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THE COMPLIANCE COST OF THE U.S. INDIVIDUAL INCOME TAX SYSTEM

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ABSTRACT

This paper uses evidence from a survey of Minnesota taxpayers to estimate the magnitude and demographic patterns of the compliance cost of filing federal and state income tax returns. It concludes that in 1982 this cost was between $17 and $27 billion, or from five to seven percent of the revenue raised by the federal and state income tax systems combined. About two billion hours of taxpayer time were spent on filing tax returns, and about $3 billion was spent on professional tax assistance.

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1. Introduction

Writers on tax matters have long maintained that an ideal tax system should, ceteris paribus, have minimal administrative and compliance costs. For example, Adam Smith's fourth canon of taxation states "every tax ought to be so contrived as to keep out of the pockets of people as little as possible over and above what it brings into the treasury of the state."[1] More recently, Musgrave and Musgrave advocated that collection costs "should be as low as is compatible with other objectives."[2] A common theme of many recent tax reform proposals has been "simplification," one interpretation of which is to reduce the compliance costs of the system. One problem with the debate about the appropriateness of tax simplification is that it has been conducted amid an almost complete absence of quantitative information about the magnitude and characteristics of the cost of the current system of raising revenue and the likely collection costs of alternatives to the current system.

This paper uses evidence from a survey of Minnesota taxpayers to estimate the magnitude and nature of the compliance cost of filing federal and state individual income tax returns. It concludes that in 1982 this cost was between $17 and $27 billion, or from five to seven percent of the revenue raised by the federal and state income tax systems combined. Between 1.8 and 2.1 billion hours of taxpayer time were spent on filing tax returns, and between $3.0 and $3.4 billion was spent on professional tax assistance. A companion paper to this study utilizes the data from this survey to derive predictions of how compliance costs would change as a result of a number of different modifications of the tax law.[3]

The paper is organized as follows. Section 2 reviews some earlier attempts at estimating the compliance costs of the individual income tax. Section 3 contains a description of the questionnaire and survey procedure. In Section 4 we discuss some methodological issues that arise in using the survey evidence to derive compliance cost estimates. The results of the survey are presented in detail in Section 5, and Section 6 offers some concluding comments and suggests promising directions for future research in this area.

The concept of compliance costs refers to all those costs incurred by taxpayers or by third parties in complying with the requirements of the tax system, over and above the tax payments themselves.[4] In this paper our attention is more narrowly focused only on the costs directly borne by the taxpayers, and only on measurable components of cost such as time and pecuniary expenditures. Thus we do not deal with third party costs nor do we pay much heed to any "psychic" costs of filling out tax forms. Furthermore, we do not distinguish between discretionary costs, which are incurred by taxpayers in an attempt to reduce their tax liability, and nondiscretionary costs, which must be spent in order to satisfy the legal filing requirements. Our impression is that in most cases, if the taxpayer is willing to pay an unnecessarily high amount of tax, the minimum amount of resources that must be expended to comply with the law is relatively small. Most of the costs incurred are then at least to some extent discretionary. What portion of cost is nondiscretionary is in practice difficult to determine and, in any event, both kinds of costs are real resource costs of collecting the taxes.

One problem with interpreting compliance costs as resource costs of collection arises when the individual is self-employed. In this case, it is difficult to separate the tax compliance costs from the standard accounting and auditing procedures that would be undertaken even in the absence of a tax system. This is not the same issue as the discretionary or nondiscretionary problem discussed above. Here the problem is that some of what is apparently compliance cost has additional value to the firm owner. In fact, the problem is more generally applicable. If attention to one's tax return induces a household to better manage its financial affairs, then some of the time or money spent is not a net cost of the tax collection process. This survey does not successfully identify what portion of compliance costs have non-tax related usefulness.

In sum, this paper treats compliance costs of the individual income tax system borne directly by the taxpayers themselves, including both the time spent and pecuniary expenditures. This is a major, but not the sole, component of the system's total collection cost, which also includes the cost incurred by the government collection agencies and by third parties to the collection process.

2. Literature Review

In this section we briefly review the empirical literature on the compliance cost of individual income taxation. The first quantitative treatment for the United States seems to be that of Martin (1944), who estimated that individual compliance costs amounted to 1.2 percent of federal tax revenues. However, the basis for this calculation is apparently a series of educated guesses, and this study should be classified as quantitative but not empirical. Willis (1969) constructed an estimate of compliance costs by making assumptions about the time requirements for various kinds of returns, applying these estimates to the known distribution of returns, and valuing the time based on the tax preparation fees of a nationwide tax preparation firm. Willis estimated that the compliance costs for individuals were 2.38 percent of income tax revenues.

The study by Wicks (1966) was the first to be based on survey information. Wicks distributed questionnaires to 380 of his economics students at the University of Montana with the request that they mail the questionnaires to their parents. The questionnaire requested information on the time and money spent in conjunction with filing federal tax returns, plus information on the parents' occupations, income, political inclinations, and views on compliance costs. Wicks recognized that his sampling procedure was subject to bias, so he adjusted his population estimates to reflect the occupational structure of the state. He also looked for any indication of response bias by conducting a telephone survey of nonrespondents. The phone survey revealed that the nonrespondents believed they had less difficulty with filing their returns than those who did respond. As a correction for this apparent response bias, Wicks adjusted his compliance cost average downwards.

Wicks concluded that the average Montana taxpayer spent $88 worth of time and money while complying with the federal income tax. This amounted to 11.5 percent of the revenue raised. He also observed no relationship between a household's compliance cost and its tax liability, although the cost of compliance did vary systematically by occupation. Self-employed individuals had the highest average costs, while individuals in the professional, managerial, and sales lines also reported significantly greater than average compliance costs.

Wicks and Killworth (1967) employed a similar survey methodology to estimate the compliance costs of the state and local income tax systems in Montana. They asked people about how much time and money they spent on filing taxes beyond the time that went to complying with federal income taxes. They found that the incremental compliance costs amounted to 20.7 percent of the revenue raised by the Montana income tax. This figure is subject to considerable doubt, however, due to the difficulty in meaningfully separating the time and money spent on federal tax affairs and that spent on state income tax affairs. Record-keeping requirements, for example, apply to both taxes. In addition, fees charged for professional tax assistance are not as a rule divided into a charge for the federal return and a charge for the state return; any such division reported by the taxpayer must be essentially arbitrary.

More recently, the Commission on Federal Paperwork estimated the compliance cost of the individual income tax system in 1977 to be $4.8 billion, or about three percent of income tax revenues. This figure was derived from an Internal Revenue Service estimate that 45 percent of individual returns filed in that year were prepared by commercial return

preparers, with an average fee of $27. Assuming the same cost per return for the other 55 percent implies a total cost of $2.3 billion. This figure, though, included only the return preparation itself and not any attendant record-keeping. Making the "conservative" estimate that as much effort is involved in record-keeping as in reading and understanding the instructions and filling out the tax form itself, the Commission settled on twice $2.3 billion, or $4.6 billion, as its best estimate.

By far the most careful and exhaustive study of compliance costs to date is that of Sandford (1973). Unfortunately for our purposes, the object of investigation was the income tax system of the United Kingdom, which differs in some critical aspects from that of the United States.[5] Sandford and his research team studied compliance costs by using a survey of professional tax advisors, a survey of individual taxpayers, and an analysis of tax-related inquiries to press bureaus and public tax advice clinics. Based on the survey of individual taxpayers, Sandford estimated that compliance costs amounted to between 1.87 and 3.39 percent of tax revenue collected. He also concluded that low income people had, on average, higher compliance costs as a fraction of income than higher income people.

Because the U.K.'s tax system places less responsibility for calculation on the taxpayer than does the U.S. system, the compliance cost in the United States is likely to be higher than that in the United Kingdom. Although his estimates are at best a lower-bound figure for the United States, much insight is to be gained from a study of Sandford's work.

The empirical literature to date can be divided neatly into two categories. Those based on U.S. data are for the most part severely out of date and often subject to questions about the survey randomness. The most careful study is

relatively recent but pertains to the British tax system, which is different enough in critical ways from the U.S. tax system to make any extrapolation extremely tenuous. Beginning in the next section of the paper we present our approach to assessing the magnitude and characteristics of the compliance cost of individual income taxation in the United States in 1982.

3. The Survey

Immediately after the deadline for filing 1982 income tax returns (April 15, 1983), a four-page questionnaire was mailed to an approximately[6] random sample of 2000 Minnesota residents. The list of residents' addresses was supplied by a Minneapolis-based professional name service firm. Accompanying the questionnaire was a cover letter explaining that the research was being done in conjunction with the senior thesis project of a college student. An addressed, stamped envelope was provided for return mailing. The questionnaire and cover letter are reproduced in an appendix to this paper.

One objective in designing the survey was to maximize the response rate. Respondents were not required to provide their names in the questionnaire, and the confidentiality of the information given was assured. Questions about potentially sensitive information such as age and income were blocked into ranges so that the respondents did not have to give an exact answer. Not requiring the respondent to provide exact answers for income or tax liability also eliminated the necessity of their having to refer to their tax records, which presumably would be a painful chore for many individuals the week after the filing deadline. To lend an extra air of serious intent and authenticity, a University of Minnesota return address was used for mailing purposes.

Another design objective was to avoid biased responses. To that end, the word "compliance" was not used in the cover letter or questionnaire. Our intent was to avoid any suggestion that we were concerned with illegal, or noncomplying, behavior. The tone of the survey was that we were interested in the time and money spent preparing and filing tax returns, and not interested in to what specific ends the time and money were spent on.

The questionnaire's first section[7] asks about some demographic information, in particular the respondent's sex, age, level of education completed, income, employment status, occupation, and wage rate or reservation wage. In assessing this information, it is important to realize that the cover letter pointedly asks that the addressee refer the questionnaire to the "person in [the] household most familiar with filing [the] income tax returns." Thus the distribution of demographic characteristics should not be expected to precisely replicate the population distribution of characteristics. In particular, answers to questions about sex and education would be expected to be biased if, as the data indicate, males tend to be more familiar with the returns or, as is likely, the more educated household member is more familiar with the filing process. Note that because the demographic characteristics of those most familiar with tax returns for the nation as a whole is not known, it is impossible to determine how well the sample represents the nation as a whole.

The next section of the questionnaire solicits information about the household's income tax return itself. The taxpayer is asked which, if any, of the three federal tax returns and which, if either, of the two Minnesota state tax forms was filed. In addition, we ask about whether the return

featured itemized deductions, whether it was a joint return, and which of several sources of income were received.

The remainder of the questionnaire is devoted to collecting information about the household's cost of filing tax returns. This section asks how many hours were spent during the year, and a breakdown of the hours into various categories. In addition, any money spent on tax assistance or otherwise spent in filing returns is solicited. A question on the individual's attitude toward filing returns is included, as is a question designed to elicit a dollar figure for the value of all time, effort and money spent on tax affairs. Finally, the taxpayer was asked whether he or she had ever chosen not to undertake some business activity because of the hassle or expense of complying with tax laws.

The response rate of the survey was 32.65 percent. Of the 653 questionnaires returned, 41 were from people not required to file 1982 state or federal income tax returns. Most of these people were over the age of 65 and had not earned enough income to be subject to tax. Twelve questionnaires were eliminated from the sample because they were very incomplete,[8] leaving 600 usable replies.

4. Some Methodological Issues

Before proceeding to present the results of this survey, we must deal with two methodological issues that are important to the interpretation of our findings. They are (1) the possibility that the responding group of households is not representative of the U.S. population and (2) the problem of how to value the time spent in filing returns. In this section we examine each of these issues in turn.

We took great care to ensure that the households to whom questionnaires were sent comprised a random sample of the households of Minnesota.[9] Our feeling is that this goal was met reasonably well. However, there are good reasons to suspect that the households who respond to a survey such as this would not represent a random sample of the population. After all, filling out a questionnaire is not unlike filling out a tax form, and those people who have a strong aversion to paperwork are likely not to return our questionnaire. Another potential factor is the desire of those who are fed up with the tax system to make their experiences and opinions known; they may make a special effort to return their questionnaires. As mentioned above, Wicks was concerned with this kind of bias and conducted a telephone survey of nonrespondents to determine whether their behavior differed from that of the respondents. He found that the nonrespondents apparently had less difficulty with filing their returns than those who did respond. Due to a resource constraint, no such telephone survey was done in connection with our survey.

An additional consideration is that Minnesotans may vary in certain ways from non-Minnesotans. Thus, even if the sample is representative of Minnesotans, it may fail to be representative of Americans in general.

One way to check the representativeness of the sample is to compare its demographic profile with that of the U.S. as a whole. One problem immediately arises, however. As mentioned above, the answers to most of the demographic questions refer to the person in the household most familiar with filing the income tax returns. Thus, it is not at all clear how to interpret the distributions by occupation, age, sex, or employment status. Certainly it is inappropriate if confronted with, say, a male-female distribution that is different than for the U.S. as a whole to conclude that the sample is unrepresentative. The divergence between the two distributions could be simply due to the tendency of either males or females to become more familiar with the tax return filing process.

The question about income does, however, refer to the total household income, so the distribution of responses may be fruitfully compared to the U.S. income distribution. Making such a comparison suggests that the sample is not in fact representative of the U.S. population. In particular, it undersamples low-income households (only 8.3 percent of the sample report income less than $10,000, while 35.4 percent of tax filers in 1982 had adjusted gross income in this range[10]) and oversamples high-income households (21.7 percent in the sample report income over $40,000, while only 10.7 percent of taxpayers in 1982 had at least this much income). This discrepancy is certainly large enough to be concerned that the sample averages are biased measures of the national average. Of course, this problem arises only to the extent that compliance behavior varies systematically with income. Because we find that behavior does in fact vary with income, all the population averages we report are calculated by reweighting the sample to represent the U.S. adjusted gross income distribution in 1982.[11]

It is also apparent that our sample overrepresents the presence of relatively complicated tax returns. This is true even for given income classes. Because households with more complicated returns are likely to have higher compliance costs, reweighting the sample only on the basis of income is likely to lead to an overestimate of the true resource cost. Therefore the sample is reweighted to reproduce not only the U.S. distribution of adjusted gross income, but also the correct aggregate proportion of returns with itemized deductions for each income class. Itemization status is chosen as the reweighting factor in an attempt to proxy for the degree of complication of a tax return. Alternative reweighting factors (such as the usage of 1040A and 1040EZ federal tax forms) were also considered, but no significant differences from the results reported here emerged. Weighting by income and itemization status is quite successful in producing a distribution of other return characteristics which is similar to that of the U.S. taxpaying population.[12]

Note, however, that this procedure only adjusts for differences between the sample and the U.S. population that are correlated with income and itemization status. Therefore it may miss differences due to, for example, occupation structure that are uncorrelated with these factors or uncorrelated differences in attitudes toward tax filing. In addition, this procedure does not fully take account of the fact that the Minnesota state income tax return is undoubtedly more complex than the average state income tax return. This extraordinary complexity lends bias of unknown magnitude to the results we present. In the final section of this paper we discuss the possible net effect of these and other sources of error.

As we will show later, the largest component of compliance costs is the time spent by the taxpayers themselves. In this study we are interested not only in the number of hours expended but also in the resource cost, in dollars, of this time. Thus we require some procedure for valuing taxpayers' time.

If the time spent came at the expense of extra work, then under certain conditions the appropriate social valuation is the gross hourly compensation earned by the individual. This valuation is valid in the absence of imperfections in the labor market and requires the assumption that individuals are indifferent between working and spending time on their tax affairs. Insofar as people prefer, say, working at their job to working on their taxes, the valuation of the latter needs to be increased accordingly. This procedure also implicitly assumes that the time used in completing one's tax forms is totally unproductive for any other purpose. It is not, though, unreasonable to suppose that for some people an annual account of their financial affairs may have some positive value.

We feel that it is more reasonable to assume that the time spent on tax affairs comes at the expense of leisure rather than work. This implies that in a perfect labor market the value of the time spent is appropriately measured as the rate of compensation after taxes, rather than before taxes as above. This valuation, though, is equally subject to the criticism that it ignores any differential between the marginal utility (or disutility) of working per se and the marginal utility (or disutility) of doing one's tax affairs.[13] The survey solicited the rate of compensation after taxes, so this is available for most taxpayers. (More will be said later about the problems that arise for those taxpayers for whom the wage is not available.)

However, nothing is known about individuals' valuation of the marginal utility of work effort or of tax filing. Thus the appropriate correction to the net wage rate is unknown. This indeterminacy has led most investigators in the field of transportation, who are interested in the valuation of travel time, to ignore the conceptual link with the labor market and to seek direct market evaluations of leisure time itself. Most of these studies have found the value of time to be between 15 and 50 percent of the average wage rate for the group.[14] This of course does not include any adjustment for the probable disutility of time spent on tax matters. Judging by the responses to our question about attitudes to tax filing, this may not be insignificant. Of those surveyed, only 1.4 percent said they "very much" enjoyed preparing and filing their income tax returns and 7.7 percent said they enjoyed the process; 36.9 percent replied that they neither enjoyed nor disliked it. On the other hand, 28.6 percent of those surveyed said they disliked the process and 23.8 percent said they disliked it "very much."[15]

One survey question was designed specifically to induce the respondent to supply us with the exact compensating variation for the time spent on tax filing. We asked

> If you could have avoided <u>all</u> the time and effort on your 1982 income tax returns, how much more would you have been willing to pay? (Assume the amount of income tax paid would <u>not</u> have changed.)

Unfortunately, the concept of compensating variation was not successfully conveyed by this question. Respondents often answered $0, and some volunteered that they wouldn't pay a penny more than they already had paid. Many gave no answer at all. Clearly this method did not yield a reliable indication of the value of compliance time. This lack of success brings us back to the wage rate as the basis of our estimate of the value of time.

Information about wage rate and reservation wage was solicited in a two-tiered question. First, the individual was asked whether he/she could increase his/her income by choosing to work more hours. If the answer was yes, then the survey asked how much before taxes would be received for working an additional hour. If the answer was no, the survey asked how much the respondent would want to be paid if he/she could work extra hours. The goal of these questions was in the former case to determine the appropriate wage rate at the margin, and in the latter case to determine the reservation wage.

Our impression from looking at the questionnaire responses was that those who answered this question interpreted it correctly. However, many of the answers were unusable. For example, some people wrote "time-and-a-half," "retired," or "variable." Others left the answer space completely blank. Unusable replies comprised 46 percent of all cases.

Because we did not want to eliminate such a large subsample from our investigation, a procedure for imputing the value of time was employed. There is a substantial literature, based on the theory of labor supply, concerned with imputing wage rates to nonworking women based on their characteristics, plus the wage rates and characteristics of working women. However, direct application of that methodology to the problem at hand seems inappropriate because there is no clear distinction between those for whom a wage rate or reservation wage is available and those for whom it is not available. Thus we cannot, for example, posit that the reservation wage of those with no wage rate available (because they are not working) must be greater than the wage rate that could be earned. A respondent with no

wage rate available may indeed be working but happened to provide an unusable response to this question.

The procedure we have chosen treats the problem as a straightforward case of missing values and imposes no restrictive theoretical structure. Based on those in the sample who provided a usable response to this question, we estimate an equation for the wage rate or reservation wage as a function of the available demographic variables, including income bracket, employment status, occupation, age, level of education completed, marital status, and sex. This equation is then used to impute a value for wage rate or reservation wage for those respondents with unusable replies to this question. The final step is to convert these values for before-tax wage into the appropriate after-tax concepts. This is done by estimating the combined federal and Minnesota marginal tax rate on labor income from the stated income bracket and marital status. This procedure requires us to make assumptions about the amount of deductions and exemptions taken.

In summary, our measure of the value of time is stated or estimated after-tax wage rates or, if additional work is unavailable, the after-tax reservation wage. The reader should keep in mind that this valuation procedure ignores the problem that working hours may not be freely variable and, more importantly, assumes that the marginal disutility from working is approximately equal to the marginal disutility from preparing tax returns. Because the dollar valuation of time spent on compliance is inexact, in all our results we report both the raw number of hours spent as well as the valuation of this time.

5. Results

On average, respondents to this survey spent 26.7 hours of their own time on tax filing, which had a resource cost of $318, and spent $61 on professional tax advice and other outlays. Thus, the average total cost amounted to $379 per household. When the sample was reweighted to more closely represent the actual U.S. taxpaying population, the average compliance time comes to 21.7 hours, valued at $231, and $44 in additional expenses, for a total of $275 per household. Applying the reweighted averages to an estimated 97 million taxpaying units in 1982 yields aggregate estimates of 2.13 billion hours and a total resource cost of $26.7 billion. This cost is approximately 1.4 percent of aggregate adjusted gross income, and more than seven percent of total federal and state income tax revenue.

Nearly two-thirds of the time spent on filing was devoted to record-keeping, with actual preparation of the return accounting for about one-fifth, and research about one-tenth of total time.[16] Slightly less than half of all households (45.9%) hired professional tax assistance.[17] Of those who used assistance, the average payment was $76. Table 1 shows the distribution of time spent and expenditures on professional tax assistance. About three-quarters of the households spent less than 20 hours on tax matters, and a similar fraction spent less than $50 for tax assistance. However, over 13 percent of households spent at least 50 hours on tax compliance, and 13 percent spent more than $100.

Table 2 details the relationship between compliance cost and income. One surprising feature of this table is the large amount of time spent by the lowest income group. This is not the result of one respondent claiming

Table 1

Distribution of Own Hours Spend and Expenditure
on Professional Tax Assistance

Own Hours Spent		Expenditure	
Hours	Percent of Households	Dollars	Percent of Households
0-5	33.6	0	54.1
5-10	25.0	1-25	8.6
10-20	14.6	25-50	11.3
20-30	6.3	50-75	9.3
30-40	2.9	75-100	3.8
40-50	4.4	100-200	6.7
50-100	2.4	200-500	1.5
More than 100	10.8	More than 500	4.8
Average	21.7	Average	34.9

Table 2

Average Compliance Cost and Its Components by Income

Income	Own Time						Monetary Expenditure				Total Costs		
	Total (hrs)	Research (hrs)	Record-Keeping (hrs)	Return Preparation (hrs)	Spent with Advisor (hrs)	Value of Time ($)	% Using Professional Advice	Fees to Advisor ($)	Other Expenses ($)	Total ($)	Total Resource Cost ($)	As a % of Income	As a % of Tax Liability
Less than $5,000	27.7	1.7	21.2	3.3	1.7	285	37.1	39.5	2.7	42.2	327	8.2	381.6
$5,001-$10,000	15.0	0.9	10.9	2.5	0.7	109	33.9	22.7	21.8	44.5	153	2.0	23.1
$10,001-$15,000	9.5	1.1	5.0	3.2	0.9	49	47.4	18.0	2.7	20.7	70	0.6	4.4
$15,001-$20,000	13.2	1.5	7.0	4.0	1.0	80	51.2	24.6	3.1	27.7	108	0.6	4.0
$20,001-$30,000	25.6	4.1	15.3	5.3	1.3	248	52.2	32.6	7.8	40.4	288	1.2	6.6
$30,001-$40,000	26.3	3.5	14.8	6.9	1.2	274	48.7	37.3	13.9	51.2	325	0.9	4.3
$40,001-$50,000	33.5	4.3	19.6	7.6	1.4	325	49.9	42.6	5.7	48.3	373	0.8	3.4
Over $50,000	45.6	6.3	25.7	9.6	3.9	1163	78.1	145.5	23.8	168.3	1431	1.7	4.7
Overall Average	21.7	2.4	13.8	4.4	1.3	231	45.9	34.9	9.3	44.2	275	1.4	6.6

an implausibly high value of time spent, but rather several high answers. However, there are only 15 respondents in this category, so the results must be treated with some caution. One conceivable explanation for this finding is that these households are in occupations which have high income variability (e.g., farming or other self-employment) which also have large record-keeping requirements, and experienced temporarily low income in 1982, although their permanent income is not low. Another possible factor is that the commitment of a large amount of time itself contributed to a low value for taxable income, due to the discovery of various tax reduction schemes.

Overall, the distribution of own time spent with respect to income is U-shaped. This relationship is more striking when the value of time is considered, because the average valuation per hour of time is highest for the top income class, and lowest for the $10,000 to $20,000 households. Note that the average value of time for the lowest income class is similar to the value of time in the $20,000 to $50,000 range and greater than the value in the $10,000-$20,000 income groups, thus reinforcing our presumption that some of these households are only temporarily earning low income. The allocation of time spent among the various categories is relatively constant among income groups, research and record-keeping are relatively more important for the higher (and, again, lowest) income groups, and actual preparation time is relatively more important for the $5,000-$20,000 income households.[18] The fraction of households who pay for professional assistance generally increases with income, rising from about 35 percent for the lowest two classes, about 50 percent for the middle income groups, up to 78 percent for those households earning more than $50,000 of income. Except for the lowest two classes, the average amount spent by those who do use assistance rises as well, peaking at nearly $200 for the highest income class.

The total resource cost of compliance has a U-shaped relationship with income. For households with over $50,000 income, the average resource cost exceeds $1,400. As a percentage of tax liability, though, there is no obvious pattern except the high percentage for the lowest two income groups. Measured as a percentage of income, the cost for the highest group (1.7%) is significantly higher than for any of the other groups except the lowest two.

It is useful to keep in mind the distinction between the social cost of compliance and the privately borne cost. Our assumption that compliance time comes at the expense of leisure implies that social and private cost are equal. However, for monetary expenditures this equivalence is not valid due to the deductibility of these expenses. For itemizing households, the privately borne costs of expenditure on tax preparation are below the social cost by a fraction equal to the marginal tax rate. Because both the extent of itemization and the marginal tax rate tend to rise with income, the private cost of compliance is more regressive than Table 2 suggests.

In Table 3 we present some data on the relationship between compliance cost and educational attainment. The table indicates the more educated taxpayer tends to spend more time on his tax affairs and is less likely to purchase professional tax advice. In the lowest educational attainment group, over 55 percent of households paid for assistance, compared to less than 50 percent for college graduates and less than 40 percent for those with a graduate level education. However, the average amount spent by those who did pay for assistance rises monotonically from about $50 for the lowest group to over $120 for the highest group.

Table 3

Average Compliance Cost and Its Components by Educational Attainment

Level of Education Completed	Own Time						Monetary Expenditure				Total Costs		
	Total (hrs)	Research (hrs)	Record-Keeping (hrs)	Return Preparation (hrs)	Spent with Advisor (hrs)	Value of Time ($)	% Using Professional Advice	Fees to Advisor ($)	Other Expenses ($)	Total ($)	Total Resource Cost ($)	As a % of Income	As a % of Tax Liability
1st-8th Grade	10.6	0.7	7.0	2.3	1.0	81	57.4	28.5	2.8	31.3	112	0.9	5.7
9th-11th Grade	8.3	1.5	2.7	3.9	0.5	44	42.6	19.9	3.1	23.0	67	0.6	3.9
High School Graduate	28.8	2.3	22.4	4.0	1.1	231	46.9	25.2	4.8	30.0	261	1.4	7.0
Some College or Technical School	18.5	1.9	11.9	3.6	0.9	219	47.6	28.9	13.8	42.7	262	1.4	7.0
4-Year College Graduate	28.3	3.7	15.8	6.4	2.7	362	47.2	61.8	10.2	72.0	434	1.8	7.4
Graduate Level	27.1	4.3	13.3	8.0	1.3	285	39.1	30.9	6.4	57.3	342	1.1	4.1
Overall Average	21.7	2.4	13.8	4.4	1.3	231	45.9	35.0	9.3	44.2	275	1.4	6.6

The total resource cost of compliance generally increases with educational attainment, both due to the increasing number of hours and the higher average valuation of an hour for more educated households. As a percentage of income or tax liability, though, the compliance cost is highest for high school graduates and those with some college.

Table 4 shows the relationship between compliance cost and the age, sex, and employment status of the person in the household most familiar with the tax return. Total time spent on compliance, and its resource cost, first rises then falls with age. This is also true for its major component, record-keeping, although time spent learning about the tax law rises with age. In contrast, the fraction of households that hire professional tax assistance is significantly higher for the two older groups (over 50 percent) than for the two younger groups (slightly more than 40 percent). Whether this represents an unwillingness to hassle with tax matters on the part of older taxpayers or more complicated tax returns is impossible to say without further analysis. In any event, the ratio of expenditures on professional tax assistance to hours of own time spent rises monotonically from 1.32 for the youngest group to 1.99 for the oldest group. The total resource cost of compliance also has an inverted U-shaped relationship to age, even if measured as a percentage of income or income tax liability.

Most categories of compliance cost are on average higher for households where the person most familiar with the return is male. In many cases, though, the difference is not significant. The total resource cost is significantly higher for those households where the male is more familiar with the return.

Table 4

	Own Time						Monetary Expenditure				Total Costs		
	Total (hrs)	Research (hrs)	Record-Keeping (hrs)	Return Preparation (hrs)	Spent with Advisor (hrs)	Value of Time ($)	% Using Professional Advice	Fees to Advisor ($)	Other Expenses ($)	Total ($)	Total Resource Cost ($)	As a % of Income	As a % of Tax Liability
Age													
18-30	14.0	1.3	8.8	3.3	0.8	106	41.8	18.4	16.0	34.4	140	1.0	6.1
31-45	30.4	2.8	21.3	4.9	1.7	323	42.0	44.7	7.5	52.2	375	1.7	7.7
46-65	24.7	2.9	15.3	5.4	1.4	339	57.7	45.9	7.3	53.2	392	1.4	5.9
Over 65	14.3	2.6	6.2	4.1	1.2	92	49.5	28.5	3.5	32.5	124	0.8	4.3
Sex													
Male	23.2	3.0	13.7	5.0	1.6	292	46.7	43.1	8.2	51.3	343	1.5	6.8
Female	19.8	1.6	13.8	3.7	0.8	149	47.6	24.0	10.7	34.7	184	1.1	6.0
Employment Status													
Employee	18.2	2.3	10.2	4.8	1.1	225	44.3	26.7	5.5	32.2	257	1.0	4.2
Self-employed	57.2	3.8	41.7	7.5	4.3	649	87.0	128.0	40.8	168.8	818	3.7	15.4
Homemaker	28.4	2.0	22.5	3.4	0.6	245	48.5	16.9	3.0	19.9	265	2.3	14.4
Retired	11.8	2.6	4.6	3.8	0.8	69	43.5	21.8	3.9	25.7	95	0.6	3.8
Overall Average	21.7	2.4	13.8	4.4	1.3	231	45.9	34.9	9.3	44.2	274	1.4	6.6

One shortcoming of drawing conclusions about the nature of compliance costs on the basis of the patterns observed in Tables 2, 3, and 4 is that they do not account for potential interrelationships among the variables. For example, the apparent positive relationship between education and time spent on compliance may be due to an actual association between income and compliance time plus a correlation between income and educational attainment. In other words, households of the same income with different levels of education may have no tendency to behave differently. In order to investigate the relationship between compliance behavior and any demographic variable, holding all other variables constant, we utilize an ordinary least-squares regression analysis with dummy independent variables which take the value of one for households which fall into the particular class, and take the value of zero otherwise. Dummy variables for income, educational attainment, age, sex, employment status, and marital status are included. Table 5 presents the regression results. For each demographic category, the omitted dummy variable corresponds to the most commonly observed class in the unweighted sample. Thus, the coefficients listed in Table 5 represent the impact relative to the impact of being in the most populous category. For example, a household in the more than $50,000 income class on average spends 6.4 more hours on compliance than does a household in the $20,000-$30,000 class. The reference group for educational attainment is some college or technical school, for sex is male, for employment status is employed, for age is 31 to 45 years old, and for marital status is married.

Table 5

Partial Effect of Demographic Variables on Compliance Cost

Dummy Variable	Effect on Total Time (Hrs)	Effect on Expenditure for Professional Tax Assistance ($)	Effect on Total Resource Cost ($)
Constant	27.0	35.8	368.4
Income			
$0-$5,000	27.9*	-1.7	189.5
	(12.5)	(22.1)	(182.6)
$5,001-$10,000	-17.9*	-26.5	-212.9
	(8.8)	(15.6)	(128.6)
$10,001-$15,000	-18.2*	-25.2*	-213.1
	(6.3)	(11.3)	(93.1)
$15,001-$20,000	-14.5*	-14.1	-183.1
	(6.5)	(11.6)	(95.7)
$30,001-$40,000	-2.2	3.7	-58.2
	(5.7)	(10.2)	(84.0)
$40,001-$50,000	-8.0	7.3	-128.4
	(7.0)	(12.3)	(102.1)
More than $50,000	6.4	104.2*	501.2*
	(6.7)	(11.9)	(98.8)
Education			
1st to 8th Grade	-10.2	12.9	-63.4
	(9.2)	(16.3)	(135.1)
9th to 11th Grade	-5.0	20.4	-99.8
	(0.6)	(18.8)	(155.5)
High School Graduate	-3.5	-2.7	-33.7
	(5.1)	(9.1)	(74.9)
4-Year College Graduate	-0.7	-4.0	131.5
	(5.1)	(9.1)	(75.1)
Graduate Level	3.9	0.3	-26.7
	(6.1)	(10.8)	(89.1)
Sex			
Female	4.6	5.5	-30.6
	(4.4)	(7.8)	(64.1)

(Cont'd)

Table 5 (Cont'd)

Dummy Variable	Effect on Total Time (Hrs)	Effect on Expenditure for Professional Tax Assistance ($)	Effect on Total Resource Cost ($)
Employment Status			
Self-employed	35.2*	69.1*	428.5*
	(5.9)	(10.4)	(85.9)
Homemaker	-2.0	4.9	-12.8
	(8.3)	(14.8)	(122.4)
Retired	-5.0	-4.5	-130.7
	(8.3)	(14.8)	(122.1)
Age			
18-30	0.9	-4.7	-95.6
	(5.3)	(9.4)	(77.8)
46-65	0.8	9.5	-38.0
	(4.8)	(8.4)	(69.7)
Over 65	10.6	37.2*	95.1
	(9.0)	(15.9)	(131.8)
Marital Status			
Unmarried	-1.2	39.3*	6.8
	(6.3)	(11.2)	(92.9)

Notes: (1) Standard errors in parentheses.

(2) Asterisk indicates that the coefficient is significant at the 95% confidence level.

(3) All coefficients should be interpreted as the partial effect of being in the given category compared to being in the reference group. The reference group for income is $20,001 to $30,000, for education is some college or technical school, for sex is male, for employment status is employed, for age is 31-45 years old, and for marital status is married.

We look first at the partial effect of income. The simple relationships observed in Table 2 generally remain when other demographic variables are held constant. Being in the lowest income class is associated with relatively high compliance cost, as is being in the highest income class. The predominantly positive simple relationship between compliance costs and educational attainment does not strongly appear in the regression analysis. The magnitude of the extra costs incurred by the most educated is smaller than those observed in Table 3 and the estimates are for the most part not statistically significant. We can conclude that most of the observed difference in costs can be better explained by differences in income or employment status.

The inverted U-shape of the age-compliance cost relationship noted in Table 4 also does not come through strongly in the regression analysis. The primary difference is that, holding other factors equal, the elderly do not in fact incur less cost in filing tax returns. Although the estimates are not very strong, the elderly appear to spend slightly more time and purchase substantially more professional assistance than those aged 31 to 45. However, the elderly who are also retired spend essentially the same amount of time, spend only slightly more money, and have a relatively low total resource cost of compliance.

The sex of the person most familiar with the filing process does not have a strong partial relationship with any component of compliance cost. The strong relationship between self-employment and compliance costs does, though, clearly show up in the analysis. Holding other demographic factors equal, the self-employed spend 35 more hours, spend 69 more dollars, and have over $400 more in total resource cost than the reference group of employees.

These regression analyses are not meant to be exhaustive studies of the determinants of taxpayer compliance behavior. They do not consider potentially important influences such as the variety of income sources, the opportunity cost of the taxpayer's time, or the marginal tax rate. Instead, they are presented as an aid to understanding the demographic patterns of compliance cost, an important issue in its own right. A comprehensive econometric analysis of compliance behavior, including a theoretical model of its determinants, is developed in Slemrod (1983).

6. Conclusion

This concluding section has two parts. First, we assess the possible sources of error in the aggregate compliance cost estimates derived from this survey in order to establish confidence intervals for these predictions. Second, we look at those areas where additional research is needed.

The sample of survey respondents was reweighted in order to represent the 1982 U.S. distribution of income and the distribution of relatively complicated returns. However, the surprisingly high average compliance cost of the lowest income group arouses the suspicion that these figures still do not accurately reflect the low-income taxpaying population. In order to assess the potential importance of this inaccuracy, we have calculated the aggregate compliance cost under the assumption that the average compliance cost of the lowest group is not in fact $327 as calculated, but rather $70, the lowest average cost of any income group in the sample, and similarly that the correct average amount of time is 9.5 hours and the correct average expenditure on professional assistance is $18. If these adjustments are made, the aggregate estimates become

1.76 billion hours, $2.98 billion spent on professional tax assistance, and a total resource cost of $21.7 billion, down from $26.7 billion.

Another potential source of bias is any difference between the behavior of respondents and nonrespondents that is uncorrelated with income or itemization status. Though some difference is likely to exist, the direction of bias is uncertain and so this consideration must remain as a caveat to be attached to the results of this survey.

A final uncorrected cause of bias is the fact that the Minnesota state income tax return is, by all accounts, more complicated than the average state tax return. The extraordinary complication probably increases the average amount of compliance and may also increase the proportion of taxpayers who use professional tax assistance. The magnitude of this bias is impossible to determine, though our intuition suggests that it leads to at most an overestimate of 20 percent of total compliance time and resource costs.

This brief review of the potential sources of bias in our results suggests that it is more likely that our figures are on the high side than on the low side of the truth. There is also considerable arbitrariness in our procedure for valuing the time spent in compliance. All things considered, our best estimate is that the time spent on compliance in 1982 was between 1.4 and 2.1 billion hours and that the total resource cost of compliance was between 17 and 27 billion dollars.[19]

The promising directions for future research follow directly from the discussion about the possible bias of the results presented here. Survey evidence from other states is needed, and in particular evidence that is not subject to mail response bias or undercoverage of lower income groups. The uncertainty surrounding the numbers presented here would be substantially reduced if these areas were addressed in future work. In addition, any information about the dollar value that individuals themselves place on time spent on tax matters would allow a more meaningful valuation of the resource cost of compliance.

The compliance costs measured in this paper are only one part of the total collection cost of the income tax system. To complete the picture we would want to estimate the costs incurred by the federal and state collection agencies and third parties to the collection process.

At least as important as an understanding of the magnitude of collection costs is an understanding of how these collection costs could be expected to change as a result of changes in the tax law itself. The collection cost impact of a proposed policy should be considered along with its effects on efficiency and the distribution of welfare. Because this survey collected data on the characteristics of the household's tax return in addition to the demographic information discussed here, it has promise of yielding quantitative insight into the compliance cost impact of changes in our system of collecting tax revenue.

Footnotes

1. Adam Smith, The Wealth of Nations, Book V, p. 311.

2. Richard Musgrave and Peggy Musgrave, Public Finance in Theory and Practice, p. 311.

3. See Joel Slemrod, "The Return to Tax Simplification: An Econometric Analysis," mimeo, December 1983.

4. Compliance costs are also to be considered separately from the standard efficiency costs of taxation that arise due to allocational distortions.

5. For example, the majority of taxpayers in the United Kingdom are only required to fill in an income tax form one year in three.

6. The name service that provided the list asserted that the sampling was in fact random, but we were not given the opportunity to carefully check its procedures. See footnote 9.

7. The actual ordering of the questions does not exactly correspond to the discussion in the text.

8. Four of the 12 incomplete questionnaires were returned without a single question answered. Four others did not have any information about the time and/or money spent on filing tax returns. One questionnaire was incomplete because the taxpayer had filed an extension; one checked the box for age over 65 and did not complete the rest because of arthritis; one was partially filled out by the husband even though he wrote that his wife was an accountant and prepared their tax returns, thus violating the explicit instructions of the cover letter and questionnaire. The twelfth unusable (and unusual) questionnaire had checks in nearly every box, an hourly wage rate of $250,000 and $500,000, and "you are a jerk" written on the final page.

9. The professional name service firm that supplied the list of names and addresses maintains a continually updated file of addresses derived from telephone lists, voting records, and other sources.

10. The figures on the actual distribution of adjusted gross income in 1982 referred to here are based on an extrapolation of the published distribution in 1980 and 1981.

11. This procedure ignores the distinct possibility that the income concept to which the respondents were referring in their answer is not identical to adjusted gross income. However, no obviously superior alternative is apparent.

12. For example, the percentage of taxpayers in the reweighted sample receiving various sources of income in most cases closely matches the U.S. percentages in 1981. Table F-1 indicates that the similarity is excellent for capital gains, rental income, and dividends and less accurate for interest and pension and annuity income.

Table F-1

Characteristics of the Reweighted Sample and the U.S. Population

Percent Reporting	Reweighted Sample	U.S. Population
Capital Gains	0.104	0.099
Rental Income	0.077	0.081
Dividends	0.226	0.173
Interest	0.681	0.521
Pensions and Annuity Income	0.168	0.090

13. Another implicit assumption is that the choice of how many hours to work is a marginal calculation and freely variable, which is true for some individuals but not others.

14. See, for example, Gwilliam and Mackie (1975).

15. These figures refer to the unweighted sample. For the weighted sample, the percentages are as follows: like very much, 1.2%; enjoy, 9.9%; neither enjoy nor dislike, 39.7%; dislike, 32.2%; and dislike very much, 16.9%.

16. Note that this breakdown of time spent implies that the compliance cost estimate of the Commission on Federal Paperwork, which was based on the assumption that the time spent in filling out the tax form comprised half the total time spent (compared to only 20 percent estimated here), is a substantial underestimate.

17. This figure is consistent with the fact that 40.1% of federal returns in 1982 were co-signed by a professional tax advisor. (This number is reported in Riley, 1983, p. 45.)

18. The category of "preparation time" in Tables 2, 3, and 4 corresponds to the sum of the time reported for preparation and "time spent looking up tax tables for . . . tax deductions and tax liability." It was felt that any distinction between these two activities is essentially arbitrary.

    The observant reader will note that in Tables 2, 3, and 4 the sum of the components of time spent often exceeds the figure for total time spent. This is possible because the survey first asked about each separate component of compliance, and then for a total time figure, and did not alert the reader to any adding-up constraint. In most cases when a discrepancy existed, the sum of the component exceeded the stated total. Our interpretation of this phenomenon is that the categories of compliance were perceived to be exhaustive but overlapping. As our measure of total time spent, we use the stated total rather than the sum of the components. This figure is also used in the calculation of the resource cost of time.

19. The lower bounds for these ranges was obtained by first eliminating the impact of the lowest income group as done in the text, and then further reducing the numbers by 20 percent to account for the maximum bias imparted by the special difficulty of the Minnesota state income tax filing process. The upper bounds are the weighted figures from the survey.

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APPENDIX

April 15, 1983

Dear Minnesota Resident:

I am an Economics student in the Honors Division of the University of Minnesota studying the costs of filing individual income tax returns for my senior thesis. The costs to taxpayers of filing income tax returns can be divided into several areas: the money paid for professional tax assistance and advice, the time spent keeping records and preparing tax returns, and even the worry and frustration that people experience because of income taxation. These costs of filing tax returns are above and beyond the amount of income tax paid.

In the last several years, there has been much talk about the complexity of our income tax system and the amount of difficulty people have in filing tax returns. To study this area of income taxation for my senior thesis, I have sent the enclosed questionnaire to a group of Minnesota residents requesting information on their costs of filing tax returns. Your household has been randomly chosen to participate in this survey. I would be very grateful if the person in your household most familiar with filing your income tax returns would spend a few minutes completing this survey and then mail it in the postage-paid envelope at their earliest convenience.

Your participation in this survey is completely voluntary. However, your experiences with filing tax returns are very important to my research, and I hope you will share the information I need to study these hidden costs of taxation. Information found on your questionnaire will be completely confidential. In fact, when the surveys are returned, I will not be able to match the names of Minnesota residents with their completed questionnaires. Thank you very much for your help.

Sincerely,

Nikki Sorum
Economics Student

Joel Slemrod, Ph.D.
Assistant Professor of Economics
(Thesis Advisor)

Enclosure

SURVEY OF COSTS OF FILING INDIVIDUAL INCOME TAX RETURNS

YOUR IDENTITY WILL NOT BE REVEALED IN CONNECTION WITH THIS SURVEY.

Please have the person in your household most familiar with filing your income tax returns complete this questionnaire.

Personal Characteristics:

1. I am — Female ☐ Male ☐

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2. Age: 18 - 30 ☐ 31 - 45 ☐ 46 - 65 ☐ over 65 ☐

Marital Status: Single ☐ Married ☐ Widowed, Divorced or Separated ☐

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3. Level of Education Completed:

First to Eighth Grade ☐
Ninth to Eleventh Grade ☐
High School Graduate ☐
Some College or Technical School ☐
4-Year College Graduate ☐
Graduate-Level ☐

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4. Occupation: (If you have more than one job, check the occupation that takes more of your time.)

Student ☐
Homemaker ☐
Retired ☐
Unemployed ☐

Employee (describe) _____ ☐

Self-Employed (describe) _____ ☐

Other (describe) _____ ☐

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5. Did you file a 1982 federal and/or state income tax return?

Yes ☐
No ☐

IF YES, GO TO QUESTION 7.

IF NO, GO TO THE NEXT QUESTION (#6).

---

6. Why did you not file a 1982 income tax return?

My income was too small to file a return. ☐
I was not employed in 1982. ☐
Other (explain)_____ ☐

BECAUSE YOU DID NOT FILE A 1982 TAX RETURN YOU ARE FINISHED WITH THIS QUESTIONNAIRE. PLEASE MAIL IT IN THE PROVIDED ENVELOPE.

THIS SECTION IS FOR THOSE PEOPLE WHO DID FILE A 1982 TAX RETURN.

7. For 1982 what kind of federal income tax return did you file?

FORM 1040 (long form) ☐
FORM 1040A (short form) ☐
FORM 1040EZ (new short form) ☐
Did not file a federal return ☐

For 1982 what kind of state income tax return did you file?

FORM M-1 (long form) ☐
FORM M-1A (new short form) ☐
Did not file a state return ☐

---

8. Did you itemize your personal deductions such as interest expenses, medical expenses, taxes, contributions, etc. for your 1982 tax returns?

Yes ☐
No ☐

If you are married, did you and your spouse file a joint return for 1982?

Yes ☐
No ☐
Not Married ☐

---

9. Check the income bracket which describes your 1982 total income. (If you filed a joint return, please include your spouse's income.)

under $5,000 ☐
$5,000 - $10,000 ☐
$10,001 - $15,000 ☐
$15,001 - $20,000 ☐
$20,001 - $30,000 ☐
$30,001 - $40,000 ☐
$40,001 - $50,000 ☐
over $50,000 ☐

---

10. Check all the boxes that describe your income sources in 1982.

Wages ☐
Interest ☐
Dividends ☐
Self-employed Business ☐
Capital Gains/Losses ☐
Rent ☐
Pensions and Annuities ☐
Other ☐

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11. Can you increase your income by choosing to work more hours?

Yes ☐
No ☐

If yes, how much pay before taxes do you receive for working an additional hour?

$_ _ _ _ _ _

If no, how much per hour would you want to be paid if you could work extra hours?

$_ _ _ _ _ _

---

12. The time you spent on your 1982 income tax returns can be divided into several areas such as learning tax rules, keeping records, preparing tax returns, and meeting with tax advisors. Please estimate how much time you spent on the various areas listed below. (Mark only the lines that apply to you.)

Time spent learning about tax rules (perhaps by reading magazine or newspaper articles, tax guides, or attending tax seminars.)

_ _ _ _ _ hours

Time spent keeping receipts or records for your income taxes.

_ _ _ _ _ hours

Time spent looking up tax tables for your deductions and tax liability.

_ _ _ _ _ hours

Time spent in actual preparation of your tax returns.

_ _ _ _ _ hours

Time spent supplying a tax advisor with your income tax information.

_ _ _ _ _ hours

How many hours total did you spend on your income tax affairs?

_ _ _ _ _ hours

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13. What is your attitude towards the preparation and filing of your income tax returns?

I very much enjoy it ☐
I enjoy it ☐
I neither enjoy nor dislike it ☐
I dislike it ☐
I dislike it very much ☐

---

14. Have you ever chosen not to undertake some type of business activity (such as buying or selling real estate) because of the hassle or expense of complying with the tax laws?

Yes ☐
No ☐

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15. Did you have someone help you with your 1982 income tax returns but did not pay them for their assistance?

Yes ☐
No ☐

If yes, approximately how much time did that person spend helping you?

_ _ _ _ _ _hours

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16. Did you pay someone for assistance with your 1982 income tax returns?

Yes ☐
No ☐

IF YES, GO TO QUESTION 19.
IF NO, PLEASE CONTINUE WITH THE NEXT QUESTION (#17).

THIS SECTION IS FOR THOSE PEOPLE WHO DID NOT PAY FOR TAX ASSISTANCE WITH THEIR 1982 INCOME TAX RETURNS.

17. Even though you did not pay for professional tax assistance, you may still have had some expenses in preparing your tax returns (such as buying self-help tax guides, making phone calls, traveling, or postage costs). Please estimate these costs for filing your 1982 income tax returns.

$_ _ _ _ _ _

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18. If you could have avoided all the time and effort of gathering your tax information and preparing your 1982 tax returns, how much would you have been willing to pay? (Assume the amount of income tax paid would not have changed.)

$_ _ _ _ _ _

IF YOU DID NOT PAY FOR TAX ASSISTANCE, YOU ARE FINISHED WITH THIS QUESTIONNAIRE. PLEASE MAIL IT IN THE PROVIDED ENVELOPE. THANK YOU FOR YOUR HELP.

THIS SECTION IS FOR THOSE PEOPLE WHO DID PAY FOR TAX ADVICE OR ASSISTANCE WITH THEIR 1982 INCOME TAX RETURNS.

19. What amount in fees did you pay to any of the following for help in filing your 1982 federal and/or state tax returns? (Please give amounts to the nearest dollar.)

Accountant or Accounting Firm $ _ _ _ _ _

Tax Preparers or Firms (such as H. and R. Block) $ _ _ _ _ _

Other (describe) _ $ _ _ _ _ _

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20. In preparing your 1982 tax returns you may have had other costs besides the fees paid to tax advisors such as travel expenses, phone calls, postage, or written materials. Please estimate these additional costs.

$ _ _ _ _ _

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21. If you could have avoided all the time and effort on your 1982 income tax returns, how much more would you have been willing to pay above and beyond what you already paid for tax assistance? (Assume the amount of income tax paid would not have changed.)

$ _ _ _ _ _

YOU ARE FINISHED WITH THIS QUESTIONNAIRE. PLEASE MAIL IT IN THE PROVIDED ENVELOPE. THANK YOU FOR YOUR HELP.