

# Understanding the International Taxpayer Market

---

Awareness, Use, Preferences, and Filing Behaviors

# WIRA's Portfolio of International Taxpayer Research

---

*To develop an accurate baseline of international taxpayer service needs, preferences, and behaviors.*

- Demographic and Tax Filing Profiles of International Taxpayers (TY 2006, TY 2008, and TY 2009)
- Focus Groups with Tax Practitioners Who Service International Taxpayers
- Interviews with Tax Attachés Working with Taxpayers Overseas
- Interviews with U.S. based Multinational Companies Employing U.S. Citizens Working Abroad
- 2009 Survey of International Taxpayers and 2011 Survey of Individuals Living Abroad



# International Taxpayer Market

---

- The U.S. State Department estimates that 5.08 million Americans are living overseas (excluding military).
- WIRA analyzed filing data to profile taxpayers living outside of the United States and identify potential compliance issues attendant with international taxpayer returns.
- Filing data has revealed a 6.4 percent increase in the number of international returns filed from TY 2006 to TY 2009.
- International returns were categorized as:
  - Puerto Rican Returns
  - International Returns excluding Puerto Rico
  - Non-Resident Alien Returns



# Profile of International Taxpayers

---

- Nearly 42 percent of all international filers are between the ages of 25 and 44. Eleven percent of international filers are of retirement age (i.e., age 65 or older), representing a relatively small segment of the population.
  - This has potential relevance regarding the preference, willingness, and ability to use electronic channels to prepare and/or file federal/state income tax returns.
- Over 82 percent of total international taxpayers reported an adjusted gross income (AGI) of \$50,000 or less as reported on Form 1040.
- Approximately 58 percent of international taxpayers who reported wages on Form 2555 reported wages in excess of \$50,000.

# Taxpayer Age by International Return Type

- As revealed below, retirees are not a large segment of international filers. Although the interviews with tax attachés working with taxpayers overseas revealed a heightened awareness of retirees, this may be a result of the prevalence of senior's service needs rather than a reflection of their proportion of the population.

	<b>Puerto Rican Returns</b>	<b>International Returns (excl. Puerto Rico)</b>	<b>Non-Resident Alien Returns</b>	<b>Total International Returns*</b>
Under 25	3%	10%	19%	12%
25 to 44	52%	44%	33%	42%
45 to 64	34%	33%	27%	31%
65 and Over	8%	10%	15%	11%
Not Reported	2%	3%	6%	4%
<b>Total</b>	<b>303,614</b>	<b>731,198</b>	<b>548,382</b>	<b>1,583,194</b>

*Disclaimer:* Total percentages may not equal 100 percent due to rounding.

\* Total International Returns includes Puerto Rican Returns, International Returns (excluding Puerto Rico), and Non-Resident Alien Returns.

# Balance Due/Refund by International Return Type and All Returns

- Nearly 60 percent of total international tax returns resulted in a tax refund compared to 81 percent of all returns.
- Approximately 24 percent of total international taxpayers filed even balance returns compared to only four percent of all tax returns. This difference in the percentage of even returns indicates that the income reported by international taxpayers is not high enough to generate a tax liability.

	Puerto Rican Returns	International Returns (excl. Puerto Rico)	Non-Resident Alien Returns	Total International Returns*	All Returns
Refund	60%	59%	58%	59%	81%
Balance Due	34%	17%	8%	17%	15%
Even Return	6%	18%	34%	24%	4%
<b>Total</b>	298,972	710,806	518,460	1,528,238	136,579,042

*Disclaimer:* Total percentages may not equal 100 percent due to rounding.

*Notes:* 54,956 cases were excluded from the analysis due to missing data.

\* Total International Returns includes Puerto Rican Returns, International Returns (excluding Puerto Rico), and Non-Resident Alien Returns.

# Filing Method by International Return Type and All Returns

- International taxpayers were less likely to file their tax return electronically. Approximately 72 percent of all tax returns were filed electronically compared to only 27 percent of total international returns.
- Contributing to the low electronic filing rate of international taxpayers is the inability of non-resident alien returns to be filed electronically.

	Puerto Rican Returns	International Returns (excl. Puerto Rico)	Non-Resident Alien Returns	Total International Returns*	All Returns
Electronic	36%	42%	**	27%	72%
Paper	64%	58%	100%	73%	28%
<b>Total</b>	298,972	710,806	518,460	1,528,238	136,579,042

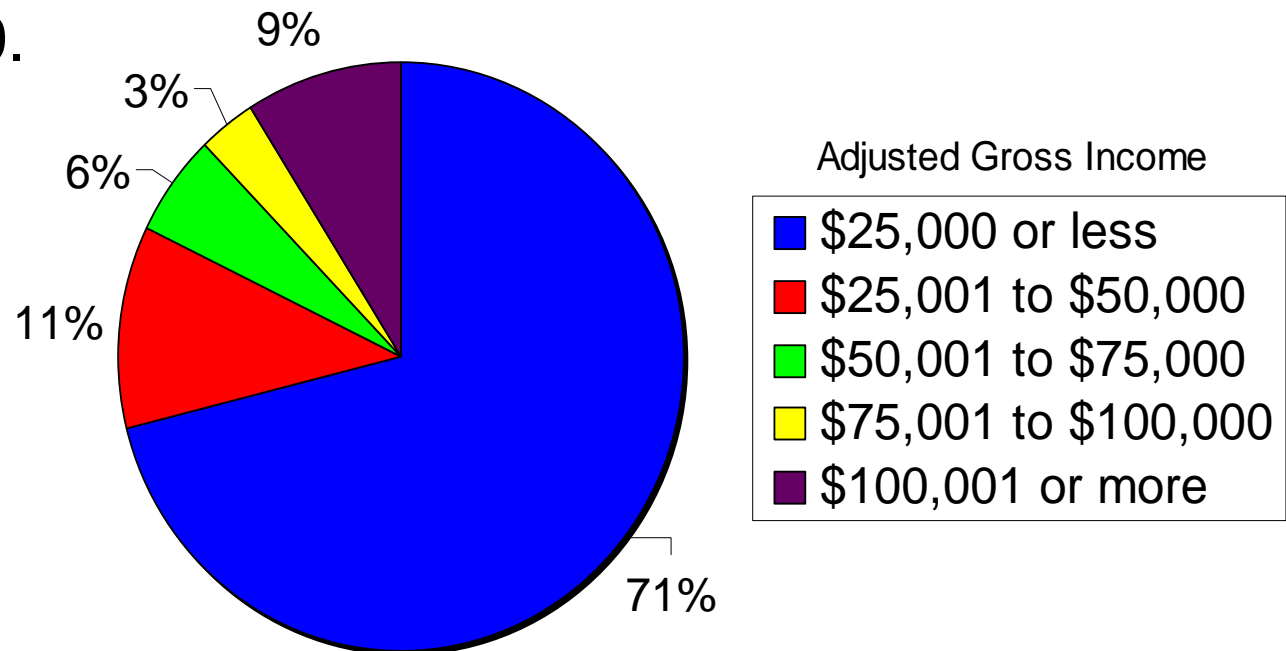
*Disclaimer:* Total percentages may not equal 100 percent due to rounding.

*Notes:* 54,956 cases were excluded from the analysis due to missing data. Paper equals hand-prepared and V-Coded returns.

\* Total International Returns includes Puerto Rican Returns, International Returns (excluding Puerto Rico), and Non-Resident Alien Returns.

# Adjusted Gross Income of Total International Returns

- Approximately 84 percent of total international taxpayers reported an adjusted gross income (AGI) of \$58,000 or less as reported on Form 1040, with a median AGI of only \$4,000.



N = 1,528,238

\* Total International Returns includes Puerto Rican Returns, International Returns (excluding Puerto Rico), and Non-Resident Alien Returns.



# Form 2555 Foreign Earned Income

- International wages can be reduced by the international income exclusion, resulting in a significantly lower AGI. *Form 2555 Foreign Earned Income* is used to report foreign earned income and to claim the foreign income exclusion. By using this form, U.S. citizens and resident aliens who live and work abroad may be able to exclude all or part of their foreign salary or wages from their income when filing their U.S. federal tax return. Non-resident aliens are not permitted to file Form 2555.
- To qualify for the foreign earned income exclusion, a U.S. citizen or resident alien must have a tax home in a foreign country and income received for working in a foreign country, otherwise known as foreign earned income. The taxpayer must also meet one of two tests: the bona fide residence test or the physical presence test.
- Although the median AGI for total international taxpayers was well below \$25,000, of those who reported wages on Form 2555 nearly 58 percent earned foreign wages in excess of \$50,000. The median wage reported on Form 2555 was \$62,298.



# IRS International Taxpayer Survey Research

- The *2009 Survey of International Taxpayers* represented an inaugural initiative by the IRS to gather direct feedback from U.S. taxpayers living abroad.
  - Survey questions assessed international taxpayers' awareness, use, and satisfaction of various IRS and non-IRS resources to complete specific tax filing and post-filing tasks.
  - Administered from July to October 2009 with over 8,000 responses.
- The *2011 Survey of Individuals Living Abroad*, administration from May to July 2011, seeks to gain international taxpayer insight on current, proposed, and alternative service channels and resources. Feedback will be used to inform and build the business case(s) for specific international tax-related service enhancements.



# International Taxpayer Awareness, Use, and Satisfaction of IRS Resources

Service	Aware	Used*	Satisfaction**
IRS.gov Web Site	74%	55%	3.91
IRS Form 2555 Foreign Earned Income	59%	54%	3.73
IRS Pub. 54: Tax Guide for U.S. Citizen & Resident Aliens Abroad	53%	40%	3.75
IRS Telephone Line (215) 516-2000	51%	12%	3.71
IRS Form 1116 Foreign Tax Credit	47%	31%	3.43
International Taxpayer FAQ section of IRS.gov Web Site	41%	22%	3.69
International Section of IRS.gov Web Site	38%	22%	3.75
Email to IRS thru IRS.gov Web Site	35%	5%	3.54
IRS Pub. 901: U.S. Tax Treaties	28%	13%	3.58
Tax Trails Section of IRS.gov Web Site	8%	3%	3.74
Other IRS Service	6%	5%	4.02

Source: W&I International Taxpayer Topline Report, December 2009.

\* Only survey respondents who stated they were aware of a resource were asked about usage.

\*\* Satisfaction is based on a 5-point scale with 5 representing "Very Satisfied." Only survey respondents who reported using a particular service rated their satisfaction with the service.

International taxpayers reported a high awareness, use, and satisfaction with IRS.gov. This awareness and use among international taxpayers is higher than comparable estimates for domestic taxpayers (i.e., awareness 67%<sup>1</sup> and use 34%<sup>2</sup>).

Source: 2009 IRS Benchmark Survey<sup>1</sup>, 2009 W&I Taxpayer Experience Survey<sup>2</sup>



# Opportunities to Improve the International Taxpayer Experience

- Survey respondents did not express a need for new or alternative products and/or service channels, but rather more information on specific international tax issues and/or improvements to existing products/channels.
- Specific information about tax filing and other tax issues included:

- *“I would like a better explanation of capital loss carryovers.”*
- *“Provide more information about e-filing for international taxpayers.”*
- *“The details related to tax treaty exemptions was vague; it was unclear what kind of income it covered.”*

## *Suggestions for Additional Products and Services*

Topic	Count	%
Information about specific tax issues (e.g., Tax Exemption, Capital Loss, Tax Treaties)	432	15%
No additional product/service needed	256	9%
Preparing and filing return on IRS web sites/e-file	197	7%

Source: W&I International Taxpayer Topline Report, December 2009.

# International Taxpayer Survey Respondent Profiles

- Approximately 85 percent of respondents reported accessing the Internet at home (comparable estimate for domestic taxpayers is approximately 77 percent <sup>1</sup>).
- Over 21 percent of respondents used tax software when preparing their most recent income tax return.
- Average amount of money spent on expenses related to most recent income tax return was approximately \$333.

Amount of Money Spent on Tax Return Preparation Expenses	Mail	Online	Total
\$0	16%	18%	17%
\$1 to \$10	19%	20%	19%
\$11 to \$50	13%	19%	15%
\$51 to \$200	18%	15%	17%
\$201 to \$500	19%	15%	17%
\$501 to \$1,000	9%	7%	8%
\$1,000 or More	7%	7%	7%

Source: W&I International Taxpayer Topline Report, December 2009.

<sup>1</sup>2009 IRS Benchmark Survey

# Key Findings of WIRA's International Research

---

*WIRA's portfolio of international research reveals an emerging picture of a taxpayer segment that is underserved, expresses a desire for self-service channels, and access the Internet to get information.*

- Over 82 percent of total international taxpayers reported an AGI of \$50,000 or less.
- Nearly 42 percent of all international filers are between the ages of 25 and 44. This has potential relevance regarding the preference or willingness to use certain channels, such as the web, to prepare and/or file income tax returns.
- Respondents to the *IRS Survey of International Taxpayers* consistently ranked IRS.gov the top resource in awareness and use. IRS.gov also ranked among the top resources respondents used in the past and would be willing to use in the future.

# Availability of Free File Tax Software to International Taxpayers

---

- New to the 2011 Filing Season, international taxpayers had filing options clearly labeled on the IRS Free File webpage. Companies offering free commercial online tax preparation and electronic filing services to taxpayers overseas included a tag line both on the IRS Free File webpage as well as their own website.
- Companies offering Free File services to eligible international taxpayers this filing season included:
  - H&R Block Free File
  - Free TaxAct
  - Online Taxes at OLT.com
  - eSmart Tax powered by Complete Tax
  - TaxSlayer



# Additional Research Related to International Taxpayers

---

*Forrester Research: Tax Law Content Priorities* research explored taxpayer perceptions of IRS.gov to determine how the updated website is helping taxpayers to answer tax law questions.

Included in this research were profiles of taxpayer segments identifying potential barriers or disincentives that impede the use of IRS.gov.

The online habits and characteristics of international taxpayers outlined by Forrester Research make this taxpayer segment an attractive market for the development and use of interactive online tools and applications.

- Internationals currently visit IRS.gov
- Internationals have the skills/abilities to utilize online applications
- Internationals find online activities enjoyable



# Next Steps – 2012 Filing Season

---

The Internal Revenue Service (IRS) is committed to improving the services it provides to individuals who live outside the United States. As evident today, the IRS continues to take into consideration the unique needs of and challenges faced by the international taxpayer community.

The 2012 Filing Season will represent another opportunity for both the IRS as well as tax preparation software vendors to further support the large and increasing international taxpayer market.

