE YOUR PARTICIPATION. IF YOU HAVE ANY QUESTIONS ABOUT RUSSELL RESEARCH, PLEASE LOG ONTO WWW.RUSSELLRESEARCH.COM AND YOU CAN VERIFY WHO WE ARE AND OUR RESEARCH WORK.

>>   CONTINUE w/Q1 – UNLESS YOU DETECT THAT THE OWNER SPEAKS MAINLY SPANISH, IN WHICH CASE, ASK HIM/HER TO HOLD WHILE YOU TRANSFER TO A BI-LINGUAL INTERVIEWER, WHO WILL SECURE A LANGUAGE PREFERENCE AND CONTINUE THE INTERVIEW.

1.   FIRST, FOR CLASSIFICATION PURPOSES ONLY, ARE YOU MALE OR FEMALE? (CLICK ANSWER.)

MALE (MONITOR AND CONTROL TO TAS %s —TBD)...1

FEMALE (MONITOR AND CONTROL TO TAS %s —TBD)..2

2.   AND WHICH OF THE FOLLOWING AGE CATEGORIES INCLUDES YOUR AGE? (READ CHOICES & CLICK ANSWER.)

UNDER 18 .... (THANK, TERM & TALLY]

18-24 (MONITOR AND CONTROL TO TAS %s —TBD) 1

25-34 (MONITOR AND CONTROL TO TAS %s —TBD) 2

35-44 (MONITOR AND CONTROL TO TAS %s —TBD) 3

45-54 (MONITOR AND CONTROL TO TAS %s —TBD) 4

55-64 (MONITOR AND CONTROL TO TAS %s —TBD) 4

AGE 65 OR OVER (MONITOR AND CONTROL TO TAS %s —TBD) 5

(DO NOT OFFER, BUT CLICK IF:) PREFER NOT TO ANSWER................. (THANK, TERM & TALLY]

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

3.   NEXT, TO CONFIRM, ARE YOU THE OWNER OF...(READ NAME OF COMPANY FROM LIST)? (DO NOT READ CHOICES – JUST CLICK ANSWER.)

YES (CONTINUE WITH REST OF SURVEY) 1

NO (ASK FOR THE BEST TIME TO SPEAK WITH THE OWNER AND CALL BACK).....................2

PREFER NOT TO ANSWER (THANK, TERM & TALLY AS A REFUSAL)..3

REFUSED TO PROVIDE BEST TIME FOR OWNER (THANK, TERM & TALLY) 4

ASK ALL:

4.   OTHER THAN YOURSELF, HOW MANY PEOPLE ARE EMPLOYED BY YOUR BUSINESS/COMPANY? (DO NOT READ CHOICES. CLICK ONE ANSWER.)

NONE 1

1 2

2 TO 4...3

5 TO 9...4

10 TO 19...5

20 TO 49...6

50 TO 99...7

100 TO 249 8

250 TO 499 9

500 TO 999 1

1,000 OR MORE 2

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER...............................3

5.   ARE YOUR CUSTOMERS PRIMARILY...? (READ RANDOMIZED CHOICES AND CLICK ANSWER.)

☐! LOCAL 1

☐! NATIONAL...2

☐! OR, INTERNATIONAL..3

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER ....4!

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

6. IN PREPARING YOUR MOST RECENT FEDERAL INCOME TAX RETURN, DID YOU...? (READ RANDOMIZED CHOICES & CLICK ANSWER.)

☐ COMPLETE IT YOURSELF USING TAX SOFTWARE 1

☐ COMPLETE IT YOURSELF WITHOUT USING TAX SOFTWARE 2

☐ HAVE IT COMPLETED BY A PAID TAX PREPARER 3

☐ HAVE IT COMPLETED BY AN UNPAID THIRD PARTY..4

(READ LAST:) OR, NONE OF THESE 5

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER...............................6

7. (GROUP B SELF-RATINGS – ASK ALL:) NEXT, I'LL READ SOME STATEMENTS WHICH MAY OR MAY NOT DESCRIBE YOUR VIEWS ON PERSONAL FINANCES AND YOUR EXPERIENCES IN PREPARING AND FILING YOUR TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, OR STRONGLY DISAGREE. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know
☐ (DETERRENCE) THESE DAYS, IT IS DIFFICULT TO MAKE ENDS MEET	1	2	3	4	5	6
☐ (DETERRENCE) ACHIEVING FINANCIAL SUCCESS IS IMPORTANT TO ME	1	2	3	4	5	6
☐ (DETERRENCE) TAKING RISKS IS NECESSARY TO ACHIEVE FINANCIAL SUCCESS	1	2	3	4	5	6
☐ (DETERRENCE) A PERSON'S STATUS IN MY COMMUNITY DEPENDS ON THEIR FINANCIAL STATUS	1	2	3	4	5	6
☐ (CCB) THE RULES ABOUT WHAT TO REPORT AS INCOME ARE CLEAR	1	2	3	4	5	6
☐ (CCB) MY RECORD KEEPING SYSTEM MAKES IT EASY FOR ME TO COMPUTE THE AMOUNT OF INCOME TAX I NEED TO REPORT ON MY RETURN	1	2	3	4	5	6
☐ (DETERRENCE) HEARING ABOUT PEOPLE WHO WERE CAUGHT NOT REPORTING THEIR TAXES MAKES ME TEND TO BE EVEN MORE CAREFUL WITH MY OWN TAXES	1	2	3	4	5	6
☐ (PREP—IF Q6—#3 OR #4) EVEN THOUGH SOMEONE ELSE PREPARED MY RETURN, I KNOW THE FEDERAL TAX LAWS WELL ENOUGH TO PREPARE MY OWN TAX RETURN	1	2	3	4	5	6
☐ (PREP—IF Q6—#3 OR #4) I MAKE SURE THAT I UNDERSTAND EVERY ITEM THAT IS INCLUDED OR OMITTED FROM MY RETURN BEFORE SIGNING IT	1	2	3	4	5	6
☐ (PREP—IF Q6—#3 OR #4) THE PERSON WHO PREPARES MY RETURN FINDS CREATIVE WAYS TO MINIMIZE TAXES	1	2	3	4	5	6
☐ (PREP—IF Q6—#3 OR #4) I ALWAYS FOLLOW THE INSTRUCTIONS OR ADVICE FROM THE PERSON WHO PREPARES MY RETURN	1	2	3	4	5	6

8. (GROUP C SELF-RATINGS – ASK ALL:) NOW I AM GOING TO READ SOME STATEMENTS ABOUT THE FEDERAL GOVERNMENT AND THE FEDERAL TAX LAWS. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, OR STRONGLY DISAGREE. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know
☐ *(Govt & Taxes)* The Federal Government spends tax dollars wisely	1	2	3	4	5	6
☐ *(Govt & Taxes)* Taxes fund important Federal Government benefits and services	1	2	3	4	5	6
☐ *(Govt & Taxes)* Taxpayers would tolerate higher taxes if it meant improved Federal Government services	1	2	3	4	5	6
☐ *(Govt & Taxes)* The Federal Government is involved in areas best left to the private sector	1	2	3	4	5	6
☐ *(Taxes & Fairness)* The Federal tax laws are fair	1	2	3	4	5	6
☐ *(CCB)* The tax rules are so complicated that it is very difficult to get a tax return exactly right	1	2	3	4	5	6
☐ *(Taxes & Fairness)* Under our Federal tax laws, everyone pays their fair share of taxes	1	2	3	4	5	6
☐ *(Taxes & Fairness)* Large businesses have loopholes to reduce their Federal taxes that smaller businesses do not have	1	2	3	4	5	6
☐ *(Taxes & Fairness)* The wealthy have ways of minimizing their Federal taxes that are not available to the average Taxpayer	1	2	3	4	5	6

9. (GROUP D SELF-RATINGS – ASK ALL:) Next are some statements about the IRS and how it interacts with Taxpayers. After I read each statement, tell me how much you agree or disagree with it, using a rating scale of: *Strongly Agree, Agree, Neither Agree Nor Disagree, Disagree,* or *Strongly Disagree.* Here are the statements: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	Don't Know
☐ *(Trust IRS Gen)* The IRS treats Taxpayers fairly	1	2	3	4	5	6
☐ *(Trust IRS Gen)* The IRS is more concerned with collecting as much as it can, than with collecting the correct amount of tax	1	2	3	4	5	6
☐ *(Trust IRS Gen)* The IRS treats Taxpayers with respect	1	2	3	4	5	6
☐ *(Trust IRS Gen)* The IRS will work with you if you have difficulty paying your taxes	1	2	3	4	5	6
☐ *(Trust IRS Gen)* Because the IRS treats Taxpayers fairly, I accept its decisions even if I disagree with them	1	2	3	4	5	6
☐ *(Trust IRS Gen)* Wealthy Taxpayers have an advantage when dealing with the IRS	1	2	3	4	5	6
☐ *(Deterrence)* The IRS probably knows when people do not report all of their income	1	2	3	4	5	6
☐ *(Trust IRS Svcs)* The IRS offers all of the Federal tax services I need	1	2	3	4	5	6
☐ *(Trust IRS Svcs)* It is easy for me to access the Federal tax services that the IRS provides	1	2	3	4	5	6
☐ *(Trust IRS Svcs)* I am satisfied with the quality of the Federal tax services the IRS provides	1	2	3	4	5	6

Penalty Study	Revenue Officers Impact	Rights and Remedies	Lien Study	EITC Tax Court Cases	Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

10.   (GROUP E SELF-RATINGS – ASK ALL:) FOLLOWING ARE SOME STATEMENTS CONCERNING YOUR VIEWS ON COMPLYING WITH THE TAX LAWS. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: *STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE,* OR *STRONGLY DISAGREE.* HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ *(NORMS)* MANY SMALL BUSINESSES DO NOT REPORT ALL OF THEIR INCOME	1	2	3	4	5	6
☐ *(NORMS)* MOST OF MY COMPETITORS REPORT ALL OF THEIR INCOME	1	2	3	4	5	6
☐ *(NORMS)* MOST SMALL BUSINESSES COULD NOT SURVIVE IF THEY REPORTED ALL OF THEIR INCOME	1	2	3	4	5	6
☐ *(DETERRENCE)* PEOPLE WHO DO NOT REPORT ALL OF THEIR INCOME ARE LIKELY TO END UP PAYING EVEN MORE IN PENALTIES AND INTEREST	1	2	3	4	5	6
☐ *(TAX MORALE)* EVERYONE SHOULD CORRECTLY REPORT ALL OF THEIR INCOME	1	2	3	4	5	6
☐ *(TAX MORALE)* I FEEL A MORAL OBLIGATION TO CORRECTLY REPORT ALL OF MY INCOME	1	2	3	4	5	6
☐ *(TAX MORALE)* IF OTHERS FOUND OUT I DID NOT REPORT ALL OF MY INCOME, I WOULD BE EMBARRASSED	1	2	3	4	5	6

(GROUP A QUESTIONS – ORGANIZATION AFFILIATION & NORMS) READ THIS SEGUE TO THE NEXT SECTION: THE NEXT SERIES OF QUESTIONS ARE ABOUT THE LOCAL ORGANIZATIONS IN WHICH YOU'RE INVOLVED AND YOUR PERCEPTION OF HOW MEMBERS OF THESE ORGANIZATIONS VIEW FEDERAL TAXES.

(PROGRAMMER: ROTATE THE GROUP "A" AFFILIATION AND NORMS QUESTION SERIES 11, 12, 13, 14, 15, AND 16, BUT ALWAYS LEAVE THE RELIGIOUS ORGANIZATIONS QUESTIONS (Qs 17a-b) AS THE LAST SERIES IN THIS ROTATION.)

11A.   (BUSINESS ORGANIZATION AFFILIATION – ASK ALL:) DO YOU BELONG TO ANY LOCAL BUSINESS ORGANIZATIONS SUCH AS A LOCAL CHAMBER OF COMMERCE, BUSINESS LEAGUE, OR SIMILAR ORGANIZATION – FOR EXAMPLE, THE JAYCEES? (CLICK ANSWER AND FOLLOW INSTRUCTIONS.)

YES (CONTINUE WITH Qs 11B. – 11D.) 1
NO (SKIP TO Q12A.) 2
(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER (SKIP TO Q12A.) 3

11B.   (IF YES TO Q11A, ASK:) THINK ABOUT THE ONE LOCAL BUSINESS ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH AND THEN TELL ME WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU PARTICIPATE IN THIS ORGANIZATION'S ACTIVITIES. (READ CHOICES AND CLICK ANSWER.)

ALWAYS 1
USUALLY 2
SOMETIMES 3
RARELY 4

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

NEVER..5

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER................................6

11C. (IF YES TO Q11A, ASK:) WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU SOCIALIZE WITH OTHER MEMBERS OF THIS ORGANIZATION? (READ CHOICES AND CLICK ANSWER.)

FREQUENTLY..1

OCCASIONALLY...2

RARELY 3

NEVER..4

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER................................5

11D. (IF YES TO Q11A, ASK:) THINKING STILL ABOUT THE ONE LOCAL BUSINESS ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH, I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF MEMBERS OF THIS ORGANIZATION TOWARD FEDERAL INCOME TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, OR STRONGLY DISAGREE. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR	1	2	3	4	5	6
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THE IRS TREATS TAXPAYERS FAIRLY	1	2	3	4	5	6

12A. (TRADE/LABOR/OCCUPATIONAL ORGANIZATION AFFILIATON – ASK ALL:) DO YOU BELONG TO ANY LOCAL TRADE ASSOCIATION, LABOR UNION, OR OTHER OCCUPATIONAL ORGANIZATIONS? (CLICK ANSWER AND FOLLOW INSTRUCTIONS.)

YES (CONTINUE WITH QS 12B. – 12D.) 1

NO (SKIP TO Q13A.)...2

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER (SKIP TO Q13A.).........3

12B. (IF YES TO Q12A, ASK:) THINK ABOUT THE ONE LOCAL TRADE, LABOR, OR OCCUPATIONAL ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH AND THEN TELL ME WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU PARTICIPATE IN THIS ORGANIZATION'S ACTIVITIES. (READ CHOICES AND CLICK ANSWER.)

ALWAYS 1

USUALLY..2

SOMETIMES..3

RARELY 4

NEVER..5

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER................................6

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

12C. (IF YES TO Q12A, ASK:) WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU SOCIALIZE WITH OTHER MEMBERS OF THIS ORGANIZATION? (READ CHOICES AND CLICK ANSWER.)

FREQUENTLY..1

OCCASIONALLY...2

RARELY 3

NEVER...4

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER 5

12D. (IF YES TO Q12A, ASK:) THINKING STILL ABOUT THE ONE LOCAL TRADE, LABOR, OR OCCUPATIONAL ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH, I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF MEMBERS OF THIS ORGANIZATION TOWARD FEDERAL INCOME TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: *STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE,* OR *STRONGLY DISAGREE.* HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR	1	2	3	4	5	6
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THE IRS TREATS TAXPAYERS FAIRLY	1	2	3	4	5	6

13A. (CIVIC/COMMUNITY/FRATERNAL ORGANIZATION AFFILIATION – ASK ALL:) DO YOU BELONG TO ANY LOCAL CIVIC LEAGUE, COMMUNITY ORGANIZATION, FRATERNAL SOCIETY, OR SIMILAR CLUB – FOR EXAMPLE, THE ROTARY CLUB, OR THE VFW? (CLICK ANSWER AND FOLLOW INSTRUCTIONS.)

YES (CONTINUE WITH Qs 13B. – 13D.) 1

NO (SKIP TO Q14A.)...2

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER (SKIP TO Q14A.).........3

13B. (IF YES TO Q13A, ASK:) THINK ABOUT THE ONE LOCAL CIVIC, COMMUNITY, OR FRATERNAL ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH AND THEN TELL ME WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU PARTICIPATE IN THIS ORGANIZATION'S ACTIVITIES. (READ CHOICES AND CLICK ANSWER.)

ALWAYS 1

USUALLY..2

SOMETIMES..3

RARELY 4

NEVER...5

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER 6

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

13C.   (IF YES TO Q13A, ASK:) WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU SOCIALIZE WITH OTHER MEMBERS OF THIS ORGANIZATION? (READ CHOICES AND CLICK ANSWER.)

FREQUENTLY..1
OCCASIONALLY..2
RARELY 3
NEVER...4
(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER...............................5

13D.   (IF YES TO Q13A, ASK:) THINKING STILL ABOUT THE ONE LOCAL CIVIC, COMMUNITY, OR FRATERNAL ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH, I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF MEMBERS OF THIS ORGANIZATION TOWARD FEDERAL INCOME TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, OR STRONGLY DISAGREE. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR	1	2	3	4	5	6
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THE IRS TREATS TAXPAYERS FAIRLY	1	2	3	4	5	6

14A.   (VOLUNTEER ORGANIZATION AFFILIATION – ASK ALL:) WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU DO VOLUNTEER WORK FOR ANY LOCAL VOLUNTEER ORGANIZATION? (READ CHOICES, CLICK ANSWER AND FOLLOW INSTRUCTIONS.)

NEVER (SKIP TO Q15A.) 1
WEEKLY (ASK Q14B.)..2
MONTHLY (ASK Q14B.) 3
YEARLY (ASK Q14B.)...4
(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER (SKIP TO Q15A.).........5

14B.   (IF WEEKLY/MONTHLY/YEARLY ABOVE, ASK:) THINK ABOUT THE ONE LOCAL VOLUNTEER ORGANIZATION THAT YOU ARE MOST CLOSELY ASSOCIATED WITH. I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF MEMBERS OF THIS ORGANIZATION TOWARD FEDERAL INCOME TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE, OR STRONGLY DISAGREE. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR	1	2	3	4	5	6

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

☐ MOST MEMBERS OF THIS ORGANIZATION BELIEVE THE IRS TREATS TAXPAYERS FAIRLY..............1 2 3 4 5 6

15A. (NORMS – ASK ALL:) DO YOU HAVE CHILDREN ATTENDING A LOCAL PUBLIC OR PRIVATE SCHOOL? (CLICK ANSWER AND FOLLOW INSTRUCTIONS.)

YES (ASK Q15B.)..1

NO (SKIP TO Q16A.)..2

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER (SKIP TO Q16A.).........5

15B. (IF YES TO Q15A, ASK:) THINK ABOUT THE PARENTS OF THE CHILDREN WITH WHOM YOUR CHILDREN PLAY OR ATTEND SCHOOL. I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF THOSE PARENTS TOWARD FEDERAL INCOME TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: *STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE*, OR *STRONGLY DISAGREE*. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ MOST PARENTS OF CHILDREN WITH WHOM YOUR CHILDREN PLAY OR ATTEND SCHOOL BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR	1	2	3	4	5	6
☐ MOST PARENTS OF CHILDREN WITH WHOM YOUR CHILDREN PLAY OR ATTEND SCHOOL BELIEVE THE IRS TREATS TAXPAYERS FAIRLY	1	2	3	4	5	6

16A. (NORMS – ASK ALL:) WHICH OF THE FOLLOWING BEST DESCRIBES HOW REGULARLY YOU VOTE IN ELECTIONS FOR CONGRESS, MAYOR OR OTHER LOCAL ELECTED OFFICIALS? (READ CHOICES, CLICK ANSWER AND THEN ASK ALL Q16B.)

ALWAYS 1

USUALLY..2

SOMETIMES..3

RARELY 4

NEVER...5

(DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER...............................6

16B. (ASK ALL, REGARDLESS OF ANSWER TO Q16A.:) I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF LOCAL OFFICIALS TOWARD FEDERAL INCOME TAXES. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: *STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE*, OR *STRONGLY DISAGREE*. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW
☐ YOUR LOCAL OFFICIALS GENERALLY BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR	1	2	3	4	5	6

| Compliance Study | EITC Tax Court Cases | Lien Study | Rights and Remedies | Revenue Officers Impact | Penalty Study |

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

☐ YOUR LOCAL OFFICIALS GENERALLY BELIEVE THE IRS TREATS TAXPAYERS FAIRLY 1   2   3   4   5   6

17A. (AFFILIATION – ASK ALL:) WHICH OF THE FOLLOWING BEST DESCRIBES HOW OFTEN YOU PARTICIPATE IN A CHURCH OR OTHER RELIGIOUS CONGREGATION? (READ CHOICES, CLICK ANSWER AND FOLLOW INSTRUCTIONS.)

> NEVER (SKIP TO Q18) 1
> WEEKLY (ASK Q17B.) 2
> MONTHLY (ASK Q17B.) 3
> YEARLY (ASK Q17B.) 4
> (DO NOT OFFER AS A CHOICE, BUT CLICK IF:) PREFER NOT TO ANSWER (SKIP TO Q18) 5

17B. (IF WEEKLY/MONTHLY/YEARLY ABOVE, ASK:) I'M GOING TO READ TWO STATEMENTS DESCRIBING THE ATTITUDES OF MEMBERS OF YOUR RELIGIOUS CONGREGATION. AFTER I READ EACH STATEMENT, TELL ME HOW MUCH YOU AGREE OR DISAGREE WITH IT, USING A RATING SCALE OF: *STRONGLY AGREE, AGREE, NEITHER AGREE NOR DISAGREE, DISAGREE,* OR *STRONGLY DISAGREE*. HERE ARE THE STATEMENTS: (START WITH 1ST STATEMENT IN RANDOMIZED SET AND CONTINUE UNTIL ALL STATEMENTS HAVE BEEN RATED. NOTE: DO NOT OFFER "DON'T KNOW" AS A CHOICE, BUT CLICK IT IF RESPONDENT CANNOT CHOOSE A RATING POINT.)

> (PROGRAMMER: (ASK Qs 17a. & 17b. LAST IN THE GROUP A SERIES.)

	STRONGLY AGREE	AGREE	NEITHER AGREE NOR DISAGREE	DISAGREE	STRONGLY DISAGREE	DON'T KNOW

☐ MOST MEMBERS OF YOUR RELIGIOUS CONGREGATION BELIEVE THAT THE FEDERAL TAX LAWS ARE FAIR 1   2   3   4   5   6

☐ MOST MEMBERS OF YOUR RELIGIOUS CONGREGATION BELIEVE THE IRS TREATS TAXPAYERS FAIRLY 1   2   3   4   5   6

(GROUP F DEMOGRAPHICS – ASK ALL:) READ INTRO: FINALLY, I'M GOING TO ASK YOU SOME QUESTIONS ABOUT YOURSELF AND YOUR BACKGROUND. THESE QUESTIONS WILL HELP US BETTER UNDERSTAND HOW PEOPLE WITH DIFFERENT BACKGROUNDS FEEL ABOUT TAX ISSUES.

18. WHICH OF THE FOLLOWING BEST DESCRIBES THE LEVEL OF EDUCATION THAT YOU HAVE COMPLETED? (READ LIST & CLICK ONE ANSWER.)

> ELEMENTARY SCHOOL 1
> SOME HIGH SCHOOL 2
> HIGH SCHOOL GRADUATE 3
> SOME COLLEGE 4
> COLLEGE GRADUATE 5
> POST-GRADUATE WORK..6
> (CLICK IF:) PREFER NOT TO ANSWER 7

19. DO YOU SPEAK A LANGUAGE OTHER THAN ENGLISH AT HOME? (CLICK ANSWER.)

> YES (ASK Q20 NEXT)..1
> NO (SKIP TO CLOSING) 2
> (DON'T READ:) PREFER NOT TO ANSWER (SKIP TO CLOSING)......3

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

20. (IF "YES" TO Q19, ASK:) WHAT IS THAT LANGUAGE? (DO NOT READ CHOICES. CLICK ANSWER.)

SPANISH 1

CHINESE 2

VIETNAMESE 3

KOREAN 4

RUSSIAN 5

SOME OTHER LANGUAGE (SPECIFY) _____ 6

(DON'T READ BUT CLICK IF:) PREFER NOT TO ANSWER 7

CLOSING COMMENTS:

THAT COMPLETES THE SURVEY, WHICH IS A PART OF A NATIONAL RESEARCH STUDY BEING CONDUCTED BY THE TAXPAYER ADVOCATE SERVICE, AN INDEPENDENT ORGANIZATION WITHIN THE INTERNAL REVENUE SERVICE THAT HELPS TAXPAYERS RESOLVE PROBLEMS WITH THE IRS. THE PURPOSE OF THE STUDY IS TO IMPROVE THE ADMINISTRATION OF TAX COLLECTION ON BEHALF OF ALL TAXPAYERS. AS NOTED AT THE BEGINNING OF THE SURVEY, YOU CAN BE ASSURED OF COMPLETE ANONYMITY AND THAT YOUR PERSONAL ANSWERS AND OPINIONS FROM THIS SURVEY WILL NEVER BE SHARED WITH ANYONE — NOT EVEN WITH THE TAXPAYER ADVOCATE SERVICE OR THE IRS. INSTEAD, YOUR ANSWERS WILL BE ANALYZED ONLY IN COMBINATION WITH THOSE OF THOUSANDS OF OTHER TAXPAYERS.

IN ADDITION, WE ARE REQUIRED BY LAW TO PROVIDE YOU THE OMB (OFFICE OF MANAGEMENT AND BUDGET) CONTROL NUMBER FOR THIS PUBLIC INFORMATION REQUEST. THAT NUMBER IS 1545-1432. IN ADDITION, IF YOU HAVE ANY COMMENTS ABOUT THE TIME ESTIMATE TO COMPLETE THE SURVEY OR WAYS TO IMPROVE THE SURVEY, YOU MAY WRITE TO THE IRS. WOULD YOU LIKE THE ADDRESS? (IF YES, ADDRESS IS…) *INTERNAL REVENUE SERVICE, TAX PRODUCTS COORDINATING COMMITTEE, SE:W:CAR:MP:T:T:SP, 1111 CONSTITUTION AVE. NW, WASHINGTON, DC 20224.* INTERVIEWER: AFTER COMPLETING INTERVIEW, CROSS-CHECK COMPLETENESS AND ACCURATELY TRANSFER TO BOX ON PAGE 1 ANY APPLICABLE APPENDED DATA FOR THIS RESPONDENT.

Thank you for your time and help with the survey.

APPENDIX II: RUSSELL RESEARCH TOPLINE SUMMARY

TOPLINE SUMMARY

OF TAS STUDY OF FACTORS INFLUENCING COMPLIANCE

INTRODUCTION

Background/Overview

A principal goal of the Internal Revenue Service (IRS) is to maximize the rate at which taxpayers pay their tax obligations voluntarily. To maximize voluntary compliance, the IRS needs to understand why taxpayers comply. Research shows that a broad variety of factors motivate taxpayers' decisions to comply with income tax laws. For example, a survey of current research conducted for the Taxpayer Advocate Service (TAS) and published in Volume 2 of the National Taxpayer Advocate's 2007 Annual Report to Congress identified numerous factors driving taxpayer compliance decisions in addition to the expected likelihood and cost of getting caught underreporting (called "economic deterrence"). These factors include compliance norms, trust in the government and the tax administration process, complexity and the convenience of complying, and the influence of preparers. More research was needed, however, to allow the IRS to understand the extent to which each of these factors motivates taxpayer compliance decisions and how their influence varies for different segments of the taxpaying population. Thus, the study summarized here was undertaken by TAS.

This research focused on sole proprietors, *i.e.*, those who file Form 1040 Schedule C, *Profit or Loss from Business*. This segment of the taxpaying population is responsible for the largest portion of the tax gap (*i.e.*, the portion of total taxes due that are not voluntarily and timely paid). The IRS is least likely to be able to detect or deter noncompliance by this segment without expending significant enforcement resources because most sole proprietor income is not subject to third-party information reporting. Relatively inexpensive measures, such as document matching and correspondence examinations, cannot reliably detect income that is not subject to information reporting. Thus, it is particularly important for policymakers to gain a better understanding of how to improve compliance among this group of taxpayers using levers **other than economic deterrence**.

Objectives Of This Study

TAS contracted Russell Research to help design and conduct a telephone-based survey to two different groups. The survey objectives included **identifying and quantifying the major factors that drive taxpayer compliance behavior**. The survey was administered to **a representative national sample of taxpayers who are sole proprietors**. It explored the factors potentially influencing compliance

| Penalty Study | Revenue Officers Impact | Rights and Remedies | Lien Study | EITC Tax Court Cases | Compliance Study |

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

behavior. **The survey was also administered to a sample of high and low compliance communities**. The communities research will enable TAS to better evaluate whether taxpayers' affiliations within their communities appear to influence compliance behavior. TAS will analyze data collected through this survey research to study the relationship between taxpayer attitudes with respect to the above-mentioned factors and taxpayer compliance behavior.

Sample Design & Methodology

In order to monitor taxpayer tax compliance, the IRS classifies tax returns into mutually exclusive groups called **examination activity codes**, and develops a separate compliance risk scoring algorithm (*i.e.*, DIF algorithm) for each activity code. For sole proprietors (*i.e.*, those who file tax returns that include a schedule C), the activity codes are defined in terms of the amount of gross receipts reported on the schedule C and the taxpayer's total positive income (which is essentially the taxpayer's income from all sources before adjusting for deductions and exemptions). The scores generated by the DIF algorithms are called DIF scores. TAS Research collected DIF scores from tax year 2009 returns for the population of taxpayers in the six activity codes included in the study. These activity codes included all sole proprietors residing in the United States, except low income taxpayers who claimed the earned income tax credit (EITC). The total population size (universe) for the study was about 16,000,000 taxpayers.

The DIF scores were sorted in ascending order by deciles within each of the six activity codes. TAS used the decile that each taxpayer's DIF score fell within as the indicator of the taxpayer's compliance level, i.e., scores ranged from 1 to 10, with 1 representing taxpayers in the first decile, etc. The likelihood of noncompliance increases as the DIF score increases. So, those in the first decile have the lowest DIF scores and most compliant behavior.

The survey was administered to two groups of sole proprietor taxpayers: a **representative national sample with 3,306 respondents** — divided into high and low compliance strata within exam activity codes as shown below; and **a "community" sample with 535 respondents** — 173 in the high compliance community stratum and 362 in the low compliance community stratum. (Data collected from the community survey provides useful information in enabling TAS to better evaluate whether taxpayers' affiliations within their communities influence their compliance behavior, but is not data that can be generalized to the overall population.) The response rate during data collection by Russell Research was 56 percent for the national sample and 54 percent for the community sample.

National Sample Strata		Population	Sample
EAC 274	Deciles 1 – 2	2,053,331	350
EAC 274	Deciles 9 – 10	2,053,331	350
EAC 275	Deciles 1 – 2	571,075	351
EAC 275	Deciles 9 – 10	571,075	384
EACs 276, 277	Deciles 1 – 2	268,565	359
EACs 276, 277	Deciles 9 - 10	268,565	350
EACs 280, 281	Deciles 1 – 2	256,306	383
EACs 280, 281	Deciles 9 - 10	256,306	379
All EACs	Deciles 3 – 8	9,447,830	400
Total		**15,745,384**	**3,306**

Russell Research conducted all interviews via telephone from 1/03/12 to 4/19/12, using TAS-provided lists and then further randomly selecting (on an nth selection basis) respondents for each stratum/cell. All potential respondents initially contacted were re-contacted up to three times in order to properly dispose of the contact (including re-contact by more senior interviewers on refusals).

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

SUMMARY OF FINDINGS

Results from the **National Sample** indicated that compliance potentially correlates to a range of profiling characteristics as well as attitudes and organizational influences.

- In **profiling characteristics**, **high compliance taxpayers** were **significantly higher than low compliance taxpayers** in terms of being Self-Filers and more Female-skewed, and in having Smaller Companies with Lower Receipts and Lower Expenses.

- In terms of **attitudes**, **high compliance taxpayers** were less likely to be Risk-Takers, were less Anti-Government and Anti-Tax, and less cynical about the IRS.

- And in terms of **organizational influences**, **high compliance taxpayers** were less likely (than low compliance taxpayers) to be involved in Local Business Organizations, Trade/Labor/Occupational Organizations, and Churches/Congregations **and if they are members of those organizations**, they tended to be **less frequent participants** who were also **less cognizant of the attitudes toward taxes of other members** of the same groups (or less likely to perceive other members as having negative attitudes toward federal taxes). In addition, while high compliance taxpayers were equally likely (as low compliance taxpayers) to be members of Volunteer Organizations, Have Children In Schools, and Vote In Local Elections, they were again less cognizant of the attitudes toward Federal taxes of other Volunteers or their Local Public Officials.

Results from the **Communities Sample** showed that most differences between high and low compliance communities came in attitudes.

- First, there were few notable differences in the **profiling characteristics** of **high vs. low compliance communities** — mainly more high compliance taxpayers speaking a language other than English at home and some differences by segment in the types of industries represented.

- But in terms of **attitudes**, there were clear differences, with **high compliance communities** being more likely to follow tax instructions, check their return, and not underreport income because of hearing of those who were caught doing so. Yet, they were also more likely to say their preparer can creatively minimize taxes. In other attitudinal differences vs. low compliance communities, the high compliance communities indicated stronger belief in the benefits of, fairness, and fair sharing of federal taxes. They were also more likely to believe that the IRS treats everyone with respect and fairness and provides easy access to and high quality services. They were also more likely to approach paying taxes as a moral obligation.

- Finally, base sizes were generally too small for analysis of most **organizational influences** — though results did show that high compliance taxpayers are less likely to belong to Trade, Labor & Occupational groups, Volunteer organizations, are less likely to have Children in School, Vote, or Belong To Churches/Congregations.

SUMMARIZED TABULAR DATA FROM SURVEY

STATISTICAL NOTATION USED IN TABULAR SUMMARY

○ =   data significantly higher than all comparative data point(s) at 95% confidence level. If arrow next to Circle, then data significantly lower than only the one comparative data point indicated by the arrow.

□ =   data significantly lower than all comparative data point(s) at 95% confidence level. If arrow next to Box, then data significantly lower than only the one comparative data point indicated by the arrow.

✳   **IMPORTANT ANALYTICAL NOTE**: The statistical and analytical comparisons here are always between the High, Low and Moderate Compliance segments in the National Survey or between the High and Low Compliance communities in the Communities Survey. Results from the National versus Communities surveys have not been compared here.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

FACTORS INFLUENCING SMALL BUSINESSES' COMPLIANCE WITH INCOME TAX LAWS

TABLE 1 – SCHEDULE C FILER PROFILING DATA

	NATIONAL SURVEY			COMMUNITIES SURVEY	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q1 – GENDER					
MALE	59	65	61	48	52
FEMALE	41	35	39	52	48
Q2 – AGE: MEAN AGE	51	50	48	42	45
Q18 – EDUCATION: % WITH SOME COLLEGE	83	84	77	89	86
Q19 – LANGUAGE: % SPEAK NON-ENGLISH AT HOME	7	14	10	22	9
Q4 – # PEOPLE EMPLOYED BY COMPANY					
AVERAGE # EMPLOYEES	3.6	6.6	2.2	1.7	1.2
% WITH NO EMPLOYEES	66	59	62	69	66
% WITH 1 EMPLOYEE	19	16	15	4	12
% WITH 2+ EMPLOYEES	14	24	23	26	21
NO Q – IRS AREA					
AREA 1	21	17	20	32	1
AREA 2	26	23	24	68	45
AREA 3	19	21	19	-	5
AREA 4	18	18	18	-	36
AREA 5	17	20	19	-	12

Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 2 – SCHEDULE C FILER PROFILING DATA (CONT'D.)

| | NATIONAL SURVEY | | | COMMUNITIES SURVEY | |
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q5 – CUSTOMERS ARE PRIMARILY...					
LOCAL	78	77	(83)	85	82
NATIONAL	17	(19)	14	14	16
INTERNATIONAL	3	3	3	2	2
REFUSED	2	1	-	-	0
APPENDS – NAICS/NORTH AM. INDUSTRY CLASSIFICATION					
PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES	(26)	17	16	11	(22)
OTHER SERVICES (EXCEPT PUBLIC ADMINISTRATION)	10	9	(17)	(22)	11
HEALTH CARE AND SOCIAL ASSISTANCE	7	[4]	7	5	8
ARTS, ENTERTAINMENT, AND RECREATION	(7)	5	4	(5)	1
RETAIL TRADE	7	8	7	(13)	5
FINANCE AND INSURANCE	6	5	[2]	1	(5)
CONSTRUCTION	[4]	9	9	3	7
REAL ESTATE AND RENTAL AND LEASING	4	(9)	2	2	5
ADMIN, SUPPORT, WM, REMEDIATION SVCS	3	4	6	11	7
EDUCATIONAL SERVICES	2	1	3	1	3
MANUFACTURING	2	2	1	1	0
TRANSPORTATION AND WAREHOUSING	2	3	3	1	3
WHOLESALE TRADE	1	2	2	1	0
INFORMATION	1	1	3	1	1
ACCOMMODATION AND FOOD SERVICES	1	2	3	1	0
AGRICULTURE, FORESTRY, FISHING AND HUNTING	1	2	2	0	0
MINING, QUARRYING, AND OIL AND GAS EXTRACTION	0	1	-	1	-
ALL OTHER/UNCLASSIFIED	17	17	14	20	18
APPENDS – RECEIPTS: MEAN	[$45,837]	$87,135	$77,396	$36,255	$30,300
APPENDS – EXPENSES: MEAN	$12,190	($49,828)	$33,550	$17,606	$18,327
APPENDS – POSITIVE INCOME: MEAN	$90,724	$92,340	[$74,311]	$87,301	$67,208
APPENDS – EXAM ACTIVITY: % WITH EXAM ACTIVITY	2	(9)	7	4	(10)
APPENDS – COLLECTION ACTIVITY: % W/COLLECTION ACT	1	(3)	1	1	(7)
APPENDS – BUSINESS OWNER TYPE					
PRIMARY	76	76	74	78	73
SECONDARY	24	24	26	22	27

TABLE 3 – WHO PREPARED MOST RECENT FEDERAL INCOME TAX RETURN

	---------------NATIONAL SURVEY---------------			---COMMUNITIES SURVEY---	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q6 – WHO PREPARED MOST RECENT TAX RETURN					
COMPLETE IT YOURSELF	32	21	24	14	33
COMPLETE IT YOURSELF USING TAX SOFTWARE	25	15	18	11	28
COMPLETE IT YOURSELF WITHOUT USING TAX SOFTWARE	7	7	5	3	6
COMPLETELY BY TAX PREPARER/THIRD PARTY	68	78	74	86	65
HAVE IT COMPLETED BY A PAID TAX PREPARER	66	76	73	84	64
HAVE IT COMPLETED BY AN UNPAID THIRD PARTY	2	2	2	1	1
NONE OF THE ABOVE	0	0	1	-	2
REFUSED	0	0	1	-	-

Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 4 – ATTITUDES TOWARD PERSONAL FINANCES & PREPARING & FILING TAXES

	NATIONAL SURVEY			COMMUNITIES SURVEY	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443) %	(1463) %	(400) %	(173) %	(362) %
Q7 – TOP-TWO BOX AGREEMENT RATING (STRONGLY AGREE/AGREE)					
I ALWAYS FOLLOW THE INSTRUCTIONS OR ADVICE FROM THE PERSON WHO PREPARES MY RETURN	96	90	95	98	89
ACHIEVING FINANCIAL SUCCESS IS IMPORTANT TO ME	85	88	90	96	93
I MAKE SURE THAT I UNDERSTAND EVERY ITEM THAT IS INCLUDED OR OMITTED FROM MY RETURN BEFORE SIGNING IT	80	79	79	91	84
THESE DAYS, IT IS DIFFICULT TO MAKE ENDS MEET	74	77	78	76	81
MY RECORD KEEPING SYSTEM MAKES IT EASY FOR ME TO COMPUTE THE AMOUNT OF INCOME TAX I NEED TO REPORT ON MY RETURN	74	76	72	74	79
THE RULES ABOUT WHAT TO REPORT AS INCOME ARE CLEAR	63	65	65	73	68
HEARING ABOUT PEOPLE WHO WERE CAUGHT NOT REPORTING THEIR TAXES MAKES ME TEND TO BE EVEN MORE CAREFUL WITH MY OWN TAXES	61	66	73	86	70
TAKING RISKS IS NECESSARY TO ACHIEVE FINANCIAL SUCCESS	61	68	65	70	67
THE PERSON WHO PREPARES MY RETURN FINDS CREATIVE WAYS TO MINIMIZE TAXES	35	28	36	47	35
EVEN THOUGH SOMEONE ELSE PREPARED MY RETURN, I KNOW THE FEDERAL TAX LAWS WELL ENOUGH TO PREPARE MY OWN TAX RETURN	23	23	19	28	27
A PERSON'S STATUS IN MY COMMUNITY DEPENDS ON THEIR FINANCIAL STATUS	23	27	27	41	35

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 5 – ATTITUDES TOWARD FEDERAL GOVERNMENT & FEDERAL TAX LAWS

| | NATIONAL SURVEY | | | COMMUNITIES SURVEY | |
	HIGH COMPLIANCE (1443) %	LOW COMPLIANCE (1463) %	MODERATE COMPLIANCE (400) %	HIGH COMPLIANCE (173) %	LOW COMPLIANCE (362) %
TOTAL RESPONDENTS					
Q8 – TOP-TWO BOX AGREEMENT RATING (STRONGLY AGREE/AGREE)					
LARGE BUSINESSES HAVE LOOPHOLES TO REDUCE THEIR FEDERAL TAXES THAT SMALLER BUSINESSES DO NOT HAVE	77	75	76	71	80
THE WEALTHY HAVE WAYS OF MINIMIZING THEIR FEDERAL TAXES THAT ARE NOT AVAILABLE TO THE AVERAGE TAXPAYER	74	69	74	71	74
TAXES FUND IMPORTANT FEDERAL GOVERNMENT BENEFITS AND SERVICES	71	70	70	86	67
THE TAX RULES ARE SO COMPLICATED THAT IT IS VERY DIFFICULT TO GET A TAX RETURN EXACTLY RIGHT	62	58	54	64	63
THE FEDERAL GOVERNMENT IS INVOLVED IN AREAS BEST LEFT TO THE PRIVATE SECTOR	59	66	64	50	54
TAXPAYERS WOULD TOLERATE HIGHER TAXES IF IT MEANT IMPROVED FEDERAL GOVERNMENT SERVICES	37	30	37	54	37
THE FEDERAL TAX LAWS ARE FAIR	15	15	17	33	24
UNDER OUR FEDERAL TAX LAWS, EVERYONE PAYS THEIR FAIR SHARE OF TAXES	13	16	10	24	11
THE FEDERAL GOVERNMENT SPENDS TAX DOLLARS WISELY	8	6	7	22	11

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 6 – ATTITUDES TOWARD IRS INTERACTION WITH TAXPAYERS

| | NATIONAL SURVEY | | | COMMUNITIES SURVEY | |
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443) %	(1463) %	(400) %	(173) %	(362) %
Q9 – TOP-TWO BOX AGREEMENT RATING (STRONGLY AGREE/AGREE)					
WEALTHY TAXPAYERS HAVE AN ADVANTAGE WHEN DEALING WITH THE IRS	58	59	63	52	62
THE IRS WILL WORK WITH YOU IF YOU HAVE DIFFICULTY PAYING YOUR TAXES	49	55	53	63	58
THE IRS TREATS TAXPAYERS WITH RESPECT	47	47	45	63	53
THE IRS TREATS TAXPAYERS FAIRLY	47	42	41	68	42
IT IS EASY FOR ME TO ACCESS THE FEDERAL TAX SERVICES THAT THE IRS PROVIDES	45	48	48	60	51
THE IRS OFFERS ALL OF THE FEDERAL TAX SERVICES I NEED	43	43	46	48	46
I AM SATISFIED WITH THE QUALITY OF THE FEDERAL TAX SERVICES THE IRS PROVIDES	40	39	41	68	42
THE IRS PROBABLY KNOWS WHEN PEOPLE DO NOT REPORT ALL OF THEIR INCOME	39	52	54	52	62
BECAUSE THE IRS TREATS TAXPAYERS FAIRLY, I ACCEPT ITS DECISIONS EVEN IF I DISAGREE WITH THEM	38	42	43	46	43
THE IRS IS MORE CONCERNED WITH COLLECTING AS MUCH AS IT CAN, THAN WITH COLLECTING THE CORRECT AMOUNT OF TAX	25	42	34	35	48

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 7 – ATTITUDES TOWARD COMPLYING WITH TAX LAWS

	NATIONAL SURVEY			COMMUNITIES SURVEY	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443) %	(1463) %	(400) %	(173) %	(362) %
Q10 – TOP-TWO BOX AGREEMENT RATING (STRONGLY AGREE/AGREE)					
I FEEL A MORAL OBLIGATION TO CORRECTLY REPORT ALL OF MY INCOME	96	96	93	(98)	92
EVERYONE SHOULD CORRECTLY REPORT ALL OF THEIR INCOME	94	97	96	98	95
IF OTHERS FOUND OUT I DID NOT REPORT ALL OF MY INCOME, I WOULD BE EMBARRASSED	78	79	75	(90)	76
PEOPLE WHO DO NOT REPORT ALL OF THEIR INCOME ARE LIKELY TO END UP PAYING EVEN MORE IN PENALTIES AND INTEREST	68	75	74	84	78
MANY SMALL BUSINESSES DO NOT REPORT ALL OF THEIR INCOME	26	27	28	27	33
MOST OF MY COMPETITORS REPORT ALL OF THEIR INCOME	22	31	28	35	27
MOST SMALL BUSINESSES COULD NOT SURVIVE IF THEY REPORTED ALL OF THEIR INCOME	12	15	12	(23)	16

Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 8 – MEMBERSHIP IN & ATTITUDES OF LOCAL BUSINESS ORGANIZATIONS

	----------------NATIONAL SURVEY----------------			---COMMUNITIES SURVEY---	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q11A – WHETHER BELONG TO LOCAL BUSINESS ORGS.					
BELONG TO LOCAL BUSINESS ORGANIZATIONS	11	(16)	11	9	10
DO NOT BELONG TO LOCAL BUSINESS ORGANIZATIONS	89	84	89	89	90
REFUSED	0	0	0	1	0
(NEW BASE: TOTAL BELONG TO LOCAL BUSINESS ORGANIZATIONS)	*(188)*	*(307)*	*(47)*	*(28)*	*(45)*
FOR THE ONE LOCAL BUS ORG MOST CLOSELY ASSOCIATE WITH:					
Q11B – FREQ. OF PARTICIPATING IN ORG'S ACTIVITIES					
ALWAYS/USUALLY	30	(50)	26	31	20
SOMETIMES	(45)	27	42	36	36
RARELY/NEVER	25	22	31	33	44
Q11C – FREQUENCY OF SOCIALIZING W/MEMBERS OF ORG					
FREQUENTLY/OCCASIONALLY	75	69	65	83	44
RARELY/NEVER	25	31	35	17	55
Q11D – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES *"MOST MEMBERS OF THIS ORGANIZATION BELIEVE FEDERAL TAX LAWS ARE FAIR"*					
STRONGLY AGREE/AGREE	20	17	13	18	24
NEITHER AGREE NOR DISAGREE	23	13	18	14	29
DISAGREE/STRONGLY DISAGREE	28	(48)	38	65	36
DON'T KNOW	29	22	32	4	12
Q11D – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES *"MOST MEMBERS OF THIS ORGANIZATION BELIEVE THE IRS TREATS TAXPAYERS FAIRLY"*					
STRONGLY AGREE/AGREE	20	23	11	22	4
NEITHER AGREE NOR DISAGREE	19	14	16	20	29
DISAGREE/STRONGLY DISAGREE	21	(37)	32	48	57
DON'T KNOW	40	26	41	11	10

RED BOLD BASES = CAUTION: SMALL BASE OF <50 AND DATA BELOW IT HAVE NOT BEEN TESTED FOR STATISTICAL SIGNIFICANCE.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 9 – MEMBERSHIP IN & ATTITUDES OF LOCAL TRADE, LABOR & OCCUPATIONAL ORGANIZATIONS

| | NATIONAL SURVEY | | | COMMUNITIES SURVEY | |
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q12A – WHETHER BELONG TO ANY LOCAL TRADE, LABOR, OR OTHER OCCUPATIONAL ORGANIZATIONS					
BELONG TO LOCAL TRADE/LABOR/OCCUPATIONAL ORGS	15	18	13	10	20
DO NOT BELONG TO LOCAL TRADE/LABOR/OCCUP ORGS.	85	81	87	90	80
REFUSED	0	1	0	1	0
(TOTAL BELONG TO LOCAL TRADE/LABOR/OCCUPATIONAL ORGS)	(244)	(277)	(52)	(25)	(63)

FOR THE ONE LOCAL TRADE/LABOR/OCCUPATIONAL ORGANIZATION MOST CLOSELY ASSOCIATE WITH:

	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
Q12B – FREQ. OF PARTICIPATION IN ORG'S. ACTIVITIES					
ALWAYS/USUALLY	24	40	23	37	47
SOMETIMES	34	26	55	26	32
RARELY/NEVER	41	25	20	37	21
REFUSED	1	8	3	-	0
Q12C – FREQ. OF SOCIALIZING W/MEMBERS OF ORG.					
FREQUENTLY/OCCASIONALLY	71	65	70	63	75
RARELY/NEVER	28	26	28	37	25
REFUSED	0	9	2	-	-
Q12D – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES					
"MOST MEMBERS BELIEVE FEDERAL TAX LAWS ARE FAIR"					
STRONGLY AGREE/AGREE	23	26	14	18	26
NEITHER AGREE NOR DISAGREE	16	8	10	23	11
DISAGREE/STRONGLY DISAGREE	38	42	44	47	55
DON'T KNOW	23	24	31	11	8
Q12D – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES					
"MOST MEMBERS BELIEVE IRS TREATS TAXPAYERS FAIRLY"					
STRONGLY AGREE/AGREE	24	27	17	23	30
NEITHER AGREE NOR DISAGREE	23	10	12	31	15
DISAGREE/STRONGLY DISAGREE	28	46	40	36	46
DON'T KNOW	25	17	30	11	8

RED BOLD BASES = CAUTION: SMALL BASE OF <50 AND DATA BELOW IT HAVE NOT BEEN TESTED FOR STATISTICAL SIGNIFICANCE.

Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 10 – MEMBERSHIP IN & ATTITUDES OF LOCAL CIVIC, COMMUNITY & FRATERNAL ORGANIZATIONS

| | NATIONAL SURVEY | | | COMMUNITIES SURVEY | |
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q13A – WHETHER BELONG TO CIVIC/COMM/FRAT ORGS					
BELONG TO LOCAL COMMUNITY ORGANIZATIONS	11	13	13	15	14
DO NOT BELONG TO LOCAL COMMUNITY ORGANIZATIONS	88	86	86	83	86
REFUSED	1	1	0	1	0
(TOTAL BELONG TO LOCAL OCCUPATIONAL ORG)	(189)	(248)	(58)	*(43)*	(55)
FOR THE ONE LOCAL CIVIC/COMMUNITY/FRATERNAL ORGANIZATION MOST CLOSELY ASSOCIATE WITH:					
Q13B – FREQ. OF PARTICIPATION IN ORG'S ACTIVITIES					
ALWAYS/USUALLY	47	67	59	38	70
SOMETIMES	32	22	27	37	25
RARELY/NEVER	19	10	14	21	4
REFUSED	1	0	-	4	-
Q13C – FREQ. OF SOCIALIZING W/MEMBERS OF ORG.					
FREQUENTLY/OCCASIONALLY	83	85	82	80	91
RARELY/NEVER	15	15	18	16	9
REFUSED	2	-	-	4	-
Q13D – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES					
"MOST MEMBERS BELIEVE FEDERAL TAX LAWS ARE FAIR"					
STRONGLY AGREE/AGREE	13	17	16	28	29
NEITHER AGREE NOR DISAGREE	28	14	14	5	7
DISAGREE/STRONGLY DISAGREE	23	50	53	42	49
DON'T KNOW	37	19	17	25	15
Q13D – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES					
"MOST MEMBERS BELIEVE IRS TREATS TAXPAYERS FAIRLY"					
STRONGLY AGREE/AGREE	20	21	11	35	28
NEITHER AGREE NOR DISAGREE	25	17	14	5	7
DISAGREE/STRONGLY DISAGREE	18	36	57	31	49
DON'T KNOW	38	26	18	29	16

RED BOLD BASES = CAUTION: SMALL BASE OF <50 AND DATA BELOW IT HAVE NOT BEEN TESTED FOR STATISTICAL SIGNIFICANCE.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 11 – MEMBERSHIP IN & ATTITUDES OF LOCAL VOLUNTEER ORGANIZATIONS

	---------------NATIONAL SURVEY---------------			---COMMUNITIES SURVEY---	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q14A – FREQ. OF VOLUNTEERING FOR LOCAL ORGS					
EVER VOLUNTEER	62	61	54	58	67
NEVER	34	35	43	40	32
REFUSED	4	4	3	2	1
(TOTAL EVER DO VOLUNTEER WORK)	(870)	(886)	(211)	(120)	(231)

FOR THE ONE LOCAL VOLUNTEER
ORGANIZATION MOST CLOSELY ASSOCIATE WITH:

Q14B – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES
"MOST MEMBERS BELIEVE FEDERAL TAX LAWS ARE FAIR"

STRONGLY AGREE/AGREE	15	20	18	15	25
NEITHER AGREE NOR DISAGREE	24	20	23	16	21
DISAGREE/STRONGLY DISAGREE	24	33	32	18	29
DON'T KNOW	36	27	27	51	26

Q14B – ATTITUDES OF MEMBERS TOWARD FEDERAL INCOME TAXES
"MOST MEMBERS BELIEVE IRS TREATS TAXPAYERS FAIRLY"

STRONGLY AGREE/AGREE	16	24	25	18	32
NEITHER AGREE NOR DISAGREE	22	23	24	16	20
DISAGREE/STRONGLY DISAGREE	19	24	21	15	25
DON'T KNOW	43	28	31	51	23

Compliance Study

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 12 – USE OF & ATTITUDES OF PARENTS IN LOCAL PUBLIC OR PRIVATE SCHOOLS

	NATIONAL SURVEY			COMMUNITIES SURVEY	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q15A – WHETHER HAVE CHILDREN ATTENDING LOCAL PUBLIC/PRIVATE SCHOOL					
HAVE CHILDREN ATTENDING	33	32	36	37	(52)
DO NOT HAVE CHILDREN ATTENDING	67	67	64	63	47
REFUSED	1	1	0	1	0
(TOTAL HAVE CHILDREN IN PUBLIC/PRIVATE SCHOOL)	(290)	(333)	(92)	(45)	(96)
THINKING OF THE PARENTS OF CHILDREN WITH WHOM THEIR CHILDREN PLAY:					
Q15B – ATTITUDES OF PARENTS TOWARD FEDERAL INCOME TAXES *"MOST PARENTS OF CHILDREN BELIEVE FEDERAL TAX LAWS ARE FAIR"*					
STRONGLY AGREE/AGREE	11	15	17	37	27
NEITHER AGREE NOR DISAGREE	14	16	12	15	18
DISAGREE/STRONGLY DISAGREE	38	35	34	15	42
DON'T KNOW	37	33	38	33	13
Q15B – ATTITUDES OF PARENTS TOWARD FEDERAL INCOME TAXES *"MOST PARENTS OF CHILDREN BELIEVE IRS TREATS TAXPAYERS FAIRLY"*					
STRONGLY AGREE/AGREE	15	17	18	39	27
NEITHER AGREE NOR DISAGREE	19	16	13	17	22
DISAGREE/STRONGLY DISAGREE	29	30	29	9	37
DON'T KNOW	37	36	40	35	15

RED BOLD BASES = CAUTION: SMALL BASE OF <50 AND DATA BELOW IT HAVE NOT BEEN TESTED FOR STATISTICAL SIGNIFICANCE.

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 13 – VOTING FOR & ATTITUDES OF LOCAL ELECTED OFFICIALS

| | NATIONAL SURVEY | | | COMMUNITIES SURVEY | |
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q16A – FREQUENCY OF VOTING IN ELECTIONS FOR CONGRESS, MAYOR OR OTHER LOCAL ELECTED OFFICIALS					
ALWAYS/USUALLY	83	81	74	64	73
SOMETIMES	6	8	11	10	12
RARELY/NEVER	9	10	12	23	12
REFUSED	2	1	3	3	3
Q16B – LOCAL OFFICIALS ATTITUDES TOWARD FEDERAL INCOME TAXES "YOUR LOCAL OFFICIALS GENERALLY BELIEVE FEDERAL TAX LAWS ARE FAIR"					
STRONGLY AGREE/AGREE	20	24	23	29	25
NEITHER AGREE NOR DISAGREE	23	21	24	25	17
DISAGREE/STRONGLY DISAGREE	19	23	19	14	29
DON'T KNOW	39	32	35	32	29
Q16B – LOCAL OFFICIALS ATTITUDES TOWARD FEDERAL INCOME TAXES "YOUR LOCAL OFFICIALS GENERALLY BELIEVE IRS TREATS TAXPAYERS FAIRLY"					
STRONGLY AGREE/AGREE	22	27	28	34	34
NEITHER AGREE NOR DISAGREE	26	21	19	24	17
DISAGREE/STRONGLY DISAGREE	10	18	17	9	20
DON'T KNOW	41	33	36	33	29

Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results

TABLE 14 – PARTICIPATION IN & ATTITUDES OF MEMBERS OF LOCAL CHURCH/OTHER RELIGIOUS CONGREGATIONS

	----------------NATIONAL SURVEY----------------			---COMMUNITIES SURVEY---	
	HIGH COMPLIANCE	LOW COMPLIANCE	MODERATE COMPLIANCE	HIGH COMPLIANCE	LOW COMPLIANCE
TOTAL RESPONDENTS	(1443)	(1463)	(400)	(173)	(362)
	%	%	%	%	%
Q17A – FREQUENCY OF PARTICIPATING IN CHURCH/ OTHER RELIGIOUS CONGREGATIONS					
EVER PARTICIPATE IN CHURCH/CONGREGATION	61	←——(71)	66	74	81
NEVER	34	27	29	(22)	15
REFUSED	5	3	6	4	4
(TOTAL PARTICIPATE IN CHURCH/RELIGIOUS CONGREGATIONS)	(920)	(989)	(269)	(125)	(278)
Q17B – ATTITUDES OF MEMBERS OF CHURCH/RELIGIOUS CONGREGATION TOWARD FEDERAL INCOME TAXES *"MOST MEMBERS BELIEVE FEDERAL TAX LAWS ARE FAIR"*					
STRONGLY AGREE/AGREE	16	←——(22)	15	33	29
NEITHER AGREE NOR DISAGREE	20	21	23	11	16
DISAGREE/STRONGLY DISAGREE	25	23	28	16	(32)
DON'T KNOW	39	34	35	40	23
Q17B – ATTITUDES OF MEMBERS OF CHURCH/RELIGIOUS CONGREGATION TOWARD FEDERAL INCOME TAXES *"MOST MEMBERS BELIEVE IRS TREATS TAXPAYERS FAIRLY"*					
STRONGLY AGREE/AGREE	20	22	20	35	35
NEITHER AGREE NOR DISAGREE	22	22	21	9	(16)
DISAGREE/STRONGLY DISAGREE	20	21	23	13	(26)
DON'T KNOW	39	35	36	(43)	23