



# Free File Demographics and Migration Analysis



# **Free File Demographics and Migration Analysis TY 2009**

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**Presentation for the Office of  
Electronic Tax Administration and Refundable Credits**



**Project # 2-11-04-S-035**

**Research Group 2**

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# Background

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

The Free File program is a free federal tax preparation and electronic filing program for eligible taxpayers developed through a partnership between the IRS and the Free File Alliance, a group of private sector tax preparation companies. For processing year (PY) 2010 [tax year (TY) 2009], the Free File program allows taxpayers earning \$57,000 or less to file their federal tax returns for free with no hidden fees. This program is intended to contribute to overall IRS electronic filing.

# Brief Methodology

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Wage and Investment Research and Analysis (WIRA) addressed five business questions specified by ETARC in order to better understand Free File taxpayers and to track their behavior. Data was queried through the use of Structured Query Language (SQL) programming. The primary data source was the ETA Marketing Database. WIRA used descriptive statistics and market segmentation to profile various taxpayer populations of interest.

For the migration analysis (Question # 5), WIRA analyzed individual taxpayers instead of tax returns. Since a taxpayer could have filed as primary in one year and secondary in another, analyzing taxpayers provides a more complete picture. WIRA uploaded data to the Compliance Data Warehouse (CDW), validated them, and used SAS programming to run the queries to answer the business question.

# Tax Filing Type

## Technical Definitions

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- **Free File:** For TY 2009, consortium indicator present, Online return, no RAL/RAC requested, and adjusted gross income of equal or less than \$57,000 ((CONSORTIUM\_IND = 'C' or 'S' and TRDBTY09 = '3' and TRDBRAL = '0' and AGICOMP <= 57,000 from ETA IMF table) or (M\_CONSORTIUM\_IND = 'C' or 'S' and M\_ORIGINATOR = 'OnlineFiler' and M\_RAL = '0' and AGICOMP <= 57000 from MTRDB 1040\_09 table))
- **Spanish Free File:** For TY 2009, consortium indicator present, Online return, no RAL/RAC requested, and adjusted gross income of equal or less than \$57,000 ((CONSORTIUM\_IND = 'S' and TRDBTY09 = '3' and TRDBRAL = '0' and AGICOMP <= 57,000 from ETA IMF table) or (M\_CONSORTIUM\_IND = 'S' and M\_ORIGINATOR = 'OnlineFiler' and M\_RAL = '0' and AGICOMP <= 57000 from MTRDB 1040\_09 table))
- **Free File Fillable Form:** For TY 2009, consortium indicator present (CONSORTIUM\_IND = 'F' from ETA IMF table or M\_CONSORTIUM\_IND = 'F' from MTRDB 1040\_09 table)
- **ELF:** Electronic filing by Paid-Preparer (TRDBTY09 = '1' from ETA IMF table or M\_ORIGINATOR = 'ERO' from MTRDB 1040\_09 table)
- **Online:** Electronic filing by Self-Preparer (TRDBTY09 = '3' from ETA IMF table or M\_ORIGINATOR = 'OnlineFiler' from MTRDB 1040\_09 table)
- **V-Code:** V-Code and paper indicators present (PROCCDVIND = '1' and TRDBTY09 = '0' from ETA IMF table)
- **True Paper (not V-Coded):** Paper indicator present and V-Code indicator not present ( TRDBTY09 = '0' and PROCCDVIND not equal to '1' from ETA IMF table)

# Business Question 1:

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What are the demographic characteristics of the TY 2009 Traditional Free File Users?

How do their demographics compare to the TY 2006, TY 2007 and TY 2008 Traditional Free File Users?

What was their filing behavior in TY 2006, TY 2007 and TY 2008?

## TY 2009 Traditional Free Filer Volume Decreased by Over 75,000

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**Table 1: Number of Free Filers by Tax Year**

	TY 2006	TY 2007	TY 2008	TY 2009
Free Filers*	3,854,549	4,768,474	3,009,614	2,932,766
% Change from Previous TY	-	23.7%	(36.9%)	(2.6%)

Source: ETA IMF Marketing Database

\* The volume of TY 2009 Free Filers includes Spanish Free Filers

The number of Traditional Free File Users decreased slightly from TY 2008 to TY 2009.

A possible factor in this decline is the continued migration of taxpayers to alternative free tax preparation and e-file products and services offered by software companies. Also, the combined preparation and filing cost to the taxpayer continues to fall with growing competition, and as more tax preparation software companies offer “free” e-filing service (i.e., without additional fees above the software itself).

## Top Value Ranges within Demographic Category for TY 2006 to TY 2009 Traditional Free File (TFF) Users

**Table 2: Top Value Ranges of TFF Users by Tax Year**

Top Value Range	TY 2006	TY 2007	TY 2008	TY 2009
Age - Under 25	40.9%	36.7%	35.3%	31.6%
AGI - \$0 to \$17,000	50.4%	53.1%	47.7%	47.7%
0 Dependents	76.2%	76.8%	71.5%	70.4%
Simple Return Type	60.0%	60.8%	53.1%	49.7%
Filing Status - Single	72.0%	71.9%	67.1%	65.7%
Refund	94.8%	86.8%	94.1%	92.4%
No EITC	75.9%	76.1%	71.0%	67.9%
No Education Tax Credit Claimed	93.3%	94.7%	93.9%	92.8%
No Form 2441 Present	96.9%	97.1%	96.6%	96.7%
No Direct Debit	57.9%	59.9%	58.6%	57.1%
Direct Deposit Accepted	76.4%	76.7%	82.2%	82.9%

- Table 2 presents the top value ranges within each demographic category analyzed – i.e., value ranges with the highest percentage of TFF Users in TY 2006, TY 2007, TY 2008, and TY 2009.
- Demographic categories were examined independently. The table does not imply the same TFF Users fall under all top ranges.
- The top range values remained the same for TY 2006 through TY 2009.

Source: ETA IMF Marketing Database



# Age of Traditional Free File Users

**Table 3: Percentage of TFF Users by Age and Tax Year**

Age	TY 2006	TY 2007	TY 2008	TY 2009
Under 25	40.9%	36.7%	35.3%	31.6%
25 to 34	28.4%	26.6%	28.1%	29.0%
35 to 44	14.3%	14.5%	15.3%	16.1%
45 to 54	9.9%	11.0%	11.9%	12.9%
55 to 64	4.3%	5.3%	5.8%	6.4%
65 and Over	2.2%	6.0%	3.5%	4.2%
<b>Total</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>	<b>100.0%</b> <b>(3,009,614)</b>	<b>100.0%</b> <b>(2,932,766)</b>

Source: ETA IMF Marketing Database

- The majority of TFF Users from TY 2006 to TY 2009 are 34 years and under.
- Age distributions remained fairly consistent over time, with a slight decrease in young taxpayers under 25 years from TY 2006 to TY 2009.

# Adjusted Gross Income of Traditional Free File Users

**Table 4: Percentage of TFF Users by Adjusted Gross Income and Tax Year**

Adjusted Gross Income (AGI)	TY 2006	TY 2007	TY 2008	TY 2009
Negative AGI	0.4%	0.4%	0.5%	0.5%
\$0 to \$17,000	50.4%	53.1%	47.7%	47.7%
\$17,001 to \$25,000	18.7%	16.7%	18.5%	18.7%
\$25,001 to \$35,000	16.7%	15.6%	17.1%	17.2%
\$35,001 to \$50,000	12.9%	12.4%	13.4%	12.8%
\$50,001 to \$75,000	0.9%	1.8%	2.8%	3.1%
\$75,001 to \$100,000	0.0%	0.0%	0.0%	0.0%
\$100,001 or More	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>	<b>100.0%</b> <b>(3,009,614)</b>	<b>100.0%</b> <b>(2,932,766)</b>

Source: ETA IMF Marketing Database

- The majority of TFF Users from TY 2006 to TY 2009 are in the lowest positive AGI category.
- For the tax period 2008-2009, the AGI range \$35,001 to \$50,000 experienced a slight decrease and the AGI range \$50,001 to \$75,000 experienced a slight increase. Other AGI ranges remain fairly consistent.

# Tax Liability of Traditional Free File Users

**Table 5: Percentage of TFF Users by Tax Liability and Tax Year**

Tax Liability	TY 2006	TY 2007	TY 2008	TY 2009
Refund	94.8%	86.8%	94.1%	92.4%
Balance Due	4.5%	5.1%	4.1%	5.1%
Even	0.7%	8.1%	1.8%	2.5%
<b>Total</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>	<b>100.0%</b> <b>(3,009,614)</b>	<b>100.0%</b> <b>(2,932,766)</b>

Source: ETA IMF Marketing Database

- The percentage of TFF Users with refunds decreased slightly from TY 2008 to TY 2009.
- The percentage of Even Returns returned to more usual levels in TY 2008 (after the aberration caused by the Economic Stimulus Package in TY 2007) and increased slightly in TY 2009.

# Tax Return Complexity of Traditional Free File Users

**Table 6: Percentage of TFF Users by Tax Return Complexity and Tax Year**

Tax Return Complexity*	TY 2006	TY 2007	TY 2008	TY 2009
Simple	60.0%	60.8%	53.1%	49.7%
Intermediate	27.1%	26.0%	30.0%	30.3%
Complex	12.9%	13.2%	16.9%	20.0%
<b>Total</b>	<b>100.0%</b> <b>(3,854,549)</b>	<b>100.0%</b> <b>(4,768,474)</b>	<b>100.0%</b> <b>(3,009,614)</b>	<b>100.0%</b> <b>(2,932,766)</b>

Source: ETA IMF Marketing Database

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

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

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

- The percentage of TFF Users with simple tax returns decreased from TY 2006 to TY 2009 while the percentage of those with complex tax returns increased.

## TY 2009 Traditional Free File Users' Prior Year Filing Behavior

**Table 7: TY 2009 TFF Users' Different Filing Methods by Tax Year**

Filing Methods*	TY 2006	TY 2007	TY 2008
Free File (not FFFF & SFF)	634,104 (21.6%)	910,300 (31.0%)	1,019,602 (34.8%)
Online (not Free File, FFFF, & SFF)	386,474 (13.2%)	454,458 (15.5%)	691,202 (23.6%)
Free File Fillable Form (FFFF)	0 (0.0%)	0 (0.0%)	31,624 (1.08%)
Spanish Free File (SFF)	0 (0.0%)	0 (0.0%)	183 (0.01%)
ELF	493,672 (16.8%)	476,032 (16.2%)	377,169 (12.9%)
Paper (not V-Coded)	389,811 (13.3%)	344,006 (11.7%)	252,070 (8.6%)
V-Coded	247,522 (8.4%)	217,577 (7.4%)	169,044 (5.8%)
Not Filed in Respective TY	781,183 (26.6%)	530,393 (18.1%)	391,872 (13.4%)
<b>Total</b> (Total volume of Free Filers in TY 2009)	<b>2,932,766</b> <b>(100.0%)</b>	<b>2,932,766</b> <b>(100.0%)</b>	<b>2,932,766</b> <b>(100.0%)</b>

- Excluding taxpayers who did not file in TY 2006, TY 2009 TFF Users are comprised mostly of former Free Filers.
- Free Filers' (not FFFF or SFF) share of TY 2009 TFF Users increased at least 13 percentage points from TY 2006 to TY 2008.
- True paper filers' share of TY 2009 TFF Users decreased the most from TY 2006 to TY 2008 (4.7 percentage points).

# Business Question 2:

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**What are the demographic characteristics of the TY 2009 Free File Fillable Form Users?**

**What was their filing behavior in TY 2007 and TY 2008?**

**What are their demographics in TY 2007 and TY 2008?**

# Top Value Ranges within Demographic Category for TY 2009 Free File Fillable Form Users

**Table 8: Top Value Ranges of TY 2009 Free File Fillable Form Users**

Top Value Range	Volume
Age - Under 25	24.6%
AGI - \$0 to \$17,000	31.8%
Zero Dependents	74.0%
Simple Return Type	47.7%
Filing Status - Single	60.3%
Refund Return	90.1%
No EITC Claimed	89.5%
No Education Tax Credit Claimed	93.0%
No Form 2441 Present	96.5%
Direct Debit	56.4%
Direct Deposit Accepted	83.1%

- Table 8 presents the top value ranges within each demographic category analyzed – i.e., Value ranges with the highest percentage of Free File Fillable Form Users for TY 2009.
- Demographic categories were examined independently. The table does not imply the same Free File Fillable Form Users fall under all top ranges.

Source: ETA IMF Marketing Database

# Adjusted Gross Income and Age of TY 2009 Free File Fillable Form Users

**Table 9: Adjusted Gross Income of TY 2009 Free File Fillable Form Users**

Adjusted Gross Income (AGI)	Volume	Percentage
Negative AGI	1,174	0.4%
\$0 to \$17,000	93,998	31.8%
\$17,001 to \$25,000	29,739	10.1%
\$25,001 to \$35,000	30,831	10.4%
\$35,001 to \$50,000	38,250	13.0%
\$50,001 to \$75,000	49,906	16.9%
\$75,001 to \$100,000	27,870	9.4%
\$100,001 or More	23,505	8.0%
<b>Total</b>	<b>295,273</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

**Table 10: Age of TY 2009 Free File Fillable Form Users**

Age	Volume	Percentage
Under 25	72,685	24.6%
25-34	71,715	24.3%
35-44	49,866	16.9%
45-54	51,869	17.6%
55-64	35,686	12.1%
65 and Over	13,452	4.6%
<b>Total</b>	<b>295,273</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database



# Tax Return Complexity and Tax Liability of TY 2009 Free File Fillable Form Users

**Table 11: Tax Return Complexity of TY 2009 Free File Fillable Form Users**

Return Complexity*	Volume	Percentage
Simple	140,688	47.7%
Intermediate	92,640	31.4%
Complex	61,945	21.0%
<b>Total</b>	<b>295,273</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

\* For the definition of tax return complexity refer to the foot note of Table 6.

**Table 12: Tax Liability of TY 2009 Free File Fillable Form Users**

Tax Liability	Volume	Percentage
Refund	266,048	90.1%
Balance Due	22,870	7.8%
Even	6,355	2.2%
<b>Total</b>	<b>295,273</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

# TY 2009 Free File Fillable Form (FFFF) Users' Prior Year Filing Behavior

**Table 13: TY 2009 FFFF Users' Different Filing Methods by Tax Year**

Filing Methods*	TY 2007	TY 2008
Free File (not FFFF & SFF)	21,841 (7.4%)	12,874 (4.4%)
Online (not Free File, FFFF, & SFF)	31,123 (10.5%)	37,251 (12.6%)
Free File Fillable Form	0 (0.0%)	73,762 (25.0%)
Spanish Free File (SFF)	0 (0.0%)	2 (0.0%)
ELF	44,146 (15.0%)	33,134 (11.2%)
Paper (not V-Coded)	127,960 (43.3%)	91,884 (31.1%)
V-Coded	31,605 (10.7%)	25,009 (8.5%)
Not Filed in Respective TY	38,598 (13.1%)	21,357 (7.2%)
<b>Total</b> (Total volume of FFFF in TY 2009)	<b>295,273</b> <b>(100.0%)</b>	<b>295,273</b> <b>(100.0%)</b>

- Approximately 33% of TY 2009 FFFF Users e-filed in TY 2007; it increased significantly (20 percentage points) in TY 2008 after FFFF program implemented in the same TY.
- Over half of TY 2009 FFFF Users filed true paper or V-Code in TY 2007; very few FFFF users previously used Free File.
- 25% of TY 2009 FFFF Users filed FFFF in TY 2008.

# Tax Return Complexity of TY 2009 Free File Fillable Form Users in TY 2007 & TY 2008

Table 14: Tax Return Complexity of TY 2009 Free File Fillable Form Users in TY 2007 & TY 2008

Return Complexity*	TY 2007	TY 2008
Simple	115,586 (45.0%)	128,959 (47.1%)
Intermediate	84,218 (32.8%)	89,091 (32.5%)
Complex	56,871 (22.2%)	55,866 (20.4%)
<b>Total</b>	<b>256,675**</b> <b>(100.0%)</b>	<b>273,916**</b> <b>(100.0%)</b>

Source: ETA IMF Marketing Database

\* For the definition of tax return complexity refer to the foot note of Table 6.

\*\* Total volume in the respective tax year is less than the total volume of TY 2009 FFFF users (295,273) as some of these taxpayers did not file in the respective tax year.

- The trend of simple tax return filing by TY 2009 FFFF Users in TY 2007 and TY 2008 is slightly upward; also this slight upward trend continued in TY 2009 as shown by Table 12.

# Tax Liability for TY 2009 Free File Fillable Form Users in TY 2007 & TY 2008

**Table 15: Tax Liability of TY 2009 Free File Fillable Form Users in TY 2007 & TY 2008**

Tax Liability	TY 2007	TY 2008
Refund	214,106 (83.4%)	242,018 (88.4%)
Balance Due	37,671 (14.7%)	27,499 (10.0%)
Even	4,898 (1.9%)	4,399 (1.6%)
<b>Total</b>	<b>256,675*</b> <b>(100.0%)</b>	<b>273,916*</b> <b>(100.0%)</b>

Source: ETA IMF Marketing Database

\* Total volume in the respective tax year is less than the total volume of TY 2009 FFFF users (295,273) as some of these taxpayers did not file in the respective tax year.

- The refund volume of TY 2009 FFFF Users increased by 5 percentage points from TY 2007 to TY 2008, while the balance due volume decreased by the same percentage point in the same tax period. The same trends for refund and balance due volumes continued slightly in TY 2009 as shown by Table 12 (1.75 and 2.29 percentage points respectively).

# Business Question 3:

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**What are the demographic characteristics of the TY 2009 Spanish Free File (SFF) users?**

**What was their filing behavior in TY 2007 and TY 2008?**

# Top Value Ranges within Demographic Category of TY 2009 Spanish Free File Users

**Table 16: Top Value Ranges of TY 2009 Spanish Free File Users**

Top Value Range	Volume
Age – 25 to 34	32.8%
AGI - \$0 to \$17,000	53.8%
Zero Dependents	44.9%
Simple Return Type	59.5%
Filing Status - Single	41.2%
Refund Return	93.6%
No EITC Claimed	66.6%
No Education Tax Credit Claimed	97.9%
No Form 2441 Present	97.2%
No Direct Debit	55.8%
Direct Deposit Accepted	73.6%

•Table 16 presents the top value ranges within each demographic category analyzed – i.e., value ranges with the highest percentage of Spanish Free File Users for TY 2009. These top ranges are the same as TY 2008, except for Direct Debit category. ('Yes Direct Debit' was the top choice in the category for TY 2008.)

• Demographic categories were examined independently. The table does not imply the same Spanish Free File Users fall under all of the range values.

Source: ETA IMF Marketing Database

# Adjusted Gross Income and Age of Spanish Free File Users

**Table 17: Adjusted Gross Income of TY 2009 Spanish Free File Users**

Adjusted Gross Income (AGI)	Volume	Percentage
Negative AGI	3	0.3%
\$0 to \$17,000	611	53.8%
\$17,001 to \$25,000	248	21.9%
\$25,001 to \$35,000	176	15.5%
\$35,001 to \$50,000	82	7.2%
\$50,001 to \$75,000	15	1.3%
\$75,001 to \$100,000	0	0.0%
\$100,001 or More	0	0.0%
<b>Total</b>	<b>1,135</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

**Table 18: Age of TY 2009 Spanish Free File Users**

Age	Volume	Percentage
Under 25	183	16.1%
25-34	372	32.8%
35-44	315	27.8%
45-54	166	14.6%
55-64	74	6.5%
65 and Over	25	2.2%
<b>Total</b>	<b>1,135</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

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

**Table 19: Tax Return Complexity of TY 2009 Spanish Free File Users**

Return Complexity*	Volume	Percentage
Simple	675	59.5%
Intermediate	278	24.5%
Complex	182	16.0%
<b>Total</b>	<b>1,135</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

\* See the footnote of table 6 for Return Complexity category definitions.

**Table 20: Balance Due/Refund of TY 2009 Spanish Free File Users**

Balance Due or Refund	Volume	Percentage
Refund	1,062	93.6%
Balance Due	43	3.8%
Even	30	2.6%
<b>Total</b>	<b>1,135</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

- 73.6 percent of Spanish Free File Users who had refunds received their refunds through direct deposit.



# States with Largest Volume of Spanish Free File Users

Table 21: Top 6 States for TY 2009 Spanish Free File Users

State	Volume	Percentage
Florida	272	24.0%
California	183	16.1%
Texas	146	12.9%
New York	66	5.8%
North Carolina	62	5.5%
Illinois	47	4.1%
Other	359	31.6%
<b>Total</b>	<b>1,135</b>	<b>100.0%</b>

Source: ETA IMF Marketing Database

## TY 2009 Spanish Free File (SFF) Users' Prior Year Filing Behavior

**Table 22: TY 2009 SFF Users' Different Filing Methods by Tax Year**

Filing Methods*	TY 2007	TY 2008
Free File (not FFFF & SFF)	89 (7.8%)	132 (11.6%)
Online (not Free File, FFFF, & SFF)	99 (8.7%)	113 (10.0%)
Free File Fillable Form	0 (0.0%)	2 (0.2%)
Spanish Free File (SFF)	0 (0.0%)	122 (10.8%)
ELF	303 (26.7%)	245 (21.6%)
Paper (not V-Coded)	50 (4.4%)	90 (7.9%)
V-Coded	208 (18.3%)	189 (16.7%)
Not Filed in Respective TY	386 (34.0%)	242 (21.3%)
<b>Total</b> (Total volume of FFFF in TY 2009)	<b>1,135</b> (100.0%)	<b>1,135</b> (100.0%)

- 11% of TY 2009 SFF Users also used SFF in the previous year.
- Excluding taxpayers who did not file in TY 2007 and TY 2008, the majority of TY 2009 SFF Users used paid-preparer service for e-filing in both tax years.

# Business Question 4:

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**How do the demographic characteristics of Free File, Free File Fillable Form, Spanish Free File, Paper (self-prepared only), and V-Code (self-prepared only) taxpayers in TY 2009, compare with or differ from each other?**

# Demographic Comparison of Free File (FF), Free File Fillable Form (FFFF), Spanish Free File (SFF), Paper\*, and V-Code\* Users TY 2009

**Table 23: Top Value Ranges of TY 2009 FF, FFFF, SFF, Paper, and V-code Users**

Top Value Range	FF**	FFFF	SFF	Paper	V-Code
AGI - \$0 to \$17,000	47.7%	31.8%	53.8%	38.3%	31.4%
0 Dependents	70.4%	74.0%	44.9%	83.9%	69.7%
Simple Return Type	49.7%	47.7%	59.5%	57.1%	35.8%
Filing Status - Single	65.7%	60.3%	41.2%	60.8%	49.0%
Refund	92.4%	90.1%	93.6%	73.3%	67.9%
No EITC	67.9%	89.5%	66.6%	92.8%	87.9%
No Education Tax Credit Claimed	92.8%	93.0%	97.9%	97.5%	92.9%
No Form 2441 Present	96.7%	96.5%	97.2%	98.8%	95.9%
<b>Total Volume</b>	<b>2,931,631</b>	<b>295,273</b>	<b>1,135</b>	<b>10,617,915</b>	<b>9,287,615</b>

- Table 23 presents the top value ranges within each demographic category analyzed – i.e., value ranges with the highest percentage of FF, FFFF, SFF, Paper, and V-Code in TY 2009.
- Demographic categories were examined independently. The table does not imply the same FF, FFFF, SFF, paper, or V-Code filers fall under all top ranges.
- Over 90% of FF, FFFF and SFF users received a refund, while only around 70% of Paper and V-Code filers received a refund.

Source: ETA IMF Marketing Database

\* Self-Prepared only

\*\* The percent of FF does not include SFF.



## Filing Behavior of TY 2009 of Free File (FF), Free File Fillable Form (FFFF), Spanish Free File (SFF), Paper\*, and V-Code\* Users in TY 2008

Table 24: Filing Methods of TY 2009 FF, FFFF, SFF, Paper, and V-Code in TY 2008

Filing Methods**	FF***	FFFF	SFF	Paper	V-Code
Free File (not FFFF & SFF)	34.8%	4.4%	11.6%	0.7%	1.0%
Online (not Free File, FFFF, & SFF)	23.6%	12.6%	10.0%	2.8%	15.7%
Free File Fillable Form (FFFF)	1.1%	25.0%	0.2%	0.3%	0.2%
Spanish Free File (SFF)	0.0%	0.0%	10.8%	0.0%	0.0%
ELF	12.9%	11.2%	21.6%	4.5%	7.1%
Paper (not V-Coded)	8.6%	31.1%	7.9%	77.3%	5.9%
V-Coded	5.8%	8.5%	16.7%	4.4%	57.4%
Not Filed in Respective TY	13.4%	7.2%	21.3%	10.2%	12.7%
<b>Total</b> (Total volume of Free Filers in TY 2009)	100.0%	100.0%	100.0%	100.0%	100.0%

- TY 2009 Free Filers are composed mainly of former Free Filers.
- A quarter of TY 2009 FFFF Users filed by the same method in 2008, with 31.1% filing true paper the previous year.
- Approximately 21.6% of TY 2009 SFF Users used Paid-Preparer E-file (ELF) in TY 2008, while 21.3% were non-filers in TY 2008.
- TY 2009 True Paper and V-Code filers are comprised mostly of former True Paper and V-Code filers, respectively.

Source: ETA IMF Marketing Database

\* Self-Prepared only

\*\* Volume is based on primary SSNs only.

\*\*\* The percent of FF does not include SFF.

## 1<sup>st</sup> Time Tax Filing of TY 2009 Free File (FF), Free File Fillable Form (FFFF), Spanish Free File (SFF), Paper\*, and V-Code\* Users

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**Table 25: TY 2009 1<sup>st</sup> Time Filing Percentage of FF, FFFF, SFF, Paper, and V-Code**

1 <sup>st</sup> Time Filer Indicator**	FF***	FFFF	SFF	Paper	V-Code
1 <sup>st</sup> Time Filer	5.0%	2.5%	11.0%	3.7%	3.9%
Not 1 <sup>st</sup> Time Filer	95.0%	97.5%	89.0%	96.3%	96.1%
<b>Total</b>	100.0%	100.0%	100.0%	100.0%	100.0%

Source: ETA IMF Marketing Database

\* Self-Prepared only

\*\* Volume is based on primary SSNs only.

\*\*\* The percent of FF does not include SFF.

- Table 25 shows that SFF Users have by far the largest percentage of 1<sup>st</sup> time tax return filers.

# Business Question 5:

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**What can ETA learn from Free File migration behavior?**

**Broken down by Free File method, how do eligibility, previous filing behavior, and changes in tax situations affect the behavior of those who are First Time Free Filers in TY2009 and those who left Free File in TY 2007, TY 2008, and TY 2009?**

# TY 2009 First Time Traditional Free File\* (TFF) Users

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## Definition

- Taxpayers who used Free File or Spanish Free File in TY 2009 and did not use Free File in TY 2006, TY 2007, and TY 2008 and also did not use Spanish Free File or Free File Fillable Form in TY 2008 (but still filed a return each year).
- There were 975,844 First Time TFF Users.

## Secondary Questions

- Were First Time TFF Users eligible to Free File based on AGI prior to TY 2009?
- What was the filing behavior of First Time TFF Users prior to TY 2009?
- How did First Time TFF Users' tax situation change or remain the same over the four years?

\* TY 2009 First time Traditional Free File Users included TY 2009 First time Spanish Free File Users as the analysis of TY 2009 First Time Spanish Free File Users alone may not give meaningful insights because of it's small volume. Individual taxpayers were analyzed, instead of tax returns. Since taxpayer could have filed as primary in one year and secondary in another, the review by taxpayer allows for a more complete analysis.



# Eligibility for Free Filing

**Table 26: Average AGI and Eligibility of TY 2009 First Time TFF Users by Tax Year**

Tax Year	Average AGI	% Eligible
TY 2006	\$26,404	89.2%
TY 2007	\$27,820	89.9%
TY 2008	\$27,618	92.5%
TY 2009	\$24,017	100.0%

Source: ETA IMF Marketing Database

- Most TY 2009 First Time TFF Users were eligible for Free File in prior years.
- 84.5% (824,821) of First Time TFF Users were eligible to Free File based on AGI for all three years prior to TY 2009.

# Preparer Type of TY 2009 First Time TFF Users

**Table 27: Preparer Type of TY 2009 First Time TFF Users by Tax Year**

Preparer Type	TY 2006	TY 2007	TY 2008	TY 2009
Self or VITA	56.2%	57.6%	63.6%	100.0%
Paid	43.8%	42.4%	36.4%	0.0%
Total	100.0% (975,844)	100.0% (975,844)	100.0% (975,844)	100.0% (975,844)

Source: ETA IMF Marketing Database

- Majority of TY 2009 First Time TFF Users self-prepared their returns each year.
- 72.1% (703,895) of First Time TFF Users used the same preparer type for all three years prior to TY 2009.

# Previous Filing Behavior of TY 2009 First Time TFF Users

**Table 28: Filing Method of TY 2009 First Time TFF Users by Tax Year**

Filing Method	TY 2006	TY 2007	TY 2008	TY 2009
ELF	36.6%	36.6%	32.4%	0.0%
Online (Not FF, FFFF, and SFF)	22.4%	26.1%	36.2%	0.0%
True Paper	24.1%	22.5%	19.8%	0.0%
V-Coded Paper	17.0%	14.7%	11.7%	0.0%
TFF	0.0%	0.0%	0.0%	100.0%
Total	100.0% (975,844)	100.0% (975,844)	100.0% (975,844)	100.0% (975,844)

Source: ETA IMF Marketing Database

- The majority of TY 2009 First Time TFF Users were already filing electronically in prior years.
- The trend over the years for these First Time TFF Users show a shift towards Online filing.
- 54.8% (534,521) of First Time TFF Users used the same filing method for all three years prior to TY 2009.

# Filing Status of TY 2009 First Time TFF Users

**Table 29: Filing Status of TY 2009 First Time TFF Users by Tax Year**

Filing Status	TY 2006	TY 2007	TY 2008	TY 2009
Single	50.5%	49.7%	49.7%	50.0%
Married Filing Joint	30.9%	31.2%	30.9%	29.5%
Married Filing Separate	1.6%	1.7%	1.9%	2.2%
Head of Household	16.9%	17.3%	17.5%	18.3%
Widow(er) with Children	0.0%	0.0%	0.1%	0.1%
Married Filing Separate and Spouse not Required to File	0.0%	0.0%	0.0%	0.0%
Total	100.0% (975,844)	100.0% (975,844)	100.0% (975,844)	100.0% (975,844)

Source: ETA IMF Marketing Database

- 76.0% (741,205) of TY 2009 First Time TFF Users used the same filing status all four years.

# TY 2009 First Time TFF Users - Tax Return Complexity and Dependents

**Table 30: Tax Return Complexity of TY 2009 First Time TFF Users by Tax Year**

Return Complexity*	TY 2006	TY 2007	TY 2008	TY 2009
Simple	46.7%	44.8%	44.7%	41.0%
Intermediate	32.9%	33.2%	33.2%	34.7%
Complex	20.5%	21.9%	22.1%	24.3%
<b>Total</b>	<b>100.0%</b> <b>(975,844)</b>	<b>100.0%</b> <b>(975,844)</b>	<b>100.0%</b> <b>(975,844)</b>	<b>100.0%</b> <b>(975,844)</b>

Source: ETA IMF Marketing Database

\* See slide 11 for Return Complexity category definitions.

- Although Free File is generally associated with simple returns, First Time TFF Users had a lower proportion of simple returns in the year they switched to Free File.

**Table 31: Dependents of TY 2009 First Time TFF Users by Tax Year**

Dependents	TY 2006	TY 2007	TY 2008	TY 2009
% with No Dependents	62.7%	62.2%	62.0%	62.4%
% with 1 or 2 Dependents	30.9%	31.4%	31.5%	30.9%

Source: ETA IMF Marketing Database

# TY 2009 First Time Free File Fillable Form\* (FFFF) Users

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## Definition

- Taxpayers who used FFFF in TY 2009 and did not use Free File in TY 2006, TY 2007, and TY 2008 and also did not use SFF or FFFF in TY 2008 (but still filed a return each year).
- There were 203,508 First Time FFFF Users.

## Secondary Questions

- What was the filing behavior of First Time FFFF Users prior to TY 2009?
- How did First Time FFFF Users' tax situation change or remain the same over the four years?

# Average AGI and Preparer Type of TY 2009 First Time FFFF Users

**Table 32: Average AGI of TY 2009 First Time FFFF Users by Tax Year**

Tax Year	TY 2006	TY 2007	TY 2008	TY 2009
<b>Average AGI</b>	\$53,926	\$57,793	\$59,908	\$57,955

Source: ETA IMF Marketing Database

**Table 33: Preparer Type of TY 2009 First Time FFFF Users by Tax Year**

Preparer Type	TY 2006	TY 2007	TY 2008	TY 2009
Self or VITA	72.3%	73.3%	76.4%	100.0%
Paid	27.7%	26.7%	23.6%	0.0%
<b>Total</b>	100.0% (203,508)	100.0% (203,508)	100.0% (203,508)	100.0% (203,508)

Source: ETA IMF Marketing Database

- 81.6% (166,096) of First Time FFFF Users used the same preparer type for all three years prior to TY 2009.

# Filing Method of TY 2009 First Time FFFF Users

**Table 34: Filing Method of TY 2009 First Time FFFF Users by Tax Year**

Filing Method	TY 2006	TY 2007	TY 2008	TY 2009
ELF	19.8%	20.0%	18.2%	0.0%
Online (Not FF, FFFF, and SFF)	11.7%	12.8%	17.7%	0.0%
True Paper	52.6%	53.1%	50.5%	0.0%
V-Coded Paper	16.0%	14.0%	13.6%	0.0%
FFFF	0.0%	0.0%	0.0%	100.0%
Total	100.0% (203,508)	100.0% (203,508)	100.0% (203,508)	100.0% (203,508)

Source: ETA IMF Marketing Database

- 63.1% (128,422) of First Time FFFF Users used the same filing method for all three years prior to TY 2009.



# Filing Status of TY 2009 First Time FFFF Users

**Table 35: Filing Status of TY 2009 First Time FFFF Users by Tax Year**

Filing Status	TY 2006	TY 2007	TY 2008	TY 2009
Single	39.2%	38.2%	37.5%	37.1%
Married Filing Joint	53.3%	54.4%	55.2%	55.7%
Married Filing Separate	1.4%	1.3%	1.2%	1.1%
Head of Household	6.0%	6.0%	6.0%	6.1%
Widow(er) with Children	0.0%	0.0%	0.0%	0.0%
Married Filing Separate and Spouse not Required to File	0.0%	0.0%	0.0%	0.0%
Total	100.0% (203,508)	100.0% (203,508)	100.0% (203,508)	100.0% (203,508)

Source: ETA IMF Marketing Database

- 86.4% (175,888) of TY 2009 First Time FFFF Users used the same filing status all four years.

# TY 2009 First Time FFFF Users - Tax Return Complexity and Dependents

**Table 36: Tax Return Complexity of TY 2009 First Time FFFF Users by Tax Year**

Return Complexity*	TY 2006	TY 2007	TY 2008	TY 2009
Simple	35.2%	34.4%	35.0%	33.8%
Intermediate	38.3%	37.4%	38.0%	38.8%
Complex	26.5%	28.2%	27.0%	27.4%
<b>Total</b>	<b>100.0%</b> <b>(203,508)</b>	<b>100.0%</b> <b>(203,508)</b>	<b>100.0%</b> <b>(203,508)</b>	<b>100.0%</b> <b>(203,508)</b>

Source: ETA IMF Marketing Database

\* See slide 11 for Return Complexity category definitions.

**Table 37: Dependents of TY 2009 First Time FFFF Users by Tax Year**

Dependents	TY 2006	TY 2007	TY 2008	TY 2009
% with No Dependents	61.6%	61.4%	61.3%	61.3%
% with 1 or 2 Dependents	30.4%	30.6%	30.7%	30.7%

Source: ETA IMF Marketing Database

# TY 2006 Drop-Out Traditional Free File (TFF)\* Users

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## Definition

- Taxpayers who used Free File in TY 2006 and did not use Free File in TY 2007, TY 2008, and TY 2009 and also did not use SFF or FFFF in TY 2008 and TY 2009 (but still filed a return each year).
- There were 1,742,791 Drop-Out TFF Users.

## Secondary Questions

- Were Drop-Out TFF Users eligible to Free File based on AGI after TY 2006?
- What was the filing behavior of Drop-Out TFF Users after TY 2006?
- How did Drop-Out TFF Users' tax situation change over the four years?

\* Individual taxpayers were analyzed, instead of tax returns. Since a taxpayer could have filed as primary in one year and secondary in another, review by taxpayer allows for a more complete analysis.

# Eligibility for Free Filing

**Table 38: Average AGI and Eligibility of TY 2006 Drop-Out TFF Users by Tax Year**

Tax Year	Average AGI	% Eligible
TY 2006	\$21,593	100.0%
TY 2007	\$28,977	89.3%
TY 2008	\$33,882	84.8%
TY 2009	\$35,891	82.8%

Source: ETA IMF Marketing Database

- 77.8% (1,355,529) of Drop-Out TFF Users were eligible to Free File based on AGI for all three years after TY 2006.

# Preparer Type of TY 2006 Drop-Out TFF Users

**Table 39: Preparer Type of TY 2006 Drop-Out TFF Users by Tax Year**

Preparer Type	TY 2006	TY 2007	TY 2008	TY 2009
Self or VITA	100.0%	77.5%	74.4%	72.2%
Paid	0.0%	22.6%	25.7%	27.8%
Total	100.0% (1,742,791)	100.0% (1,742,791)	100.0% (1,742,791)	100.0% (1,742,791)

Source: ETA IMF Marketing Database

- 75.8% (1,320,749) of Drop-Out TFF Users used the same preparer type for all three years after TY 2006.

# Filing Method of TY 2006 Drop-Out TFF Users

**Table 40: Filing Method of TY 2006 Drop-Out TFF Users by Tax Year**

Filing Method	TY 2006	TY 2007	TY 2008	TY 2009
ELF	0.0%	20.0%	23.1%	24.5%
Online (Not FF, FFFF, and SFF)	0.0%	63.9%	63.7%	62.1%
True Paper	0.0%	6.5%	5.4%	4.5%
V-Coded Paper	0.0%	9.6%	7.8%	9.0%
TFF	100.0%	0.0%	0.0%	0.0%
Total	100.0% (1,742,791)	100.0% (1,742,791)	100.0% (1,742,791)	100.0% (1,742,791)

Source: ETA IMF Marketing Database

- 61.3% (1,067,575) of Drop-Out TFF Users used the same filing method for all three years after TY 2006.

# Filing Status of TY 2006 Drop-Out TFF Users

Table 41: Filing Status of TY 2006 Drop-Out TFF Users by Tax Year

Filing Status	TY 2006	TY 2007	TY 2008	TY 2009
Single	65.5%	58.5%	54.0%	50.5%
Married Filing Joint	20.2%	27.0%	31.3%	34.6%
Married Filing Separate	1.7%	1.6%	1.6%	1.6%
Head of Household	12.6%	12.9%	13.1%	13.3%
Widow(er) with Children	0.0%	0.0%	0.0%	0.0%
Married Filing Separate and Spouse not Required to File	0.0%	0.0%	0.0%	0.0%
Total	100.0% (1,742,791)	100.0% (1,742,791)	100.0% (1,742,791)	100.0% (1,742,791)

Source: ETA IMF Marketing Database

- 71.3% (1,241,957) of TY 2006 Drop-Out TFF Users used the same filing status all four years.

# TY 2006 Drop-Out TFF Users - Tax Return Complexity and Dependents

**Table 42: Tax Return Complexity of TY 2006 Drop-Out TFF Users by Tax Year**

Return Complexity*	TY 2006	TY 2007	TY 2008	TY 2009
Simple	57.2%	49.0%	44.4%	38.6%
Intermediate	27.8%	31.3%	33.2%	35.0%
Complex	15.0%	19.7%	22.3%	26.4%
<b>Total</b>	<b>100.0%</b> (1,742,791)	<b>100.0%</b> (1,742,791)	<b>100.0%</b> (1,742,791)	<b>100.0%</b> (1,742,791)

Source: ETA IMF Marketing Database

\* See slide 11 for Return Complexity category definitions.

- The percentage filing simple returns decreased significantly.

**Table 43: Dependents of TY 2006 Drop-Out TFF Users by Tax Year**

Dependents	TY 2006	TY 2007	TY 2008	TY 2009
% with No Dependents	73.9%	70.8%	68.1%	65.5%
% with 1 or 2 Dependents	22.3%	24.8%	27.0%	28.8%

Source: ETA IMF Marketing Database



# Some Demographic Trends of the Three Groups across the Four Years

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- **Return Complexity:**

The increased complexity of tax situation of TY 2006 Drop-Out TFF Users over the four years may be one factor that caused these taxpayers not to use the Free File program in TY 2007, TY 2008, and TY 2009.

- **Filing Status:**

- For 'Single' filing status, the percentage of TY 2009 First Time TFF Users remained fairly flat over the four years, while the percentage of TY 2009 First Time FFFF Users decreased slightly. For the same filing status category, the percentage of TY 2006 Drop-Out TFF Users decreased significantly.
- For 'Married Filing Joint' filing status, the percentage of TY 2009 First Time TFF Users remained flat over the four years. For the same filing status category, percentage increases for TY 2009 First Time FFFF Users and TY 2006 Drop-Out TFF Users were slight and significant over the same period, respectively.

- **Dependents:**

- The percentage of TY 2009 First Time TFF Users and FFFF Users with zero, one, or two dependents remained flat over the four years.
- The percentage of TY 2006 Drop-Out TFF Users with zero dependents decreased moderately over the same period, while the percentage of the same group with one or two dependents increased moderately.

# Summary of Findings for Business Question #s 1 - 4

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- **Filing Behavior of Free File (FF), Free File Fillable Form (FFFF), and Spanish Free File (SFF) Users**

- The majority of TY 2009 FF Users also used Free File in TY 2007 and TY 2008.
- The majority of TY 2009 FFFF Users filed true paper in TY 2007 and TY 2008; 25% of TY 2009 FFFF Users were repeaters from TY 2008.
- The majority of TY 2009 SFF Users used paid-preparer services for electronic filing in TY 2007 and TY 2008, excluding those taxpayers who did not file in those tax years.

- **Demographic characteristics of FF, FFFF, and SFF Users for TY 2009**

- Most FF, FFFF, and SFF Users were in the lowest AGI category, \$0-\$17,000. SFF Users had the highest percentage in this AGI category, followed by FF and then FFFF.
- The majority of FF and FFFF Users were under age 25, while the majority of SFF were in the 25 to 34 age group.
- A majority of FF, FFFF, and SFF Users filed as 'Single.' FF had the highest percentage filing as 'Single,' followed by FFFF and then SFF.
- Over 90% of FF, FFFF, and SFF Users filed with refunds and over 80% of FF and FFFF accepted direct deposit, while only 73% of SFF accepted direct deposit.

# Summary of Findings for Business Question # 5

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- **TY 2009 First Time TFF, TY 2009 First Time FFFF, and TY 2006 Drop-Out TFF**
  - Over 84% of TY 2009 First Time TFF were eligible for Free File in prior years and over 78% of TY 2006 Drop-Out TFF were eligible for Free File in years after.
  - A majority of TY 2009 First Time TFF and TY 2006 Drop-Out TFF filed electronically in prior years and years after, respectively; the percentages of electronic filing over the period increased moderately.
  - A majority of TY 2009 First Time TFF, TY 2009 First Time FFFF, and TY 2006 Drop-Out TFF self-prepared their returns each year.
  - A majority of TY 2009 First Time TFF and TY 2006 Drop-Out TFF filed as 'Single' each year, while a majority of TY 2009 First Time FFFF filed as 'Married Filing Joint'.
  - A majority of the three groups filed returns with no dependents each year.
  - A majority of TY 2009 First Time TFF and TY 2009 Drop-Out TFF filed 'Simple' returns each year, while a majority of TY 2009 First Time FFFF filed 'Intermediate' returns each year.

# Approval Statement

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**This report has been approved by the Director,  
Wage & Investment Research and Analysis.**