



# Free File Demographics and Migration Analysis



# Free File Demographics and Migration Analysis



IRS Wage & Investment  
Research and Analysis  
Project #2-09-04-S-017  
Research Group 2



# ***Background***

To increase electronic filing, it is imperative that the IRS understand its markets, measure the success of past marketing efforts, and track changes in taxpayer behavior. In an effort to increase the number of individual income tax returns filed electronically, Electronic Tax Administration and Refundable Credits (ETARC) officials have requested an analysis of taxpayers who use the Free File program.

The Free File program is a free federal tax preparation and electronic filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, a group of private sector tax preparation companies. For processing year (PY) 2008 (tax year (TY) 2007), the Free File program allows taxpayers earning \$54,000 or less to file their federal tax returns for free with no hidden fees. Free File contributes to overall IRS electronic filing.



# ***Brief Methodology***

WIRA addressed seven research problems in order to better understand Free File taxpayers and to track their behavior. Data was queried through the use of Structured Query Language (SQL) programming. The primary data source was the ETA Marketing Database. WIRA used descriptive statistics and market segmentation to profile various taxpayer populations of interest. Additional analysis was performed to answer specific business questions.

At the time of this analysis, the most recent data available for Tax Year 2008 covers returns processed during 1<sup>st</sup> Quarter of 2009.

For the longitudinal analysis (Research Problem 3) WIRA analyzed taxpayers instead of tax returns. Since a taxpayer could have filed as primary in one year and secondary in another, analyzing taxpayers allows for a more complete analysis.



# Research Problem 1:

What are the demographic characteristics (e.g., age, AGI, EITC, filing status, etc.) of the TY 2007 Free File taxpayers?

How do the TY 2007 Free File taxpayers compare to the TY 2006 and TY 2005 Free File taxpayers?



# Number of Free Filers Increased by Over 900,000

Table 1: Number of Free Filers by Tax Year

Taxpayer Classification	TY 2005	TY 2006	TY 2007
Free Filers	3,783,306	3,854,549	4,768,474
% Change	-	1.9%	23.7%

Source: ETA IMF Marketing Database

- Number of Free Filers increased dramatically from TY 2006 to TY 2007.
- Of the returns that were Free Filed in TY 2007, 290,135 were identified as returns filed solely to obtain the economic stimulus rebate\*. These accounted for nearly 32% of the increase in Free File.
- Due to a large increase in the number of Free Filers from TY 2006 to TY 2007, the counts of every demographic category increased (with the exception of education tax credit claimed, which decreased from 258,166 to 254,324).

\*A database containing Economic Stimulus returns was provided by ETA.



# Top Categories of Free Filers TY 2005 to TY 2007

**Table 2: Top Categories of Free Filers by Tax Year**

Top Category	TY 2005	TY 2006	TY 2007
Age - Under 25	41.8%	40.9%	36.7%
AGI - \$0 to \$17,000	51.0%	50.4%	53.1%
0 Dependents	77.5%	76.2%	76.8%
Simple Return Type	62.5%	60.0%	60.8%
Filing Status - Single	73.2%	72.0%	71.9%
Refund	94.5%	94.8%	86.8%
No EITC	77.4%	75.9%	76.1%
No Education Tax Credit Claimed	94.0%	93.3%	94.7%
No Form 2441 Present	97.2%	96.9%	97.1%
No Direct Debit	98.2%	98.1%	98.0%
Direct Deposit Accepted	70.4%	72.4%	70.1%

- Of the filing attributes that were examined, Table 2 represents the categories with the highest percentage of Free Filers in TY 2005, TY 2006, and TY 2007.
- These categories were examined independently; so it does not mean all Free Filers fall under all of the categories.
- The top categories are the same every year. The biggest differences from TY 2006 to TY 2007 occur in Age, AGI, and Refunds.

Source: ETA IMF Marketing Database



# Age of Free Filers

Table 3: Percentage of Free Filers by Age and Tax Year

Age	TY 2005	TY 2006	TY 2007
Under 25	41.8%	40.9%	36.7%
25 to 34	28.0%	28.4%	26.6%
35 to 44	14.0%	14.3%	14.5%
45 to 54	9.7%	9.9%	11.0%
55 to 64	4.4%	4.3%	5.3%
65 and Over	2.0%	2.2%	6.0%
<b>Total</b>	<b>100.0%</b> <b>(3,783,306)</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>

Source: ETA IMF Marketing Database

- Age filing distributions remained fairly consistent over time, with a slight increase in older taxpayers in TY 2007.





# Adjusted Gross Income of Free Filers

**Table 4: Percentage of Free Filers by Income and Tax Year**

Adjusted Gross Income (AGI)	TY 2005	TY 2006	TY 2007
Negative AGI	0.3%	0.4%	0.4%
\$0 to \$17,000	51.0%	50.4%	53.1%
\$17,001 to \$25,000	19.0%	18.7%	16.7%
\$25,001 to \$35,000	17.0%	16.7%	15.6%
\$35,001 to \$50,000	12.7%	12.9%	12.4%
\$50,001 to \$75,000	0.0%	0.9%	1.8%
\$75,001 to \$100,000	0.0%	0.0%	0.0%
\$100,001 or More	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b> <b>(3,783,306)</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>

Source: ETA IMF Marketing Database

- The AGI cutoff for Free File eligibility was \$50,000 for TY 2005, \$52,000 for TY 2006 and \$54,000 for TY 2007.



# *Even Returns Increased in TY 2007*

**Table 5: Percentage of Free Filers by Balance Due/Refund and Tax Year**

<b>Balance Due or Refund</b>	<b>TY 2005</b>	<b>TY 2006</b>	<b>TY 2007</b>
Refund	94.5%	94.8%	86.8%
Balance Due	4.4%	4.5%	5.1%
Even	1.1%	0.7%	8.1%
<b>Total</b>	<b>100.0%</b> <b>(3,783,306)</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>

Source: ETA IMF Marketing Database

- Even returns increased by a volume of nearly 360,000 from TY 2006 to TY 2007.
- The increase in even returns in TY 2007 can be largely attributed to ESP filers. Nearly 290,000 even returns were Free Filed by ESP filers in TY 2007.



## Research Problem 2:

What caused the number of Free File returns to decrease dramatically in TY 2008?

What role, if any, did Economic Stimulus Package (ESP) returns or other free filing options play in the decrease?

For those who left the Free File program in TY 2008, what percentage continued to file electronically?



# ***Loss of ESP Filers Contributed to the Decrease in Free File Returns from TY 2007 to TY 2008***

- There were 3.51 million Free File returns processed for 1<sup>st</sup> Quarter TY 2007 compared to 2.26 million processed for the same period in TY 2008 (reduction of 1.25 million Free Filers).
- Of the Free File returns in TY 2007, 290,135 were identified as returns filed only for the purpose of obtaining ESP.
- Of these ESP Free File returns, 96.4% (279,719) did not file a return in TY 2008 (1st Quarter processing).
- The loss of these ESP Free Filers was responsible for 22.3% of the reduction in Free File from 1<sup>st</sup> Quarter TY 2007 to 1<sup>st</sup> Quarter TY 2008.



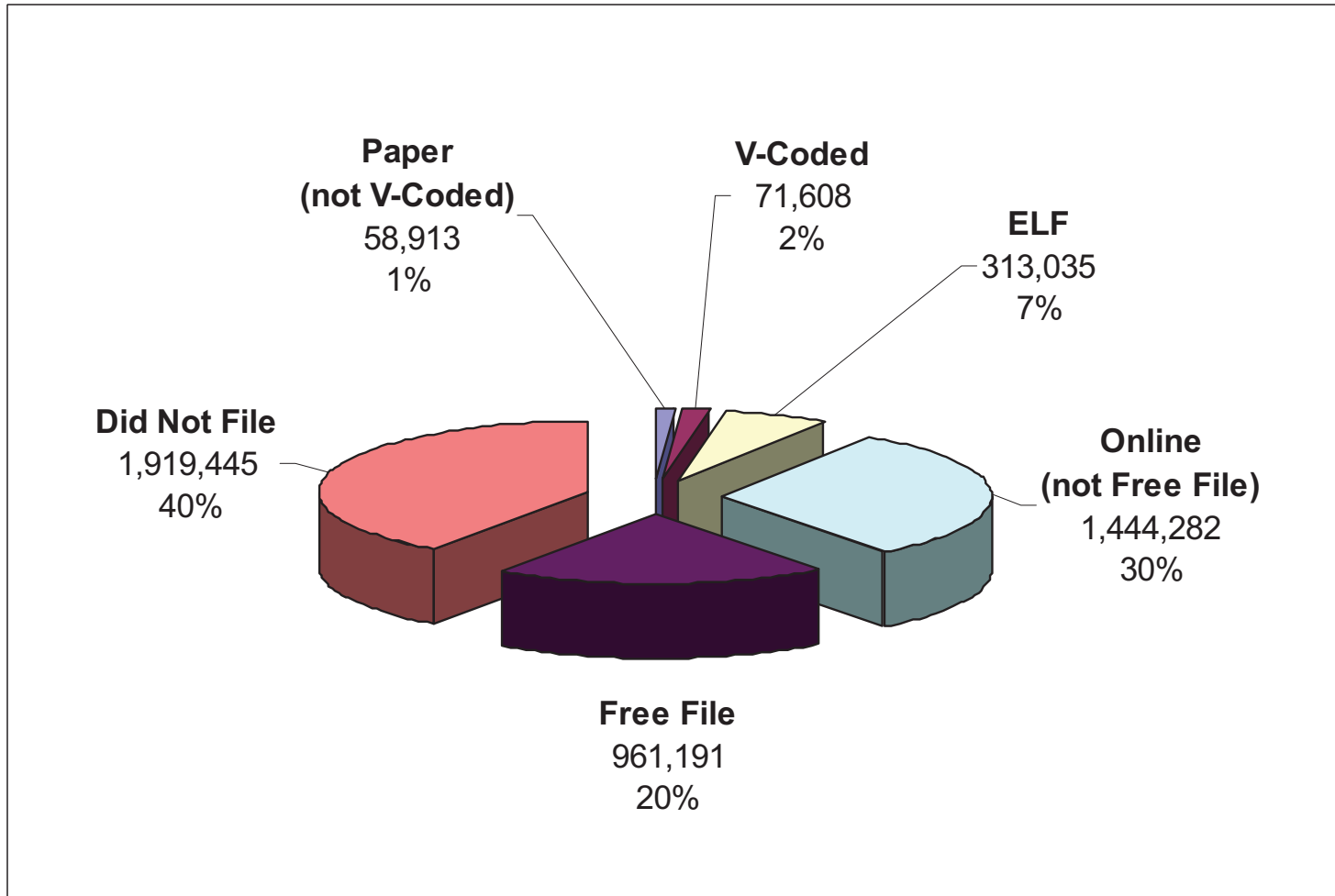
# ***Companies Offering TY 2007 Free Filers Other Free Services for TY 2008 May Have Contributed to the Decrease in Free File***

- Seven software companies were identified as offering TY 2007 Free Filers other free services for TY 2008.
- Some TY 2007 Free Filers may not have used Free File in TY 2008 despite being eligible, in order to take advantage of other free services offered from their previously used software company.
- There were nearly 1.5 million taxpayers who Free Filed using one of the 7 companies in TY 2007 and used the same company in TY 2008.
  - 41.2% continued to Free File in TY 2008.
  - 56.5% did not Free File in TY 2008 (but still filed Online) even though their AGI was within the limit.
- These taxpayers who did not Free File (even though eligible) could have contributed to the drop in Free File for TY 2008, assuming they left Free File in order to take advantage of other free services from their previously used software company.
- Further research is necessary to conclude whether these taxpayers left Free File as a result of marketing of other free products from their software company.



# How Did TY 2007 Free Filers File in TY 2008\*?

Figure 1: TY 2008 Filing Method of TY2007 Free File Users



• Of the 2.85 million TY 2007 Free Filers who continued to file a return in TY 2008, 95.4% filed an electronic return (ELF, Free File, or Online (not Free File)) in TY 2008.

Source: ETA IMF Marketing Database

\*TY 2008 data is based on 1<sup>st</sup> Quarter processing, so the number of returns identified as “Did Not File” could decrease after full year processing.



## Research Problem 3:

What can ETARC learn from Free File taxpayer migration behavior?

Specifically, how do Free File eligibility, previous filing behavior, and changes in tax situation affect the behavior of First Time Free Filers, Consistent Free Filers, and Drop Out Free Filers?

Based on this information, what implications may exist for Free File marketing and the Free File program?



# ***TY 2008 First Time Free Filers***

## **Definition**

- Taxpayers who used Free File in TY 2008 and did not use Free File in TY 2005, TY 2006, and TY 2007 (but still filed a return each year).
- 715,425 First Time Free Filers\*

## **Questions**

- Were First Time Free Filers eligible to Free File based on AGI prior to TY 2008?
- What were First Time Free Filers' filing behavior prior to TY 2008?
- How did First Time Free Filers' tax situation change in TY 2008?

\*Based on 1<sup>st</sup> Quarter TY 2008/PY 2009 – additional First Time Filers could be identified after full year processing.





# ***Most TY 2008 First Time Free Filers Were Eligible for Free File in Prior Years***

**Table 6: Average Adjusted Gross Income (AGI) and Eligibility of TY 2008 First Time Free Filers by Tax Year**

<b>Tax Year</b>	<b>Average AGI</b>	<b>% Eligible</b>
TY 2005	24,498	90.8%
TY 2006	26,154	91.4%
TY 2007	26,876	93.1%
TY 2008	25,310	100.0%

Source: ETA IMF Marketing Database

- 86.2% (616,457) First Time Free Filers were eligible to Free File based on AGI during all three years prior to TY 2008.



# Majority of TY 2008 First Time Free Filers Self Prepared Their Returns Each Year

Table 7: Preparer Type of TY 2008 First Time Free Filers by Tax Year

Preparer Type	TY 2005	TY 2006	TY 2007	TY 2008
Self or VITA	55.1%	55.9%	59.6%	100.0%
Paid	44.9%	44.1%	40.4%	0.0%
<b>Total</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>

Source: ETA IMF Marketing Database

- Over 40% used a paid preparer each year before switching to Free File.
- 72.1% (515,442) of First Time Free Filers used the same preparer type for all three years prior to TY2008.



# Majority of TY 2008 First Time Free Filers Were Already Filing Electronically in Prior Years

Table 8: Filing Method of TY 2008 First Time Free Filers by Tax Year

Filing Method	TY 2005	TY 2006	TY 2007	TY 2008
ELF	38.2%	38.6%	36.4%	0.0%
Online (Not FF)	21.6%	24.8%	31.4%	0.0%
True Paper	24.1%	22.3%	19.8%	0.0%
V-Coded Paper	16.1%	14.3%	12.3%	0.0%
Free File	0.0%	0.0%	0.0%	100.0%
<b>Total</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>

Source: ETA IMF Marketing Database

- The trend over the years for these First Time Free Filers was already moving towards Online filing.
- 56.5% (404,018) First Time Free Filers used the same filing method for all three years prior to TY 2008.



# Majority of TY 2008 First Time Free Filers Did Not Claim RAL/RAC in Prior Years

Table 9: RAL/RAC of TY 2008 First Time Free Filers by Tax Year

RAL/RAC	TY 2005	TY 2006	TY 2007	TY 2008
No RAL or RAC	74.8%	74.8%	75.4%	100.0%
RAL	12.4%	12.2%	10.0%	0.0%
RAC	12.8%	13.1%	14.6%	0.0%
<b>Total</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>

Source: ETA IMF Marketing Database

- The desire for a RAL or RAC does not appear to have prevented First Time Free Filers from Free Filing in prior years



# Filing Status of TY 2008 First Time Free Filers Remained Steady Across Years

Table 10: Filing Status of TY 2008 First Time Free Filers by Tax Year

Filing Status	TY 2005	TY 2006	TY 2007	TY 2008
Single	47.1%	45.6%	45.1%	44.4%
Married Filing Joint	31.3%	31.7%	31.3%	30.0%
Married Filing Separate	1.7%	1.9%	2.2%	3.1%
Head of Household	19.8%	20.7%	21.3%	22.4%
Widow(er) with Children	0.0%	0.0%	0.1%	0.1%
Married Filing Separate and Spouse not Required to File	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>

Source: ETA IMF Marketing Database

- 74.5% (533,050) used the same filing status all four years.
- It does not appear that the switch to Free File in TY 2008 was motivated by a change in filing status.



# TY 2008 First Time Free Filers - Tax Return Complexity and Dependents

**Table 11: Tax Return Complexity of TY 2008 First Time Free Filers by Tax Year**

Return Complexity*	TY 2005	TY 2006	TY 2007	TY 2008
Simple	46.6%	44.2%	43.0%	40.3%
Intermediate	37.9%	36.4%	36.2%	38.3%
Complex	15.6%	19.5%	20.7%	21.4%
<b>Total</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>	<b>100.0%</b> <b>(715,425)</b>

Source: ETA IMF Marketing Database

\*Simple - Form 1040, 1040A, or 1040EZ, without any schedules

Intermediate - Form 1040A with schedules or 1040 with schedules A,B,D, Additional Child Tax Credit, Educational Credits, Child Care Credit, Credit for the Elderly or EIC

Complex - Form 1040 with schedules C,E or F or other schedules and all other specific Forms 1040, e.g. 1040PR, etc.

**Table 12: Dependents of TY 2008 First Time Free Filers by Tax Year**

Dependents	TY 2005	TY 2006	TY 2007	TY 2008
Average # of Dependents	0.74	0.76	0.77	0.78
% with No Dependents	58.2%	57.1%	56.5%	56.0%

Source: ETA IMF Marketing Database



# ***Summary of TY 2008 First Time Free Filers***

***Eligibility, choice of filing method, and RAL/RAC usage appear not to have been a major factor in the decision not to Free File Prior to TY 2008***

- Over 90% were eligible to Free File based on AGI each year prior to TY 2008.
- The majority were already filing electronically (ELF & Online) each year prior to TY 2008.
- About 75% did not receive a RAL or RAC in each year prior to TY 2008.



# *Consistent Free Filers*

## **Definition**

- Taxpayers who used Free File in TY 2005, TY 2006, TY 2007, and TY 2008
- 274,957 Consistent Free Filers\*

## **Questions**

- How did Consistent Free Filers' tax situation change or remain the same over the 4 years?
- Did Consistent Free Filers use the same software company every year?
- How do Consistent Free Filers differ from the First Time Free Filers and Drop Out Free Filers?

\*Based on 1<sup>st</sup> Quarter TY 2008/PY 2009 – additional Consistent Filers could be identified after full year processing.





# Filing Status of Consistent Free Filers

Table 13: Filing Status of Consistent Free Filers by Tax Year

Filing Status	TY 2005	TY 2006	TY 2007	TY 2008
Single	54.3%	53.0%	51.9%	50.7%
Married Filing Joint	24.2%	25.0%	25.9%	26.8%
Married Filing Separate	1.3%	1.3%	1.4%	1.5%
Head of Household	20.1%	20.6%	20.8%	21.0%
Widow(er) with Children	0.0%	0.0%	0.0%	0.0%
Married Filing Separate and Spouse not Required to File	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b> <b>(274,957)</b>	<b>100.0%</b> <b>(274,957)</b>	<b>100.0%</b> <b>(274,957)</b>	<b>100.0%</b> <b>(274,957)</b>

Source: ETA IMF Marketing Database

- 85.8% (235,907) used the same filing status all four years.



# Consistent Free Filers - Tax Return Complexity and Dependents

**Table 14: Tax Return Complexity of Consistent Free Filers by Tax Year**

Return Complexity*	TY 2005	TY 2006	TY 2007	TY 2008
Simple	49.8%	46.7%	43.5%	41.2%
Intermediate	40.8%	35.4%	36.1%	37.0%
Complex	9.3%	17.9%	20.4%	21.8%
<b>Total</b>	<b>100.0%</b> <b>(274,957)</b>	<b>100.0%</b> <b>(274,957)</b>	<b>100.0%</b> <b>(274,957)</b>	<b>100.0%</b> <b>(274,957)</b>

Source: ETA IMF Marketing Database

\*See slide 21 for Return Complexity category definitions.

- The percentage of complex returns increased each year (greatest from TY 2005 to TY 2006).
- 49.4% (135,710) maintained the same level of return complexity all four years.

**Table 15: Dependents of Consistent Free Filers from by Tax Year**

Dependents	TY 2005	TY 2006	TY 2007	TY 2008
Average # of Dependents	0.68	0.71	0.74	0.76
% with No Dependents	61.8%	60.5%	59.6%	58.6%

Source: ETA IMF Marketing Database

- 75.5% (207,560) claimed the same number of dependents all four years.



# ***Nearly Half of Consistent Free Filers Used the Same Software All Four Years***

**Table 16: Software Use of Consistent Free Filers**

<b>Used Same Software Every Tax Year</b>	<b>Volume</b>	<b>Percentage</b>
Yes	134,385	48.9%
No	140,572	51.1%
<b>Total</b>	<b>274,957</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database



# ***Summary of Consistent Free Filers***

**In addition to consistently using Free File each year from TY 2005 to TY 2008, many of their other filing attributes remained fairly consistent:**

- 85.8% used the same Filing Status all four years.
- 75.5% claimed the same number of dependents all four years.
- Nearly half maintained the same level of return complexity all four years.
- Nearly half used the same software all four years.



# ***Consistent Free Filers vs. TY 2008 First Time Free Filers***

- TY 2008 First Time Free Filers have a higher average yearly AGI than Consistent Free Filers.
- TY 2008 First Time Free Filers have a lower proportion of Single filers each year than Consistent Free Filers.
- Both groups have similar tax return complexity distributions over the four year period.
- 36% of TY 2008 First Time Free Filers were under age 25 in 2008, compared to 21% of Consistent Free Filers.



## Research Problem 4:

What Free File populations should ETARC target for TY 2009 marketing efforts?



# ***Target Populations for TY 2009 Marketing***

Four groups were recommended for Free File marketing by the Advancing e-File Study and past focus group research:

- ***Senior Citizens***

- Age 61 and over

- ***Young Married Couples with Children***

- Age 33 and under
- Filing status: married filing joint or married filing separate
- Claimed at least one dependent

- ***Young V-Coders who Self-Prepare***

- Age 33 and under
- Filed a self-prepared return using software but submitted on paper

- ***Young Taxpayers***

- Age 24 and under



# ***ETA Should Target Senior Citizens and Young V-Coders who Self-Prepare***

- Senior Citizens and Young V-Coders who Self-Prepare have the highest number and percentage of Potential Free Filers.
- Of the 32,705,287 Senior Citizens, 27.0% (8,829,769) are Potential Free Filers.
- Of the 4,647,374 Young V-Coders who Self-Prepare, 89.3% (4,149,063) are Potential Free Filers.
- Senior Citizens and Young V-Coders who Self-Prepare have the lowest percentage of the population who are already electronically filing.

**Table 17: Target Populations for TY 2009 Marketing**

<b>Group (TY 2007)</b>	<b>% Who File Electronically*</b>	<b>% Who Free File</b>	<b>% Who are Potential Free Filers**</b>
<b><i>Senior Citizens</i></b>	<b>42.3%</b>	<b>1.1%</b>	<b>27.0%</b>
Young Married Couples with Children	79.4%	2.5%	4.9%
<b><i>Young V-Coders who Self-Prepare</i></b>	<b>0.0%</b>	<b>0.0%</b>	<b>89.3%</b>
Young Taxpayers	61.9%	7.4%	25.6%

Source: ETA IMF Marketing Database

All Percentages in Table 17 are based on the Total Population of the specific group

\* includes all Online (including Free File) and ELF returns

\*\* Percentage of Total Population who are Potential Free Filers (but do not currently Free File)





## Research Problem 5:

Did the number of Free File returns increase for the populations to whom ETARC targeted marketing for TY 2008?



# Populations that were Targeted for TY 2008 Marketing\*

- *Taxpayers age 33 and under*

**Table 18: Percent of New Free Filers that were Age 33 and Under the Year Prior to Free Filing**

Tax Year	New Free Filers	% of New Free Filers from Target Age Group
TY 2008	1,294,949	64.9%
TY 2007	3,343,269	62.4%
TY 2006	2,569,768	70.3%

- The percentage of new\*\* Free Filers in TY 2008\*\*\* who were age 33 and under in the prior year was greater than the percentage in TY 2007, but less than the percentage in TY 2005.
- Further research is needed to determine the effect of marketing for TY 2008 targeted towards taxpayers age 33 and under.

\*The other populations that were targeted (College Students, African Americans, and Hispanic Americans) cannot be identified in the ETA Marketing Database.

\*\*"New" is defined as those who did not Free File or file a return at all for the previous tax year.

\*\*\*TY 2008 is based on 1<sup>st</sup> Quarter data.



## Research Problem 6:

What are the TY 2008 demographic characteristics and TY 2007 filing behavior (Free File, non-Free File online, paper, V-Code, etc.) of the Spanish Free File population? What unique demographic characteristics might ETARC consider when designing a marketing campaign for Spanish Free File?



# 387\* Users of Spanish Free File for 1st Quarter TY 2008/PY 2009

**Table 19: Top Categories of TY 2008 Spanish Free File Users**

Top Category	Percentage
Age - 25 to 34	32.0%
AGI - \$0 to \$17,000	59.9%
Zero Dependents	48.6%
Simple Return Type	50.9%
Filing Status - Single	45.2%
Refund Return	97.4%
No EITC Claimed	57.4%
No Education Tax Credit Claimed	98.7%
No Form 2441 Present	97.9%
No Direct Debit	99.0%
Direct Deposit Accepted	83.7%

- Of the filing attributes that were examined, Table 19 represents the categories with the highest percentage of Spanish Free File users for 1<sup>st</sup> Quarter TY 2008/PY 2009.
- These categories were examined independently; so it does not mean Spanish Free File users fall under all of the categories.

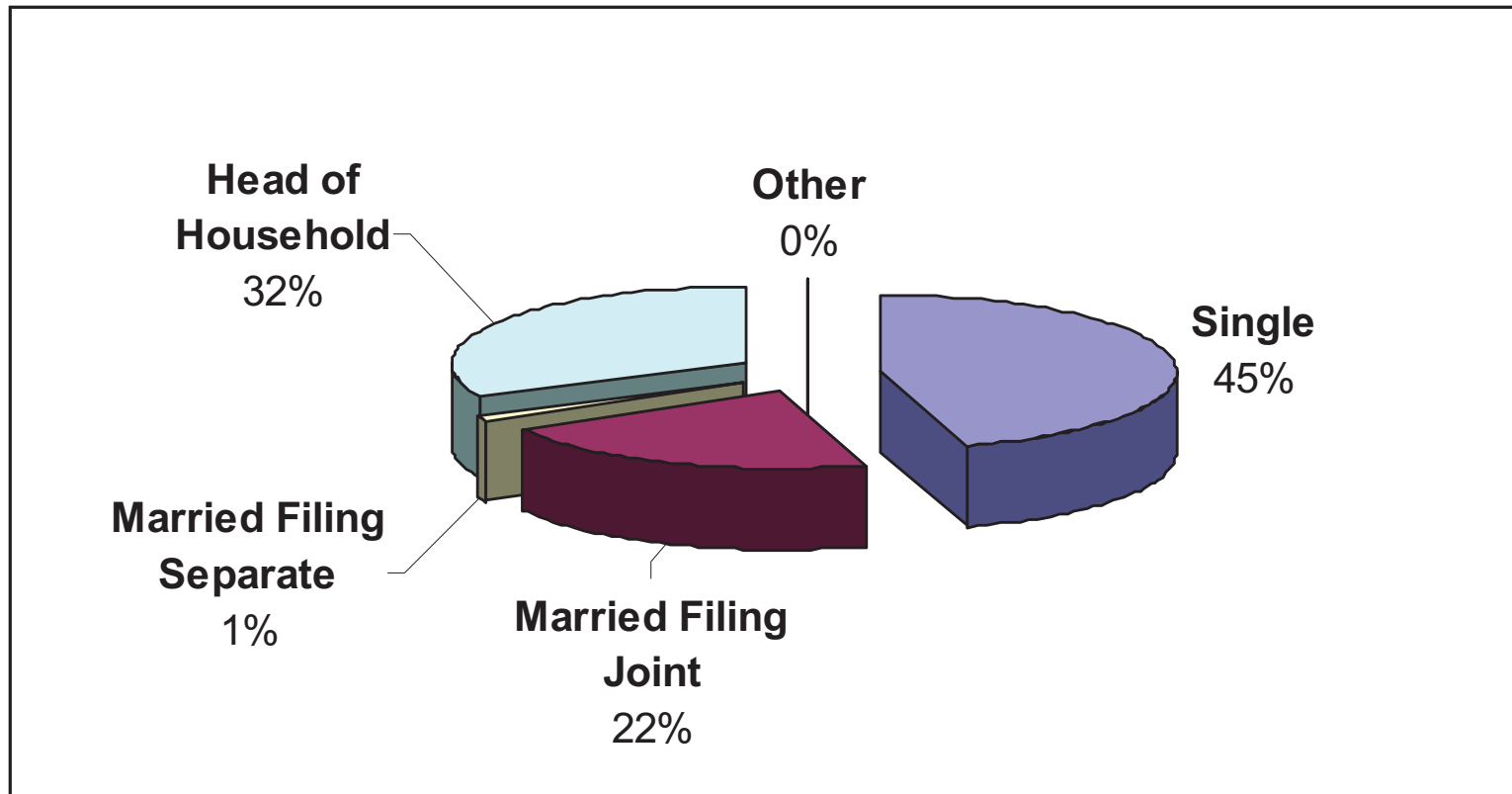
Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

\*This does not represent all Spanish Free File returns since approximately 1,000 were miscoded.



# Filing Status of Spanish Free File Users

Figure 2: Filing Status of TY 2008 Spanish Free File Users



Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009



# Adjusted Gross Income and Age of Spanish Free File Users

**Table 20: Adjusted Gross Income of TY 2008 Spanish Free File Users**

Adjusted Gross Income (AGI)	Volume	Percentage
Negative AGI	0	0.0%
\$0 to \$17,000	232	59.9%
\$17,001 to \$25,000	90	23.3%
\$25,001 to \$35,000	50	12.9%
\$35,001 to \$50,000	15	3.9%
\$50,001 to \$75,000	0	0.0%
\$75,001 to \$100,000	0	0.0%
\$100,001 or More	0	0.0%
<b>Total</b>	<b>387</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

**Table 21: Age of TY 2008 Spanish Free File Users**

Age	Volume	Percentage
Under 25	72	18.6%
25 to 34	124	32.0%
35 to 44	98	25.3%
45 to 54	51	13.2%
55 to 64	34	8.8%
65 and Over	8	2.1%
<b>Total</b>	<b>387</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009



# Tax Return Complexity and Balance Due/Refund for Spanish Free File Users

**Table 22: Tax Return Complexity of TY 2008 Spanish Free File Users**

Return Complexity	Volume	Percentage
Simple	197	50.9%
Intermediate	143	37.0%
Complex	47	12.1%
<b>Total</b>	<b>387</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

\*See slide 21 for Return Complexity category definitions.

**Table 23: Balance Due/Refund of TY 2008 Spanish Free File Users**

Balance Due or Refund	Volume	Percentage
Refund	377	97.4%
Balance Due	6	1.6%
Even	4	1.0%
<b>Total</b>	<b>387</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

- 83.7% of Spanish Free File users received their refunds through direct deposit.



# States With the Largest Number of Spanish Free File Users

Table 24: Top 5 States for TY 2008 Spanish Free Filers

State	Volume	Percentage
Florida	112	28.9%
California	63	16.3%
Texas	53	13.7%
New York	25	6.5%
New Jersey	16	4.1%
Other	118	30.5%
<b>Total</b>	<b>387</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009





# TY 2007 Filing Behavior of Spanish Free File Users

**Table 25 : TY 2007 Filing Method of TY 2008 Spanish Free File Users**

Filing Method	Volume	Percentage
Free File	40	10.3%
Online (not Free File)	34	8.8%
ELF	123	31.8%
Paper (not V-coded)	13	3.4%
V-coded	78	20.2%
Did Not File	99	25.6%
<b>Total</b>	<b>387</b>	<b>100.0%</b>

- Approximately 3% of Spanish Free File users hand-prepared a paper return in TY 2007. 20% filed V-Coded returns.
- About 32% filed an ELF return and about 9% filed an Online (not Free File) return in TY 2007.
- Approximately 10% participated in the IRS Free File program in TY 2007.

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009



# *Marketing for Spanish Free File*

- 83% earned an AGI of \$25,000 or less.
- 76% are age 44 or younger.
- 77% filed as Single or Head of Household.
- 57% earned an AGI of \$25,000 or less and are age 44 or younger and filed as Single or Head of Household.



## Research Problem 7:

What are the TY 2008 demographic characteristics and TY 2007 filing behavior (Free File, non-Free File online, paper, V-Code, etc.) of taxpayers who used Free File Fillable Forms in TY 2008? How do they compare to the TY 2008 Traditional Free File taxpayers?



# 167,785 Used Free File Fillable Forms for 1st Quarter TY 2008/PY 2009

**Table 26: Top Categories of TY 2008 Free File Fillable Forms Users**

Top Category	Volume
Age - Under 25	36.3%
AGI - \$0 to \$17,000	40.5%
Zero Dependents	79.4%
Simple Return Type	63.0%
Filing Status - Single	69.0%
Refund Return	97.3%
No EITC Claimed	89.6%
No Education Tax Credit Claimed	95.3%
No Form 2441 Present	97.3%
No Direct Debit	99.0%
Direct Deposit Accepted	83.5%

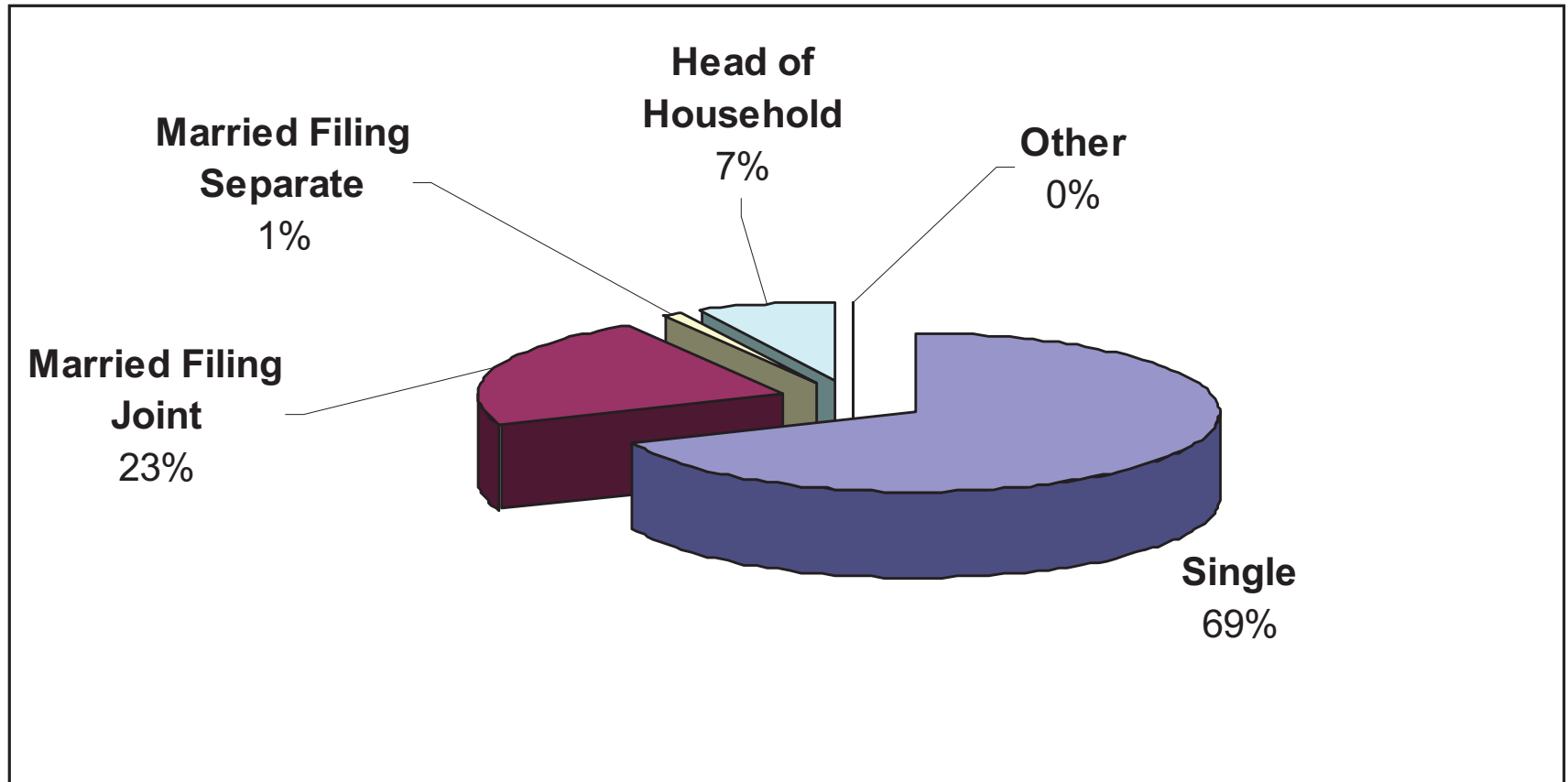
- Of the filing attributes that were examined, Table 26 represents the categories with the highest percentage of Free File Fillable Forms users for 1<sup>st</sup> Quarter TY 2008/PY 2009.
- These categories were examined independently; so it does not mean Free File Fillable Forms users fall under all of the categories.

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009



# Filing Status of Free File Fillable Forms Users

Figure 3: Filing Status of TY 2008 Free File Fillable Forms Users



Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009



# Adjusted Gross Income and Age of Free File Fillable Forms Users

**Table 27: Adjusted Gross Income of TY 2008 Free File Fillable Forms Users**

Adjusted Gross Income (AGI)	Volume	Percentage
Negative AGI	264	0.2%
\$0 to \$17,000	68,000	40.5%
\$17,001 to \$25,000	19,159	11.4%
\$25,001 to \$35,000	19,727	11.8%
\$35,001 to \$50,000	23,201	13.8%
\$50,001 to \$75,000	21,034	12.5%
\$75,001 to \$100,000	9,703	5.8%
\$100,001 or More	6,697	4.0%
<b>Total</b>	<b>167,785</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

**Table 28: Age of TY 2008 Free File Fillable Forms Users**

Age	Volume	Percentage
Under 25	60,868	36.3%
25-34	39,167	23.3%
35-44	24,259	14.5%
45-54	23,451	14.0%
55-64	15,149	9.0%
65 and Over	4,891	2.9%
<b>Total</b>	<b>167,785</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

- 59.6% are age 34 and under.



# Tax Return Complexity and Balance Due/Refund for Free File Fillable Forms Users

**Table 29: Tax Return Complexity of TY 2008 Free File Fillable Forms Users**

Return Complexity	Volume	Percentage
Simple	105,729	63.0%
Intermediate	44,007	26.2%
Complex	18,049	10.8%
<b>Total</b>	<b>167,785</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

\*See slide 21 for Return Complexity category definitions.

**Table 30: Balance Due/Refund of TY 2008 Free File Fillable Forms Users**

Balance Due or Refund	Volume	Percentage
Refund	163,243	97.3%
Balance Due	2,616	1.6%
Even	1,926	1.1%
<b>Total</b>	<b>167,785</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009

- 83.5% of Free File Fillable Forms users received their refunds through direct deposit.



# TY 2007 Filing Behavior of Free File Fillable Forms Users

**Table 31 : TY 2007 Filing Method of TY 2008 Free File Fillable Forms Users**

Filing Method	Volume	Percentage
Free File	17,017	10.1%
Online (not Free File)	19,491	11.6%
ELF	25,100	15.0%
Paper (not V-coded)	67,672	40.3%
V-coded	16,343	9.7%
Did Not File	22,162	13.2%
<b>Total</b>	<b>167,785</b>	<b>100.0%</b>

- Approximately 40% of Free File Fillable Forms users hand-prepared a paper return in TY 2007. 10% filed V-Coded returns.
- About 15% filed an ELF return and about 12% filed an Online (not Free File) return in TY 2007.
- Approximately 10% participated in the IRS Free File program in TY 2007.

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009





# Traditional Free Filers vs. Free File Fillable Forms Users for 1st Quarter TY 2008/PY 2009

**Table 32: Top Categories of TY 2008 Traditional Free Filers and Free File Fillable Forms Users**

Top Category	Traditional Free Filers	Free File Fillable Forms
Age - Under 25	35.0%	36.3%
AGI - \$0 to \$17,000	45.9%	40.5%
Zero Dependents	67.0%	79.4%
Simple Return Type	51.4%	63.0%
Filing Status - Single	63.2%	69.0%
Refund Return	98.1%	97.3%
No EITC Claimed	67.7%	89.6%
No Education Tax Credit Claimed	93.7%	95.3%
No Form 2441 Present	95.9%	97.3%
No Direct Debit	99.5%	99.0%
Direct Deposit Accepted	83.8%	83.5%

- There were 2,256,140 Traditional Free Filers in TY 2008 (1<sup>st</sup> Quarter).
- Of the filing attributes that were examined, Table 32 represents the categories with the highest percentage of Traditional Free Filers and Free File Fillable Forms Filers in TY 2008 (1<sup>st</sup> Quarter). *The top categories are the same for both groups.*
- These categories were examined independently; so it does not mean all Traditional Free Filers or Free File Fillable Forms Filers fall under all of the categories.
- The biggest differences occur in the “Zero Dependents”, “Simple Return Type”, and “No EITC Claimed” categories.

Source: ETA IMF Marketing Database 1<sup>st</sup> Quarter TY 2008/PY 2009



# Summary

- Free File returns increased by nearly 24% from TY 2006 to TY 2007, partially as a result of ESP filers. A subsequent decrease in Free File returns from 1<sup>st</sup> Quarter TY 2007 to 1<sup>st</sup> Quarter TY 2008 can be partially attributed to the loss of these ESP filers.
- Seven software companies were identified as offering TY 2007 Free Filers other free services for TY 2008. Nearly 1.5 million taxpayers Free Filed using one of the seven companies in TY 2007 used the same company in TY 2008. About 56.5% of these did not Free File in TY 2008 despite being eligible. Further research is necessary to conclude whether some of these taxpayers actually left Free File in order to take advantage of other free services from their previously used software company.
- For TY 2008 First Time Free Filers, eligibility, choice of filing method, and RAL/RAC usage do not appear to have been a major factor in the decision not to Free File prior to TY 2008.
- For Consistent Free Filers, in addition to using Free File each year from TY 2005 – TY 2008, many of their other filing attributes remained fairly consistent.
- Of the four target populations for TY 2009 marketing (Seniors, Young Married Couples with Children, Young V-Coders who Self-Prepare, and Young Taxpayers), ETARC should target Senior Citizens and Young V-Coders who Self-Prepare. These groups have the highest number and percentage of Potential Free Filers, as well as the lowest percentage of the population who are already electronically filing.



# *Summary (continued)*

- Further research is needed to determine the effect of marketing for TY 2008 targeted towards taxpayers age 33 and under.
- There were 387 users of Spanish Free File for 1st Quarter TY 2008/PY 2009. ETARC might focus on taxpayers who earned an AGI of \$25,000 or less, are age 44 and under, and filed as Single or Head of Household when designing a marketing campaign for Spanish Free File.
- There were 167,785 users of Free File Fillable Forms for 1st Quarter TY 2008/PY 2009. When compared to Traditional Free Filers, Free File Fillable Forms users had a higher proportion of returns that were simple, claimed no dependents, or claimed no EITC.

