

**State of California
Franchise Tax Board**

**ReadyReturn Pilot
Tax Year 2004 Study Results**

April 2006

Study Summary

Key ReadyReturn Pilot Findings

Generally, the evaluation results indicate positive findings for all four ReadyReturn Pilot measures, as shown below.

1. Burden Reduction

Most survey respondents indicated that ReadyReturn was easy to understand, lowered stress (anxiety about tax filing), and saved them time.

ReadyReturn Users Results

- 97% of online users and 99% of paper users stated ReadyReturn was easy to understand.
- 93% of users¹ stated that they saved time using ReadyReturn.
- 96% of online users and 95% of paper users stated that ReadyReturn was more convenient than how they filed last year.
- 90% of online users and 75% of paper users stated that ReadyReturn made them feel less anxious about filing their tax returns.

Control Group Results

- 39% of the Control Group² indicated that they believed that they would feel less anxious if using ReadyReturn.

2. Program Acceptance

The following data indicate that taxpayers were very receptive to the ReadyReturn concept and will use it again if made available. Most respondents believe that government should provide this type of service.

General Results

- Received 11,620 ReadyReturns
 - 5,610 taxpayers chose to e-file using our ReadyReturn Website.
 - 6,010 chose to file the “ReadyReturn” that we mailed to them.
- 23% of invitees used ReadyReturn, indicating taxpayers did not feel pressured to use ReadyReturn.

ReadyReturn Users Results

- 99% of online users and 98% paper users stated they were either “Very Satisfied” or “Satisfied” with ReadyReturn.

¹ Users includes taxpayers who chose ReadyReturn, both paper filers and online filers.

² Survey control group includes taxpayers selected from a group of 31,500 who qualified for ReadyReturn, but who were not invited to participate.

- 98% of online users and 97% of paper users stated they would use ReadyReturn again.
- 95% of online users and 83% of paper users thought ReadyReturn was a service that the government should provide.
- 1% of all users indicated that they believed their personal information was not secure with ReadyReturn.

Control Group Results

- 60% of the Control Group indicated that they were interested in using ReadyReturn.
- 50% of the Control Group thought ReadyReturn was a service that the government should provide.

Non-participants Results

- 42% of non-participants³ wrote-in the reason they didn't choose ReadyReturn.
 - 22% wrote-in that the taxpayer had already filed their return.
 - 20% wrote-in other reasons
- A sample of the reasons provided which taxpayers chose are:
 - 29% of non-participants indicated that they didn't choose ReadyReturn because they prefer to use a tax preparer.
 - 9% of non-participants indicated that they believed that using the Internet is not secure.
 - 11% of non-participants indicated that they didn't feel comfortable receiving a pre-filled return.
 - 3% of non-participants indicated that they prefer using a non-government e-file company.

3. Processing Efficiency

Evaluation factors for this measurement include:

- Return accuracy.
- Increase in e-file use.
- Reduction in return processing costs.
- Reduction in the volume of error notices sent to taxpayers.

Overall, the ReadyReturn Pilot had a positive impact on FTB's efforts to achieve processing efficiency.

- ReadyReturns were less likely to "fall-out" for errors during processing. In fact the fall-out rate for ReadyReturns was about half that for the survey control group, thus reducing processing costs.

³ *Non-participants* includes taxpayers who were invited to participate in ReadyReturn, but chose not to.

- ReadyReturn filers were less likely to receive an error notice from us. Less than 0.5% of ReadyReturn filers received a notice, compared to almost 4% of the Control Group.
- ReadyReturn was instrumental in introducing thousands of paper filers to the e-file concept. Of the online ReadyReturn users, 56% converted from paper filing last year to e-filing this year.

4. AGI Differences and Tax Effect

AGI Comparisons

- 96% of the participants filed the ReadyReturn with no changes to income.
- 4% of the participants changed the ReadyReturn to adjust their income.

Cumulative AGI Amount Totals

- The AGI reported to California is within 99.9% of reported federal AGI for ReadyReturn participants.
- The average tax effect of the difference between the AGI reported to California and that of the reported federal AGI is less than \$3 per participant.

Going Forward – Tax Year 2005 Pilot

As authorized by Assembly Bill 139⁴ (CH. 74, July 19, 2005) we began conducting ReadyReturn as a Pilot for tax year 2005 on March 15, 2006.

Based on our findings of the tax year 2004 Pilot, we made the following adjustments for the tax year 2005 Pilot:

- Revised the invitation and Website to better emphasize the need for taxpayers to make necessary changes to their return (e.g. reporting additional income and claiming the Renter's Credit or Child and Dependent Care credit).
- Delayed the mailing of invitations and tax returns for the tax year 2005 Pilot until March 15, 2006, thus allowing approximately 30 more days for receipt of more complete wage information by FTB. We received approximately 14 million more wage records by delaying our mailing. We expect this will lead to even less differences between the AGI reported to California and that reported to the IRS.

We will perform a similar analysis on the tax year 2005 Pilot.

⁴ SEC. 75.5.

(a) *The ReadyReturn Pilot program, available to taxpayers filing the simplest tax returns with the Franchise Tax Board, may continue to operate as a Pilot program during the 2005-06 fiscal year, unless later enacted legislation authorizes the continuation of the program.*

(b) *The ReadyReturn Pilot program authorized herein shall be operated during the 2005-06 fiscal year in the same manner it was operated during the 2004-05 fiscal year*

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Background

Introduction

On August 25, 2004, the three-member Franchise Tax Board directed FTB to conduct the ReadyReturn Pilot for tax year 2004 (process year 2005). This direction included targeting 10,000 taxpayers for the Pilot and “[to] spend some time studying it [the Pilot]”.

In this Pilot, we completed a tax return for eligible taxpayers using wage and withholding data that had already been reported to the State. Beginning February 15, 2005, we mailed the completed return with a letter to 51,850 (number deemed statistically valid to reach our directed goal of 10,000 taxpayers) eligible taxpayers inviting them to participate in the Pilot by either filing the completed paper return or coming to our Website to view, make adjustments (if necessary), and e-file the return. Both the invitation and our Website advised taxpayers that they should make any needed changes to the return, such as reporting other income, claiming the Renter’s Credit, or making a voluntary contribution. The invitees also had the option to ignore the invitation and file another way. Of those we invited, 11,620 filed a ReadyReturn.

Pilot Scope

The tax filing process can be burdensome for many taxpayers. In addition to the taxpayer’s obligation to pay the correct tax, the annual process of data gathering and the actual preparation of the return add to the taxpayer’s burden. The ReadyReturn Pilot scope included providing approximately 50,000 taxpayers the opportunity to partially bypass the traditional tax filing process.

We selected taxpayers who file the simplest returns. The selected taxpayers received an invitation by mail to participate in the ReadyReturn Pilot. The invitation included a letter and a filled-in tax return. The tax return was completed using wage and withholding information that is already reported to the State by employers. The letter provided instructions to recipients on how to file the return as well as how to view and e-file the return via our ReadyReturn Website.

Taxpayers’ options included:

- Accept the return, as presented.
- Make modifications.⁵
- Go to FTB’s ReadyReturn Website to e-file, or modify the return and e-file it.
- Ignore FTB’s invitation.

These available options ensured that taxpayers had choices that included reducing their tax return filing burden.

Study Purpose

The primary purpose of the study was to determine taxpayer acceptance of and interest in a simpler method of filing and the tax effect of the Pilot. The purpose of this report is to provide our final findings of our study of the tax year 2004 ReadyReturn Pilot. (Note: For the June 15, 2005 FTB board meeting, we prepared a preliminary report⁶, which provided the initial results of our evaluation of the ReadyReturn Pilot.)

⁵ Typical modifications included: changing filing status; changing address; including additional income information; claiming tax credits; electing for a direct deposit of the refund.

⁶ View our preliminary ReadyReturn report: <http://www.ftb.ca.gov/law/meetings/attachments/061505/4.pdf>

Study Objectives

Our primary objectives of this study were to explore and evaluate:

- Taxpayer Response - including burden reduction and program acceptance, and
- Efficient Tax Administration - including processing efficiency, and AGI differences (differences between the ReadyReturn Adjusted Gross Income⁷ [AGI] [as mailed to the participants], California AGI⁸ [as filed with California by the participants], and federal AGI⁹ [as filed on the participants' federal return]) and tax effect.

Key Measures

Based on the above objectives, we established the following four key measures for our evaluation process.

1. Burden Reduction

To measure if those participating in the Pilot felt that it reduced the burden of filing their taxes in some way. Burden reduction includes variables such as reducing anxiety, saving time, saving money, convenience, ease of use, and having information in Spanish or another language.

2. Program Acceptance

To measure how taxpayers responded to this new service and their acceptance of ReadyReturn. Acceptance includes variables such as use of ReadyReturn, convenience, privacy, refund processing time, and desire to use this method in the future. It also includes assessing reasons for not using the ReadyReturn. And if invitees did not use ReadyReturn, it tries to assess if and how they used the information.

3. Processing Efficiency

To measure whether the use of ReadyReturn resulted in more accurate returns and higher levels of e-filing. If so, FTB could realize a reduction in costs for processing returns and issuing and responding to notices. Efficiency includes variables such as moving paper filers to e-filing, reducing errors on returns, and reducing notices mailed to taxpayers.

4. AGI Differences and Tax Effect

To measure what the differences between the ReadyReturn AGI, California AGI and federal AGI were for ReadyReturn participants and the estimated tax effect due to the difference between the California AGI and federal AGI.

⁷ This is line 17 of the 2004 Form 540.

⁸ This is line 17 of the 2004 Form 540. This is the federal AGI from line 36 of Form 1040, less adjustments (additions or subtractions) for differences between California and federal income and deductions.

⁹ This is line 36 of the 2004 Form 1040. This is all federal income and income adjustments; AGI is before deductions or credits.

Study Methodology

Study Research Methods

The study used statistically valid samples of various taxpayers who met the requirements for being selected for the ReadyReturn Pilot. Surveys were conducted with ReadyReturn users, non-users, and a control group in order to determine the success of the Pilot project and to gather taxpayer demographic data. Additional demographic and return data was also gathered. The study and surveys were specifically designed to measure our four ReadyReturn key measures.

- Burden reduction - determine if ReadyReturn helped taxpayers. Selected taxpayers who participated in the Pilot were given the opportunity to complete a survey about their ReadyReturn experience. Through these surveys we gathered information regarding the amount of time, effort, and money taxpayers needed to file their returns compared to prior years.
- Program acceptance - determine acceptance of the ReadyReturn method. To determine how interested taxpayers are in the service and how it can best meet their needs, we looked at the number of taxpayers who chose to participate in the Pilot. Additionally, we considered survey data and other information.
- Processing efficiency - determine if ReadyReturn improves the State's ability to administer the tax system. We reviewed processing statistics to determine efficiency. Also, the Pilot provided us with some data we can use to evaluate the overall cost/savings of implementing a ReadyReturn program.
- AGI differences and tax impact – determine what the California and federal AGI differences were and the tax impact of the differences. We retrieved state and federal AGI data for the participants and compared the differences and cumulative AGI amount totals. Using the cumulative AGI amount totals we estimated a tax effect based on the differences between the California AGI and federal AGI reported by ReadyReturn participants. We had data available to perform our analysis on 10,444 of the 11,620 ReadyReturn filers.

Evaluation Process

As part of the design and evaluation process to measure taxpayer response, we consulted with Stanford University experts. Together with these experts, we established a comprehensive survey approach to gather taxpayer feedback on the ReadyReturn Pilot. We gathered and compared data from four representative taxpayer groups:

1. ReadyReturn paper filers.
2. ReadyReturn e-filers.
3. ReadyReturn non-participants.
4. A Control Group of taxpayers who met the criteria to participate in the program, but were not invited to participate.

The Survey Population and Sample Design

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

Table B-1: Sample Sizes

Group	Population	Sample Size	Responses	Response Rate	Sampling Error¹⁰
Online Users	51,850	5,571	2,126	38%	2.1
Combined Group (Paper Users and Non Users)		8,757	1,266	14%	2.7
Control Group	31,150	15,000	1,616	11%	2.4
Total	-	29,328	5,008	-	-

Online Users – all taxpayers who filed their ReadyReturn online were offered the opportunity to fill out the survey after they completed their online filing.

Combined Group – This group consisted of paper users and non-users. In order to ensure an adequate response rate for the paper users, all of the paper ReadyReturns identified as of August 26, 2005, were included in the sample. A simple random sample of non-users was selected. The survey used skip-patterns with specific instructions in order to ask different questions of the users and non-users. These groups were combined in order to save the costs of producing additional surveys.

Control Group - A simple random sample was selected from a group of 31,500 taxpayers who qualified for ReadyReturn, but who were not previously invited to participate in the Pilot project.

As much as possible we compared ReadyReturn users' filing situations to a control group of taxpayers who qualified to use ReadyReturn, but were not randomly selected to participate in the Pilot.

Bias – To the extent that the non-respondents differ from the respondents, this could lead to statistical bias in the results.

Survey results included in this study are as of August 25, 2005. Return data and statistics are as of December 31, 2005.

Surveys (See [Appendix B](#))

Most of the questions were multiple-choice, designed to elicit information regarding the taxpayers' experience with ReadyReturn and their general tax preferences. The last question was open-ended and provided the respondent an opportunity to give additional written comments.

¹⁰ 95% confidence level. This is for a 50% characteristic (for instance for the online group, the 95% confidence interval around 50% would be 47.9% to 52.1%).

Pilot Methodology

Selection Criteria

We designed the ReadyReturn Pilot for taxpayers who file the simplest returns. Of California's approximately 14 million resident taxpayers, 11 million are wage earners and nearly 3 million file the simplest returns. For this Pilot, we define "simplest returns" as those with income only from wages where the taxpayer only claims the personal exemption and standard deduction.

Taxpayers qualified to participate in the Pilot if they met the following criteria:

Based on their 2003 California Personal Income Tax Return:

- Filed a resident return.
- Used the single filing status.
- Claimed no dependents.
- Was not claimed as a dependent on another's return.
- Claimed the standard deduction.
- Had income from wages only.
- Had only one employer.

Based on 2004 information:

- Had no 2004 return on file as of the date the ReadyReturn was mailed.
- Had no payments on file as of the date the ReadyReturn was mailed.
- Had fourth quarter wage data available from the Employment Development Department (EDD).
- Had only one employer.
- Had total wages less than or equal to the itemized deduction phase-out.
- Had income indicating a filing requirement **or** a refund
- Had a California address on file.
- Other internal administrative requirements.

From the population of qualified taxpayers, we selected 51,850 taxpayers to participate in the Pilot. It was understood that a percentage of invitees would have a change in their tax circumstances from 2003 to 2004. This generally did not preclude them from participating in this Pilot, as they could come to the ReadyReturn Website and make the appropriate changes.

To ensure the statistical validity of the Pilot, taxpayers could not request to participate in the Pilot.

Invitations

We sent invitation letters and completed returns to the 51,850 taxpayers we selected to participate in the Pilot. The invitation letters were in English on the front side and in Spanish on the reverse. The letters included the taxpayer's Access Code and the name of their employer.¹¹

Due to the timing of W-2 data from EDD, we sent the invitations in two waves: 19,205 on February 16, 2005, and 32,645 on February 23, 2005.

We sent follow-up letters, also in waves, on March 23, 2005, and April 4, 2005, to all invitees who did not yet have a 2004 return on file.

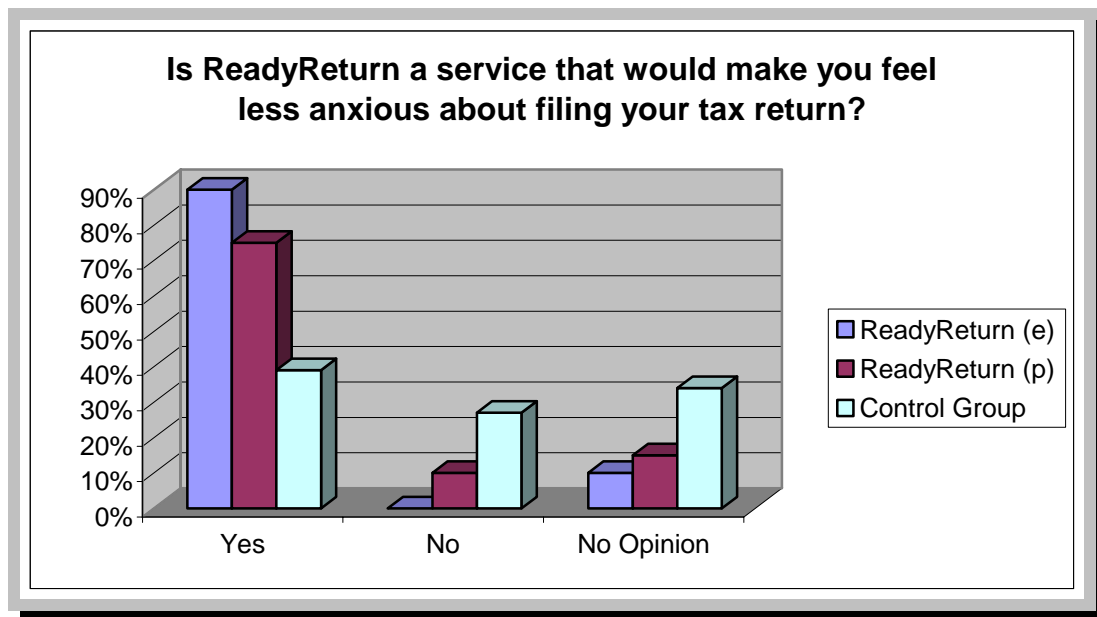
The Pilot assumed that California AGI would equal federal AGI for the eligible population but provided instructions and a mechanism for the taxpayer to adjust the amounts to correctly represent their tax situation for the year.

¹¹ Sample invitations are available online at www.ftb.ca.gov. Search for "About ReadyReturn".

Study Findings

Measure 1: Burden Reduction

Burden reduction was the primary objective of the ReadyReturn Pilot. One measure of burden is the level of anxiety associated with filing a tax return. When asked if ReadyReturn made them feel less anxious, taxpayers who used the program generally answered, "Yes". The majority of the control group felt that it would make them less anxious or had no opinion.



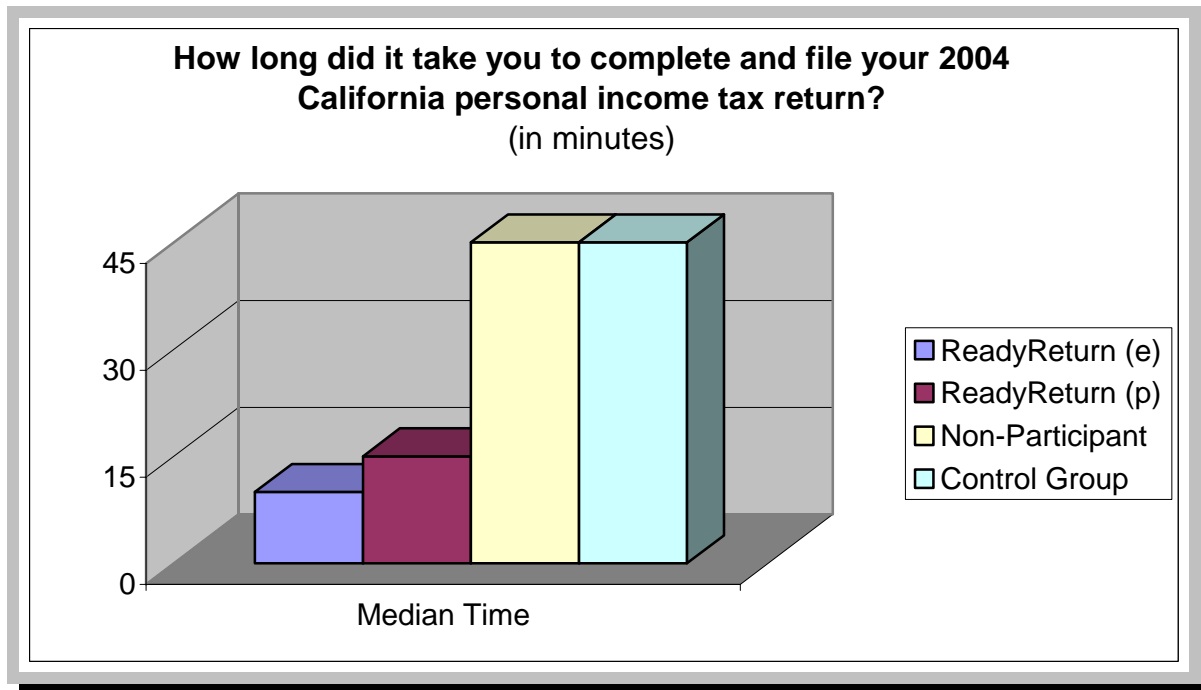
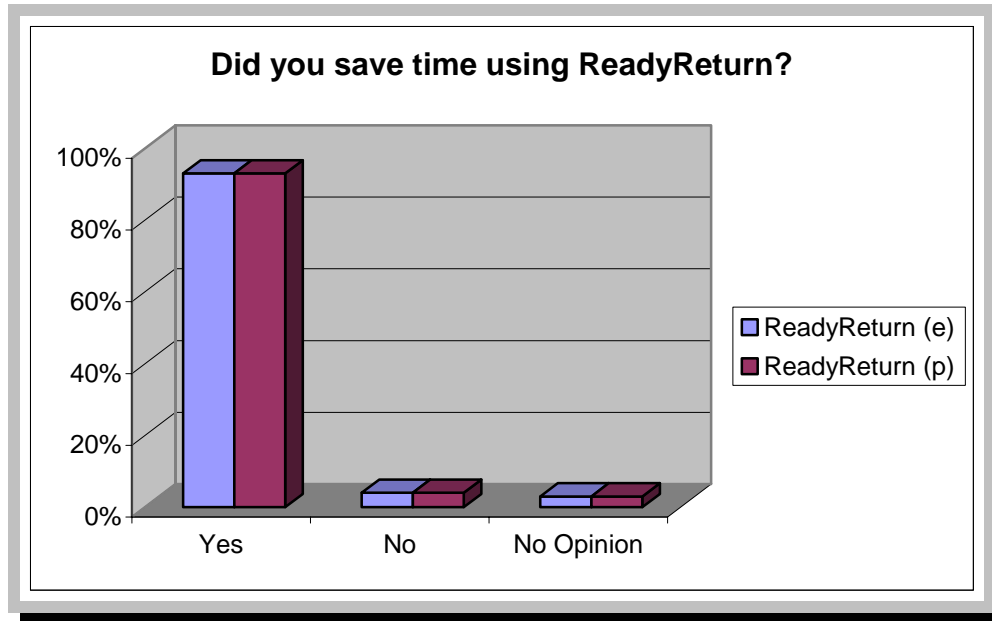
Comments from taxpayers include:

- ◆ "Having the form already prepared for me, ready for me to check, was fabulous. It made it so easy and worry free."
- ◆ "This was the best way to file my state taxes. If filing becomes this easy it would eliminate all stress associated with filing your taxes."
- ◆ "Thank you for making something that always is stressful much easier. I was able to understand the procedure and felt that I was in control of what was being done with my taxes."
- ◆ "State tax filing was painless this year."

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

- ◆ "I was skeptical and a little afraid to use this new program. To my surprise it was the easiest process ever."
- ◆ "I was a bit worried at first when I got this in the mail, but when I realized that this letter was from the State I got excited. I usually use [commercial software] to do my taxes, but this was a lot easier."

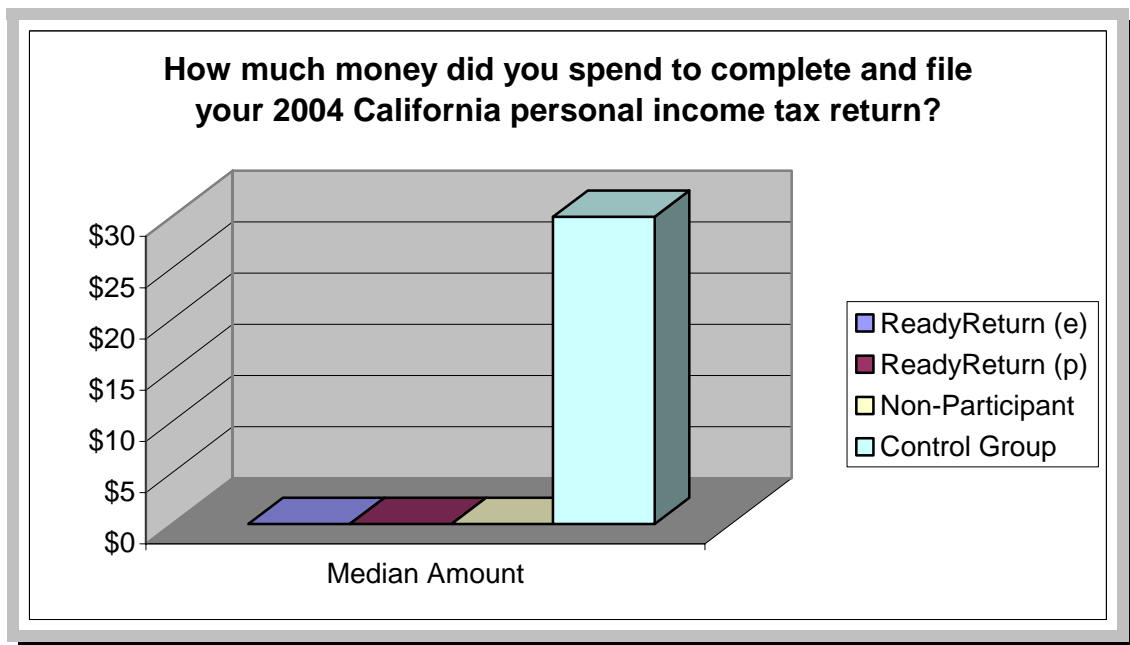
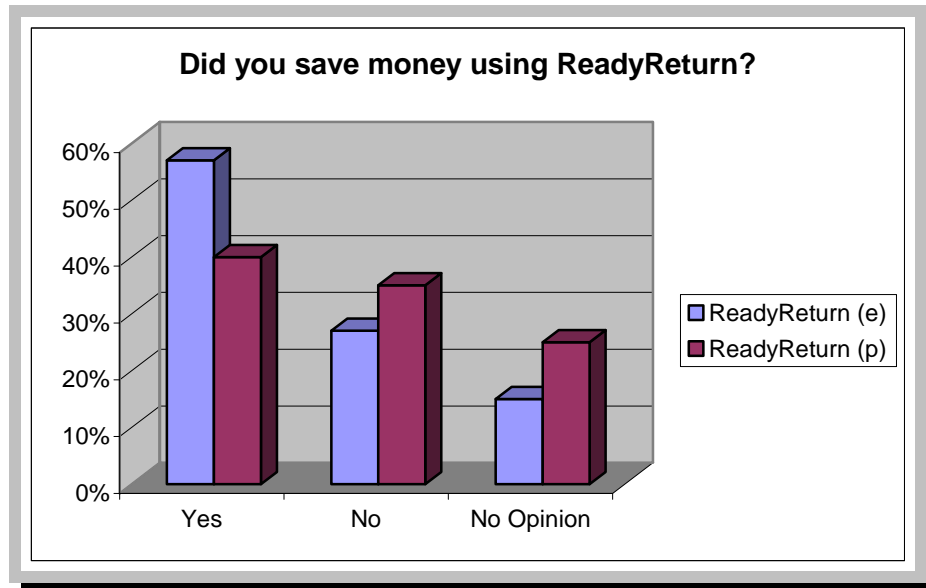
Taxpayers overwhelmingly felt that using ReadyReturn saved them time. This is supported by the amount of time each group reported that they spent to complete and file their 2004 California personal income tax return.



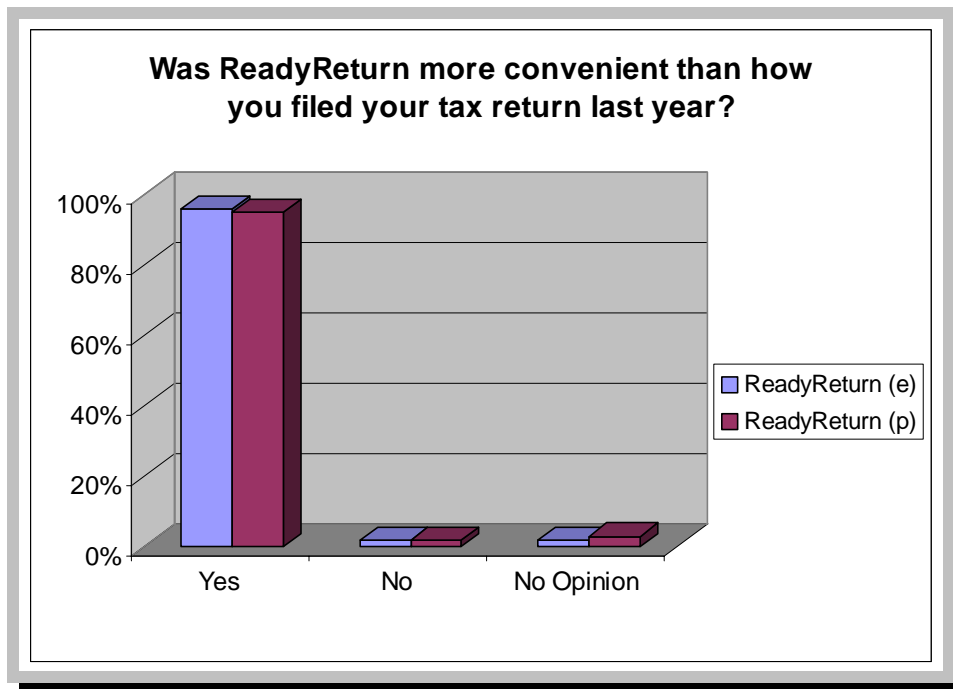
Comments from taxpayers include:

- ◆ “You scored a home run with this latest upgrade in e-filing. It saved me a lot of time and headache.”
- ◆ “This has been a great experience. Never before has it taken 5 minutes for me to file my taxes.”
- ◆ “I think this is great for single people with no write-offs. It certainly saved me time and to worry of it being incorrect.”

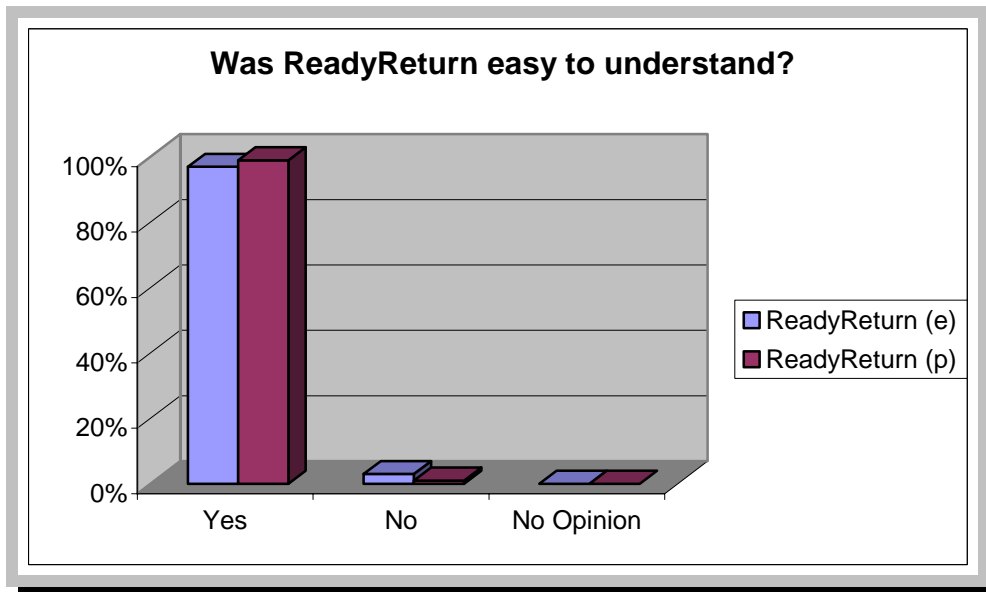
The majority of taxpayers felt that ReadyReturn saved them money. Taxpayers who used the ReadyReturn Website were more likely to state that they saved money, where those who used the paper ReadyReturn were neutral. When asked how much money they spent to complete and file their 2004 California personal income tax return, though, the ReadyReturn users reported spending less money than the control group.



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



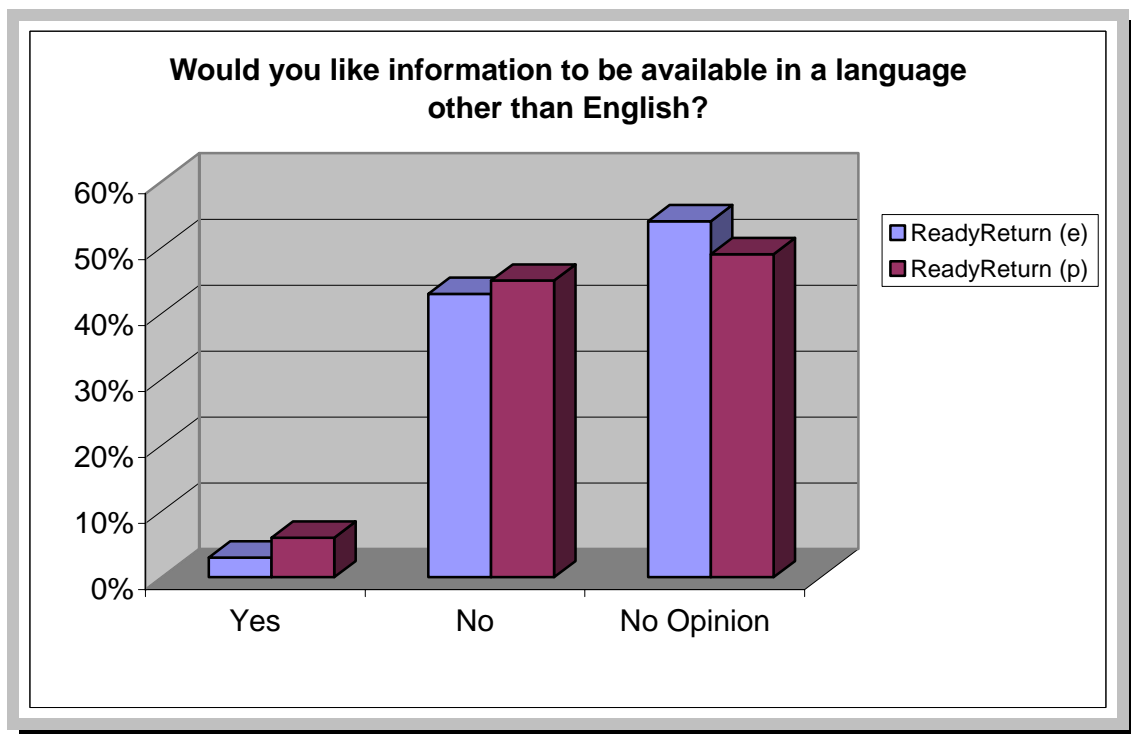
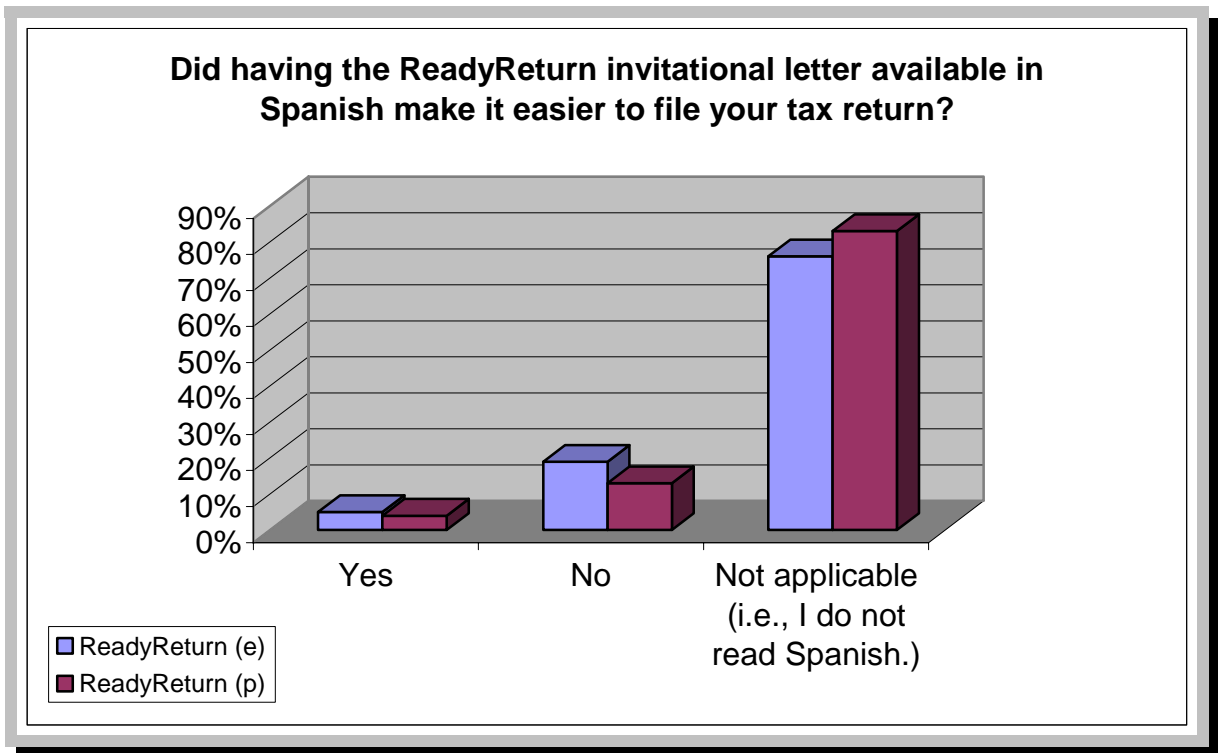
Part of reducing the burden of filing a tax return is making sure the alternative is easy for the taxpayer to understand. Taxpayers who used ReadyReturn overwhelmingly reported that it was easy to understand.



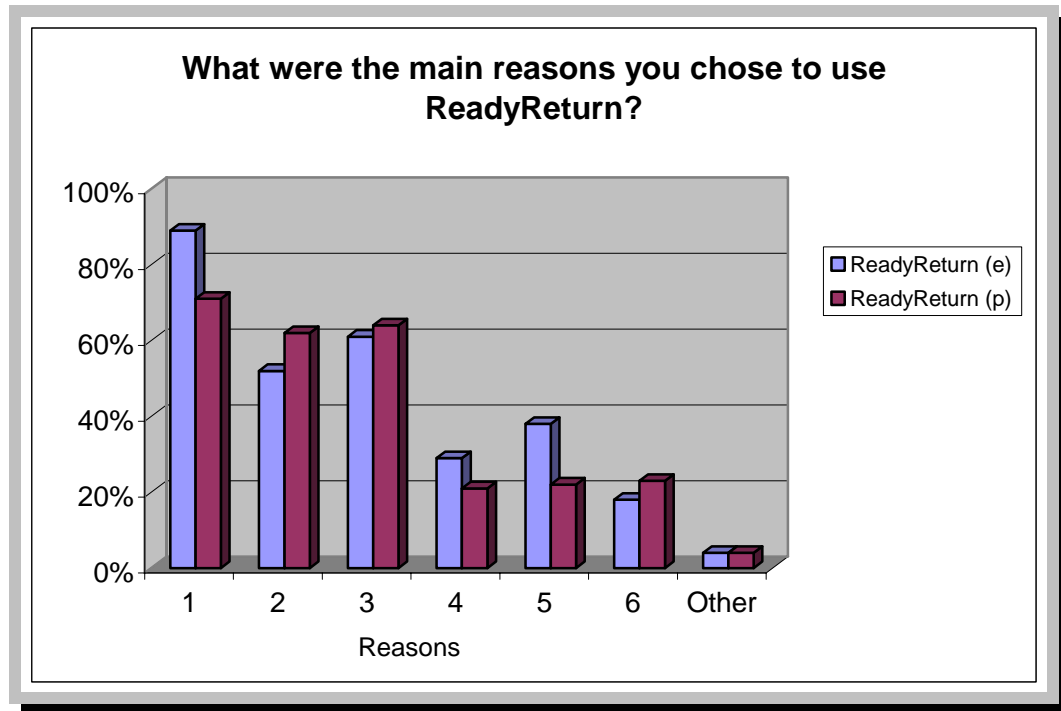
Comments from taxpayers include:

- ◆ “ReadyReturn saved me a lot of time and it was very easy to understand – not confusing at all.”
- ◆ “Please send me a ReadyReturn next year. Also, please keep the form in its simple and concise format. It was very easy to read.”
- ◆ “Please keep it this simple.”

Due to the large bilingual population in California, we offered the invitational letter in Spanish. When asked if this made ReadyReturn easier, users were generally neutral with more than three-quarters reporting that they do not read Spanish. When asked if they would like information available in a language other than English, over 95% answered “No” or “No opinion.” Spanish and Chinese were listed as the two most common languages in which taxpayers would like information available.



Finally, we asked taxpayers why they chose to use ReadyReturn. Taxpayers were asked to indicate all that applied. The top responses were that they were invited, that they felt it was more convenient, and that they felt it would save them time. Common reasons that taxpayers also provided were that with ReadyReturn the return was done for them and that ReadyReturn is free and easy.



Reasons (Respondents could select more than one reason.)

1. I was invited to participate in the Pilot project.
2. It was easier than how I filed last year.
3. I thought it would save me time.
4. I thought it would save me money.
5. I could get a faster refund.
6. TeleFile is no longer available.

Taxpayer comments include:

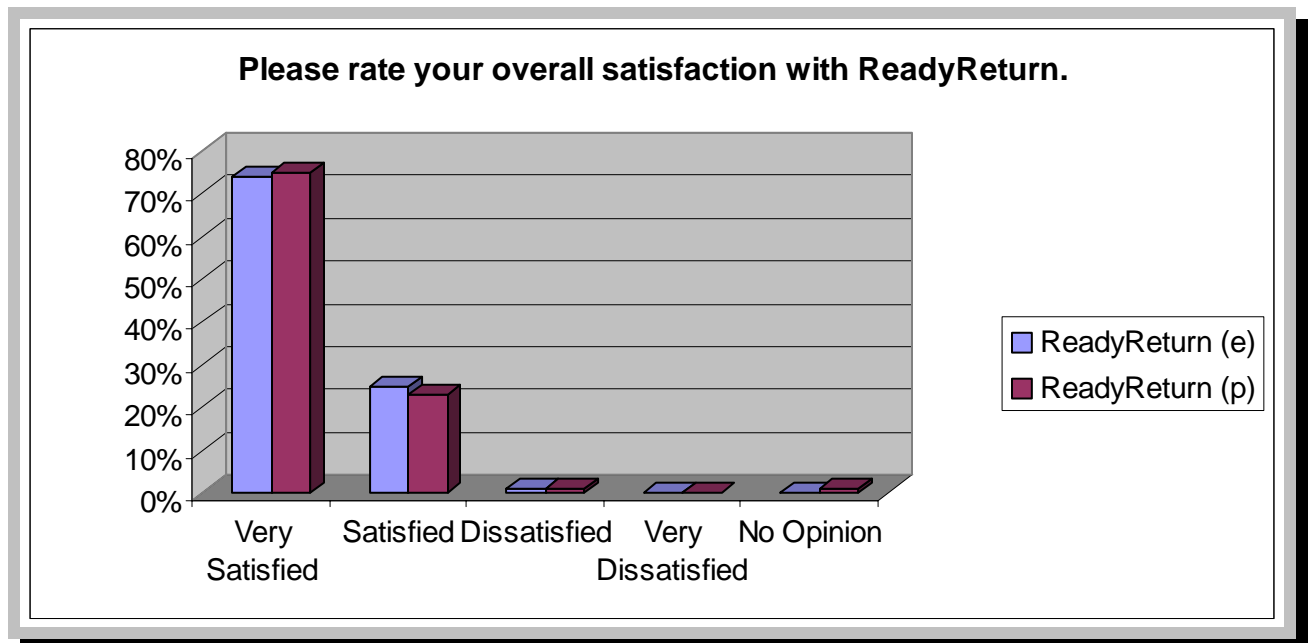
- ◆ “Thanks for the invitation. This method of e-filing was absolutely painless and so fast.”
- ◆ “This was a very easy way to file. Thank you for the invitation.”

Measure 2: Program Acceptance

As of December 31, 2005, 11,620 ReadyReturns were filed by mail and online. This is a 22% response rate (11% of invitees responded via the ReadyReturn Website; 12% by mail). Our response rate goal was 20%.

The fact that 78% of taxpayers chose not to participate in the Pilot shows that taxpayers did not feel pressured to participate because the invitation came from the government.

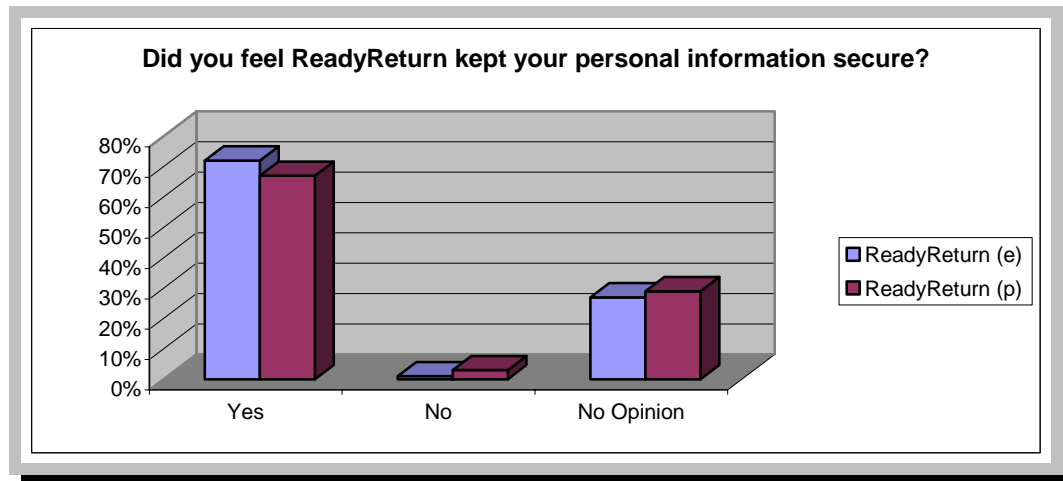
Beyond participation, satisfaction is another measure of taxpayer acceptance. When asked to rate their overall satisfaction, 99% of online users and 98% of paper users responded that they were “Very Satisfied” or “Satisfied” with ReadyReturn.



Taxpayer comments include:

- ◆ “Wonderful service. I’m highly satisfied.”
- ◆ “Completely satisfied. Thank you.”
- ◆ “I greatly appreciated the Ready Return Service because it was easy and faster than previous years. I hope you find other respondents are equally satisfied.”
- ◆ “Very satisfied and impressed with this new method.”

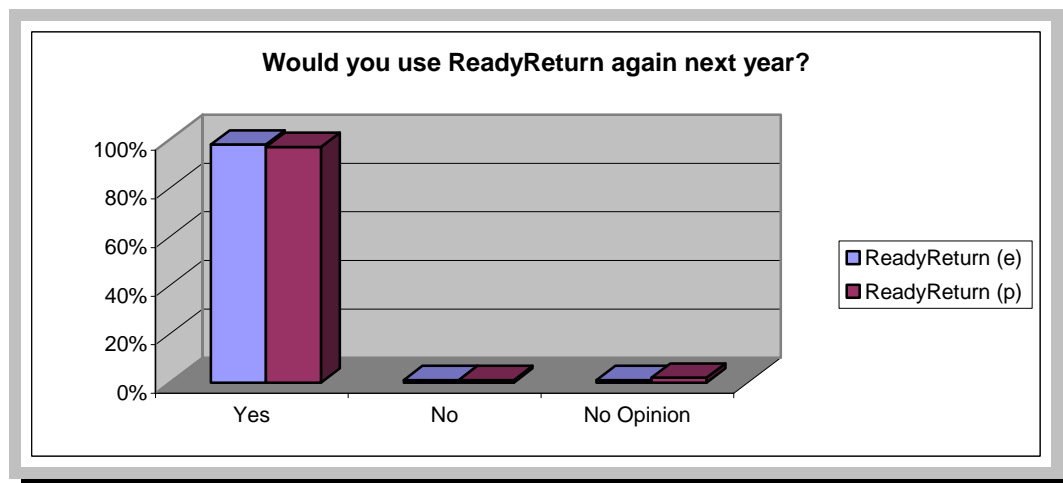
In this age of heightened concerns about identity theft, making sure ReadyReturn is secure is critical to ensuring taxpayer satisfaction. Less than 5% of taxpayers who used ReadyReturn had concerns about the security of their personal information when they used ReadyReturn.



Comments include:

- ◆ “Excellent program. Very convenient and secure, will definitely use again.”
- ◆ “It feels great to be able to do your taxes fast, secure, and simple.”
- ◆ “Security of personal information is important so please remain focused on that.”
- ◆ “I am somewhat concerned about placing personal information such as social security numbers and bank account information online. Even so-called "secured" sites have been infiltrated by hackers. Identity theft is a real concern.”

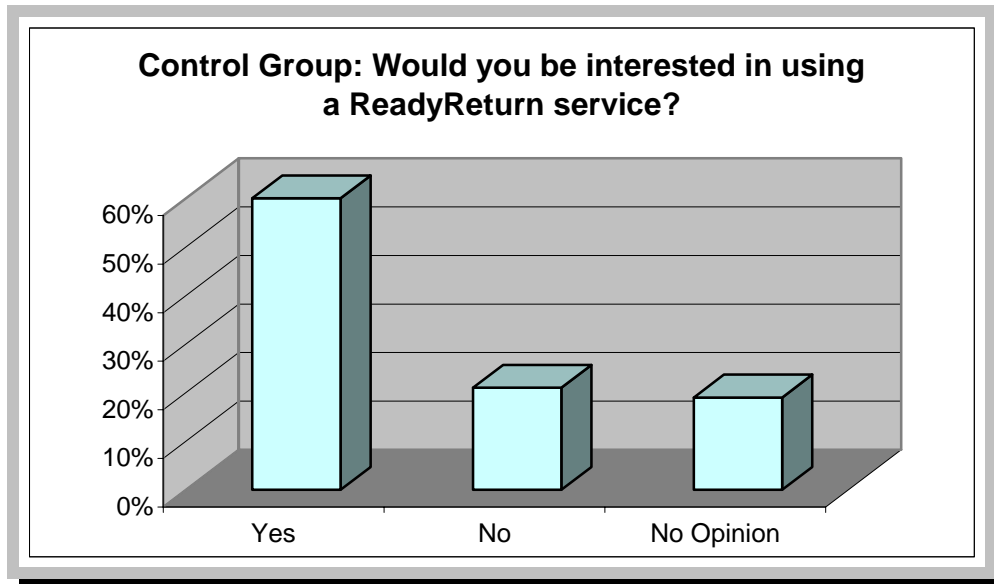
Possibly the biggest indicator of taxpayer acceptance is repeat use. When asked if they would use ReadyReturn again next year, nearly all taxpayers answered, “Yes.”



User comments include:

- ◆ “Thank you for the invitation. I hope I can do the same next year.”
- ◆ “I would absolutely do it again if offered.”
- ◆ “I am definitely satisfied and look forward to using *ReadyReturn* again next year.”
- ◆ “*ReadyReturn* is an excellent idea. Please send me a *ReadyReturn* again next year.”

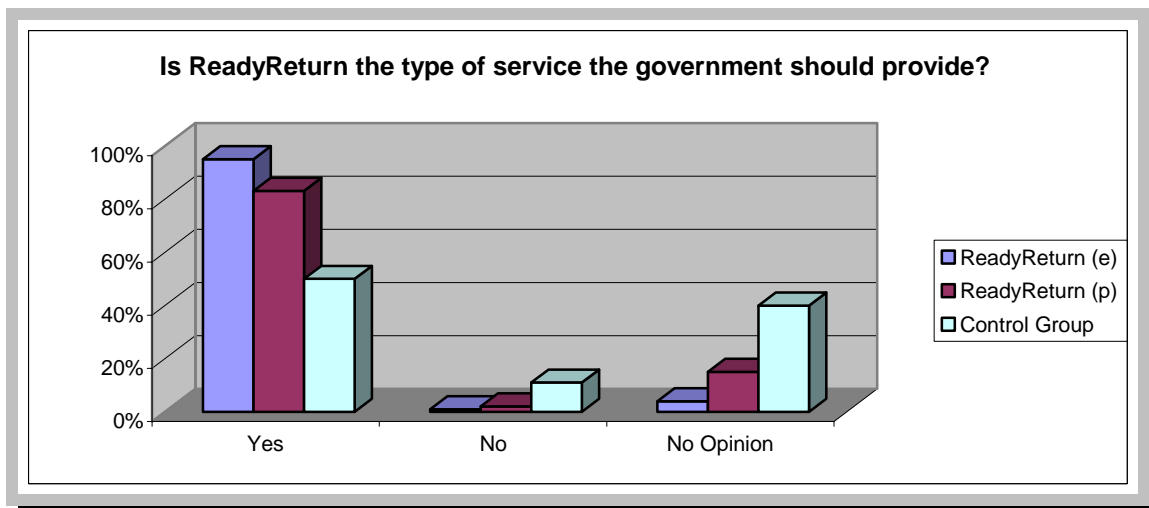
Another indicator of acceptance is the level of interest the control group showed for using the service if it were offered to them. Sixty percent of the control group indicated they would be interested. The response rate for “No” and “No Opinion” were 21% and 19%, respectively. The control group was making this decision based on a one-paragraph description of the service. (Refer to [Appendix B.](#))



On a related note, several taxpayers who used ReadyReturn expressed a willingness to recommend the program to others:

- ◆ “This was fabulous. I would recommend this tool to everyone.”
- ◆ “I will definitely recommend *ReadyReturn* to friends and family.”
- ◆ “I was satisfied with *ReadyReturn*. My co-workers expressed that they wished they could have used it also.”

Whenever a government entity pursues a new service, it is important that it verifies that it is a service that taxpayers want and one that should be provided by the government. When we asked taxpayers who used ReadyReturn, the majority felt this is the type of service the government should provide. 50% of the control group answered, “Yes,” and 38% stated they had no opinion.



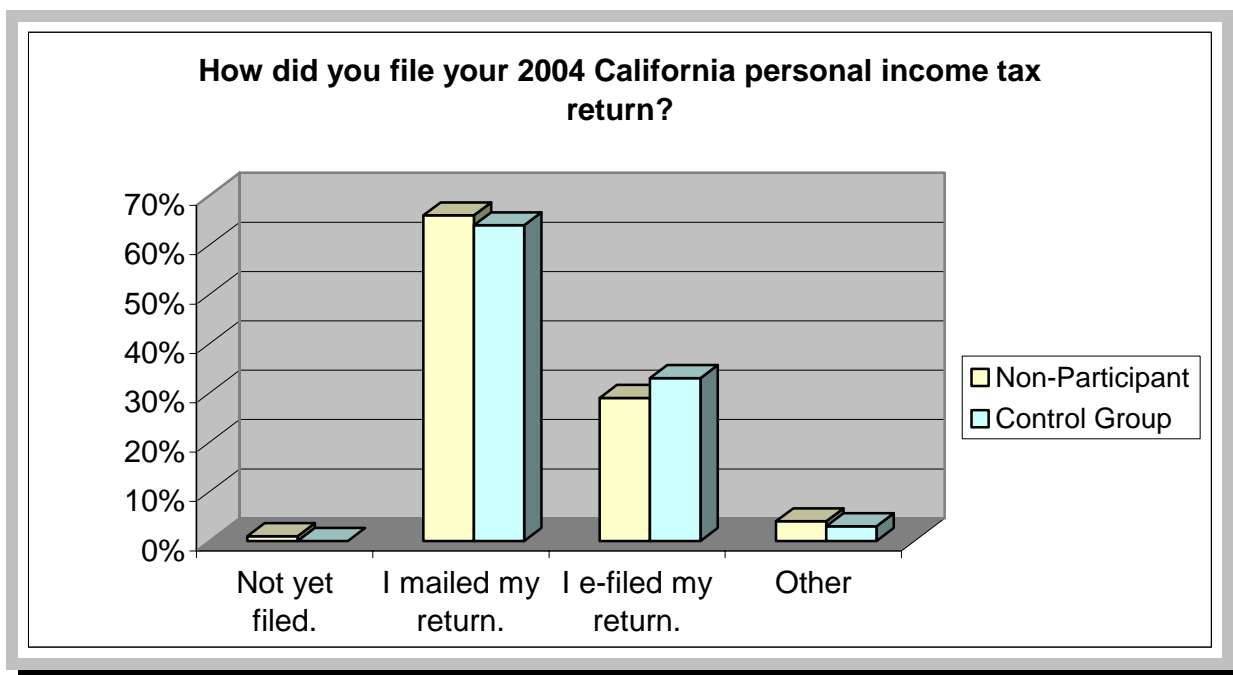
Taxpayers had strong opinions, both positive and negative, on whether or not ReadyReturn is the type of service the government should provide. On the positive side:

- ◆ “Wow...Government doing something to make our lives easier for a change...The Feds should take notice.”
- ◆ “This is a great example of how a state agency can leverage the Internet to better assist the citizens of this state.”
- ◆ “This is how we should file our taxes. This is the kind of service the state government should provide.”
- ◆ “I think it is great that the state is finally using technology to benefit the residents. Good job, California.”

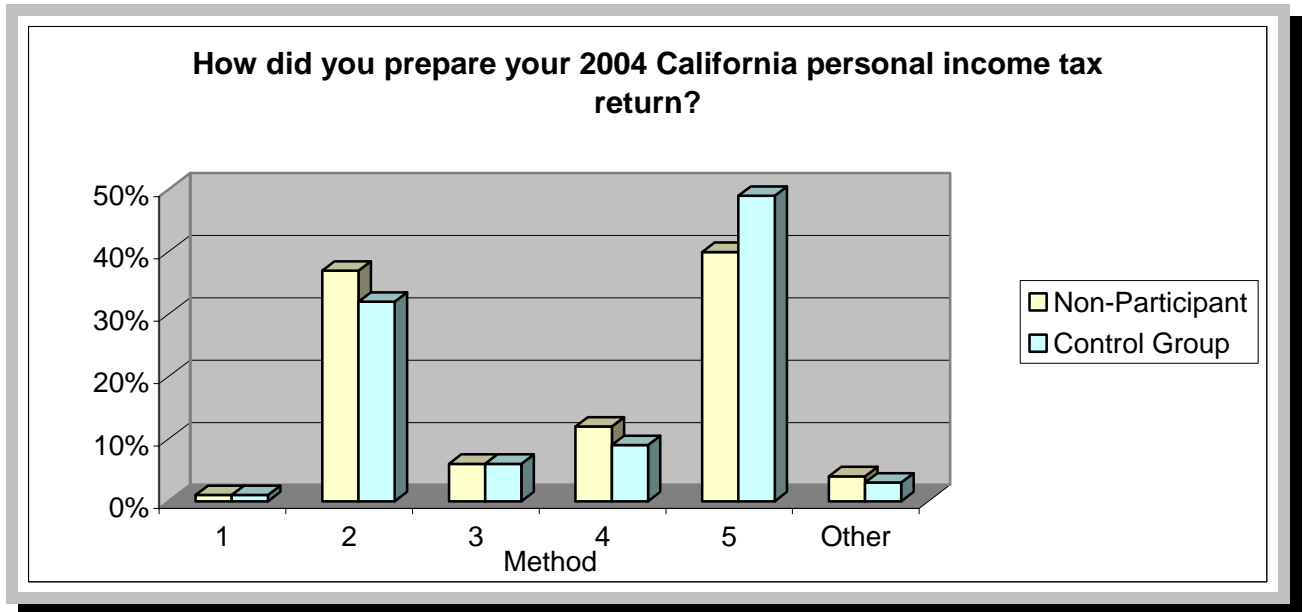
On the negative side:

- ◆ “The government should not be involved in completing tax returns for individual taxpayers.”
- ◆ “It was shocking and disturbing to receive - from the government - my completed return - very big brother-ish. I'd be outraged to receive the same from a private company as well.”
- ◆ “I don't ever want California Franchise Tax Board to do my taxes.”
- ◆ “I don't believe you should be in the business of preparing individuals tax returns.”

It is also important to measure the current behavior of the taxpayers who could take advantage of a new service. As of December 31, 2005, we have received 57% of **all** tax returns electronically. In the non-participant and control groups, the e-file rate is significantly lower at 29% and 33%, respectively.



For taxpayers who file the simplest returns¹², approximately 40% use a paid tax preparer or accountant. The numbers for the non-participant and control groups are consistent with this overall number.

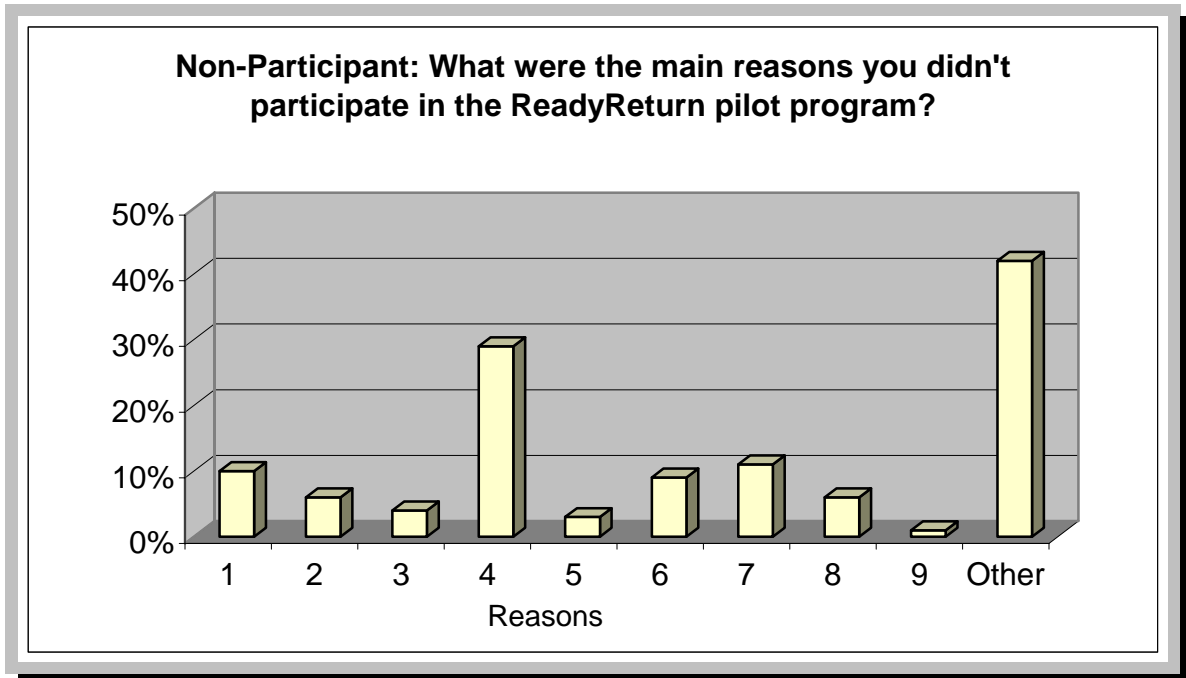


Methods

1. Not yet prepared.
2. Completed own paper return.
3. Used CalFile.
4. Used a non-government tax preparation Website or software.
5. Used a tax preparer/accountant.

¹² For this Pilot, we define “simplest returns” as those with income only from wages where the taxpayer only claims the personal exemption and standard deduction.

As mentioned at the beginning of this section, 78% of taxpayers who were invited to use ReadyReturn did not participate, indicating they did not feel pressured to use ReadyReturn. When asked, the most common reasons they gave were that they prefer to use a tax preparer/accountant (28%) and that they have concerns about filing online (13%). The most common “Other” reason they reported was that they had already filed their 2004 California tax return (22%). Non-participants were able to select all the reasons that applied to their situation.



Reasons (Respondents could select more than one reason.)

1. I needed to file my federal tax return first.
2. I had to make more changes than the ReadyReturn Website allowed.
3. It was too confusing.
4. I prefer to use a tax preparer/accountant.
5. I prefer to use a non-government e-file company.
6. I don't think filing returns using the Internet is secure.
7. I don't feel comfortable receiving a return completed by the government.
8. I didn't have time.
9. I need the information in another language.

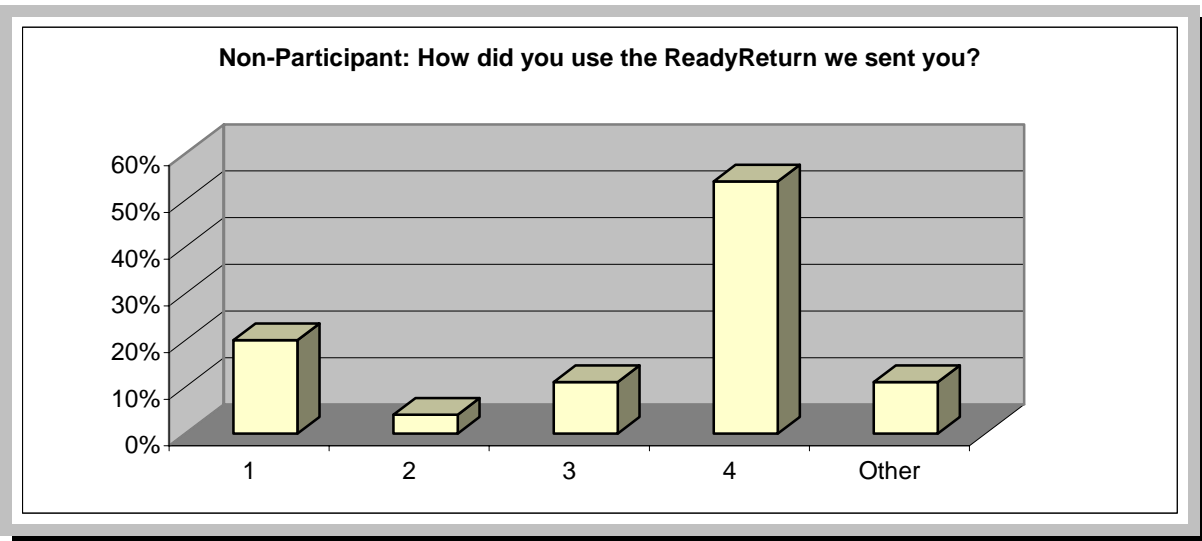
Most common "other" reasons

1. I had already filed.
2. I wasn't sure how to change my income/deductions.
3. I don't have a computer/Internet access.

We mailed the invitations in mid-February, once we had sufficient W-2 data from the California Employment Development Department (EDD). Given that most companies provide their employees with their Forms W-2 in January, taxpayers said:

- ♦ “*ReadyReturn* is a really good idea. Unfortunately I had already filed when I received your mail.”
- ♦ “Received all your info too late. I had already filed.”
- ♦ “I would like it if I were able to file earlier.”
- ♦ “I had already e-filed when I received the information on *ReadyReturn*. I will look for the information next year.”

When asked what they did with the ReadyReturn we mailed to them, most taxpayers responded that they did nothing with it. This indicated that they did not feel intimidated or pressured into accepting the ReadyReturn. Twenty percent reported that they used it to double-check the figures they had on their own return. The most common “Other” comments were that they did not recall receiving ReadyReturn and that they securely destroyed/shredded it.

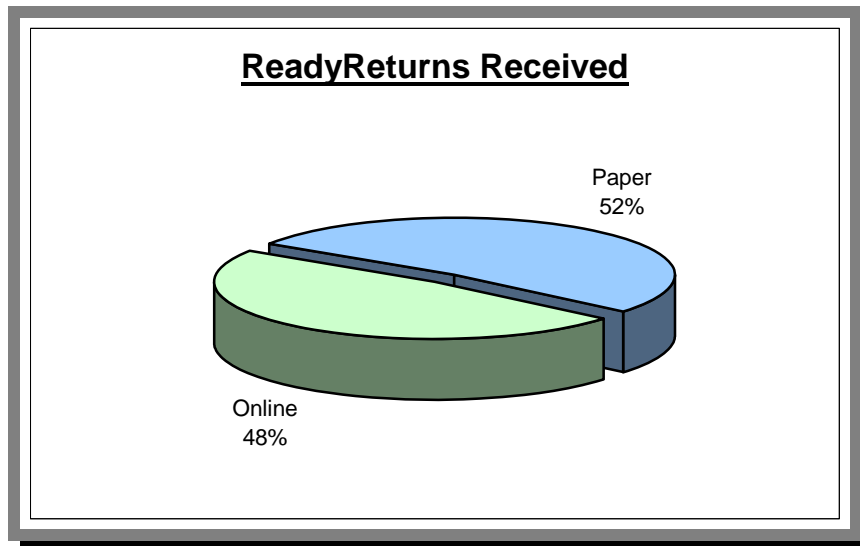


Uses

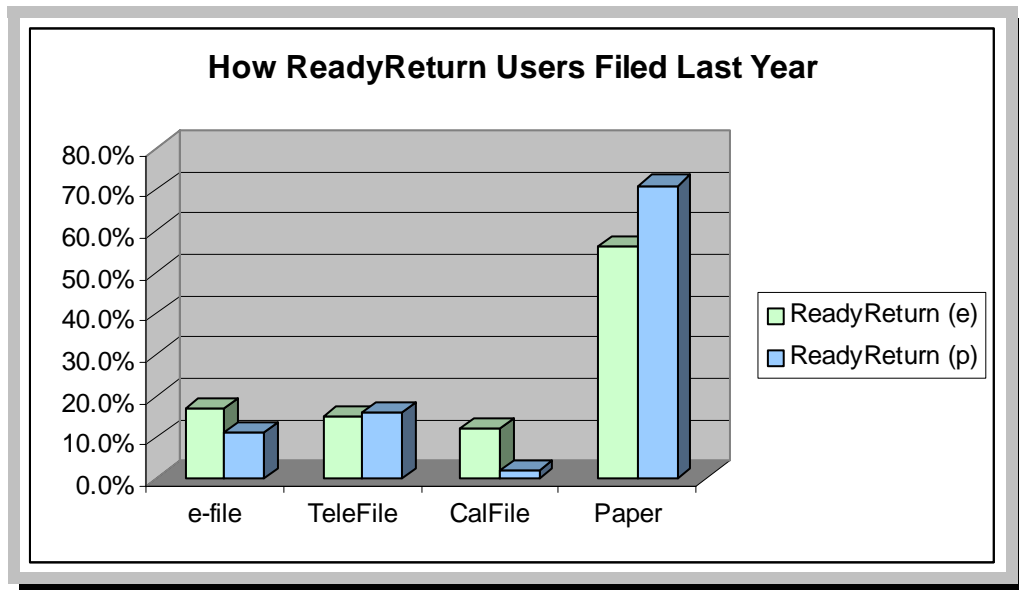
1. I used it to double-check my figures.
2. I used it to complete my return myself.
3. I gave it to my tax preparer/accountant.
4. I did not use it.

Measure 3: Processing Efficiency

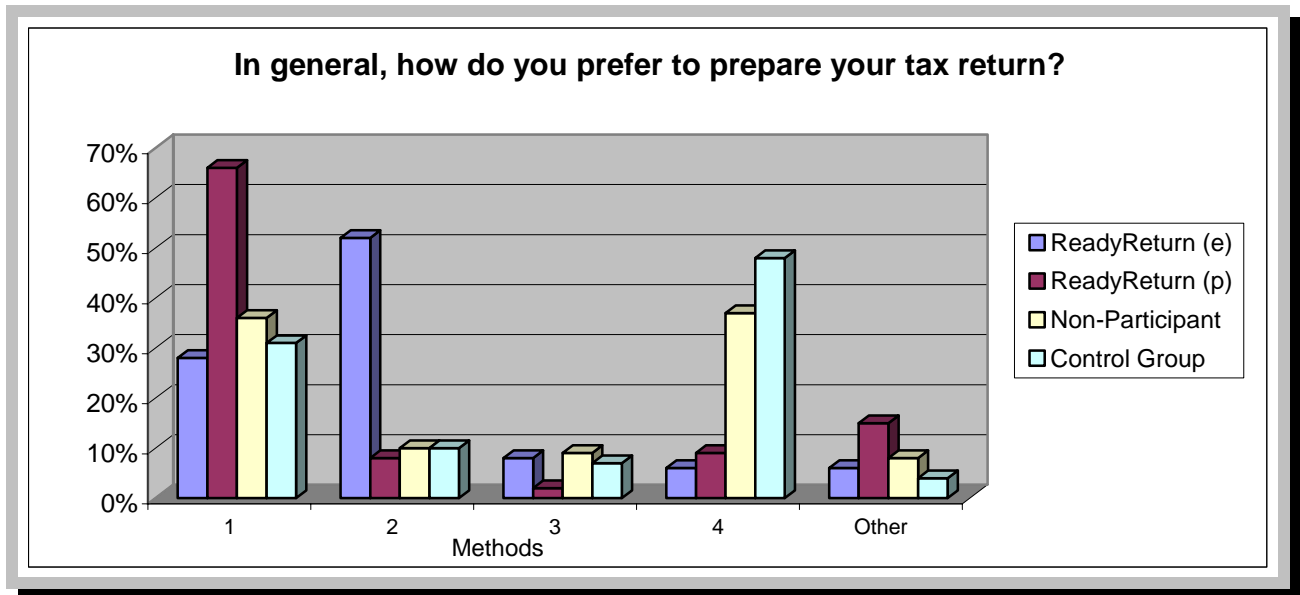
FTB can process e-file returns more efficiently than paper returns. To this end, we are continually looking at ways to increase the use of e-file among taxpayers. For this Pilot we created a Website for taxpayers to use to e-file their ReadyReturn online. Just under half used the Website to e-file their ReadyReturn. As stated previously, the tax year 2004 (process year 2005) general population e-file rate is 57%. It should be noted that a great portion of the 57% is attributable to California's mandatory e-file law for tax practitioners.



Of those who filed their ReadyReturn online, 56% had filed a paper return in the previous year.



We surveyed the taxpayers about how they generally prefer to prepare and file their tax returns. Not surprisingly, those who filed the paper ReadyReturn were most likely to complete and file their own paper return and those who used the ReadyReturn Website were most likely to use a government Website to prepare their return. The non-participants and control group were most likely to use a tax preparer/accountant and generally preferred to mail in their returns.

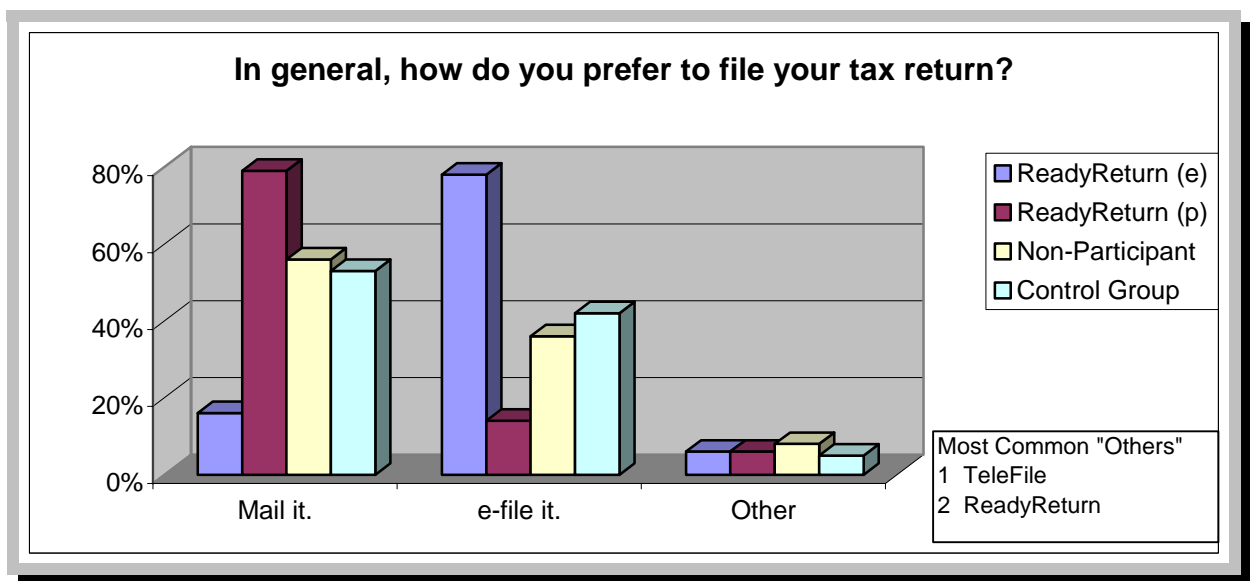


Methods

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

Most Common "Others"

1. TeleFile
2. ReadyReturn



Most Common "Others"

- 1 TeleFile
- 2 ReadyReturn

The reasons that first-time e-filers choose to e-file are important to FTB as they show where we can focus our efforts on encouraging taxpayers to e-file. We asked taxpayers who used the ReadyReturn Website why they had not tried e-file before. The most common response was that they had traditionally filed on paper. Other frequent reasons were the lack of Internet access or computer equipment and security concerns about online transactions. The most common “Other” reason was that they traditionally used TeleFile.¹³



Reasons (Respondents could select more than one reason.)

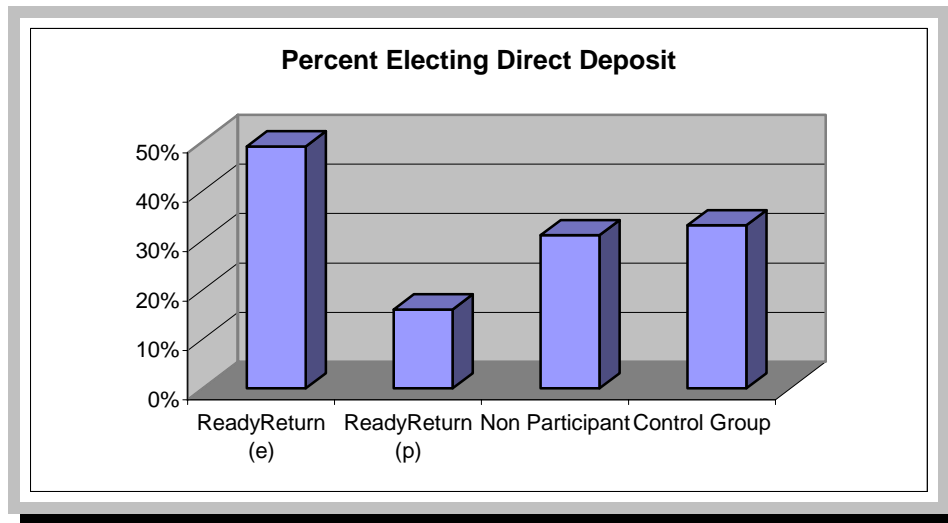
1. It costs too much.
2. I didn't have access to the Internet.
3. I have security concerns about e-filing.
4. I have always filed a paper return.
5. My preparer didn't offer it.
6. It's too complicated.

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

- ♦ “I was disappointed at first not to have TeleFile, but after receiving my invitation and seeing what [was] prepared and done for me I was pleased.”
- ♦ “I liked using TeleFile in the past but this is faster.”
- ♦ “This was a lot easier than TeleFile. I love the fact that all my info is filled out for me on the return and all I have to do is accept it and I am done.”

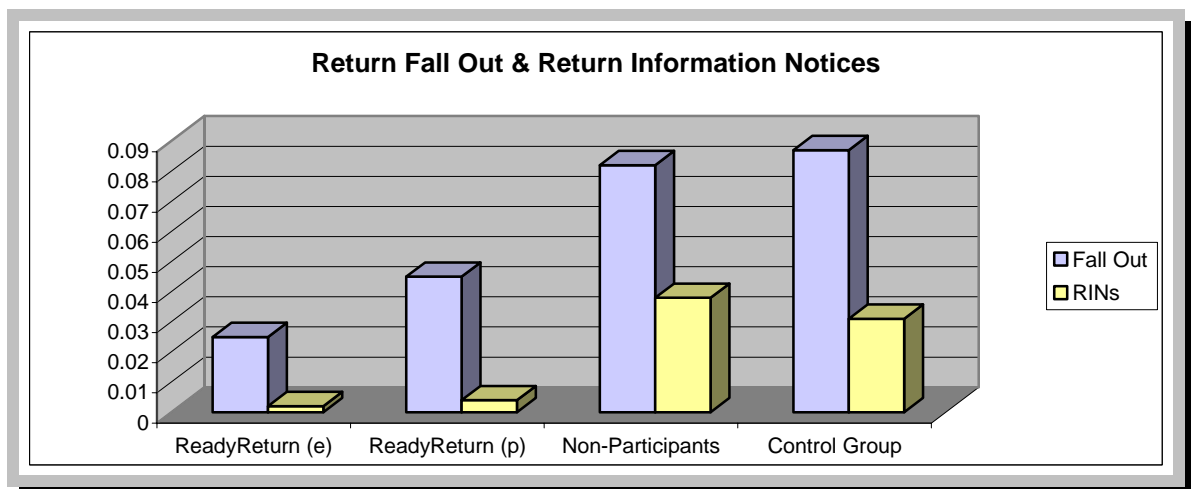
¹³ FTB discontinued its TeleFile service in October 2004. The IRS discontinued its TeleFile service in October 2005.

Direct deposit is the most efficient method we have for providing taxpayers with the refund they are entitled to. Taxpayers who used the ReadyReturn Website were the most likely to sign up for this method while those who used the paper ReadyReturn were the least likely of the four groups we studied.



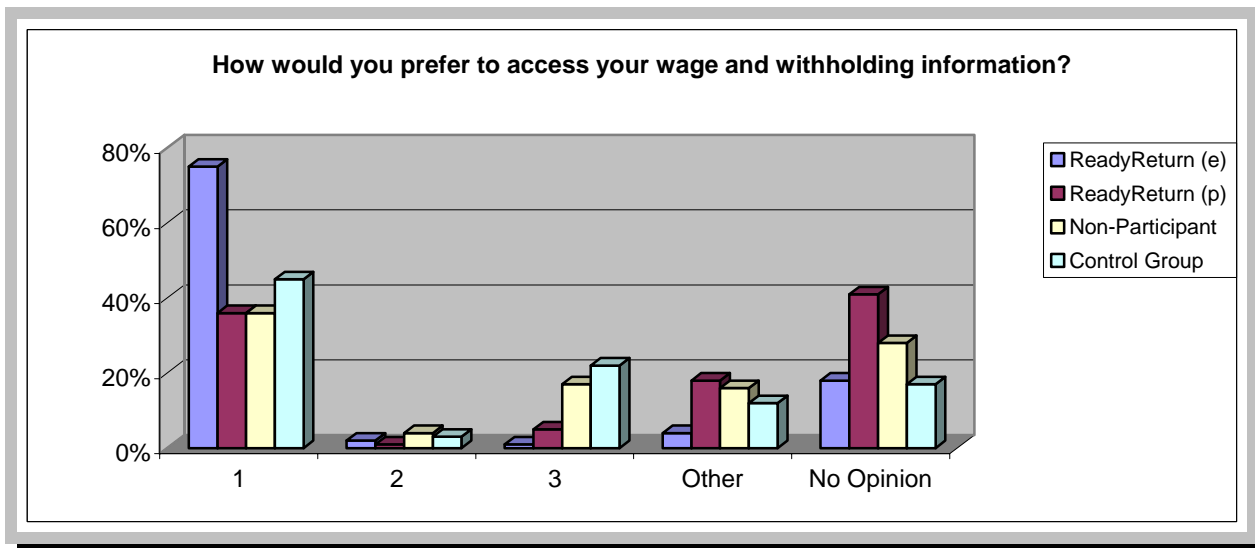
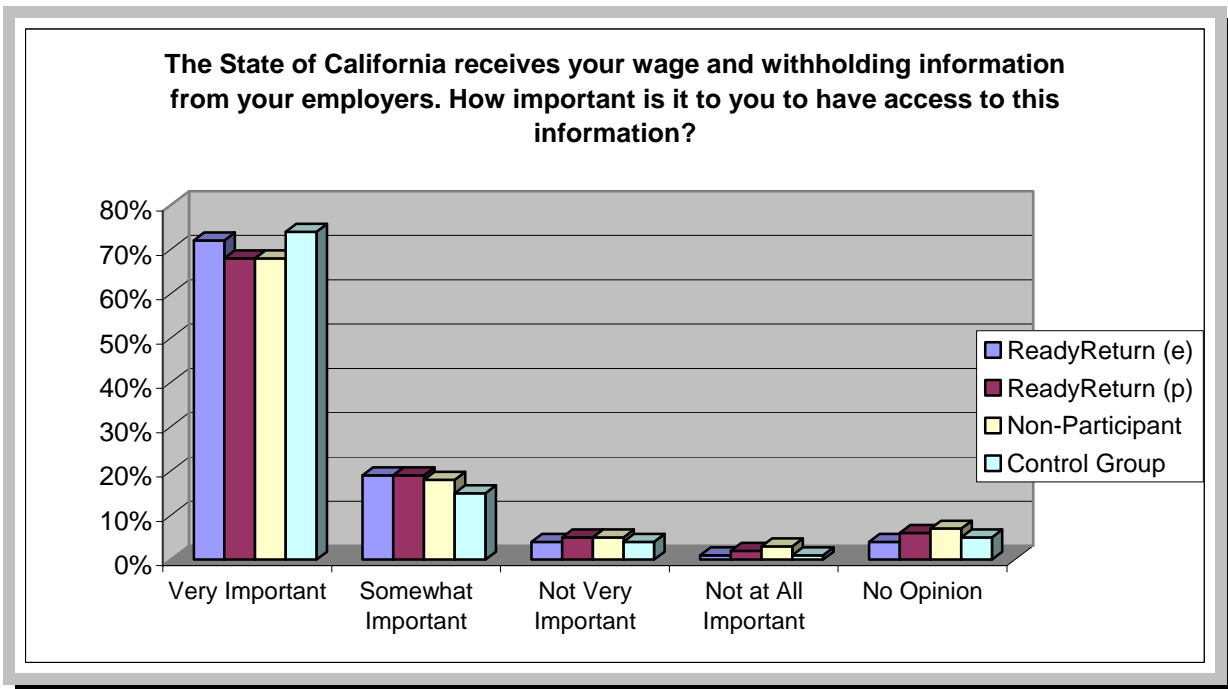
FTB realizes efficiencies when returns don't "fall out" for manual processing. However, returns do routinely fall out when they meet certain criteria. Among other reasons, this is typically caused by return information differing from the information we already have about a taxpayer. Since the information we have is used to complete the ReadyReturn, the fallout rate for ReadyReturns is less than half the rate for the other two groups. The primary cause of fallout for ReadyReturns was an already accepted 2004 tax return on our system. Additional reasons were that taxpayers did not write their Social Security Number on the return, as well as various procedural reasons.

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



As mentioned above, we found that ReadyReturns required less manual processing than other returns. We believe that this is due to the fact that the return originates from the income information

we already have about the taxpayer. We asked taxpayers how important it was to them to have access to this information. Approximately 90% of all respondents indicated that it was “Very Important” or “Somewhat Important” to have access. When asked how they would like to gain access to the information, most indicated that they would like to get it using the FTB Website. The next most frequent response was “No Opinion.” Among the common “Other” responses were using Form W-2, by mail, and from their employer.



Methods

1. Online using the FTB Website.
2. Online using tax preparation software.
3. Through a tax preparer/accountant.

Most Common "Others"

1. On Form W-2.
2. From my employer.
3. By mail.

Measure 4: AGI Differences and Tax Effect

AGI Comparisons

For the participants, we compared the California AGI as calculated on the ReadyReturn, compared to the California AGI as filed on their California return, compared to the federal AGI as filed on their federal return to determine if there were any differences. This comparison also showed us how many taxpayers filed the ReadyReturn as mailed to them and how many made income changes to the ReadyReturn. These three AGIs are defined as follows:

- *ReadyReturn Adjusted Gross Income*¹⁴ (AGI) – this is the California AGI as calculated on the ReadyReturn mailed to taxpayers.
- *California AGI*¹⁵ - this is the California AGI as filed on the California return by the taxpayer (this AGI reflects the AGI on ReadyReturns filed as is, as well as when adjustments were made to the AGI, such as added income or income adjustments).
- *Federal AGI*¹⁶ - this is the federal AGI reported on the federal return as filed by the taxpayer.

By definition, ReadyReturn did not include income other than wages. Thus, differences due to taxpayers having sources of income other than wages would be expected. In addition, there are valid differences between California and federal AGI due to California and federal differences in the taxability of certain income types.

The following table illustrates the relationship of the three AGIs, and how many ReadyReturn participants either filed the ReadyReturn just as it was mailed to them, or made changes.

	Relationship of California AGI to Federal AGI to ReadyReturn AGI	<i>n</i>	%
1	California AGI equals federal AGI	8,601	83%
	Filed ReadyReturn as is	8,297	79%
	Added income to ReadyReturn	257	3%
	Reduced income on ReadyReturn	47	0.5%
2	California AGI less than federal AGI	1205	11%
	Filed ReadyReturn as is	1,147	11%
	Added income to ReadyReturn	36	0.3%
	Reduced income on ReadyReturn	22	0.2%
3	California AGI greater than federal AGI	638	6%
	Filed ReadyReturn as is	603	6%
	Added income to ReadyReturn	32	0.3%
	Reduced income on ReadyReturn	3	0.0%
	Total Changes	397	4%
	Total "as is"	10,047	96%
	Total	10,444	100%

¹⁴ This is line 17 of the 2004 Form 540.

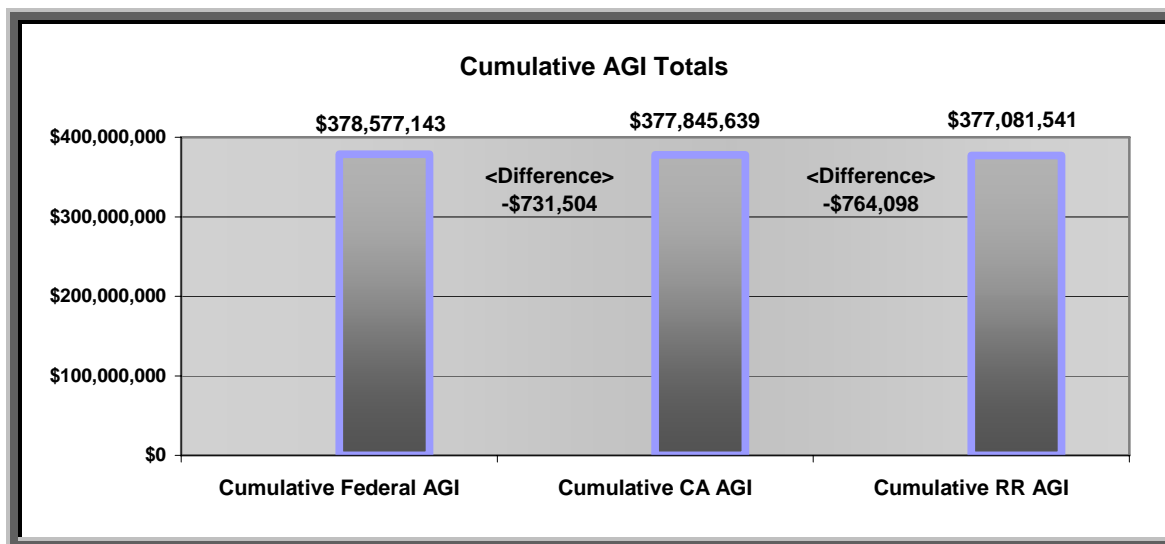
¹⁵ This is line 17 of the 2004 Form 540. This is the federal AGI from line 36 of Form 1040, less adjustments (additions or subtractions) for differences between California and federal income and deductions.

¹⁶ This is line 36 of the 2004 Form 1040. This is all federal income and income adjustments; AGI is before deductions or credits.

Cumulative AGI Amount Totals

We compiled and compared the cumulative AGI totals for each AGI type to determine the dollar amount associated with the differences. The comparison with a possible tax effect is the comparison of the cumulative federal AGI to the cumulative California AGI.

As shown in the chart below, the total cumulative California AGI was \$731,000 less than the total cumulative federal AGI of \$378 million. Thus, the AGI reported to California is within 99.9% of reported federal AGI for ReadyReturn participants.



Of this \$731,000 difference between federal AGI and California AGI, \$256,000 is explainable due to Schedule CA adjustments (i.e., income adjustments due to differences in California and federal taxability of income), leaving a remaining difference of \$475,000 that is not readily explainable.

If we assume the \$475,000 difference has a possible tax effect¹⁷, applying an effective tax rate of 6% produces a tax effect of \$28,500. This translates to less than \$3 per participant (based on the 10,444 participants in this analysis) on average.

This estimated tax effect should not be considered a complete estimate of the impact of ReadyReturn on the under or over payment of California taxes. There are a number of reasons why the estimated tax effect of \$28,500 both overstates and understates the true tax effect of ReadyReturn. For example:

- California AGI may be less than federal AGI due to differences in the taxability of income such as social security benefits, unemployment compensation, and interest on federal obligations. Some taxpayers may not reflect these differences.
- California AGI may be greater than federal AGI due to differences such as interest on other state bonds, or depreciation. Again, taxpayers may not reflect these differences.
- Taxpayers may be motivated by the receipt of ReadyReturn to underreport income for both their federal and California return.

As stated in our assumptions, a thorough audit of each return would be required to determine the accuracy of the income reported on those filing a ReadyReturn. Such individual audits are not a part of the Pilot program.

¹⁷ This cannot be validated without a complete audit of the returns.

Appendices

Appendix A: Profiles

Available online at: www.ftb.ca.gov/ReadyReturn/about.html

Appendix B: Surveys

Available online at: www.ftb.ca.gov/ReadyReturn/about.html.
