Analyzing the role of trustworthiness in tax filing and tax compliance behavior through an automated return

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ABSTRACT

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Two provisions in the recent tax legislation (H.R. 1), nearly doubling the standard deduction and eliminating personal exemptions, will likely increase the number of U.S. taxpayers who may be eligible for a Tax Agency Reconciliation system. A Tax Agency Reconciliation system (hereafter, TAR system) is one in which the IRS pre-populates the taxpayer's tax return based on information that it has already collected about the taxpayer's income and other tax-related items. This study develops a model to explore taxpayers' likelihood of using a voluntary TAR system. The model is based on a survey of the taxpayers' self-assessed tax knowledge, perceived complexity of their return, taxpayer experience, prior year prepayment position, perceptions of IRS trustworthiness, individual trust propensity, risk tolerance, and the perceived benefits, effort, risks of using a TAR system.

INTRODUCTION

A major criticism of the United States tax code is its size and complexity. In 2014, the National Taxpayers Union Foundation (NTUF) estimated that taxpayers needed 6.1 billion hours to comply with the federal tax code. The same study estimated that those hours equated to $202.1 billion of lost productivity in the U.S. economy and $31.7 billion in out-of-pocket expenses (Kellogg, 2015). These figures do not include the non-monetary costs of dealing with the Internal Revenue Service (hereafter, IRS) and the tax law (e.g., anxiety, fear, and aggravation). The complexity of the tax law also costs the government money. A 2016 *Time Magazine* article reports that the Earned Income Tax Credit (EITC) instructions are 37 pages long, and the "rules are so complicated that the EITC's error rate is 27%", which equates to about $18 billion in undeserved credits and lost revenue (Edwards, 2016).

In September 2017, one of the United States administration's proposals for revising the tax system was entitled "Unified Framework for Fixing our Broken Tax Code". The proposal used the word "simple", or some form of the word, thirteen times, making it clear that a simpler tax code and filing process are the desired outcomes of the new tax law (U.S. Department of the Treasury, 2017). Specifically, one of the goals of the Tax Cut and Jobs Act of 2017 is the creation of a smaller, simpler tax return form for most Americans.

For years, Nina Olson, the National Taxpayer Advocate, has urged Congress to simplify the Internal Revenue Code, and has criticized the IRS for falling behind in providing customer service and for not utilizing more online technologies. She cites the 2018 Forrester U.S. Federal Customer Experience Index Report that ranks the IRS near the bottom of all federal agencies in terms of customer experience. The report found that "only 24 percent of IRS customers say they speak well of the IRS… and only 20 percent of customers say they trust the IRS" (IRS News Release, 2018). Olson believes that, "Over the long run, voluntary compliance is the least

expensive form of compliance to maintain. It is also the least burdensome from the taxpayer's perspective. Importantly, voluntary tax compliance is heavily linked to customer service and the customer experience." (National Taxpayer Advocate: Objectives Report to Congress, FY 2019, p. 3). The IRS continues its efforts to automate more of its processes, partially to take advantage of technologies widely used in the private sector, but also to "change its culture from one that is enforcement-oriented to one that is service-oriented" (National Taxpayer Advocate: Objectives Report to Congress, FY 2018, p. 2).

With calls for a simpler, more efficient way for Americans to file taxes, and with the general advancement in technology, we investigate the likelihood that taxpayers would use an automated tax return filing system, referred to as a Tax Agency Reconciliation system (hereafter, TAR system). A TAR system is one in which the government prepares tax returns for its taxpayers based on the information it already has about each taxpayer's income and other tax-related items. In essence, the government is automating the return filing process of its taxpayers (Goolsbee, 2006). This is different than software that pulls information from W-2s and 1099s because the information is originating from, and being presented to the taxpayer directly by, the tax authority (IRS) and not a third party.

For taxpayers, an automated system could increase compliance and decrease costs (Bankman, 2008; Goolsbee, 2006). For the many Americans that have straightforward returns, a TAR system would simplify their filing process (e.g., W-2 wages, interest from a bank, and a standard deduction). The substantial increase in the standard deduction following the passage of the Tax Cuts and Jobs Act of 2017 means more taxpayers will choose the standard deduction, meaning more returns that might benefit from a TAR system. Bankman (2008) believes that a TAR system could also benefit higher-income taxpayers with more complicated returns,

although they may need to add some items to their pre-populated return before submitting their return to the IRS. A TAR system could also save the IRS from having to verify returns, correct mathematical mistakes, and conduct follow-up investigations. The Government Accountability Office estimates the IRS could save up to $36 million per year if it adopted an automated system (U.S. Government Accountability Office, 1996). With the shrinking IRS budget, creating efficiencies and savings are important for regulators.

The IRS already has two of the three key components necessary to implement a TAR system successfully: information and software capability. Much of the necessary taxpayer data is already reported electronically to the IRS. Employers report taxpayers' W-2 wage information to the Social Security Administration that is shared with the IRS. Banks, investment firms, and companies report interest, dividends, capital gains, and miscellaneous income to the IRS. The IRS also has the software to prepare tax returns. The IRS currently prepares "substitute returns" using their Report Generating Software, for taxpayers who fail to file a return, although this is usually done a year or two in arrears and with the addition of penalties and interest.[1]

The third component needed to successfully implement a voluntary TAR system is taxpayer buy-in. A federal TAR system could be modeled on the ReadyReturn system used in California. In 2004, the State of California implemented an automated tax return filing system called ReadyReturn (Goolsbee, 2006). The system automatically generated state tax returns for qualified taxpayers. Qualified taxpayers experienced reduced compliance costs and saved time using the automated system. The average cost to file a state return for user of the automated system was $0, while others averaged $30 to file a state return (Goolsbee, 2006). The program maintained strong support among automated tax return filers who reported a 98% satisfaction

[1] https://www.irs.gov/irm/part4/irm_04-010-015

rate, with 97% of users indicating they would continue to use the system (California Franchise Tax Board, 2006).

Unfortunately, the ReadyReturn program was strongly opposed by the tax preparation industry; and, with the help of lobbying efforts from various organizations, the California program ended in 2012 (Goolsbee, 2006). Despite the end of the automated return program, California has maintained some of the features of the ReadyReturn program in their current CalFile program. In addition to the trial program in California, where only about 80,000 taxpayers participated, TAR systems were attempted in Michigan (128 taxpayers participated over two years) and Colorado (limited participation as well) (Walczak, 2018). Both systems were shut down shortly after their introduction.

TAR systems are already successfully in place in several countries around the world, including Denmark and Sweden. In those countries, compliance costs are estimated at about one percent of revenue, while in the United States, compliance costs are estimated at more than ten percent of revenue (Goolsbee, 2006). Nationally, there are calls among academics and practitioners to implement a digitalized tax return system that will reduce filing and compliance costs, reduce anxiety and aggravation, and increase compliance rates (Goolsbee, 2006; Bankman, 2008; Wilson, 2016). However, as prior state experiences suggest, if taxpayers do not adopt the voluntary automated system, it will fail. Thus, we conduct a survey to explore U.S taxpayers' willingness to use a federal TAR system.

To examine what might influence a taxpayer's willingness to use a TAR system, we conduct a survey that measures taxpayer characteristics, and examine whether those characteristics predict whether a taxpayer would be willing to use a TAR system. We measure taxpayers' self-assessed tax knowledge, perceived complexity of their most recent return, prior

tax experiences, perceptions of IRS trustworthiness, individual trust propensity, and risk tolerance. After describing the TAR system, we ask participants about their willingness to use the system. We then ask participants about the perceived benefits of the TAR system, their expected effort in using the TAR system, the perceived security and audit risks of the TAR system, and their perceptions of responsibility for errors under the TAR system. We also capture several demographic variables. (The survey is included in Appendix A).

We find that taxpayers' perceptions of the IRS's benevolence (well meaning) and ability affect their likelihood of using the TAR system. Taxpayers who perceive the IRS as benevolent are associated with a higher likelihood of using the TAR system. The more taxpayers believe that IRS employees are concerned about them, the more likely they are to use a TAR system. This suggests that to implement a TAR system successfully, the IRS should focus on improving customer service, consistent with suggestions of the taxpayer advocate.

Perhaps counterintuitively, we find that taxpayers who perceive the IRS to be a capable agency, with knowledgeable and skilled employees, are negatively associated with the likelihood to use a TAR system. While logically, one might expect taxpayers' belief that the IRS is a capable agency to extend to the TAR system, and result in taxpayers wanting to use said system, our results do not support this notion. It is possible that taxpayers believe the IRS would be *too* capable with the new TAR system. Taxpayers could fear that under the new TAR system the IRS would know too much information about their tax position, which would limit the taxpayer's ability to report less honestly.

Finally, we find that taxpayers who have previously been contacted by the IRS for a letter, office, or field audit are associated with a higher likelihood of using the TAR system. Intuitively, this could mean the taxpayer believes that allowing the IRS to prepare their return

would help them avoid future contact with the IRS. We also find the participants who perceived the advantages of using a TAR system as outweighing the disadvantages were associated with higher likelihood of using a TAR system.

This study contributes to the existing literature and has implications for practice. We contribute to theory by applying existing framework to a tax compliance context. Generally used in interpersonal contexts, trustworthiness is tested in our study between an organization (IRS) and its customers (taxpayers). From a practical standpoint, this study allows regulators to understand what is important to taxpayers in generating buy-in for a federal TAR system.

The remainder of this paper proceeds as follows. The next section discusses background theory and research questions. Next, the methodology is discussed, followed by discussion of the results of the survey. Finally, we draw conclusions and make suggestions for future research.

THEORY AND HYPOTHESES

We examine taxpayers' willingness to use an automated tax return system. Specifically, we investigate how a taxpayer's perceptions of trustworthiness of the IRS, perceptions of an automated tax system, individual characteristics, and tax-related experiences, including prior year prepayment position (tax refund or tax due), affect a taxpayer's likelihood of using a TAR system.

When considering automating the tax return filing system, perceived trustworthiness of the government and of the IRS specifically, is an important factor in the success of the system. Perceived trustworthiness is antecedent to trust, which is defined as "the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." (Mayer, Davis, & Schoorman, 1995, p. 712). Mayer et al. (1995) suggest that perceptions of trustworthiness is an antecedent to trust and is a function of three factors:

perceived ability, benevolence, and integrity. Ability is a "group of skills, competencies, and characteristics that enable a party to have influence within some specific domain" (Mayer et al., 1995, p. 717). Benevolence is the degree to which the person or group that is being trusted wants to do good for the person who is giving trust, and integrity is the perception that the core principles of the person or organization are found to be satisfactory by the trustor (Mayer et al. 1995). It is possible that perceptions of IRS trustworthiness, as defined by ability, benevolence, and ability, influence a taxpayer's willingness to use a TAR system. We modify the scales used by Mayer et al. (1995) to refer to the "people who work for the Internal Revenue Service" rather than the organization itself. This allows us to measure the factors of perceived trustworthiness related to the IRS and examine whether those perceptions affect taxpayers' willingness to use a TAR system.

We also ask taxpayers' several questions regarding their perceptions of a TAR system. How taxpayers view the system may impact their willingness to use it. As mentioned previously, a TAR system is expected to ease taxpayer compliance burdens and filing costs (Bankman, 2008; Goolsbee, 2006). The cost savings associated with a TAR system may result in taxpayers believing that the TAR system is beneficial. In addition to the cost savings, taxpayers may also perceive the new TAR system would save them time and effort. An automated system would require less input and record keeping by taxpayers, possibly none at all for taxpayers with simple tax positions. If taxpayers perceive the new system will save them time and money, they may be more likely to use it.

A TAR system may also carry with it some perceived risks that would reduce taxpayers' willingness to use the system. It is possible taxpayers may believe using a TAR system will result in the IRS having access to significant amounts of the taxpayer's information (most

taxpayers may not realize the IRS already has access to most of this information) and may increase the taxpayer's likelihood of being audited. Examples of additional information the IRS might have under a TAR system include the time it took the taxpayer to review and file the tax return and the number of edits the taxpayer made to the return before filing, both of which could be indicative of noncompliance behavior and alter audit risk. Prior research suggests taxpayers' perceptions of being audited impact their behavior (Klepper and Nagin 1989; Carnes and Englebrecht 1995). Taxpayers who perceive a higher risk of audit through a TAR system may be less likely to use the system. In addition to the risk of audit, taxpayers may also have privacy concerns about using a TAR system. In the current hacking environment, protecting one's information is paramount. Taxpayers who worry that the IRS may not be able to protect their information, may be less likely to use the TAR system.

A TAR system could also shift the ***perception*** of responsibility for the information provided on the tax return from the taxpayer to the IRS. The responsibility alleviation effect posits that individuals are less honest when they perceive that the responsibility for an outcome has been transferred to an external authority (Charness, 2006). When an external authority (in this case, the IRS) can alter the context, self-interest becomes the emphasis rather than social responsibility, which in this case is paying taxes in order to contribute to the costs of society (Charness, 2006). When the IRS takes control of pre-populating the taxpayer's return, taxpayers may feel the IRS becomes responsible for any errors on their returns; lessening the likelihood of the taxpayer being audited, and being assessed penalties and interest. This perceived decreased in responsibility may result in taxpayers being more willing to use the TAR system.

Given the exploratory nature of the survey, we posit the following research question:

RQ: Do taxpayers' perceptions of trustworthiness of the IRS, perceptions of an automated tax system, personal characteristics, and/or tax-related experiences impact their willingness to use a TAR system?

METHOD

We test our research question using a survey that examines what factors influence a taxpayer's willing to use a TAR system. We developed the survey using several constructs, some of which were measured using previously validated scales and others that were created and validated specifically for this study. The factors of perceived trustworthiness (ability, benevolence, and integrity) are measured using scales adapted from Mayer et al. (1995), as were the items measuring trust propensity. The items measuring willingness to use the TAR system, effort expectancy, perceived benefits, and perceived risk were all adapted from Schaupp, Carter, and McBride (2010). All of the items were adapted to focus on the IRS, the people who work for the IRS, and the proposed TAR system. The items measuring self-assessed tax knowledge, complexity, perceived audit risk, and perception of responsibility were developed specifically for this survey rather than adapted from prior research.

Since many of the items were adapted from existing scales and there were several new items, we ran an initial pilot test using graduate tax students at a large southeastern university. Using confirmatory factor analysis, we revised some of the scales based on the results of the pilot test. We eliminated one ability item, one benevolence item, and three integrity items. In addition, we revised several items in the new constructs (self-assessed tax knowledge, complexity, perceived audit risk, and perception of responsibility). In the final survey, all constructs were measured with a minimum of three items. After dropping items with low loadings and making revisions, we recruited taxpayers through Amazon Mechanical Turk (M-Turk) to participate in the survey (see Appendix A for final survey materials). One hundred thirty seven participants completed the survey. Six participants were removed from the survey for

failing attention check questions, leaving 131 usable observations.[2] Table 1 provides a description of the participants. All participants have filed tax returns for a minimum of 5 years, with a majority, 52%, of participants having filed for more than 10 years. The majority of participants fit the profile of taxpayers who may benefit from using a TAR return, with 58.8% having filed their prior return with a filing status of single, 60.1% reporting zero children, and 80.2% reporting earnings of $75,000 or less. In addition, a majority, 59.4% are between the ages of 22 and 34, and 55.7% have at least 10 years of work experience. Finally, 59% percent of the participants were male, while 41% percent were female. Confirmatory factor analysis confirmed that all items loaded strongly onto their respective constructs (Table 2).

[Insert Table 1 Here]

[Insert Table 2 Here]

Participants are asked several questions about their own tax filing experiences. We first measure the participants' self-assessed tax knowledge through three questions. Second, we measure the participants' perception of the complexity of their most recent tax return. Next, we measure a number of factors about the participants' tax paying experiences, such as how many years they have filed a return, who prepares their return, their primary source of income (e.g., 1099, W-2, capital gains), filing status, prepayment position, and whether they have ever been contacted by the IRS. Participants are then asked about their perceptions of trustworthiness of the people who work for the IRS and their individual trust propensity. Next, participants are told about a new TAR system where the IRS will pre-populate their return for them free of charge

[2] Removing the participants who failed the attention checks did not change the results.

and then allow them to either accept or edit the pre-populated return. They are told the IRS will use information that is already reported to the government by employers and banks to prepare their return for them. Participants are told that there is no cost for using the system, nor is there a penalty for not using the system. They have the option to continue filing a return using their own method. Participants are then asked to indicate the likelihood that they would use the TAR system.

We ask a number of follow up questions related to using a TAR system. Several questions ask about the impact a TAR system would have on the efficiency of the filing process, accuracy of the tax return, likelihood of audit, and whether using such a system had more advantages than disadvantages. We also asked participants a number of questions related to effort expectancy with a TAR system. These questions asked participants their perceptions of the ease of use and understandability of a TAR system. Additionally, participants were asked the perceived risks of a TAR system, such as privacy and security concerns, as well as psychological comfort with the system. Finally, participants were asked a number of demographic questions.[3]

In order to analyze which factors predict taxpayers' willingness to use a TAR system, we utilize an ordinary least squares regression approach. Our initial prediction model is as follows:

$$USE = \alpha + \beta_1 TaxExp + \beta_2 PSource + \beta_3 Preparer + \beta_4 Method + \beta_5 Involve + \beta_6 Audit + \beta_7 FStatus + \beta_8 Deduct + \beta_9 Result + \beta_{10} SATK + \beta_{11} COMPLX + \beta_{12} ABILITY + \beta_{13} BENEV + \beta_{14} INTEGTY + \beta_{15} PERBEN + \beta_{16} EFFEXP + \beta_{17} PERRISK + \beta_{18} PERAUDR + \beta_{19} PERRESP + \beta_{20} Gender + \beta_{21} Age + \beta_{22} Edu + \beta_{23} WorkExp + \beta_{24} Political + \beta_{25} Ethnic + \beta_{26} Income + \beta_{27} Child + \varepsilon_1 \quad \textbf{(1.1)}$$

Dependent Variable

[3] A complete list of survey questions, including demographics, can be found in Appendix A.

The dependent variable, *USE*, is measured using three items, each measured on a seven-point Likert scale. The three items are averaged to create a single item score.

Tax Demographic Variables

TaxExp is measured with one question that refers to how many years of tax returns the taxpayer has filed. *PSource* is a single question that asks the participant how they earn their primary source of income (wages, 1099, investments, etc.). *Preparer* is a single question that asks the participant who prepared their most recent tax return. *Method* is a single question that asks the participant how their most recent return was prepared. *Involve* is a single item measure that asks participants to rate their level of involvement in the preparation of their most recent tax return on a one to five Likert scale. *Audit* is a yes (labeled one) or no (labeled zero) question that asks if the participant has ever been contacted for a letter, office, or field audit. *FStatus* is a question that asks the participant their filing status on their most recent return. *Deduct* asks participants if they itemized or took the standard deduction on their most recent tax return. *Result* asks participants if they received a refund or owed additional taxes on their most recent tax return. *SATK* is a three item measure asking about tax knowledge on a five point Likert scale. The three items are averaged together to form one score. *COMPLX* is a three item measure using five-point Likert scales that allow participants to self-assess the complexity of their most recent return. The items are averages to create one score.

Factors of Perceived Trustworthiness Variables

ABILITY is measured using five items related to the ability of the IRS and averaged together to create one score. *BENEV* is measured using four items related to the benevolence of the IRS and averaged together to create one score. *INTEGTY* is measured using three items

related to the integrity of the IRS and averaged together to create one score. *ABILITY, BENEV,* and *INTEGTY* are all measured on five-point Likert scales.

Perceptions of a TAR System Variables

PERBEN is a three item measure (related to the perceived benefits of a TAR system) using seven-point Likert scales that is averaged together to create one score. *EFFEXP* is also a three item measure (related to the ease of use of a TAR system) using seven-point Likert scales that is averaged together to create one score. *PERRISK* is a three item measure (related to privacy and security concerns of a TAR system) using seven-point Likert scales that is average together to create one score. *PERAUDR* is a three item measure using seven-point Likert scales related to the likelihood of IRS audit when using a TAR system. The items are averaged together to create one score. *PERRESP* is a three item measure using seven point-Likert scales related to the perception of responsibility for errors on a TAR system tax return. These items are also averaged to create one score.

General Demographic Variables

Gender, Age, Edu (Education), *WorkExp* (Work Experience), *Political* (Political Affiliation), *Ethnic, Income, and Child* (How many children one has) are all used a demographic control variables.

RESULTS

We find that multiple factors are associated with the likelihood to use a TAR system. Using ordinary least squares regression, we run the initial model with all independent and control variables included. Overall, the model is significant and explains 62.7% of the variance in our dependent variables, willingness to utilize a TAR system.

[Insert Table 3 Here]

Because our research question is exploratory in nature, we take the significant predictors from our initial model, and include them together in a second model in order to focus on just those predictors that were initially significant. Thus, we present the following final model:

$$USE = \alpha + \beta_1 Audit + \beta_2 ABILITY + \beta_3 BENEV + \beta_4 PERBEN + \beta_5 PERRISK + \beta_6 Political + \varepsilon_1 \quad \textbf{(1.2)}$$

This final model is statistically significant, and the independent variables and controls explain 63.8% of the variance in the dependent variable, *USE*. It is worth noting that the condensed model, focusing solely on the significant variables from the initial model, explains slightly more variance than the initial model with all variables included.

In the final model, *Audit* is statistically significant at the $p < .05$ level and is positively correlated with the likelihood to use a TAR system, meaning participants that indicated they have been part of either a letter, office, or field audit are associated with a higher likelihood of using a TAR system. *ABILITY* is statistically significant at the $p < .05$ level and is negatively correlated with the dependent variable, indicating that participants who perceive the people at the IRS as capable are less likely to use a TAR system. *BENEV* is statistically significant at the $p < .05$ level and is positively correlated with the dependent variable, meaning that those who perceived the people at the IRS as well-meaning were associated with higher likelihood of using a TAR system. *PERBEN* is statistically significant at the $p < .01$ level and positively correlated with likelihood to use. This indicates that participants who perceived benefits in the TAR system were associated with a higher likelihood of using the system.

Overall, 69% of participants stated they would use a TAR system.[4] Those participants who said they would use a TAR system perceived significantly more benefits in a TAR system than those who stated they would not use such a system. Those who would use a TAR system also expect the TAR system to be significantly easier to use than those who would not use a TAR system. Taken together, these findings suggest the IRS may be able to increase the likelihood of successful implementation of a TAR system by aggressively marketing the benefits of such a system to taxpayers. Stressing the ease of use, and time and money savings of a TAR system over their current filing method may increase taxpayers' willingness to use a TAR system. In open-ended responses to why the taxpayer would or would not use the TAR system, 71% of taxpayers who said they would use the TAR system cited time or money savings, easiness to use the system, and convenience.

In addition, we find that taxpayers who would use a TAR system believe the risks of using the system are significantly lower than those who would not use the system. Taxpayers who would use the TAR system believe the use of the TAR system will reduce their risk of being audited significantly more than those who chose not to use the system. In fact, we find that taxpayers who have been previously contacted by the IRS for audit are associated with a higher likelihood of using a TAR system. Taxpayers who would use the TAR system also report significantly less concerns about privacy and information security risks with the TAR system than those who choose not to use the system. In the current climate, with the prevalence of identity theft, the IRS may have to invest money to ensure the safety of taxpayer information in order to convince more taxpayers to use a TAR system.

[4] Our dependent variable is measured on a 1-7 continuous scale across three different items. This percentage is calculated by averaging the three items together and then splitting the responses at the midpoint, with less than 4 indicating taxpayers would not use the system and greater than 4 indicating taxpayers would use the system.

DISCUSSION

Following the recent tax law changes which simplify some individual tax returns, there has never been a better time to consider implementation of a federal TAR system. Improvements in technology and third-party reporting have given the IRS the tools it needs to create a TAR system. The only missing element for a successful TAR system is taxpayer buy-in. Prior attempts to implement TAR systems in various states have been unsuccessful. Therefore, we conduct an exploratory study to examine whether taxpayers will or will not use a TAR system, and the factors that influence their decision.

We find certain elements of taxpayers' perceptions of trustworthiness of the IRS influence their choice whether or not to use a TAR system. Specifically, taxpayers who view IRS employees as more benevolent are associated with higher likelihood to use a TAR system. Believing the IRS is trying to do the right thing and cares about taxpayers seems to make taxpayers willing use the TAR system. Contrary to expectations, taxpayers who view the people at the IRS as more capable (high in ability), are associated with lower likelihood of using a TAR system. This may be because taxpayers believe a TAR system will give the IRS too much capability at preventing taxpayer aggressiveness. In other words, if the IRS is too good at its job, providing them with more information symmetry could take away opportunities for taxpayer dishonesty. We find that the third antecedent to trustworthiness, integrity, was not significantly associated with taxpayers' willingness to use a TAR system.

Not surprisingly, we find that taxpayers who say they will use a TAR system perceive significantly more benefits of a TAR system than those who will not use the TAR system. In responses to open-ended questions, taxpayers noted that a TAR system would be easier and more convenient for them, and would save them time and money. Another benefit, according to taxpayers who would be willing to use a TAR system, is a lower chance of being audited using

the TAR system. Consistent with this, we find that taxpayers who have previously experienced an audit (either by letter, office audit, or field audit) are associated with a much higher likelihood of using a TAR system than taxpayers who have not been previously audited.

Overall, our findings suggest a majority of taxpayers are ready to embrace a TAR system. Our results also suggest that to win over those taxpayers who are currently unsure or opposed to the TAR system, the IRS may wish to engage in a marketing campaign to stress the benefits of the system, such as time and money savings and ease and convenience, and to diffuse any concerns with the privacy and protection of taxpayer information.

This study makes several contributions to practice and research. The results of the study have implications for tax policy officials and the IRS. If taxpayers are likely to use a TAR system administered by the IRS, it could reduce the complexity of the filing process, reduce errors made by taxpayers, increase timeliness of filing, and reduce administrative costs to both the IRS and taxpayers. In terms of IRS benefits, a TAR system could improve efficiency, decrease administration costs, and may improve public perception of the IRS. Most importantly, this study will help the IRS determine how willing U.S. taxpayers would be to using a TAR system and whether a TAR system would impact compliance. Specifically, the results of this study will show what factors influence a taxpayer's preference for using or not using a TAR system.

In addition, this study also has implications for taxpayers. Taxpayers could find the tax filing process simpler, less stressful, and more affordable because the IRS would be preparing their return at no cost. Taxpayers would not have to pay a tax preparer and would save time completing their tax return. This study contributes to literature as one of the first studies to examine whether U.S. taxpayers would willingly use a TAR system and the effects a TAR

system would have on compliance. From a theoretical perspective, this study extends previous work on trustworthiness by expanding the theory from an interpersonal context to a tax context between taxpayers and the IRS. Prior research (see Chang and Schultz, 1990; Martinez-Vazquez et al., 1992; White et al., 1993; Dusenbury, 1994; Jackson and Hatfield, 2005; Brink and Lee, 2015) states that taxpayers in a tax due position are more aggressive (less compliant). We add to this literature by showing that filing method (a TAR system) may also affect that relationship.

Proposed Experiment

In addition to understanding taxpayers' willingness to adopt a TAR system, we also plan to examine whether a TAR system will impact taxpayer aggressiveness and compliance. We plan to conduct a 2 x 2 x 2 full factorial experiment using experienced taxpayers (See Figures 1 and 2). The experimental instrument will be administered online using Qualtrics Survey Software. Participants will be randomly placed into one of the eight treatment conditions where they will be asked to read a vignette about Bob, a taxpayer. We choose a third person vignette to avoid any social desirability bias. All participants will be told that Bob works full time and receives W-2 wages of $55,775 and earns between $4,000 and $5,000 in cash income from refereeing youth basketball games in addition to his full-time job. Participants will be told that Bob does not keep accurate records of his cash receipts, but he is certain the amount of cash he earned is within that range. Participants will then be asked, how much cash income they expect Bob will report. They will also be asked why they think Bob would report the amount of cash income he reports. Finally, they will be asked if they were in a similar situation to Bob, what amount they would report on their return.

Cash income reported is the dependent variable of interest. Participants know a range for cash income, $4,000 - $5,000, rather than a specific dollar amount. This design allows

participants to report aggressively (towards $4,000) or conservatively (towards $5,000) within the range without evading taxes. Knowingly evading taxes occurs only if the participant reports less than $4,000. It is important to note there is not a normatively correct amount of cash income participants should report. The true amount of cash income can range from $4,000 to $5,000. This design allows for both the examination of (1) the differences in levels of aggressiveness between conditions, and (2) taxpayer willingness to evade.

The three independent variables will be filing method, prepayment position, and the presence or absence of a compliance reminder on a taxpayer's decision to report cash income. We will manipulate all three independent variables at two levels. For the prepayment position manipulation, half of the taxpayers will expect a tax refund while the other half will owe additional taxes. Participants in the tax refund condition will be told that, prior to reporting any cash income, Bob expects to receive a $750 tax refund. Participants in the tax due condition will be told that, prior to reporting any cash income, Bob owes an additional $750 in taxes. For the filing method manipulation, half of the participants will be told that Bob has selected to use the new TAR system (an automated filing system where the IRS pre-populates tax return for the taxpayer); the other half will be told Bob uses traditional tax software where the taxpayer must enter all of their tax own information to complete their tax return. In the TAR system condition, participants will be told that Bob received a letter informing him that the IRS has mandated a new, automated federal return system that is free of charge to taxpayers. The IRS will use information that is already reported to the government by employers and banks to pre-populate Bob's return for him. In the traditional filing condition, participants will be provided Bob's wage information (W-2) and asked to enter Bob's information into a free tax preparation software that appears on the screen. This simulates the process that taxpayers who use traditional e-file

software encounter when preparing their returns. For the compliance reminder manipulation, all participants receive a reminder of the consequences of underreporting income – that Bob would owe additional tax, interest, and a possible penalty and told that all income is taxable and must be reported. Half of the participants will receive the reminder *at the beginning* of the return process. The other half of participants will receive the reminder *at the end* of the return process.

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TABLE 1
Demographic Data
(n = 131)

Age	
18-21	2.3%
22-34	50.4%
35-44	26.7%
45-54	12.2%
55-64	6.9%
65 +	0.8%
Prefer not to answer	0.7%
Gender	
Male	58.8%
Female	41.2%
Average household income	
< $25,000	14.5%
$20,000-$50,000	35.9%
$50,001-$75,000	29.8%
$75,001-$100,000	9.2%
>$100,000	9.2%
Prefer not to answer	1.5%
Education	
Some high school	0.0%
High school	31.3%
Associates degree	18.3%
Bachelors degree	45.0%
Graduate degree & up	5.4%
Filing Status	
Single	58.8%
Head of Household	9.2%
Married filing Jointly	28.2%
Married filing Separately	3.8%
Surviving spouse	0.0%
Years of Work Experience	
None	3.1%
1-5 years	18.3%
6-10 years	21.4%
11-15 years	17.6%
16-20 years	13.7%
More than 20 years	24.4%
Prefer not to answer	1.5%

TABLE 2
Confirmatory Factor Analysis
(n = 131)

Construct	Standardized Parameter Estimates
Self-Assessed Tax Knowledge	
SATK1	0.86
SATK2	0.78
SATK3	0.67
Complexity	
CMPLX1	0.77
CMPLX2	0.95
CMPLX3	0.91
Factors of Perceived Trustworthiness	
Ability	
TRUSTA1	0.94
TRUSTA2	0.77
TRUSTA3	0.87
TRUSTA4	0.87
TRUSTA5	0.95
Benevolence	
TRUSTB1	0.88
TRUSTB2	0.91
TRUSTB3	0.92
TRUSTB4	0.81
Integrity	
TRUSTI1	0.75
TRUSTI2	0.66
TRUSTI3	0.82
Trust Propensity	
TRUSTPR1	0.64
TRUSTPR2	0.69
TRUSTPR3	0.72
TRUSTPR4	0.68
TRUSTPR5	0.62
TRUSTPR6	0.75
TRUSTPR7	0.52
TRUSTPR8	0.58
Willingness to Use	
USE1	0.88
USE2	0.98
USE3	0.99
Effort Expectancy	
EffEXP1	0.95
EffEXP2	0.87

EffEXP3	0.73
Perceived Audit Risk	
PERAUDR1	0.91
PERAUDR2	0.97
PERAUDR3	0.94
Perceived Benefits	
PERBEN1	0.93
PERBEN2	0.95
PERBEN3	0.98
Perception of Responsibility	
PERRESP1	0.98
PERRESP2	0.66
PERRESP3	0.82
Perceived Risk	
PERRisk1	0.94
PERRisk2	0.99
PERRisk3	0.90

TABLE 3
Initial Model – Effect on Likelihood to Use TAR System

Variable	Coefficient	Std. Error
Intercept	1.156	1.325
TaxExp	-.073	.124
PSource	-.297	.198
Preparer	-.011	.253
Method	-.063	.228
Involve	.012	.120
Audit	.426	.230*
FStatus	.053	.117
Deduct	-.173	.175
Result	.100	.193
SATK	-.122	.128
ABILITY	-.329	.151**
BENEV	.220	.120*
INTEGTY	-.029	.160
PERBEN	.925	.109***
EFFEXP	-.164	.122
PERRISK	-.140	.080*
PERAUDR	.037	.076
PERRESP	.094	.067
COMPLX	.010	.118
Gender	.115	.198
Age	.197	.164
Edu	.184	.112
WorkExp	-.057	.132
Political	.278	.114**
Ethnic	-.022	.117
Income	.019	.087
Child	-.086	.099
Fit:		
Adj. R Squared (%)	62.7%	
N	131	
Model F-stat	9.096***	
*	Significant at $p < .10$	
**	Significant at $p < .05$	
***	Significant at $p < .01$	

USE is the dependent variable asking about taxpayer willingness to use a TAR system, measured using three items, each on a one to seven Likert scale, and then averaged to create one score
TaxExp is measured with one question that refers to how many years of tax returns the taxpayer has filed

PSource is a single question that asks the participant how they earn their primary source of income (wages, 1099, investments, etc.)
Preparer is a single question that asks the participant who prepared their most recent tax return
Method is a single question that asks the participant how their most recent return was prepared
Involve is a single item measure that asks participants to rate their level of involvement in the preparation of their most recent tax return on a one to five Likert scale
Audit is a yes or no question that asks if the participant has ever been contacted for a letter, office, or field audit
FStatus is a question that asks the participant their filing status on their most recent return
Deduct asks participants if they itemized or took the standard deduction on their most recent tax return
Result asks participants if they received a refund or owed additional taxes on their most recent tax return
SATK is a three item measure asking about tax knowledge on a five point Likert scale. The three items are averaged together to form one score
ABILITY is measured on five point Likert scales using five items related to the ability of the IRS and averaged together to create one score
BENEV is measured on five point Likert scales using four items related to the benevolence of the IRS and averaged together to create one score
INTEGTY is measured on five point Likert scales using three items related to the integrity of the IRS and averaged together to create one score
PERBEN is a three item measure (related to the perceived benefits of a TAR system) using seven point Likert scales that is averaged together to create one score
EFFEXP is also a three item measure (related to the ease of use of a TAR system) using seven point Likert scales that is averaged together to create one score
PERRISK is a three item measure (related to privacy and security concerns of a TAR system) using seven point Likert scales that is average together to create one score
PERAUDR is a three item measure using seven point Likert scales related to the likelihood of IRS audit when using a TAR system. The items are averaged together to create one score
PERRESP is a three item measure using seven point Likert scales related to the perception of responsibility for errors on a TAR system tax return. These items are also averaged to create one score
COMPLX is a three item measure using five point Likert scales that allow participants to self-assess the complexity of their most recent return. The items are averages to create one score
Gender, ***Age***, ***Edu*** (Education), ***WorkExp*** (Work Experience), ***Political*** (Political Affiliation), ***Ethnic***, ***Income***, and ***Child*** (How many children one has) are all demographic control variables used in the model.

TABLE 4
Final Model - Effect on Likelihood to Use TAR System

Variable	Coefficient	Std. Error
Intercept	.667	.687
Audit	.452	.206**
ABILITY	-.318	.118**
BENEV	.213	.098**
PERBEN	.897	.078***
PERRISK	-.068	.072
Political	.187	.102*
Fit:		
Adj. R Squared (%)	63.8%	
N	131	
Model F-stat	39.265***	

*	Significant at $p < .10$
**	Significant at $p < .05$
***	Significant at $p < .01$

USE is the dependent variable asking about taxpayer willingness to use a TAR system, measured using three items, each on a one to seven Likert scale, and then averaged to create one score
Audit is a yes or no question that asks if the participant has ever been contacted for a letter, office, or field audit
ABILITY is measured on five point Likert scales using five items related to the ability of the IRS and averaged together to create one score
BENEV is measured on five point Likert scales using four items related to the benevolence of the IRS and averaged together to create one score
PERBEN is a three item measure (related to the perceived benefits of a TAR system) using seven point Likert scales that is averaged together to create one score
PERRISK is a three item measure (related to privacy and security concerns of a TAR system) using seven point Likert scales that is average together to create one score
Gender, ***Age***, ***Edu*** (Education), ***WorkExp*** (Work Experience), ***Political*** (Political Affiliation), ***Ethnic***, ***Income***, *and* ***Child*** (How many children one has) are all demographic control variables used in the model.

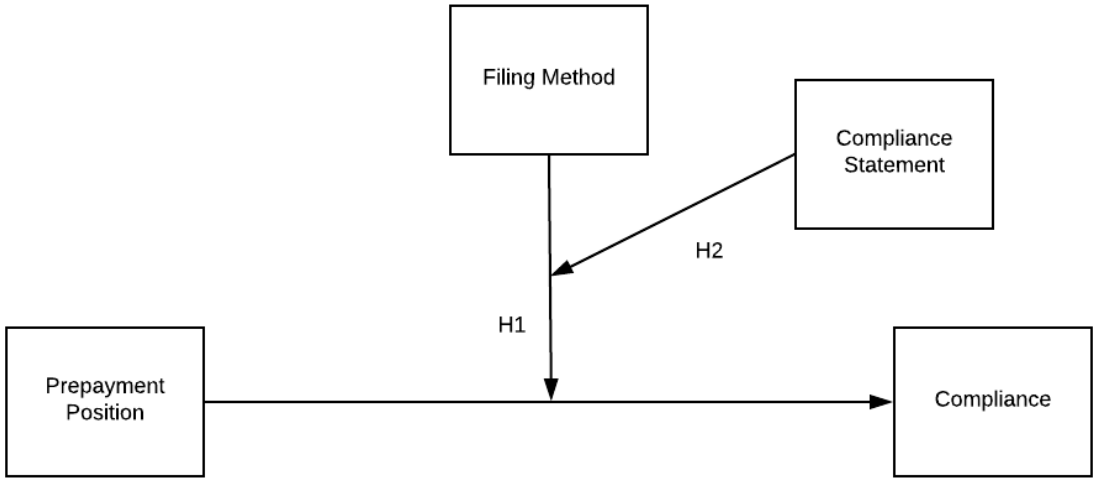
Figure 1

2 x 2 x 2 Experimental Design

			Prepayment Position	
			Tax Refund	**Tax Due**
Filing Method	**IRS TAR System**	**Compliance Reminder – Beginning**	**1**	**2**
		Compliance Reminder - End	**3**	**4**
	Traditional E-File Software	**Compliance Reminder - Beginning**	**5**	**6**
		Compliance Reminder - End	**7**	**8**

Figure 2

Moderation Model (Experiment)



Appendix A – Survey Questions

[Self-Assessed Tax Knowledge]

[Measured on 5-point scale]

1. How much do you know about your personal income taxes?
2. How much confidence do you have in your ability to prepare your own tax return?
3. How much do you know about the new tax law's impact on your personal income taxes?

[Complexity Questions]

[Question measured in a 1-5 Scale: Not complex at all to extremely complex]

1. How complex do you consider your most recent personal tax return?
2. How complex do you consider your tax situation?
3. How complex do you anticipate your upcoming tax return to be?

[Tax Experience Demographic Questions]

1. How many years have you filed a tax return?
   a) Never filed a return
   b) 1 – 5 years
   c) 6 – 10 years
   d) 11 – 15 years
   e) 16 – 20 years
   f) More than 20 years
2. What was the primary source of income on your most recent tax return?
   a) Wages/Salary
   b) Self-employment Income
   c) Investment Income
   d) Other
3. Who prepared your most recent tax return?
   a) Self-prepared
   b) Completed by family or friend
   c) Completed by paid tax preparer
   d) I do not remember
4. How was your most recent tax return prepared?
   a) Completed using tax return software (TurboTax, TaxSlayer, etc.)
   b) Completed by hand using paper forms
   c) Completed by paid tax preparer
   d) I do not remember
5. How involved were you with filing your most recent tax return?
   [Question measured in a 1-5 Scale: Not involved at all to extremely involved]
6. Have you ever been contacted for a letter, office, or field audit by the Internal Revenue Service (IRS)?
   a) Yes
   b) No
   c) I do not remember

7. Which of the following best describes the result of your most recent tax return?
   a) I received a refund.
   b) I owed additional tax.
   c) I do not remember.
8. Which of the following best describes your filing status on your most recent tax return?
   a) Single
   b) Married Filing Jointly
   c) Married Filing Separately
   d) Head of Household
   e) Qualifying Widow(er)
   f) I do not remember
9. Which of the following best describes your personal deductions on your most recent tax return?
   a) Standard Deduction
   b) Itemized Deductions
   c) I do not remember

[Questions about Perceptions of Trustworthiness]

TRUSTWORTHINESS SCALE (adopted from Mayer et al. (1995)):

Please answer the following questions regarding your perceptions of the Internal Revenue Service (IRS).

[All questions measured in a 1-5 Scale: Strongly Disagree, Disagree, Neither Agree nor Disagree, Agree, Strongly Agree]

1. ***Ability:***
   a) The people who work for the Internal Revenue Service (IRS) are very capable of performing their job.
   b) The people who work for the Internal Revenue Service (IRS) are known to be successful at the things they try to do.
   c) The people who work for the Internal Revenue Service (IRS) have much knowledge about the work that needs to be done.
   d) I feel very confident about the skills of the people who work for the Internal Revenue Service (IRS).
   e) The people who work for the Internal Revenue Service (IRS) are well qualified.

2. ***Benevolence:***
   a) The people who work for the Internal Revenue Service (IRS) are very concerned about my welfare.
   b) My needs and desires are very important to the people who work for the Internal Revenue Service (IRS).
   c) The people who work for the Internal Revenue Service (IRS) really look out for what is important to me.
   d) The people who work for the Internal Revenue Service (IRS) will go out of their way to help me.

3. ***Integrity:***
    a) The people who work for the Internal Revenue Service (IRS) have a strong sense of justice.
    b) I never have to wonder whether the people who work for the Internal Revenue Service (IRS) will stick to its word.
    c) The actions and behaviors of the people who work for the Internal Revenue Service (IRS) are very consistent.

[Questions about Perceptions of Trust Propensity]

TRUST PROPENSITY SCALE (adopted from Mayer et al. (1995))

Please answer the following questions regarding your general feelings of trust toward others.

[All questions measured in a 1-5 Scale: Strongly Disagree, Disagree, Neither Agree nor Disagree, Agree, Strongly Agree]

1. Please respond to the following statements based on your level of agreement:
    a) One should be very cautious with strangers.
    b) Most experts tell the truth about the limits of their knowledge.
    c) Most people can be counted on to do what they say they will do.
    d) These days, you must be alert, or someone is likely to take advantage of you.
    e) Most salespeople are honest in describing their products.
    f) Most repair people will not overcharge people who are ignorant of their specialty.
    g) Most people answer public opinion polls honestly.
    h) Most adults are competent at their jobs.

Based on the information you read regarding the new IRS pre-populated tax return system, indicate how much you agree with the following statements using a scale from 1 (Strongly Disagree) to 7 (Strongly Agree):

.

1. I predict I will use the IRS pre-populated tax return system.
2. Filing my taxes via an IRS pre-populated tax return system is something that I would do.
3. I would use the IRS pre-populated tax return system to file my taxes.

4. Why would you or why wouldn't you use the new IRS pre-populated tax return system? [Open Ended Question]

[Perceptions of Automated Tax System (adopted from Schaupp, Carter, McBride (2010)]

Indicate how much you agree with the following statements using a scale from 1 (Strongly Disagree) to 7 (Strongly Agree):

1. Perceived Benefits
    a) An IRS pre-populated tax return would be beneficial.
    b) The advantages of an IRS pre-populated tax return will outweigh the disadvantages.

c) Overall, an IRS pre-populated tax return will be advantageous.

2. Effort expectancy
   a) I would find an IRS pre-populated tax return easy to us.
   b) Learning to use an IRS pre-populated tax return would be easy for me.
   c) It would be easy for me to input and modify data when using an IRS pre-populated tax return.

3. Perceived Risk **[Part C not part of Schaupp et al. scale]**
   a) I do not think it is safe to use an IRS pre-populated tax return because of privacy concerns.
   b) I do not think it is safe to use an IRS pre-populated tax return because security concerns.
   c) It is risky to file taxes through an IRS pre-populated tax return system.

4. Perceived Audit & Penalty Risk [**Not part of Schaupp et al. scale**]
   a) Using an IRS pre-populated tax return will decrease my likelihood of audit.
   b) Using an IRS pre-populated tax return would decrease the likelihood of any penalties being imposed.
   c) Using an IRS pre-populated tax return would decrease IRS audit rates.

5. Perception of Responsibility [**Not part of Schaupp et al. scale**]
   a) I would consider errors on a pre-filled return to be the responsibility of the IRS.
   b) I would be responsible for errors on an IRS pre-filled return.
   c) If the IRS were to find an error on my return that was filed using their automated system, I would expect them to share some of the responsibility.