



THE TAX INSTITUTE
AT H&R BLOCK

CONSUMER TAX FRAUD: SOURCES & SOLUTIONS

Survey Findings

February 2015

ABOUT THE TAX INSTITUTE at H&R BLOCK

The Tax Institute (TTI) is H&R Block's expert tax research and analysis group led by Kathy Pickering as executive director. TTI is staffed by tax experts, including CPAs, enrolled agents, and tax attorneys, with a broad range of expertise. TTI specializes in objective research, analysis and interpretation of federal and state tax laws affecting individual and small business taxpayers. Pickering, with more than a decade of experience in tax operations and 25 years in information technology, leads the strategic direction and management of TTI's team of tax experts who regularly conduct tax research and analysis to provide insights to tax practitioners, tax policy experts, media, and industry. These insights focus on consumer and tax-administration impacts, rather than the merits of or rationale for a given tax policy.

ABOUT THIS REPORT

This report presents the findings of a telephone survey conducted among a dual national probability sample of 1,013 adults comprising 506 men and 507 women 18 years of age and older, living in the continental United States. Results have a margin of error $\pm 3.1\%$ at the 95% confidence level. Interviewing for this combined landline and cell phone survey was completed during the period February 19-22, 2015 by ORC International. The national sample was weighted to ensure the results reflect the general population.

Please note that throughout the report, references to last year's data are made. This data refers to a Tax Institute at H&R Block survey fielded in November 2013 and released in March 2014.

Additionally, references to DIY preparers refer specifically to individuals who use DIY software/websites. References to "pen and paper" refer to individuals who do their own taxes completely by hand.

Additional Methodology Notes:

Figure 1: Percentages may not add to 100% due to rounding.

Figure 2: Percentages do not add to 100% because respondents were asked to select up to two options.

Figures 3a-3c: Percentages for means of filing do not add to 100% because respondents were asked to select multiple options.

Figures 4a-4c: Represents percent of who said they strongly or somewhat support each statement.

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SURVEY FINDINGS

Executive Summary

The Tax Institute at H&R Block commissioned a national survey to measure consumer awareness and attitudes on the sources of and solutions to tax fraud. The survey found that:

- 1. Regardless of how they file their taxes, consumers are willing to take a variety of actions to combat tax fraud.** They would be willing to use a professional tax preparer regulated by the IRS, wait a little longer for their refund, answer additional questions, provide additional documentation on their return, or answer questions to confirm their identity when using DIY tax preparation software or websites.
 - Among those who file their taxes using DIY software, 84% are willing to answer questions to confirm their identity, and there was an **increase of eight percentage points in willingness to answer additional questions on their return to combat tax fraud** (77% in 2015 vs. 69% in 2014) (Figure 3b).
 - Among those who file with a preparer, 86% are willing to use a preparer regulated by the IRS (Figure 3c).
- 2. Consumers understand they have a role to play in combatting tax fraud.** They agreed that the IRS, Congress, professional tax preparers, the makers of DIY tax preparation software and taxpayers themselves all have a responsibility to address fraudulent tax filings (Figure 2).
- 3. Consumers who use a professional tax preparer want to know that tax preparers have met minimum training standards.** Among the 63% of respondents who use a professional tax preparer, 90% support requiring tax preparers to meet minimum training standards. This is consistent with last year's findings of 89% (Figure 4a).
- 4. Consumers believe that fraudulent returns are most likely to originate from DIY tax preparation software or websites.** The percentage of people who believe this grew 14 percentage points from last year (68% vs. 54%) (Figure 1).
- 5. Consumers who prepare and file their own tax returns support requiring minimum standards for DIY tax preparation software/websites.** Among the 30% of respondents who use DIY tax preparation software, 92% support requiring DIY tax preparation software/websites to meet minimum standards. This is consistent with last year's findings of 91% (Figure 4).
- 6. Consumers support consistent filing requirements, regardless of how they file their taxes.** Eighty-eight percent (88%) of all respondents support requiring tax forms and documentation requirements to be the same whether using a professional tax preparer or DIY software/website. That is consistent with last year's finding of 86% (Figure 4a).

U.S. consumers believe that falsely reporting income (44%) and dependents (42%) are the most frequent drivers of fraudulent income tax returns, more so than using a stolen identity to file a false claim (35%), or falsifying tax credits (28%) or tax breaks (25%).

77% of consumers using DIY tax preparation software/websites would be willing to answer additional questions on their return in an effort to battle tax fraud (vs. 69% in 2014 – increase of eight percentage points).

88% of consumers support requiring that the tax forms and documentation are the same whether using either a professional tax preparer or a DIY software/website.

68% of consumers think fraudulent tax returns originate with DIY software (vs. 54% in 2014 – increase of 14 percentage points).

29% of consumers think that DIY tax software creators hold a responsibility for reducing tax fraud (vs. 17% in 2014 – increase of 12 percentage points).

29% of consumers think that professional tax preparers hold a responsibility for reducing tax fraud (vs. 20% in 2014 – increase of 9 percentage points).

90% of consumers support requiring professional tax preparers to meet minimum training standards (vs. 86% in 2014 – increase of four percentage points).

58% of consumers would wait a little longer for their refund to help combat tax fraud. Of those who would be willing to wait a little longer, the majority (59%) said they were willing to wait an additional three weeks or more

Those who do their taxes by pen and paper are more likely than those who use a professional tax preparer to have been, or know a victim of identity theft (66% vs. 53%). Compared to 2014, the percentage of self-preparers (by pen and paper) who had been, or knew someone victimized by identity theft increased by 12 percentage points (54% in 2014 vs. 66% in 2015).

Detailed Findings

Consumer Awareness & Attitudes: Sources

Falsely reporting income and dependents continue to be considered the most frequent drivers of fraudulent income tax returns among U.S. consumers.

- Consumers are most likely to think that falsifying income (44%) and falsifying dependents (42%) are the most frequent drivers of fraudulent returns. This tracks closely with 2014 perceptions.
- Consumers are more likely to think falsifying income and dependents drive fraudulent income tax returns more frequently than using a stolen identity to claim a false refund (35%), and falsifying tax credits (28%) or tax breaks (25%).
 - Consumers who say falsifying income most often leads to a fraudulent return are likely to be male (49% vs. 38% female).
 - Consumers who say falsifying dependents most often leads to a fraudulent return are more likely to be:
 - Millennials, between the ages 18-34 (56%)
 - Generation Xers, between the ages 35-44 (49%)
 - Those with children in the household (49%)
 - Those who use DIY software/websites to prepare/file their tax returns are more likely to think falsifying tax breaks drives income tax fraud (32%). This increased by six percentage points compared to 2014 (26%).

Those who use DIY software are more likely than those who use a professional tax preparer to have been a victim of identity theft (25% vs. 16%) or know someone who has been a victim of identity theft (59% vs. 49%).

- Overall, there has been a 6% increase in incidents of consumers knowing someone who has fallen victim to ID theft in the last year (51% in 2015 vs. 45% from last year's study)

Consumers believe that fraudulent returns largely originate from DIY software returns.

- The majority of consumers - 68% - believe that fraudulent tax returns are generated from DIY tax preparation software/websites).
 - This represents a 14% increase from 2014 when just 54% of consumers thought DIY tax preparation software/websites generated fraudulent tax returns.
- There was also a decrease in the number of consumers who believed tax preparers (regulated, professional preparers and non-regulated preparers) were the originators of fraudulent returns, from 36% in 2014 to 26% in 2015.
- Less than 1 in 10 (7%) think fraudulent tax returns are most likely to originate with specifically regulated professional tax preparers, and this is consistent across men and women. This decreased by 2 percentage points compared to 2014 (9%).
- DIY software preparers (34%) are more likely than those who work with a professional tax preparer (21%) or friend or family member (25%) to think fraudulent tax returns typically originate with tax preparers.

Consumer Actions: Solutions

Consumers strongly support requiring tax forms and documentation requirements to be the same when using either a professional tax preparer or DIY software/websites.

- The majority (88%) believe tax forms and documentation requirements should be the same when using a professional tax preparer or DIY software and this is across all income levels.
 - Lower than (LT) \$35K (86% strongly/somewhat support)
 - \$35K-LT \$50K (88% strongly/somewhat support)
 - \$50K-LT \$75K (92% strongly/somewhat support)
 - \$75K-LT \$100K (93% strongly/somewhat support)
 - \$100K+ (93% strongly/somewhat support)
- Those who use DIY software are more likely than those who use a professional tax preparer to support:
 - Requiring DIY tax preparation software or websites to meet minimum standards (92% vs. 79%).
 - Requiring that the tax forms and documentation requirements be the same when using either a professional tax preparer or DIY software or websites (94% vs. 89%).

Consumers believe that the IRS and taxpayers themselves have the most responsibility for combating tax fraud.

- Compared to 2014, consumers placed higher levels of responsibility on all parties in 2015.
 - IRS – 48% vs. 41% in 2014
 - Individual taxpayers – 42% vs. 37% in 2014
 - Professional tax preparers – 29% vs. 20% in 2014
 - Makers of DIY software/websites – 29% vs. 17% in 2014
 - U.S. Congress – 25% vs. 20% in 2014
- Nearly half of consumers think the IRS is responsible for reducing tax fraud (48%), and approximately two in five (42%) say individual taxpayers are responsible. They are less likely to say that professional tax preparers (29%), makers of DIY tax preparation software/websites (29%) and Congress (25%) are responsible.
 - Men are more likely than women to say that Congress is most responsible (30% vs. 21%).
 - Millennials (18-34) (37%) are more likely than those ages 55-64 (24%) and 65+ (24%) to say that makers of DIY tax preparation software/websites hold the most responsibility.
 - Perceptions of who is most responsible also vary by income levels. Those with a HHI of less than \$35K are more likely than those with a HHI of \$100K to say that DIY tax preparation software/websites are responsible (34% vs. 24%). Comparatively, those with a HHI of \$100K+ place the most responsibility on Congress (30% vs. 23%).

Consumers are willing to take action to help combat tax fraud.

- Most consumers (96%) are willing to take at least one action when preparing their income tax return to help combat tax fraud. This increased by three percentage points from 2014 (93%).
- Approximately two-thirds of respondents said they would do the following when preparing their income tax return to combat tax fraud:
 - Wait a little longer for their refund (58%)
 - Answer additional questions on their return (67%).
 - Use a professional tax preparer regulated by the IRS (67%).
 - Provide additional documentation with their return (65%).
 - Answer questions to confirm their identity when using DIY tax preparation software or websites (62%).
- Of those who would wait a little longer for their refund (58%).
 - The majority has no children in the household (61% vs. 52% with children in the household).
 - The majority prepare/file their tax returns completely by hand (i.e. paper filing) (71%).

- The majority of respondents from all income levels support answering additional questions to help combat tax fraud.
 - Lower than (LT) \$35K (65%)
 - \$35K-LT \$50K (65%)
 - \$50K-LT \$75K (71%)
 - \$75K-LT \$100K (70%)
 - \$100K+ (71%)
- The majority of respondents (two-thirds) from all income levels support providing additional documentation with their return.
 - LT \$35K (64%)
 - \$35K-LT \$50K (64%)
 - \$50K-LT \$75K (69%)
 - \$75K-LT \$100K (67%)
 - \$100K+ (66%)
- Those who say they would be willing to use a professional tax preparer that is regulated by the IRS to help combat tax fraud are:
 - Millennials, between ages of 18-34 (71%).
 - Those with a HHI of \$35K-less than \$50K (84%).
- Millennials (18-34) (68%) and those ages 35-44 (69%) are also more likely than those ages 55-65 (55%) and 65+ (49%) to say they would be willing to answer questions to confirm their identity when using DIY tax preparation software/websites.

Among those who use DIY software/websites to file their taxes, support for requiring DIY sites to meet minimum standards and taking additional steps to combat tax fraud is strong. Specifically, this group has become increasingly supportive of answering additional questions to combat fraud.

- Consumers who file their taxes using DIY software are more open to answering additional questions on their return to help combat tax fraud. Since 2014, their receptiveness to this measure has grown by eight percentage points (77% supported in 2015 vs. 69% in 2014).
- Additionally, nearly all DIY software preparers (97%) are willing to take some sort of action to combat tax fraud. Specially, the majority is willing to:
 - Answer questions to confirm their identity when using DIY tax preparation software or websites (83%)
 - Provide additional documentation with their return (65%)
 - Wait a little longer for the refund (61%)
- While less than half of consumers (44%) using DIY software to prepare their taxes are willing to use a professional tax preparer regulated by the IRS to help combat tax fraud, nearly all of these DIY software preparers (92%) agree that DIY sites should meet minimum standards.

Consumers who complete their own taxes by hand (pen and paper) are increasingly just as willing as those who use DIY software to take action to combat tax fraud.

- This year, 95% of pen and paper filers indicated a willingness to take action to combat fraud, a 7% increase from 88% in 2014.
 - There was increased interest in taking each type of action, compared to 2014.
 - Wait a little longer for the refund (71% vs. 64% in 2014).
 - Provide additional documentation with your return (69% vs. 57%).
 - Answer additional questions on your return (68% vs. 63%).
 - Use a professional tax preparer that is regulated by the IRS (57% vs. 53%).

FIGURES

Figure 1: When asked where consumers thought fraudulent returns were most likely to originate, the survey found:

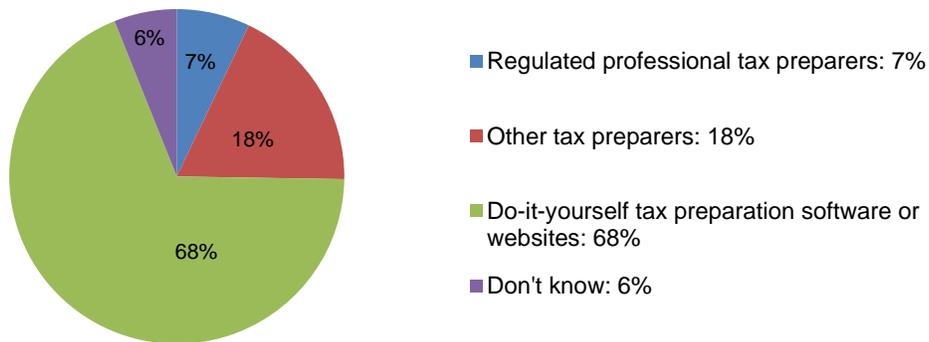
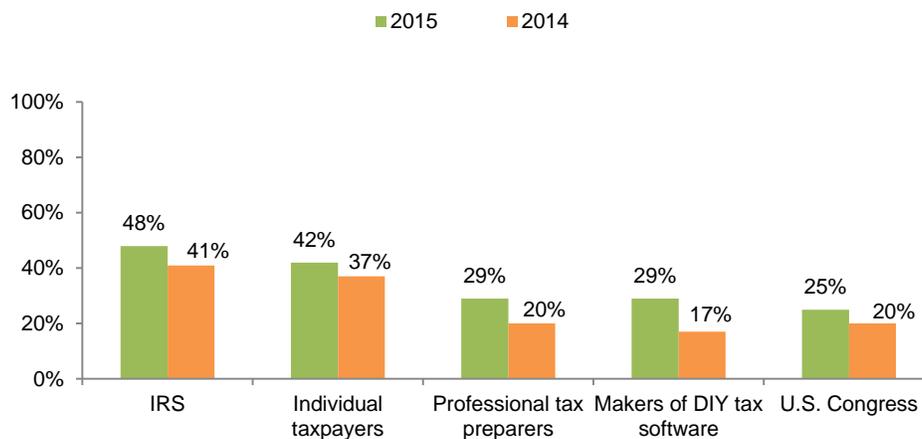


Figure 2: When asked who consumers think is most responsible for reducing tax fraud, the survey found:



63% of respondents use a professional preparer and 37% self-prepare. Among those who self-prepare, 30% use DIY software, 11% do it by hand and 17% work with a family member or friend.

Figure 3a: **When asked what consumers were willing to do when preparing their income tax returns to help combat tax fraud, the survey found:**

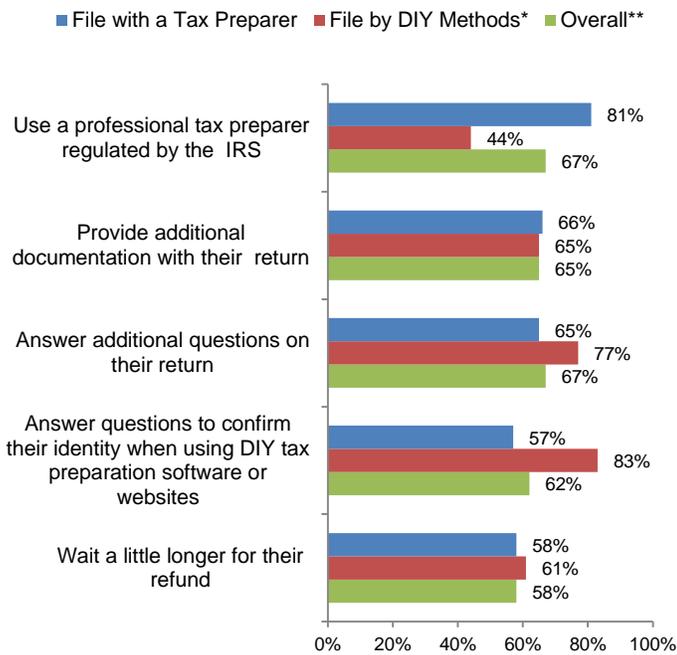


Figure 3b: **When asked what consumers were willing to do when preparing their income tax returns to help combat tax fraud, the survey found:**

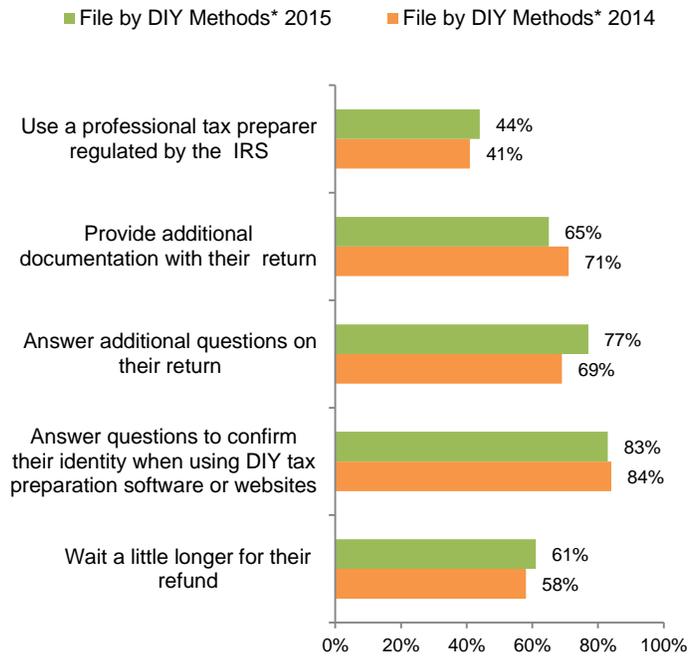
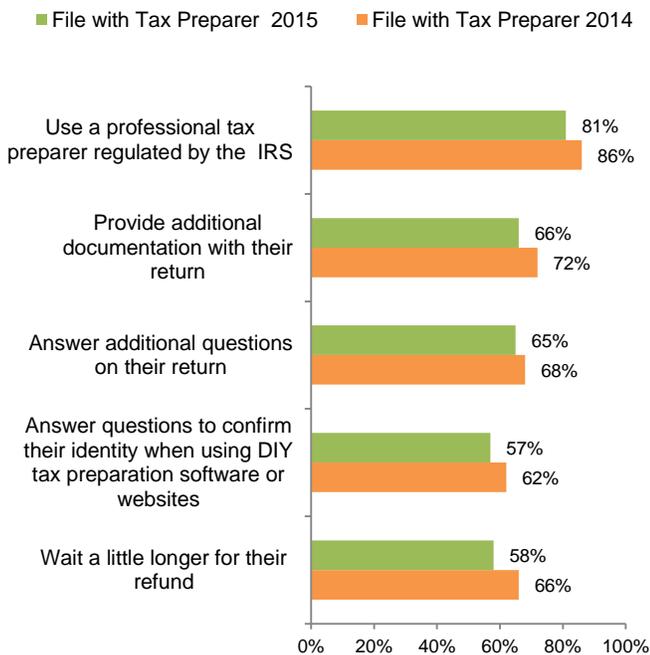


Figure 3c: **When asked what consumers were willing to do when preparing their income tax returns to help combat tax fraud, the survey found:**



* *DIY Methods* refers to those who use DIY software/websites
 ***Overall* includes all consumers: those who prepare entirely by hand, use DIY software/websites, use a professional preparer, work with a family/friend or do not prepare/file taxes each year.

Figure 4a: When asked whether they supported each of these statements, the survey found consumers supported:

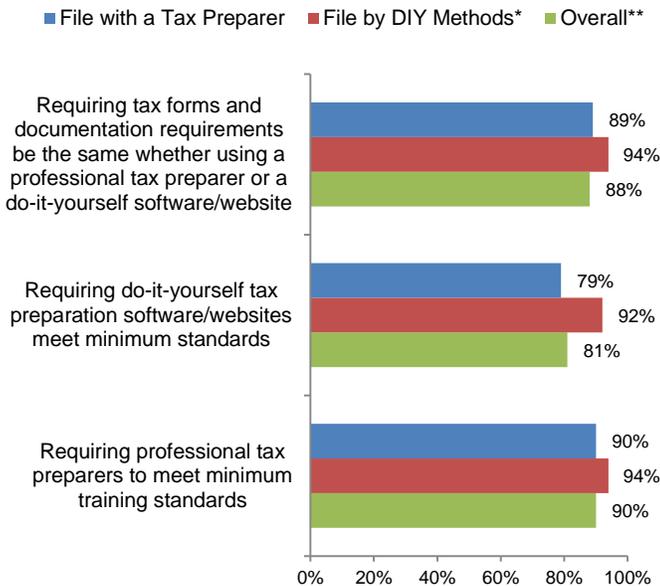


Figure 4b: When asked whether they supported each of these statements, the survey found consumers who filed by DIY methods* supported:

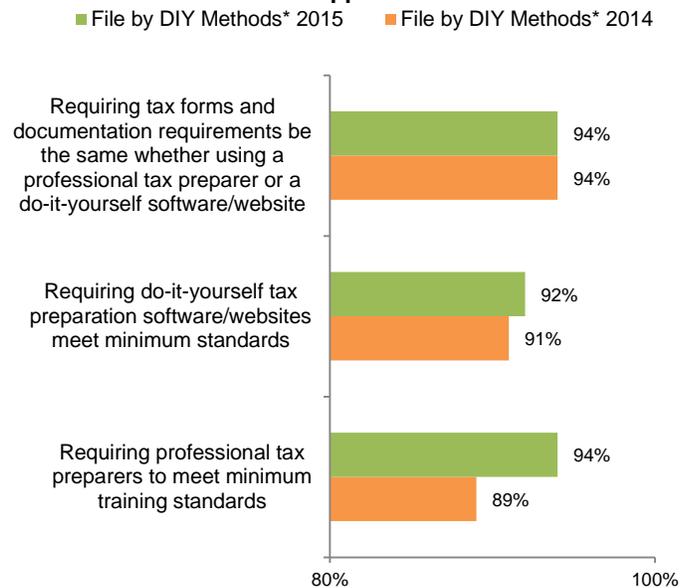
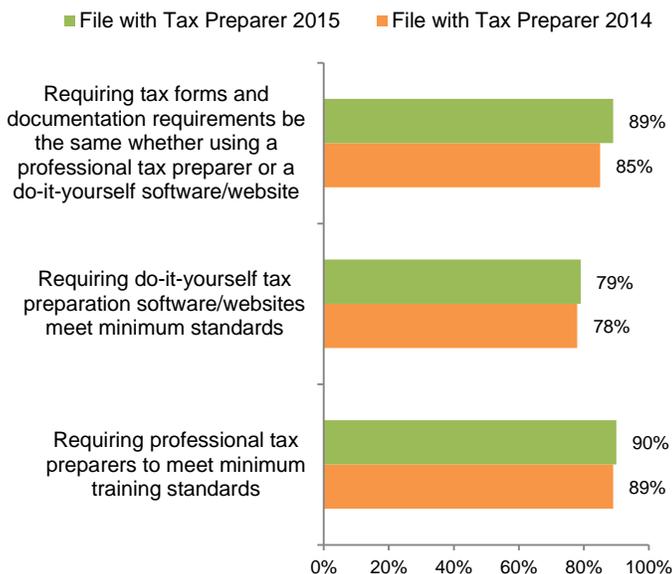


Figure 4c: When asked whether they supported each of these statements, the survey found consumers who filed with a tax preparer supported:



* DIY Methods refers to those who use DIY software/websites
 **Overall includes all consumers: those who prepare entirely by hand, use DIY software/websites, use a professional preparer, work with a family/friend or do not prepare/file taxes each year.

SURVEY QUESTIONS

1. Which of following do you think most often leads to a fraudulent income tax return? Choose top two.
 - Using a stolen identity to claim a false refund
 - Falsifying tax breaks
 - Falsifying tax credits
 - Falsifying income
 - Falsifying dependents
 - Don't know

2. To help combat tax fraud, which, if any, of the following are you willing to do when preparing your income tax return? Select all that apply.
 - Wait a little longer for your refund
 - Answer additional questions on your return
 - Provide additional documentation with your return
 - Use a professional tax preparer that is regulated by the Internal Revenue Service (IRS)
 - Answer questions to confirm your identity when using do-it-yourself tax preparation software/website
 - None of the above
 - Don't know

3. Where do you think fraudulent tax returns are most likely to originate?
 - Regulated professional tax preparers
 - Other tax preparers
 - Do-it-yourself tax preparation software/websites
 - Don't know

4. Who is most responsible for reducing tax fraud? Select up to two responses.
 - U.S. Congress
 - Professional tax preparers
 - Internal Revenue Service (IRS)
 - Individual tax-payer
 - Makers of do-it-yourself tax preparation software/websites
 - None of the above
 - Don't know

5. How much do you support each of the following?
 - Strongly support
 - Somewhat support
 - Don't support at all
 - Requiring professional tax preparers to meet minimum training standards
 - Requiring do-it-yourself tax preparation software/websites meet minimum standards
 - Requiring that the tax forms and documentation requirements are the same when using either a professional tax preparer or a do-it-yourself software/website

6. Which of the following statements are true for you? Please select all that apply.
- You have stretched the truth on my tax return
 - You know someone who has stretched the truth on their tax return
 - You have been a victim of identity theft
 - You know someone who has been a victim of identity theft
 - You have accidentally made false statements on my tax return
 - You have had to pay a fine for making an error on my tax return
 - You have made mistakes on your tax return that the Internal Revenue Service (IRS) did not catch.
 - None of the above
 - Don't know
7. Which of the following describes how you prepare and file your United States income tax return each year? Please select all that apply.
- You prepare your tax return completely by hand, on my own – no software, websites, or help from a professional, family member, or friend
 - You use a do-it-yourself tax preparation software/website
 - You use a professional tax preparer
 - You work with a friend or family member
 - Other, specify
 - You do not currently prepare and/or file my taxes each year
 - Don't know

- end -