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Measuring Taxpayer Burden and Attitudes for Large Corporations: 1996 and 1992 Survey Results

by

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LEADING IN THOUGHT AND ACTION

**MEASURING TAXPAYER BURDEN AND ATTITUDES FOR LARGE
CORPORATIONS:
1996 AND 1992 SURVEY RESULTS**

**Report to the Coordinated Examination Program of the Internal Revenue Service
prepared by**

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1. Introduction

This report presents evidence from two surveys, conducted in 1992 and 1996, of large corporations in the United States concerning their cost of complying with federal and subfederal income taxes. The surveys attempt to measure both the overall size and composition of these costs, and also to investigate what about a firm and its tax situation determine what its compliance cost will be; the 1996 survey addresses the potential compliance cost savings from tax reform. They also investigate the attitudes of corporate tax officers concerning their interactions with the members of the IRS examination team, the appeals and litigation process, and specifically, the head office and national office attorneys. This report summarizes the responses to these questions and investigates the determinants of these attitudes. It also uses the results of these surveys to construct an overall index of the paperwork burden imposed by the corporation income tax, and an overall index of taxpayer satisfaction with their interactions with the IRS. Special attention is paid in this report to the changes in compliance costs and attitudes between 1992 and 1996, and to what extent IRS initiatives had an influence on these changes.

2. Survey Design and Execution

2.1 Design

As the 1996 survey instrument was based on the 1992 survey, I begin by describing the process of designing the 1992 instrument. The first step in the process was to draft a pilot survey. In this process we¹ drew on the expertise of an advisory panel consisting of corporate tax officers organized by the Tax Foundation and representatives of the IRS Coordinated Examination Program. We also profited from studying the survey instruments used by Sandford, Godwin, and Hardwick (1989) in their study of the United Kingdom, and that used by Pope, Fayle and Chen (1991) in their study of Australia. Several of the advisory panel members

¹ The first survey and report were co-authored with Marsha Blumenthal of the University of St. Thomas.

then gave the pilot instrument a trial run within their own firms. Comments and suggestions from the pilot survey experience were incorporated into the final version of the survey.

The final 1992 survey instrument was twelve pages long, and divided into five parts.² The first part asked about general characteristics of the company's tax affairs, sector, measures of firm size, and the extent of foreign operations. Parts Two and Three asked about the cost of complying with the income tax law. Costs were to be divided into several categories: whether due to federal or state and local income taxation, whether costs were incurred in-house or paid to those providing outside assistance, whether in-house costs were within or outside the tax department, whether they were personnel or non-personnel costs, and how they broke down by function (record keeping, planning, return filing, etc.). Part Four included several questions evaluating the firm's interactions with the Internal Revenue Service, including ratings of each member of the audit team and of overall satisfaction. The concluding section was primarily devoted to open-ended questions about the sources of complexity in the tax code, suggestions for simplifying the tax system, and corporate strategies for coping with increased complexity.

The survey was accompanied by a cover letter from the two authors, on University of Michigan letterhead, explaining the objectives of the project and identifying the sponsors. It also promised that all individual firm information would be kept confidential and only summary results would be reported.

The cover letter emphasized that the survey questions referred only to the compliance costs of U.S. federal, state and local income taxes and not to the costs of complying with payroll, property, excise, withholding and other taxes. The survey did, though, cover the expenditures incurred by foreign affiliates in complying with U.S. tax laws, though not with foreign tax laws. Finally, the letter stated that the survey was trying to measure "the annual incremental cost imposed by income tax compliance, i.e., what (you) could save over the long run if these taxes were eliminated."

²The survey and cover letter are included as Appendix A of this report.

The 1996 survey was largely based on the 1992 survey. Some questions were dropped because the information received in 1992 was not of high quality or of high usefulness; other questions were clarified, based on the experience with the 1992 survey responses. A new section was added to Part Four that assessed satisfaction with field office and national office attorneys. Also added to Part Four was a set of questions assessing whether there had been changes in satisfaction since 1992, and asked two open-ended questions about which aspects of recent IRS initiatives the respondent was most satisfied with and most disappointed with. Much of Part Five was redone. While in 1992 open-ended questions looked backward to assess the compliance cost implications of the Tax Reform Act of 1986, the 1996 survey focused on the compliance cost consequences of potential future tax reform, asking both the potential cost savings of particular changes, and of fundamental reform like a value-added or flat tax.

2.2 Execution

The first survey was mailed between June 9 and 15, 1992 to the chief corporate tax officer at the 1672 firms in the Coordinated Examination Program (CEP) of the Internal Revenue Service; these addresses had been supplied to us by the CEP.³ Follow-up postcards were sent on July 20, 1992, and again on August 31, 1992. Finally, on September 25, 1992 a letter from the President of the Tax Executives Institute was sent to the tax officers, expressing support for the compliance cost project and urging that the questionnaires be filled out and returned.

By the end of the process 365 completed surveys were received. In order to calculate an accurate response rate, it is important to note that many firms are "in" the CEP because past years' tax filings have not been fully resolved, even though the firms were no longer active entities in 1992, having either been liquidated or acquired by or merged into another firm.

³The rules for including firms in the Coordinated Examination Program are discussed in Section 3 of this report.

Considering that, of the 1672 firms on their mailing list, 1329 were active entities in 1992, the 365 completed returns represent a response rate of 27.5%.

The 1996 survey was executed in a similar manner. In that year there were 1697 total firms. Surveys were mailed between March 29 and April 4. The supporting letter from the Tax Executives Institute was included in the original mailing, rather than sent separately. Follow-up postcards went out on May 16 and 17, and then again on June 12. In 1996, 309 completed surveys were received, noticeably lower than in 1992.

3. How Representative are the Samples?

How representative of big business are the companies that responded to the survey? The answer to this question rests on two factors: (i) how representative of CEP companies are those that responded to the survey, and (ii) how representative of big business are companies in the CEP program.

To address how representative of the CEP population are the companies that responded to the survey, one can compare the characteristics of the respondent population to the characteristics of the overall CEP population. The CEP population was described in an April 1992 publication of the General Accounting Office (GAO) entitled IRS' Efforts to Improve Corporate Compliance. This report analyzes the corporate tax returns of all the CEP companies to which the Statistics of Income Division of the IRS could match a 1988 tax return. Of the 1672 companies in the CEP program as of May 1991, there were 1329 matches. The predominant explanation for the 343 unmatched companies was that these companies had, due to takeover or bankruptcy, ceased to exist as independent entities, but had been retained in the CEP database because past tax years' cases had not yet been closed.

Tables 1 and 2 compare the distribution of the respondent population in 1992 and 1996 to the GAO results, by principal industry and size of U.S. assets, respectively. For both measures the distributions of survey respondents matches up very closely to the distribution of the firms in the GAO study; the principal exception is that in 1992 only 10.3 percent of the survey

respondents, compared to 14 percent in the GAO study, report U.S. assets over \$10 billion.⁴ By 1996, however, 17.8 percent of responding firms were in this category. Note, however, that there are some reasons not to expect an exact correspondence. First of all, the GAO study refers to tax year 1988, while these surveys were distributed in 1992 and 1996. By 1996, eight years after the GAO study, it is reasonable to expect an upward drift in nominal values of firms; this could explain not only the larger fraction in 1996 of the largest firms, but also the smaller fraction of the smallest firms. Second, the applicable corporate entity is not consistently measured. The survey responses probably, but not definitely, apply to the group of companies—whether consolidated or not for tax purposes, and regardless of the number of corporate entities—for which the central tax department handles the tax affairs. In contrast, the GAO study was based on the key single corporation of the corporate group, and thus in general refers to a smaller unit than does the survey. In some cases the difference will be insignificant; in other cases where the corporate structure is divided among several separate significantly sized corporations, it will refer to a substantially smaller unit than the survey.

For these reasons it is impossible to be certain that the respondent firms are a representative sample of the CEP population. Nevertheless, the findings of Tables 1 and 2 make us reasonably confident that this is in fact the case. This leaves open the question of whether one can generalize about big business as a whole. The answer to that question depends on how typical of big business the CEP firms are. Companies are selected for the CEP based on a number of criteria. First, companies are assigned points based on the size of their worldwide assets, the size of their worldwide gross receipts, the number of different significant entities with tax consequences, and the number of different significant separate industries with tax consequences within the corporate entity. In addition, points are assigned based on the expected

⁴Another apparent discrepancy in the 1992 survey is that the survey contains a lower percentage of firms in the retail sector, 1.9% compared to 7% in the GAO study. However, this discrepancy is probably explained by the fact that, due to an oversight, the survey did not list "Retail" as one of the sectors to be checked. Those firms that did list their principal sector as Retail did so by writing it as a separate category. Note that the fraction of firms describing their primary business as retail or services, a likely alternative categorization for a retail business, was 10.4%, compared to 12% in the GAO study. This is not a problem in 1996.

number of staff days of revenue agents and specialists required for the examination. All companies whose point total exceeds a certain cutoff are included in the program; a separate cutoff is assigned to financial corporations and utilities. A firm not meeting the point criteria may be included in the CEP if "it is of sufficient complexity to warrant inclusion and would benefit from examination using the team examination approach."⁵

Clearly the two dominating criteria for inclusion in the CEP are sheer size and the expected resource costs of examining the tax return. Thus, to the extent that these criteria and compliance costs are correlated, a reasonable expectation is that the active CEP companies have among the highest compliance costs of any companies operating in the United States. For that reason, it cannot be assumed that, for any size grouping, companies in the CEP are typical companies; instead they probably have relatively more complex returns, and therefore relatively higher compliance costs. The one possible exception to this statement is the set of the very largest companies, which are nearly all in the CEP and are therefore not a subsample of the whole population.

To investigate the question of exactly what universe the respondent population represents, Table 3 presents a distribution for 1996 of the respondent firms' sales, averaged according to the Dun's Business Guide ranking of the top 5000 firms in the United States. Note that Dun's lists each corporate entity separately, so again there is not an exact correspondence between these rankings and the corporate group referred to in the surveys.

It is clear from Table 3 that the set of responding companies in either survey cannot be considered to be a representative sample of, say, the 1000 largest companies in the United States; more than two-thirds of the sample do not make the top 1000 ranked by sales. Although the great majority of responding firms would be in the top 5000 in sales, the respondents are not representative of the top 5000, because they are not evenly distributed throughout the size categories, there being proportionately more in the larger categories.

⁵Internal Revenue Manual (May 10, 1989), p. 4200-78.

The bottom line of this investigation into the generalizability of the survey population is as follows: the sample can be used to make statements about the CEP companies. However, although large firms dominate the sample, it does not represent the top 500, 1000, or 5000 companies in the U.S.

To create a sample of firms that is representative of some important segment of big business, both surveys analyze both the respondent sample and also a subset of the respondent firms that are in that year's Fortune 500, the largest industrial firms in the United States. There were 98 firms from the Fortune 500 in the sample in 1992, and 97 in 1996. Because these firms in the top 500 are clustered toward the top of the Fortune 500 list, the sample is reweighted so that it is representative of all 500. The reweighting procedure divides the Fortune 500 into groups of 50, and computes a weighting factor for each of these groups so that in the reweighted sample each group has equal representation. Note that this procedure does not ensure that each sector is represented in the reweighted sample in the same proportion as in the Fortune 500. As will be discussed below, it is important to bear in mind that the definition of what firms are included in the Fortune 500 changed between 1992 and 1996, rendering precise comparisons not meaningful.

4. The Magnitude and Nature of Tax Compliance Costs

4.1 The Magnitude of Tax Compliance Costs

Table 4 presents the survey results concerning the average cost of compliance. In 1992 the total cost averages \$1.57 million for the survey respondents as a whole, and \$2.11 million for the Fortune 500 subsample. By 1996, the average overall cost had increased to \$1.90 million, a 21.0% increase over 1992. Given the 11.9% increase in the price level between 1991 and 1995, this is equivalent to an 8.1% real increase in average compliance cost. However, for the large Fortune 500 firms, there was a strikingly large increase, from \$2.11 million to \$3.93 million, a 85.8% increase (66.5% in inflation-adjusted terms). Both internal and external costs increased at

a rapid rate. However, it is important to note that these increases are not indicative of the percentage increase in costs for big companies, for one very important reason. Starting in 1995, the criterion for inclusion in the Fortune 500 changed. Whereas before (including 1992), the list referred to the top 500 industrial firms, starting in 1995 (including 1996) the entry refers to the top industrial and service firms, thus adding to the list certain very-high-compliance-cost financial service firms, among others. Thus, comparing 1992 to 1996 Fortune 500 is a bit like comparing apples to oranges, and must be done with extreme caution.

As a check of the actual increase in cost among the largest firms, one can look at a question in the 1996 survey which asks directly about the percentage increase in compliance costs since 1992. These estimates suggest that the compliance cost of the 1996 Fortune 500 firms increased by only 4.0% over this period, much closer to the 21.0% increase for all firms discussed earlier. This corroborates the impression that the large apparent increase in the compliance costs of Fortune 500 firms is largely due to a change in composition of the responding firms, and is not indicative of a large increase in their compliance costs.

Table 5 shows how the total costs break down into several categories. In 1992 about 55% of the cost went for within-firm personnel, about 30% to within-firm non-personnel costs, and slightly more than 15% for outside assistance. In 1996, the fraction due to within-firm personnel rose to about 65%, and non-personnel fell to about 17%; however, this difference may be to some degree due to a change in how the survey requested this information.⁶ While in 1992 about 70% of the cost was ascribed due to the federal tax system, in 1996 this rose to about 75%. These percentages vary slightly, but not significantly, depending on which sample is used.

One way to put these costs into perspective is to consider them as a ratio of tax revenue. In 1992, the CEP firms reported a total federal tax liability of \$54.1 billion. The total 1992 compliance costs, for federal tax purposes only, for this group were estimated as \$1.440 billion

⁶The 1996 survey changed the wording of some questions in order to clarify interpretation of answers, and also changed the ordering of some of the questions. Such changes reduce the comparability of the answers across surveys, but are designed to improve the reliability of the 1996 results.

(\$1.085 million per firm for 1329 firms). Thus, the cost to revenue ratio in 1992 was 2.7%. To get an estimate of this ratio for all levels of government, one can apply the ratio of total corporate tax revenues to federal corporate tax revenues for 1992, 1.206, to the \$54.1 billion figure, yielding \$65.2 billion.⁷ The ratio of the estimated 1992 total compliance cost of \$2.085 billion to \$65.2 billion of tax revenue is 3.2%. The ratio for state costs by themselves is 5.8%; the higher ratio reflects the nonuniformity of state rules, an issue discussed later in this report. The figures for 1996 cannot yet be calculated, because the tax liability of CEP firms is not known; however, the figures are likely to be quite similar.

Table 6 breaks down the total personnel costs by function. In both years for the tax department filing returns is by far the largest category of expense, comprising about 30% of the personnel costs. Audits, planning, and research⁸ each make up over 10% of the total within-tax-department personnel cost. However, recordkeeping is the predominant role of other departments in the tax process; in 1992, it made up nearly 50% of these personnel costs for all firms and 40% for Fortune 500 firms, and in 1996 nearly 60% for both categories of firms. The second most important role taken on by the non-tax departments is preparing information for financial statements, comprising about 10% of the total, in 1996, down from 1992; other important functions are filing returns and preparing information for audits.

Table 7 presents more information about the outside assistance purchased by firms. In both years six functions—filing returns, planning, litigation, research, appeals, and audits—account for over eighty percent of the costs, with planning being the largest category, especially in 1996.

Table 8 shows that, on average, there is a clear division of labor between the internal and external tax-related activities. About three-quarters of litigation expenses and about half of

⁷According to the *Economic Report of the President, 1997*, federal corporate profits tax accruals for calendar 1992 were \$118.6 billion (Table B-80), while state and local government profits tax accruals were \$24.4 billion (Table B-83). This yields a ratio of total receipts to federal receipts of 1.206.

⁸In 1992 research comprised 9.0% of personnel costs within the tax department for Fortune 500 firms.

appeals expenses are incurred externally; a large percentage, but less than half, of research, planning, and audit work is done externally. Other functions are done primarily internally.

4.2 Sector Effects

Some sectors experience higher compliance costs than others. This is true even holding constant the effects of the size of the firm.

One must be careful about quantifying the relationship between compliance cost and sector, because of the confounding effect of size. Simply presenting average costs by sector is potentially misleading, because of the differences in average size by sector. Table 9 shows that, even within size categories, firms in retail or wholesale trade⁹ have significantly lower than average compliance costs, and firms in the oil and gas sector have significantly higher than average compliance costs. These sectoral differences change in magnitude between 1992 and 1996, but the directions are the same, except in the case of mining. However, there are only a few firms in some of these categories, so there is a large margin of error.¹⁰

5. The Determinants of Compliance Cost

This section discusses the results of a statistical analysis designed to identify what aspects of a company and tax situation are associated with higher compliance cost. The methodology employed is multiple regression analysis in which the dependent variable is the logarithm of total compliance costs.¹¹ The estimated equations represent the linear relationship which best forecasts a firm's costs; the estimated coefficient on any explanatory variable represents a statistically unbiased estimate of the percentage change in compliance costs resulting from a unit change in that variable, holding all other explanatory variables constant.

⁹In 1996 the wholesale trade sector has only slightly lower than average compliance costs.

¹⁰For example, in 1996 there were only four firms in the mining sector, and two in the services sector.

¹¹Forecasting the logarithm of costs, rather than the level of costs, presumes that a change in any explanatory variable is associated with a certain percentage change in compliance costs regardless of the initial level of these costs.

The regression analysis on the 1996 data reveals several variables which are associated with higher compliance cost. For example, each additional active entity adds 0.55% to cost, and each additional substate income tax return adds 0.04% to cost. Being subject to the alternative minimum tax (AMT) adds between 12.0 and 17.7%, depending on the specification of the regression equation; this is true even though almost all firms report that they must calculate the alternative minimum tax liability. This result implies that those firms that suspect that they will actually have AMT liability devote more resources to its calculation and planning implications. Finally, having an ongoing tax appeal adds 32.6% to cost, and having ongoing tax litigation adds 39.5% to cost.

6. Putting Compliance Costs in Perspective

Any tax system is costly to operate, and will entail both administrative and compliance costs. Different systems place different relative burdens on the taxpayer and the tax enforcement agency. They also score differently on the other important criteria by which we evaluate taxation -- the fairness of the tax burden, and how supportive it is of economic growth. There is often, but not always, a tradeoff that must be made between these other goals and simplicity. The simplest tax system is not necessarily the best, but neither is all of the complexity in the current system necessarily serving a useful purpose.

It is difficult to dismiss a two billion dollar annual compliance cost for the Fortune 500 firms alone. These costs represent resources which, under other circumstances, could have been used to add to the productive capacity of the country. But are these costs cause for alarm, and do they lead directly to policy conclusions? To answer these questions, one needs to put these cost estimates into some kind of perspective. This section provides some useful perspectives.

6.1 Other Countries

Although there have been excellent studies of the tax compliance cost of business done in other countries, none of these studies has focused on the largest companies, making a

meaningful cross-country comparison impossible. For example, the business sample in the United Kingdom used by Sandford, Godwin, and Hardwick (1989) contained only two companies with more than 500 employees, and only six with more than 100 employees. In their study of Australia, Pope, Fayle, and Chen (1991) report having 67 firms with over 1,000 employees, and 77 with annual turnover exceeding \$100 million. For the latter group of companies they estimate annual mean compliance costs to be A\$56,896, compared to mean tax payable of A\$1,760,000; this amounts to 3.2% of tax revenue. Any comparison of these numbers to the U.S. case should note the much smaller average size of the Australian sample.

6.2 Other Taxes

How do the compliance costs per dollar raised through the corporate income tax compare to other taxes? Earlier work in Slemrod and Sorum (1984) and Blumenthal and Slemrod (1992) suggests that the compliance cost of individual income taxes is between five and seven percent of revenue raised. This figure is about double what has been estimated for income taxes on big business. Note, though, that corporations also incur some costs in administering the individual income tax, via withholding; these costs have not been included in any of the studies. Note also that, because of the clear economics of scale in tax compliance, the cost-to-revenue ratio for the corporate income tax is undoubtedly higher for corporations that are smaller than the group studied in this project. Thus the cost-to-revenue ratio for the corporate sector as a whole, or the business sector as a whole, is undoubtedly higher than what is calculated in this study.

7. CEP Companies' Attitudes Toward the IRS

This section reports on the responses to the 1992 and 1996 survey questions about company interactions with the IRS.

7.1 Satisfaction with Examination Team Members

The first question in this series asked the respondent to rate, on a scale of one to five (where one is "very ineffective", two is "somewhat ineffective," three is "neutral," four is "somewhat effective," and five is "very effective"), the competency of nine different categories of individual members of the CEP examination team.

Table 10 presents the tabulations of the responses to these questions. For the two lead members of the team--case manager and team coordinator--the rating most often given (henceforth the "modal" response) was 4--"somewhat effective"--and the second most often given responses was 3--"neutral." In both cases the mean rating rose between 1992 and 1996; the mean rating rose from 3.38 to 3.47 for the case manager, and from 3.58 to 3.68 for the team coordinator. The largest improvement between 1992 and 1996 occurred for the domestic team members, whose mean rating rose from 3.14 to 3.39, and whose modal rating switched from three to four.

For each of the other six categories of examination team members, the ratings were noticeably lower, and the changes since 1992 were mixed. The modal response for all categories in both years was "neutral" rather than "somewhat effective." With two exceptions, the mean response was very close to 3.0. The two exceptions were engineer specialist, with a mean response of 2.79 in 1992 and 2.80 in 1996, and economist specialist, with a mean response of 2.48 in 1992 and 2.52 in 1996. The economist specialist was noticeably lower than the other categories, with nearly a quarter of the respondents rating this category as "very ineffective," and only one respondent rating it as "very effective." One other regularity is worth noting: the evaluations for employment/excise and the specialist manager, both engineering and international, were noticeably less disperse than the other categories. For these three categories (except for employment/excise in 1996), approximately half of all respondents rated them as neutral; for other categories this fraction ranged from under 1/2 to 1/3. A new category rated in the 1996 survey was computer audit specialists; their mean ranking was 3.33, putting them above the median for all categories.

7.2 Satisfaction with Field Office and National Office Attorneys

Table 11 shows the results of a set of questions added to the 1996 survey concerning taxpayers satisfaction with field office attorneys, national office attorneys, and technical advice personnel. Each group was evaluated on a one-to-five scale on four criteria: development of facts and evidence; application of the law or regulations; efforts to resolve issues; and timeliness of actions.

The ratings given to the national office attorneys and technical advice personnel are on average lower than any of those for audit team personnel. Averaging over the four categories yields 2.34 for the national office attorneys and 2.33 for the technical advice personnel. In several cases, a score of one -- "very dissatisfied" was the modal response, particularly for efforts to resolve issues and timeliness of actions. The ratings for the field office attorneys were somewhat better, averaging 2.75 for the four categories, but this is still lower than the average rating of all audit team personnel except economist specialists.

7.3 Currency of Examination

The next question in this series asked the respondents to evaluate on a one to five scale (with one being "very dissatisfied" and five being "very satisfied") how satisfied they are with the currency of their current examination. The results are displayed in Table 12. The modal response in both years was "somewhat satisfied;" the mean response was 3.32 in 1992, but rose fairly significantly to 3.49 in 1996. However, in both years there was a wide degree of dispersion, significantly wider than the evaluations of examination team members. For example over 11% were very dissatisfied, while over 26% (21% in 1992) were "very satisfied."

7.4 Information Document Requests

The surveys then asked about the audit team's requests for information, separately for domestic issues, international/economist issues, and engineering issues. These categories of

requests were each to be evaluated on three separate criteria--specificity, appropriate number, and clarity.

The responses are displayed in Table 13. Overall, the information document requests (IDRs) were deemed appropriately specific, as opposed to not specific enough, by about two-thirds of the respondents, although for international/economist issues that figure was lowest in both surveys. Whether the number of IDRs was appropriate differed substantially depending on the issues involved. For domestic issues only 55% (53% in 1992) answered that the number was appropriate, so that 45% judged that there were "too many" IDRs. For international/economist and engineering issues, a much higher percentage judged the number to be appropriate--65% (67% in 1992) for the former and 67% (71% in 1992) for the latter. This pattern is reversed when clarity is the criterion. A higher percentage of respondents--76% (73% in 1992) thought that domestic IDRs were clear than was the case for international/economics IDRs (67%, 62% in 1992) or for engineering IDRs (67%, 69% in 1992). Overall, the trend since 1992 is consistent improvement for domestic issues, mixed for international/economic issues, and consistent decline for engineering issues.

7.5 Level of Issue Resolution

The companies were asked to rate, on a one-to-five scale, their satisfaction with current efforts to resolve issues at the lowest level possible. The results are displayed in Table 14.

In both years the response that dominated all others was 4--somewhat satisfied--but this dominance is misleading because there was more dispersion of response to this question than to any other of the additional questions. In 1992 ratings 1, 2, 3 and 5 were given about equally, so that over 15% were very dissatisfied and over 18% were very satisfied. By 1996 the fraction very dissatisfied had fallen to 12%, and the mean rating had risen from 3.19 to 3.28.

7.6 Overall Satisfaction

In each year the respondents were asked to rate, again on a one-to-five scale, their overall satisfaction with the interactions with the IRS, and then separately for three separate IRS functions--exam, appeals, and counsel. These results are presented in Table 15. In 1992 the mean of the overall rating was 3.34. In 1996 it was slightly higher, at 3.36.

When the satisfaction level is separated by IRS function, there is a noticeable divergence in results. The results for the examination function mirror the overall results; they were lower than the overall ratings in 1992, but only slightly lower, at 3.35, in 1996. This reflects a clear improvement over 1992 of 0.17 rating points. In 1992 the appeals function fared better than exam, but in 1996 it is roughly similar to the overall and exam mean scores, at 3.32. Finally, in both years the counsel function is rated much lower than either examination or appeals, although it improved from 1992 to 1996 from 2.75 to 2.96. "Neutral" is by far and away the modal response for counsel, attracting 52% (62% in 1992) of all responses. Less than 2% (less than 1% in 1992) of all respondents rated themselves as "very satisfied" with counsel.

One way to quantitatively assess the change in company satisfaction is to compare the 1992 and 1996 survey ratings, as done above. Another, more direct, way is to look at the results of a new question added in the 1996 survey, which asked companies whether their satisfaction with their IRS interactions has worsened or improved since 1992, on a one-to-five scale. Table 16 shows the results of these questions. For the overall IRS and by function, a majority of respondents chose the "neutral" answer, suggesting that their satisfaction had not much improved or worsened. The mean ratings reflect this, being 3.11 for the overall IRS, and 3.16, 3.03, and 2.88 for exams, appeals, and counsel, respectively. One consistency between Tables 15 and 16 is that exams show an improvement. One inconsistency is with respect to counsel; Table 15 suggests a slight improvement, but Table 16 suggests a slight decline in satisfaction.

7.7 Currency of Examination

Another set of questions in both surveys concerned the currency of examinations and related issues. The results of these questions are listed in Table 17.

When asked how soon after the filing of returns the examination should start, 12 months was the modal response in both surveys, with 38% (43% in 1992) of responses; 31% (33% in 1992) favored 18 months and 26% (19% in 1992) favored 24 months. The overwhelming majority of respondents 64% (75% in 1996) favored a two-year audit cycle, only 2% (5% in 1992) favored a one-year cycle, while 34% (25% in 1992) preferred a three-year cycle. The preferred time span for completing an audit depended on how many years were in the audit cycle. For the preferred audit cycle of two years, the predominant response, 54%, (62% in 1992) was 12 months.

7.8 Satisfaction by Region

Tables 18 through 22 look at the breakdown by region of the various satisfaction indices. Because of the change in regional classifications, precise comparisons between 1992 and 1996 are difficult to make; for example, what is called the “Southeast” refers to a less encompassing area in 1992 than in 1996. For 1992, generally the highest satisfaction ratings were given by firms in the Mid-Atlantic Region.

By 1996, with a broader four-region classification, no one region stands out as uniformly highly or negatively rated. As to currency of examination (Table 19), the relatively poor performance of the West has apparently, but not definitely, persisted. With respect to IDR’s, no clear geographic pattern emerges.

7.9 Satisfaction and Disappointment with Recent IRS Initiatives

Also added to the 1996 survey were two open-ended questions about recent IRS initiatives. The first asked which recent IRS initiatives the company was most satisfied with; Table 23 lists the answers most often given. Although 22 firms responded “none,” the great

majority of firms could point to at least one initiative they were satisfied with. By far the most popular (46 mentions) was the increased authority of exam case managers to resolve issues at a low level. Eighteen companies favorably mentioned the attempt to get current on audits and to generally accelerate the process. The third most-cited improvement was the willingness of the IRS to work with the taxpayer on the audit and audit planning process.

The CEP companies were also asked to comment on what recent IRS initiatives they were most dissatisfied with. This question elicited more responses, more emotional responses, and more varied responses than the previous one. Table 24 lists the most frequent responses. Perhaps its most fascinating aspect is that the same issue tops this list and the list in Table 23 -- the level of issue resolution. Twenty-one companies were dissatisfied with the ability of case managers to resolve issues; this is less than half the number that cited this as something to be satisfied with, but is still a fairly widespread concern -- the level of issue resolution is certainly a hot-button issue. Another issue on both the satisfied and dissatisfied lists is the degree of taxpayer involvement in the examination. Four companies directly mentioned, but others alluded to, the fact that potentially valuable national office initiatives did not filter down to the field office level.

8. Determinants of Overall Satisfaction: Regression Analysis Results

This section explores what aspects of a firm and its interactions with the IRS are influential in determining their professed overall satisfaction with the IRS. The methodology employed is ordinary least-squares multivariate linear regression analysis, in which the dependent variable is the overall satisfaction level, from one to five. The estimated equations represent the linear relationship which best forecasts a firm's overall satisfaction level. The estimated coefficient on any explanatory variable represents a statistically unbiased estimate of the impact on the overall satisfaction ranking of a change in that explanatory variable, holding all other explanatory variables constant. These results are reported in Table 25.

8.1 Size

On average larger firms report higher satisfaction with the IRS. Equation (1) of Exhibit 1 reports the results when size is proxied by the logarithm of the number of U.S. employees, in thousands (LNE). A positive relationship between average satisfaction and size is also observed when size is proxied by either U.S. sales or U.S. assets, although the relationship is not as strong. The positive relationship to size is less pronounced in 1996 compared to 1992.

Equations (2) and (3) of Table 25 reveal that satisfaction is also positively related to two other indicators of the scope of a corporation -- the number of states it operates in (STATES) and the number of separate entities its tax staff deals with (ENTS). According to equation (2), adding ten more states on average increases the satisfaction rating by 0.062 (0.129 in 1992); adding ten more entities increases it by 0.0049 in 1996. As with total employment, the magnitude of this relationship is lower in 1996 than in 1992.

8.2 Sector

Holding constant size, the overall satisfaction rating in 1992 and in 1996 is generally not related to the principal sector of the firm in a statistically significant way. Approaching a significant effect in 1992 were the retail trade and service sectors, which give a lower rating than otherwise. This is slightly surprising, since firms in these sectors experience lower compliance costs than average. This effect vanishes in 1996, with the transportation sector having a slightly lower than average rating.

8.3 Foreign Presence

Next investigated is whether, holding size constant, the satisfaction level is related to the extent of multinationality of the firm. The indicator of multinationality is the fraction of federal tax compliance costs due to foreign operations (FORINC). The results show that in 1992 there was a slight positive relationship between foreign presence and satisfaction; a 10% increase in this percentage increases the overall rating by 0.0276. This is a small magnitude; in addition, the

estimated effect is not statistically significant. A slightly larger positive relationship is found for 1996; a 10% increase in this percentage increases the overall rating by 0.0456.

8.4 Relationship of Overall Satisfaction to Other Attitudes

Equation (4) shows the estimated relationship between overall satisfaction and the rating of the three levels of IRS interaction--examination, appeals, and counsel. By far examination is the most important function in both 1992 and 1996. One higher point in the rating of the examination's function is associated with an increase of 0.574 (0.798 in 1992) in the overall rating. In comparison, a one point increase in the rating of appeals and counsel are associated with an overall rating increase of only 0.206 (0.113 in 1992) and 0.232 (0.098 in 1992), respectively.

How does overall satisfaction depend on the attitude toward the currency of examinations, whether issues are resolved at the lowest level possible, and the specificity, quantity, and clarity of domestic information document requests? Equation (5) shows that, in 1992, currency, level of issue resolution, and the clarity of domestic issue IDRs were all important. In 1992 neither the specificity or quantity of domestic IDRs has a statistically significant effect on the overall rating. In 1996, currency and level of issue resolution remained important, but the IDR's are of mixed impact, two with negative signs, which is difficult to explain.

Satisfaction with currency depends critically on the earliest tax year still open. As equation (6) shows, each year earlier reduces the satisfaction with currency by 0.231 (0.180 in 1992). Here, the variable AGO is defined as how many years before 1992 is the earliest open year.

As might be expected, a critical determinant of a firm's view of whether issues are resolved at the lowest possible level is whether the firm has any tax issues under appeal. As equation (7) shows, in 1992 a firm with a tax year under appeals (APP=1) reduced its level of resolution rating by 0.660 points and having an issue under litigation (LIT=1) also reduces this

rating, but only by 0.342. In 1996 both remain important, although the relative importance flip-flopped, with litigation costing on average 0.633 points and appeals costing 0.577 points.

The impact of the earliest open year and having an ongoing appeal on overall satisfaction can be directly ascertained, as in equation (8). Pushing back the earliest open examination year reduces the overall rating by 0.017 (0.043 in 1992). Having an ongoing appeal reduces the overall rating by 0.173 in 1992, but in 1996 this increased substantially to 0.445. One of the notable differences in 1996 is the increased role in taxpayer dissatisfaction of having an active appeal. In equation (9), the effect of the earliest open year having an ongoing appeal and having an issue under litigation were investigated jointly. The results suggest that each has an independent negative effect on the overall satisfaction rating.

9. Potential Compliance Cost Savings from Reform

Part Five of the 1996 survey investigated the potential compliance costs savings from various proposed simplifications of the current income tax system, and also from fundamental reform of the tax system -- in particular, replacing the income tax with either a flat tax or a value-added tax. The companies were first asked to estimate quantitatively the potential savings from these reforms, and then to give their open-ended qualitative comments on the "potential and problems of such fundamental reform of business taxation with regard to simplification and compliance cost." Tables 26 and 27 display the results of the quantitative questions.

Table 26 shows that conforming the tax and financial statement definition of income is estimated to have the biggest effect, but even that amounts to just 9.9% of total current compliance costs. The second biggest saving, 6.9%, is estimated to come from establishing complete uniformity among states and between the states and the federal government. Although the sum of the six initiatives' estimated saving is 29.4%, this is certainly an overestimate of the total saving from doing all six reforms, as they are not mutually exclusive. For example, if no more than financial statement information were required, that in and of itself would eliminate the AMT reporting requirements.

Table 27 displays the average percentage compliance cost saving from fundamental tax reform that the survey suggests. The overall savings is 24.8%, an average which varies fairly significantly across sectors. Not too surprisingly, the retail and wholesale trade sectors expect the lowest average savings, undoubtedly because the current system causes firms in this sector below-average compliance costs. Based on the qualitative comments, discussed below, this is probably due to skepticism concerning whether “fundamental” reform will in reality simplify tax compliance in their business, in particular how it will affect the tax treatment of international transactions and financial operations.

The open-ended question about fundamental tax reform revealed quite a bit of skepticism about whether it would deliver considerable, or even positive, savings in compliance costs. The most often mentioned concern had to do with the transition period, with some respondents focusing on the complexity of the process and others on the potential for lost depreciation allowances, NOLs, and other tax benefits. Many other respondents cautioned that any promised compliance cost savings would depend on the states’ conforming to it, echoing the importance of this factor discussed above. Other concerns raised included whether a new tax system would end up as an add-on rather than a replacement for the income tax, whether appropriate simplifying rules would be developed for international transactions, and for financial sector firms. A widespread opinion was that the compliance cost implications of radical reform are dwarfed by its other implications, both for the economy as a whole and for the tax liability of the responding firm. Several companies noted that a switch to a tax (like the VAT) in which labor costs were not deductible would lead to a potentially crippling increase in tax liability.

10. Indices of Taxpayer Burden and Taxpayer Satisfaction

One of the objectives of these two studies was to use it to construct indices of total taxpayer burden and taxpayer satisfaction. The 1992 report proposed to calculate the burden on the CEP firms due to federal corporate income taxes by multiplying the average burden due to federal taxes, \$1.0846 million, times the number of active CEP firms, 1300. This procedure

yielded \$1.41 billion in 1992. For a comparable index, we should keep the number of firms constant, or else the index will partly simply reflect more firms. It also makes sense to keep the index in constant dollars. Deflating the average federal compliance cost in 1996, \$1.4103 million, to 1991 dollars yields \$1.2603 million. Multiplying by 1300 firms yields \$1.64 billion. Thus, our index of compliance costs for the federal tax system increased by 16% between the two surveys, from \$1.41 billion to \$1.64 billion.

The proposed summary measure of taxpayer satisfaction is also simple and straightforward -- the mean overall rating of the IRS multiplied by twenty; this implies that the highest possible satisfaction rating is 100, obtained if all respondents judge themselves to be "very satisfied," and the lowest possible ranking is 20, obtained if all respondents judge themselves to be "very dissatisfied." By this measure overall taxpayer satisfaction increased slightly between 1992 to 1996, from 66.8 to 67.2.

11. Conclusion

What the 1992 study established was that the income tax compliance costs of big business are, in an absolute sense, large -- over \$1 billion for the Fortune 500 companies and over \$2 billion for a group of over 1300 large companies that warrant special examination by the IRS. It has also established that there was near unanimity among senior corporate tax officers that the Tax Reform Act of 1986 added complexity to the tax system, resulting in a combination of higher compliance costs and less accurate information transmission. They pointed to, in particular, the alternative minimum tax, inventory capitalization rules, and foreign income rules as growing sources of complexity. Perhaps surprisingly, though, they singled out greater uniformity among the states' income tax systems, and greater conformity to federal rules, as the most promising simplification that could be made.

The 1996 survey has confirmed the general magnitude of the quantitative estimates of compliance, and in fact suggests a large increase in the costs of large firms in the Fortune 500. This increase is misleading, though, because the criteria for inclusion in the Fortune 500 changed

between 1992 and 1996. The increase in real compliance costs is not, moreover, a reliable indicator of how well the IRS has performed over this period, because so many other factors (tax laws of the U.S. and other countries, financial reporting requirements, the complexity of firms' real and financial operations) are changing. The 1992 and 1996 surveys provide more direct, although ambiguous, indicators of IRS performance. An index of company satisfaction with the IRS rose slightly between these two years. Satisfaction with the principal team members -- case manager, team coordinator and especially domestic team members -- increased noticeably, but was offset by decreased satisfaction with the specialist managers, both engineering and international. Average satisfaction with both currency and issue resolution increased slightly, but opinions about IDR's were mixed -- more favorable attitudes on average for domestic issues, but mixed responses with respect to international/economics and engineering issues.

Open-ended questions about IRS initiatives revealed that resolving issues at the lowest possible level is by far the most widespread concern. Many companies are dissatisfied with the success of IRS initiatives in that area, but more than twice that number are satisfied with the progress made since 1992. The difficulty of satisfying the companies is perhaps suggested by the wide range of reasons for dissatisfaction -- fifteen with three or more companies subscribing to them. The majority of companies are skeptical about fundamental tax reform, although the estimated average compliance cost savings comes to 24.8%. More incremental reforms would save compliance cost, as well; the two leading candidates are reducing tax filing requirements to financial statements plus Schedule M-1 detail (9.9% saving) and establishing uniformity among states and between the states and the federal system (6.9% saving).

The bottom line is that the magnitude of compliance cost can only be marginally affected by IRS process initiatives, if the tax law itself and its interpretations are held fixed. IRS performance can and should be evaluated on many other measures of success. One possible measure, overall company satisfaction, has not changed materially since 1992, although satisfaction with certain concrete known influences of satisfaction -- currency and level of issue resolution -- has increased. IRS initiatives concerning issue resolution are widely recognized

and, by more than two-third of the respondents, applauded, but success in improving currency is, perhaps unsurprisingly, less visible to taxpayers.

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APPENDIX A

COVER LETTER AND SURVEY INSTRUMENT: 1992 AND 1996



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June 5, 1992

Dear Corporate Tax Officer:

There is substantial agreement in the business community that the corporate income tax system has become extraordinarily complex. In spite of that view, there is little knowledge about the compliance costs borne by businesses as they deal with the requirements of the tax law.

The enclosed survey, which is being sent to the 1672 largest companies in the United States, is designed to learn more about the nature of these costs. In particular, we intend to estimate the magnitude and determinants of compliance costs, and ultimately to suggest policy changes which could improve the tax code's efficiency, equity and simplicity. The survey and a report of its findings are sponsored jointly by the Tax Foundation and the Office of Tax Policy Research of the Michigan Business School. Using only summary information, an additional report will be prepared for the Large Case Division of the Internal Revenue Service, for the purposes of monitoring and improving their interactions with taxpaying companies.

We would very much like to have your participation in this important work. Although we request some sensitive information, you can be assured that the survey results will be reviewed only by ourselves and our research assistants. The questionnaire has an identification number solely to reduce duplication of follow-up mailings: the name of your company will never be placed on the questionnaire. In reporting our findings, no individual corporation will be identified; the results will be reported only in a summary form.

In this survey you are asked to estimate expenditures on personnel both within and outside of the tax department who deal with the tax law, on overhead and supplies to support those personnel, and on outside expert advice. While we acknowledge that you also devote resources to complying with payroll, property, excise, withholding and other taxes, this survey is limited to the costs of complying with U.S. federal, state and local income taxes. These costs should include expenditures of foreign affiliates to comply with U.S. tax law, but not expenditures to comply with the tax rules of foreign governments. Our interest is in the annual incremental costs imposed by income tax compliance, i.e., what you could save over the long run if these taxes were eliminated.

If, as you complete the survey, you have any questions, please feel free to contact either of the authors (Joel Slemrod at the above address and number, or Marsha Blumenthal at the University of St. Thomas in St. Paul, MN, 612-647-5891). We appreciate your time and effort. Thank you.


Joel Slemrod


Marsha Blumenthal

JS/MB/mm
Enclosure

**SURVEY OF THE COMPLIANCE COSTS
OF CORPORATE INCOME TAX**

June 1992

**Sponsored by
The Office of Tax Policy Research, Michigan Business School
and the
Tax Foundation**

PART ONE: Characteristics of the Corporation

For questions 1 through 6, refer to tax year 1990 returns or, if already completed, 1991 returns.

1. Did you file a consolidated Federal income tax return?

Yes ☐ No ☐

If **Yes**, please record the number of entities included in the consolidated return(s)_____

Of this number, how many entities were active?_____

If you also filed unconsolidated federal returns, please record the number of unconsolidated returns filed_____

2. How many pages or inches of documents were submitted as part of your Federal income tax return?

_____pages or _____inches

3. In how many states did you file a corporate income tax return? (Include states which levy a franchise tax based on income or other business tax)_____

How many state income tax returns were filed?_____

Please indicate if California and/or New York were among your state income tax returns.

California ☐ New York ☐

4. In how many other substate jurisdictions (e.g., municipalities, counties, etc.) did you file corporate income tax returns?_____

5. Over the past year, how many of the following income tax filings did you make:

	Federal	State and Local
Estimated tax	_____	_____
Request for extension	_____	_____
Amended or corrected return (for any period)	_____	_____

6. Were you subject to the Alternative Minimum Tax?

Yes ☐ No ☐

If **No**, did you calculate the AMT Liability?

Yes ☐ No ☐

7. Please indicate which one of the following industry categories best describes the activities of your primary business:

Agriculture, Forestry and Fishing	<input type="checkbox"/>	Wholesale Trade	<input type="checkbox"/>
Mining	<input type="checkbox"/>	Financial	<input type="checkbox"/>
Construction	<input type="checkbox"/>	Insurance and Real Estate	<input type="checkbox"/>
Manufacturing	<input type="checkbox"/>	Services	<input type="checkbox"/>
Transportation and Public Utilities	<input type="checkbox"/>		

8. Indices of firm size (as of close of 1991, or _____)

- a. What was the total number of employees (full-time equivalents)?

U.S. _____ Foreign _____ Total _____

- b. What were your total assets?

U.S. _____ Foreign _____ Total _____

- c. What were your net receipts or sales? (Refer to the most convenient recent 12-month period)

U.S. _____ Foreign _____ Total _____

9. Indices of multinationality

- a. Does your corporation have a majority interest, direct or indirect, in any foreign subsidiaries?

Yes ☐ No ☐

If **Yes**, how many? _____ In how many different foreign countries? _____

Does your corporation have a minority interest in any foreign entities?

Yes ☐ No ☐

If **Yes**, how many? _____ In how many different foreign countries? _____

- b. Does your corporation operate any branches in foreign countries?

Yes ☐ No ☐

If **Yes**, how many? _____ In how many different foreign countries? _____

- c. Do you have a foreign sales corporation?

Yes ☐ No ☐

- d. Does your corporation own any Section 936 Corporations?
Yes ☐ No ☐
- e. Does a foreign parent own a majority of your corporation?
Yes ☐ No ☐
- f. Does your corporation participate in any joint ventures?
Yes ☐ No ☐
If **Yes**, how many of these are inside the U.S.? _____ Outside the U.S.? _____

PART TWO: Compliance Costs Within the Firm

This section refers to the cost of tax compliance incurred within the firm, both inside and outside the tax department. (Part Three deals with the cost of tax-related services purchased from sources external to the firm.) Please estimate the annual cost that could be saved over the long run if corporate income tax was eliminated.

1. How many person-years are devoted to federal corporate income tax?

Within Tax Department

Within Firm,
Outside of Tax Department

To state and local corporate income tax?

Within Tax Department

Within Firm,
Outside of Tax Department

2. Within the tax department, about what percentage of employee-years have the following educational attainments?:

Less than high school

High School graduate

College graduate

Advanced degree

TOTAL

Within Tax Department

100%

3. What is the total annual budget for salaries (including fringe benefits) for federal corporate income tax-related work?

Within Tax Department

Within Firm

Outside of Tax Department

For state and local income tax-related work?

Within Tax Department

Within Firm

Outside of Tax Department

4. Are you currently under examination by the Internal Revenue Service?

Yes ☐

No ☐

If **Yes**, how many years are currently under examination? _____

What is the earliest year under audit? _____

Which IRS representatives are part of the audit team?

☐ Case Manager

☐ Economist Specialist

☐ Team Coordinator

☐ International Specialist

☐ Team Member

☐ Computer Audit Specialist

☐ Employment Specialist

☐ Excise Tax Specialist

☐ EPEO Specialist

☐ Other, Please Specify _____

Do you currently have tax years before appeals?

Yes ☐

No ☐

If **Yes**, how many? _____

Do you currently have tax years under litigation?

Yes ☐

No ☐

If **Yes**, how many? _____

5. Roughly speaking, the tasks involved in complying with Federal and State/local corporate income tax laws fall into the following categories:
- a. Keeping records: e.g., saving, creating, and filing necessary receipts and records, setting up and maintaining tax accounting systems.
 - b. Researching the tax laws and filing requirements: e.g., reading IRS or commercially-prepared materials, attending classes or seminars.
 - c. Planning: e.g., choosing accounting and inventory valuation methods, the nature of the tax year, the types of forms to file, evaluating the tax consequences of certain expenditures, various hiring and fringe benefit decisions, mergers and acquisitions, liquidations, dividends, raising capital, entering or exiting a market.
 - d. Dealing with other personnel about tax matters, either internally or externally.
 - e. Filing the returns: e.g., collecting forms and materials, reconciling book and tax accounts, preparing special schedules, attachments and worksheets, filling out the forms, assembling and copying, signatures and mailing.
 - f. Audits.
 - g. Appeals.
 - h. Litigation.
 - i. Preparing information for financial statements.
 - j. Monitoring and participating in the tax legislative and administrative process.

Please estimate the percentage of personnel expenditure devoted to each of these tasks, separately for within the tax department and outside the tax department (but within the firm):

	Within Tax Department	Within Firm, Outside Tax Department
a. Keeping records	_____	_____
b. Researching the tax laws and filing requirements	_____	_____
c. Planning	_____	_____
d. Dealing with other personnel, internal and external	_____	_____
e. Filing the returns	_____	_____
f. Audits	_____	_____
g. Appeals	_____	_____
h. Litigation	_____	_____
i. Preparing information for financial statements	_____	_____
j. Monitoring and participating in tax process	_____	_____
TOTAL	100%	100%

6. Please estimate your annual non-personnel costs for complying with Federal and State/Local corporate income tax requirements:

	Within Tax Department	Within Firm, Outside Tax Department
Computer/Data processing	_____	_____
Record storage and retrieval	_____	_____
Office space	_____	_____
General supplies	_____	_____
Copying, faxes, etc.	_____	_____
Travel	_____	_____
Other (please specify _____)	_____	_____

Of the total non-personnel costs, what fraction was devoted to Federal and what fraction to State and Local income taxation?

Federal	_____
State/Local	_____
TOTAL	100%

PART THREE: Compliance Costs Outside the Firm

1. Over the past fiscal year, what was your expenditure for outside tax assistance?

Of this, what fraction was devoted to Federal income taxation and what fraction to State and Local income taxation?

Federal	_____
State/Local	_____
TOTAL	100%

2. Please estimate what percentage of your expenditures on outside tax assistance go to:

Accounting firms	_____
Legal firms (tax attorney)	_____
Consulting firms	_____
Financial Institutions	_____
Other (specify _____)	_____
TOTAL	100%

3. Please estimate the percentage of your expenditures on outside tax assistance accounted for by the following functions:

- | | | |
|--------------|--|-------------|
| a. | Keeping records | _____ |
| b. | Researching the tax laws and filing requirements | _____ |
| c. | Planning | _____ |
| d. | Filing the returns | _____ |
| e. | Communicating with internal tax personnel | _____ |
| f. | Audits | _____ |
| g. | Appeals | _____ |
| h. | Litigation | _____ |
| i. | Preparing information for financial statements | _____ |
| j. | Monitoring and participating in tax process | _____ |
| k. | Other (specify _____) | _____ |
| TOTAL | | 100% |

PART FOUR: Satisfaction Regarding Interactions with the IRS

1. On a scale of 1 to 5, where 1=very ineffective and 5=very effective, please rate your opinion of the competency of the following members of the examination team: (If you are dealing with more than one team concurrently, evaluate the average competency of the teams' members.)

		Very Ineffective	Somewhat Ineffective	Neutral	Somewhat Effective	Very Effective	Not Member of Team
a.	Case Manager	1	2	3	4	5	<input type="checkbox"/>
b.	Team Coordinator	1	2	3	4	5	<input type="checkbox"/>
c.	Domestic Team Member	1	2	3	4	5	<input type="checkbox"/>
d.	International Agent	1	2	3	4	5	<input type="checkbox"/>
e.	Engineer Specialist	1	2	3	4	5	<input type="checkbox"/>
f.	Economist Specialist	1	2	3	4	5	<input type="checkbox"/>
g.	Employment/Excise	1	2	3	4	5	<input type="checkbox"/>
h.	Specialist Manager						
	Engineering	1	2	3	4	5	<input type="checkbox"/>
	International	1	2	3	4	5	<input type="checkbox"/>

2. On a scale of 1 to 5, where 1=very dissatisfied and 5=very satisfied, how satisfied are you with the currency of your current examination?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
1	2	3	4	5

3. Information Document Requests:
Regarding the audit team's requests for information, please use the criteria listed below to rate the following areas:

	not specific enough	appro- priately specific	too many	appro- priate number	not clear	clear
Domestic Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
International/Economist Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Engineering Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. How satisfied are you with current efforts by case managers, specialist managers and/or branch chiefs to resolve issues at the lowest level possible?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
1	2	3	4	5

5. Overall, how satisfied are you with your interactions with the IRS?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
1	2	3	4	5

Please rate your overall satisfaction level for the following separate functions of the IRS:

	Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
Exams	1	2	3	4	5
Appeals	1	2	3	4	5
Counsel	1	2	3	4	5

PART FIVE: Attitudes and Suggestions for Reform

1. What aspect(s) of the current tax code is/are most responsible for the cost of complying with the Federal corporate income tax?

With state/local income taxes?

2. What features of the Tax Reform Act of 1986 (provisions or code sections) most increased the complexity of the tax system?

Which features reduced complexity the most?

3. Currency of Examination:

a. Within how many months of the filing of your corporate returns do you think the examination should be started?

12 months ☐

18 months ☐

24 months ☐

Other: _____

b. How many years do you think should be included in the audit cycle?

1 year ☐

2 years ☐

3 years ☐

c. Within what time span do you think the audit should be completed?

6 mos. 12 mos. 18 mos. 24 mos.

If the audit cycle includes 1 year ☐ ☐ ☐ ☐

If the audit cycle includes 2 years ☐ ☐ ☐ ☐

If the audit cycle includes 3 years ☐ ☐ ☐ ☐

4. What suggestions would you make to simplify compliance with the tax at either the federal or state/local levels?

5. What is your best estimate of the percentage growth between 1986 and 1992 in the funds your corporation allocates for corporate income tax compliance?

_____ %

6. Of the total cost of complying with the federal tax system, what is your best estimate of the percentage of these costs that is due to foreign-source income operations?
_____ %
7. In the past six years what has your corporation done to cope with increased complexity, given your limited budget?
8. What problems have you encountered with the tax system which have not been addressed by this questionnaire?

Contact Person (Optional): Name: _____

Title: _____

Phone No.: _____



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March 25, 1996

Dear Corporate Tax Officer:

There is substantial agreement in the business community that the corporate income tax system has become extraordinarily complex. In spite of that view, there is insufficient information about the compliance costs borne by businesses as they deal with the requirements of the tax law, and almost nothing known about the impact on compliance costs of changes in the tax law or IRS procedures.

The enclosed survey, which is being sent to approximately 1700 of the largest companies in the United States, is designed to learn more about the nature of these costs. In particular, we intend to estimate the magnitude and determinants of compliance costs, and ultimately to suggest policy and procedural changes which could improve the tax code's efficiency, equity and simplicity. The survey is being carried out by the Office of Tax Policy Research of the University of Michigan Business School, under contract to the Internal Revenue Service. A report on the results, that makes use of only summary information, will be prepared for the Large Case Division of the IRS, for the purposes of monitoring and improving their interactions with taxpayers. We have developed this project with the cooperation of Tax Executives Institute, which fully supports this effort and encourages your full participation. A letter expressing the Institute's support is enclosed.

This Office conducted a similar study in 1992, the results of which are now acknowledged to be one of the most reliable guides to corporate compliance cost. One objective of the present survey is to evaluate recent changes in compliance cost due to changes in the tax law and recent IRS initiatives.

We would very much like to have your participation in this important work. Although we request some sensitive information, you can be assured that the survey results will be reviewed only by myself and my research assistants. The questionnaire has an identification number solely to reduce duplication of follow-up mailings: the name of your company will never be placed on the questionnaire. In reporting our findings, no individual corporation will be identified; the results will be reported only in a summary form. I trust that those of you who completed the 1992 survey can attest to our responsibility surrounding the confidentiality of responses.

In this survey you are asked to estimate expenditures on personnel both within and outside of the tax department who deal with the tax law, on overhead and supplies to support those personnel, and on outside expert advice. While we realize that you also devote resources to complying with payroll, property, excise, withholding and other taxes, this survey is limited to the costs of complying with U.S. federal, state and local corporate income taxes. These costs should include expenditures of foreign affiliates to comply with U.S. tax law, but not expenditures to comply with the tax rules of foreign governments. Our interest is in the annual incremental costs imposed by income tax compliance, i.e., what you could save over the long run if these taxes were eliminated.

If, as you complete the survey, you have any questions, please feel free to contact me. We are hoping to receive all surveys back by June 1. Your time and effort is greatly appreciated. Thank you.

Joel Slemrod

JS/mc
Enclosures

**SURVEY OF THE COMPLIANCE COSTS
OF CORPORATE INCOME TAX**

March 1996

**Sponsored by
The Office of Tax Policy Research
University of Michigan Business School**

PART ONE: Characteristics of the Corporation

For questions 1 through 7, refer to the most recent tax year completed.

1. Did you file a consolidated Federal income tax return?

Yes ☐ No ☐

If **Yes**, please record the number of entities included in the consolidated return(s) _____

Of this number, how many entities were active? _____

If you also filed unconsolidated federal returns, please record the number of unconsolidated returns filed _____

2. How many pages or inches of documents were submitted as part of your Federal income tax return?

_____ pages or _____ inches

3. In how many states did you file a corporate income tax return? (Include states which levy a franchise tax based on income or other business tax) _____
How many state income tax returns were filed? _____

Please indicate if California and/or New York were among your state income tax returns.

California ☐ New York ☐

4. Were you subject to the Alternative Minimum Tax?

Yes ☐ No ☐

If **No**, did you calculate the AMT Liability?

Yes ☐ No ☐

5. Please indicate which one of the following industry categories best describes the activities of your primary business:

Agriculture, Forestry and Fishing	<input type="checkbox"/>	Retail Trade	<input type="checkbox"/>
Construction	<input type="checkbox"/>	Services	<input type="checkbox"/>
Financial	<input type="checkbox"/>	Telecommunications	<input type="checkbox"/>
Insurance and Real Estate	<input type="checkbox"/>	Transportation and Public	
Manufacturing	<input type="checkbox"/>	Utilities	<input type="checkbox"/>
Mining	<input type="checkbox"/>	Wholesale Trade	<input type="checkbox"/>
Oil and Gas	<input type="checkbox"/>	Other _____	<input type="checkbox"/>

6. **Indices of firm size** (For consistency, please use the following abbreviations only:
K = thousands, M = millions, B = billions, T = trillions)

a. What was the total number of employees (full-time equivalents)?

U.S. _____ Foreign _____ Total _____

b. What were your total assets?

U.S. _____ Foreign _____ Total _____

c. What were your net receipts or sales? (Refer to the most convenient recent 12-month period)

U.S. _____ Foreign _____ Total _____

7. **Indices of multinationality**

a. Does your corporation have a majority interest, direct or indirect, in any foreign subsidiaries?

Yes ☐ No ☐

If **Yes**, how many? _____ In how many different foreign countries? _____

Does your corporation have a minority interest in any foreign entities?

Yes ☐ No ☐

If **Yes**, how many? _____ In how many different foreign countries? _____

b. Does your corporation operate any branches in foreign countries?

Yes ☐ No ☐

If **Yes**, how many? _____ In how many different foreign countries? _____

c. Do you have a foreign sales corporation?

Yes ☐ No ☐

d. Does your corporation own any Section 936 Corporations?

Yes ☐ No ☐

e. Does a foreign parent own a majority of your corporation?

Yes ☐ No ☐

f. Does your corporation participate in any joint ventures?

Yes ☐ No ☐

PART TWO: Compliance Costs Within the Firm

This section refers to the cost of tax compliance incurred within the firm, both inside and outside the tax department. (Part Three deals with the cost of tax-related services purchased from sources external to the firm.) Please estimate the annual cost that could be saved over the long run if corporate income tax was eliminated.

1. How many person-years are devoted to federal corporate income tax?

Within Tax Department

Within Firm,
Outside of Tax Department

To state corporate income tax?

Within Tax Department

Within Firm,
Outside of Tax Department

2. What is the total annual budget for salaries (including fringe benefits) for federal corporate income tax-related work?

Within Tax Department

Within Firm
Outside of Tax Department

For state income tax-related work?

Within Tax Department

Within Firm
Outside of Tax Department

3. Roughly speaking, the tasks involved in complying with Federal and State corporate income tax laws fall into the ten categories listed below. Please estimate the percentage of personnel expenditure devoted to each of these tasks, separately for within the tax department and outside the tax department. (If any category accounts for no, or negligible, expenditure, write 0 in the appropriate space. If your estimates refer to a group of categories, indicate which are grouped by bracketing or otherwise indicating which categories are combined.)

	Within Tax Department	Within Firm Outside Tax Department
	%	%
a. Keeping records		
b. Researching the tax laws and filing requirements		
c. Planning		
d. Dealing with other personnel, internal and external		
e. Filing the returns		
f. Audits		
g. Appeals		
h. Litigation		
i. Preparing information for financial statements		
j. Monitoring and participating in tax legislative and administrative process		
TOTAL	100%	100%

4. Please estimate your annual non-personnel costs for complying with Federal and State corporate income tax requirements. (If categories are combined, please so indicate; if expenditures are negligible, write 0.)

	Within Tax Department	Within Firm Outside Tax Department
	\$	\$
Computer/Data processing		
Record storage and retrieval		
Office space		
General supplies		
Copying, faxes, etc.		
Travel		
Other (please specify _____)		
TOTAL	\$	\$

Of the total non-personnel costs, what fraction was devoted to Federal and what fraction to State income taxation?

Federal	_____%
State	_____
TOTAL	100%

PART THREE: Compliance Costs Outside the Firm

1. Over the past fiscal year, what was your expenditure for outside tax assistance?

\$ _____

Of this, what fraction was devoted to Federal income taxation and what fraction to State income taxation?

Federal	_____%
State	_____
TOTAL	100%

2. Please estimate what percentage of your expenditures on outside tax assistance go to:

Accounting firms	_____%
Legal firms (tax attorney)	_____
Consulting firms	_____
Financial Institutions	_____
Other (specify _____)	_____
TOTAL	100%

3. Please estimate the percentage of your expenditures on outside tax assistance accounted for by the following functions. (If categories are combined, please so indicate; if expenditures are negligible, write 0.)

a. Keeping records	_____%
b. Researching the tax laws and filing requirements	_____
c. Planning	_____
d. Filing the returns	_____
e. Communicating with internal tax personnel	_____
f. Audits	_____
g. Appeals	_____
h. Litigation	_____
i. Preparing information for financial statements	_____
j. Monitoring and participating in tax process	_____
TOTAL	100%

4. Of the total cost of complying with the federal tax system, what is your best estimate of the percentage of these costs that is due to foreign-source income operations?

_____ %

PART FOUR: Satisfaction Regarding Interactions with the IRS

1. Are you currently under examination by the Internal Revenue Service?

Yes ☐ No ☐

If **Yes**, how many years are currently under examination? _____

What is the earliest year under audit? _____

Do you currently have tax years before appeals?

Yes ☐ No ☐

If **Yes**, how many? _____

Do you currently have tax years under litigation?

Yes ☐ No ☐

If **Yes**, how many? _____

2. **Satisfaction with Examination Team Members**

On a scale of 1 to 5, where 1=very ineffective and 5=very effective, please rate your opinion of the competency of the following members of the examination team: (If you are dealing with more than one team concurrently, evaluate the average competency of the teams' members.)

	Very Ineffective	Somewhat Ineffective	Neutral	Somewhat Effective	Very Effective	Not Member of Team
a. Case Manager	1	2	3	4	5	<input type="checkbox"/>
b. Team Coordinator	1	2	3	4	5	<input type="checkbox"/>
c. Domestic Team Member	1	2	3	4	5	<input type="checkbox"/>
d. International Specialist	1	2	3	4	5	<input type="checkbox"/>
e. Engineer Specialist	1	2	3	4	5	<input type="checkbox"/>
f. Economist Specialist	1	2	3	4	5	<input type="checkbox"/>
g. Employment/Excise	1	2	3	4	5	<input type="checkbox"/>
h. Specialist Manager						
Engineering	1	2	3	4	5	<input type="checkbox"/>
International	1	2	3	4	5	<input type="checkbox"/>
i. Computer Audit Specialist	1	2	3	4	5	<input type="checkbox"/>
j. Other _____	1	2	3	4	5	<input type="checkbox"/>

3. Satisfaction with Field Office and National Office Attorneys

a. Over the past twelve months, were you involved with a Field Office Attorney with regard to your most recent examination cycle? Yes ☐ No ☐

If you answered yes to (a), on a scale of 1 to 5, how satisfied were you with:

	Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied	N/A
Development of facts/evidence	1	2	3	4	5	<input type="checkbox"/>
Application of law or regulations	1	2	3	4	5	<input type="checkbox"/>
Efforts to resolve issues	1	2	3	4	5	<input type="checkbox"/>
Timeliness of actions	1	2	3	4	5	<input type="checkbox"/>

b. Over the past twelve months, were you involved with a National Office Attorney with regard to your most recent examination cycle? Yes ☐ No ☐

If you answered yes to (b), on a scale of 1 to 5, how satisfied were you with:

	Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied	N/A
Development of facts/evidence	1	2	3	4	5	<input type="checkbox"/>
Application of law or regulations	1	2	3	4	5	<input type="checkbox"/>
Efforts to resolve issues	1	2	3	4	5	<input type="checkbox"/>
Timeliness of actions	1	2	3	4	5	<input type="checkbox"/>

c. If technical advice was requested on your Examination cycle, how satisfied were you with:

	Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied	N/A
Development of facts/evidence	1	2	3	4	5	<input type="checkbox"/>
Application of law or regulations	1	2	3	4	5	<input type="checkbox"/>
Efforts to resolve issues	1	2	3	4	5	<input type="checkbox"/>
Timeliness of actions	1	2	3	4	5	<input type="checkbox"/>

4. Currency of Examination:

a. On a scale of 1 to 5, where 1=very dissatisfied and 5=very satisfied, how satisfied are you with the currency of your current examination?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
1	2	3	4	5

b. Within how many months of the filing of your corporate returns do you think the examination should be started?

12 months	<input type="checkbox"/>	24 months	<input type="checkbox"/>
18 months	<input type="checkbox"/>	Other: _____	

c. How many years do you think should be included in the audit cycle?

1 year	<input type="checkbox"/>	2 years	<input type="checkbox"/>	3 years	<input type="checkbox"/>
--------	--------------------------	---------	--------------------------	---------	--------------------------

d. Within what time span do you think the audit should be completed?

6 mos.	12 mos.	18 mos.	24 mos.	36 mos.
---------------	----------------	----------------	----------------	----------------

If the audit cycle includes 1 year	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If the audit cycle includes 2 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
If the audit cycle includes 3 years	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. Information Document Requests:

Regarding the audit team's requests for information, please use the criteria listed below to rate the following areas:

	not specific enough	appro- priately specific	too many	appro- priate number	not clear	clear
Domestic Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
International/Economist Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Engineering Issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. How satisfied are you with current efforts by case managers, specialist managers and/or branch chiefs to resolve issues at the lowest level possible?

Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
1	2	3	4	5

7. Overall, how satisfied are you with your interactions with the IRS, both overall and by function?

	Very Dissatisfied	Somewhat Dissatisfied	Neutral	Somewhat Satisfied	Very Satisfied
Overall	1	2	3	4	5
Exams	1	2	3	4	5
Appeals	1	2	3	4	5
Counsel	1	2	3	4	5

8. Since 1992, the IRS has embarked on a number of initiatives designed to reduce the burden of the compliance process. To evaluate their effectiveness, please summarize your views about whether there has been a noticeable change since 1992 in your satisfaction with your interaction with the IRS.

	Substantially Worsened	Somewhat Worsened	No Noticeable Change	Somewhat Improved	Substantially Improved
Overall	1	2	3	4	5
Exams	1	2	3	4	5
Appeals	1	2	3	4	5
Counsel	1	2	3	4	5

9. Which aspects of recent IRS initiatives are you most satisfied with?

Which aspects of recent IRS initiatives are you most disappointed about?

10. What is your best estimate of the percentage growth (or decline) between 1992 and 1996 in the funds your firm allocates for corporate income tax compliance?
_____ %

For the sake of comparison, what was the percentage growth in total revenues over this period?
_____ %

PART FIVE: Consequences of Tax Reform

1. The 1992 survey inquired about the aspects of the tax system that were most responsible for the cost of compliance. In this survey we are interested in identifying specific changes that would reduce that cost, and in quantifying the potential cost saving.

To answer these questions it would be helpful to have handy an estimate of your own firm's current cost of compliance. To obtain this, add up your answers to all four sections of Part Two, Question 2; both totals from Part Two, Question 4; and Part Three, Question 1.

Your estimated total annual cost of compliance is: \$_____.

For each of the following changes, what is your best estimate of the compliance cost saving that would occur? On the next page, please feel free to suggest other cost-saving changes and estimate the expected cost saving.

<u>Hypothetical Change</u>	<u>Estimated Annual Savings</u>
a. Eliminate depreciation rules, to be replaced by immediate expensing of capital asset costs	\$ _____
b. Abolish Section 263A	_____
c. Establish complete uniformity among state corporate income tax rules and conformity to federal rules	_____
d. Abolish Alternative Minimum Tax	_____
e. Eliminate reporting requirements of all non-tax-computation-related information, such as business activity code, ownership of over 50% of voting stock, and Forms 5471 and 5472	_____
f. Filing requirements reduced to audited financial statements plus Schedule M-1 detail	_____

g. <u>Other Suggested Changes</u>	<u>Estimated Annual Savings</u>
(i) _____	
(ii) _____	
(iii) _____	

2. Several recent proposals for fundamental tax reform -- such as the "flat tax" or value-added tax -- feature a business tax base which consists of gross receipts minus purchased inputs. Depending on the proposal, purchased inputs may or may not include labor compensation or imported goods, and gross receipts may or may not include receipts from exports. Although in some cases they have not been fully fleshed out, these proposals would effectively implement several of the reforms listed in question 1 above, including eliminating depreciation, Section 263A, and the alternative minimum tax. Both the flat tax and the VAT would also eliminate the implications of financial flows, such as interest paid or received, dividends received as well as special treatment of capital gains; special treatment of financial institutions would likely be required.

What is your best estimate of the annual compliance cost saving to your firm of such a business tax? \$ _____

Do you have any comments on the potential and problems of such fundamental reform of business taxation with regard to simplification and compliance cost?

Contact Person (Optional): Name: _____
 Title: _____
 Phone No.: _____

TABLE 1
Comparison of Industry Distributions
of Survey Respondents and CEP Population per GAO Report
(percent)

Industry	1992 Survey Respondents	1996 Survey Respondents	GAO Report
Wholesale Trade	7.1	6.5	7
Retail Trade	1.9	7.1	7
Services	8.5	1.3	5
Mining	2.5	1.6	3
Construction	1.8	1.6	2
Manufacturing	41.7	36.0	45
Financial and Insurance	20.0	11.7 ^a	19
		6.8 ^b	
Transportation	15.0	10.4 ^c	12
Agriculture	1.5	0.6	n.a.
Oil and Gas	n.a.	4.2	n.a.
Telecommunications	n.a.	2.3	n.a.
Other	n.a.	9.7	n.a.

^aFinancial only

^bInsurance and real estate

^cTransportation and public utilities

n.a. = not separately specified

TABLE 2
Comparison of U.S. Assets Distributions
of Survey Respondents and CEP Population per GAO Report

Asset Category (\$millions)	1992 Survey Respondents	1996 Survey Respondents	GAO Report
Less than 250	10.9	6.8	12
250-500	14.1	11.6	13
500-1000	20.0	14.4	17
1000-2000	16.2	16.4	15
2000-3000	8.2	9.2	8
3000-4000	5.3	6.5	6
4000-5000	2.6	4.5	4
5000-6000	2.9	4.8	4.5
6000-7000	2.9	2.1	3
7000-8000	2.1	2.4	2
8000-9000	1.5	2.4	1
9000-10000	2.9	1.0	2
More than 10000	10.3	17.8	14

TABLE 3**Distribution of 1996 Survey Respondents' by Dun's Ranking of Sales**

Dun's Rank	Number of Survey Respondents
	1996
1-500	79
501-1000	56
1001-1500	41
1501-2000	26
2001-2500	14
2501-3000	20
3001-3500	10
3501-4000	9
4001-4500	8
4501-5000	4
>5000	27
Total ranked	294
Not ranked	15

Source: Dun's Business Guide, 1996.

TABLE 4

**Average Compliance Cost
(\$thousands)**

All Responding Firms						
Function	Year	Federal		State and Local		Total
		Tax Dept.	Other Depts.	Tax Dept.	Other Depts.	
Within firm	1992	476.8	130.6	217.8	70.3	895.5
Personnel	1996	647.7	261.9	215.0	108.6	1233.2
Within firm	1992	163.9	123.2	76.6	585.5	422.2
Non-personnel	1996	161.2	71.4	61.2	32.3	326.1
Outside firm	1992	190.1		57.3		247.4
	1996	268.1		71.9		340.0
Total	1992	1084.6		480.5		1565.1
	1996	1410.3		489.0		1899.3

Fortune 500 Only						
Function	Year	Federal		State and Local		Total
		Tax Dept.	Other Depts.	Tax Dept.	Other Depts.	
Within firm	1992	615.3	160.9	291.3	82.0	1149.5
Personnel	1996	1347.0	643.1	418.7	232.8	2641.6
Within firm	1992	236.0	183.8	103.8	94.6	618.2
Non-personnel	1996	342.6	185.2	121.6	75.5	724.9
Outside firm	1992	269.7		73.0		342.7
	1996	445.6		115.2		560.8
Total	1992	1465.7		644.7		2110.4
	1996	2963.5		963.8		3927.3

Note: 1992 and 1996 figures for the Fortune 500 firms are not strictly comparable due to a change in definition of the Fortune 500 ranking.

TABLE 5

**Composition of Compliance Costs
(% of total)**

All Responding Firms						
Function	Year	Federal		State and Local		Total
		Tax Dept.	Other Depts.	Tax Dept.	Other Depts.	
Within firm	1992	30.5	8.3	13.9	4.5	57.2
Personnel	1996	34.1	13.8	11.3	5.7	64.9
Within firm	1992	10.5	7.9	4.9	3.7	26.9
Non-personnel	1996	8.5	3.8	3.2	1.7	17.2
Outside firm	1992	12.1		3.7		15.9
	1996	14.1		3.8		17.9
Total	1992	69.3		30.7		100.0
	1996	74.3		25.7		100.0

Fortune 500 Only						
Function	Year	Federal		State and Local		Total
		Tax Dept.	Other Depts.	Tax Dept.	Other Depts.	
Within firm	1992	29.2	7.6	13.8	3.9	54.5
Personnel	1996	34.3	16.4	10.7	5.9	67.3
Within firm	1992	11.2	8.7	4.9	4.5	29.3
Non-personnel	1996	8.7	4.7	3.1	1.9	18.4
Outside firm	1992	12.8		3.5		16.2
	1996	11.3		2.9		14.2
Total	1992	69.5		30.5		100.0
	1996	75.5		24.5		100.0

Notes: Categories may not sum to 100 due to rounding error.

1992 and 1996 figures for the Fortune 500 firms are not strictly comparable due to a change in definition of the Fortune 500 ranking.

TABLE 6

Within-firm Personnel Costs by Function
(% of total personnel costs)

Function	All Survey Respondents				Fortune 500 Only			
	Within Tax Dept.		Other Depts.		Within Tax Dept.		Other Depts.	
	1992	1996	1992	1996	1992	1996	1992	1996
Recordkeeping	9.5	7.7	49.1	57.7	7.0	7.0	39.2	59.9
Research	10.7	12.1	3.8	1.6	9.0	11.5	2.6	0.6
Planning	12.4	14.0	5.5	6.4	14.7	15.3	6.3	5.2
Dealing with other personnel	7.6	6.7	6.2	3.8	7.2	6.7	10.0	4.2
Filing returns	30.3	30.9	8.7	9.3	31.8	30.9	11.6	9.9
Audit	12.9	14.1	7.4	7.4	13.1	14.6	10.4	8.0
Appeals	3.6	3.5	1.6	1.0	3.7	3.8	1.6	0.2
Litigation	2.1	1.4	0.6	0.8	2.7	1.3	0.3	0.9
Preparing info. for fin. stmts.	6.1	6.1	13.8	9.6	5.3	5.2	14.5	10.2
Monitoring tax process	5.0	3.6	3.3	2.2	5.6	3.5	3.7	0.9

Notes: Column totals may not be 100 because of rounding error.

1992 and 1996 figures for the Fortune 500 firms are not strictly comparable due to a change in definition of the Fortune 500 ranking.

TABLE 7

Outside Assistance by Function and Type of Provider
(% of total outside assistance costs)

Function	All Responding Firms		Fortune 500 Only	
	1992	1996	1992	1996
Recordkeeping	1.7	1.0	0.4	1.1
Research	17.3	15.8	18.8	17.0
Planning	20.1	28.4	24.5	32.6
Communicating with firm personnel	3.4	2.5	3.1	1.1
Filing returns	7.2	11.1	5.0	7.3
Audit	12.1	13.2	9.2	14.9
Appeals	12.5	9.1	10.4	5.4
Litigation	19.4	13.0	20.2	16.1
Preparing info. for fin. stmts.	2.4	2.1	2.2	1.3
Monitoring tax process	2.4	3.8	3.5	3.2
Other	1.6	n.a.	2.8	n.a.
Type of Provider				
Accounting	42.2	49.4	41.3	38.7
Legal	52.6	46.7	55.1	57.3
Other	5.2	3.9	3.6	4.0

Notes: Columns may not add to 100 because of rounding error.

1992 and 1996 figures for the Fortune 500 firms are not strictly comparable due to a change in definition of the Fortune 500 ranking.

TABLE 8
Average Functional Expenditures by Location of Activity

All Responding Firms

Function	Within the Firm				Outside Assistance		Total		% of Total Costs	
	Tax Dept.		Other Depts.		1992	1996	1992	1996	1992	1996
	1992	1996	1992	1996						
Recordkeeping	69.5	65.9	115.7	226.2	4.2	3.4	189.4	295.5	15.9	18.6
Research	75.4	104.2	8.3	6.3	42.7	53.7	126.4	164.2	10.6	10.3
Planning	88.1	120.5	12.6	25.2	49.6	96.5	150.3	242.2	12.6	15.2
Dealing with other personnel	52.8	57.5	14.7	15.0	8.4	8.4	75.9	80.9	6.4	5.1
Filing returns	215.1	265.9	20.1	36.5	17.7	37.6	252.9	340.0	21.3	21.4
Audits	89.5	121.8	17.3	29.0	29.7	44.9	136.5	195.7	11.5	12.3
Appeals	25.4	29.9	3.7	3.9	30.8	30.9	59.9	64.7	5.0	4.1
Litigation	14.0	11.8	2.0	3.2	48.0	44.1	64.0	59.1	5.4	3.7
Preparing information for financial statements	41.2	52.6	32.8	37.7	6.0	7.1	80.0	97.4	6.7	6.1
Monitoring tax process	36.1	31.2	7.5	8.7	6.0	12.8	49.6	52.7	4.2	3.3
Other	0.0	n.a.	0.0	n.a.	3.8	n.a.	3.8	n.a.	0.3	n.a.
Total	707.0	861.2	234.6	391.7	246.8	339.4	1188.7	1592.4	100	100

Note: These figures do not include within-firm non-personnel costs. All figures, except for those in the last column, are in \$thousands.

TABLE 8, continued

Average Functional Expenditures by Location of Activity

Fortune 500 Only

Function	Within the Firm				Outside Assistance		Total		% of Total Costs	
	Tax Dept.		Other Depts.							
	1992	1996	1992	1996	1992	1996	1992	1996	1992	1996
Recordkeeping	78.8	123.1	136.1	541.0	1.4	6.0	216.3	670.1	13.7	20.8
Research	101.8	203.3	11.8	5.5	64.6	94.1	178.2	302.9	11.3	9.4
Planning	124.3	270.7	17.3	47.3	84.0	181.0	225.6	499.0	14.3	15.5
Dealing with other personnel	64.9	119.1	25.1	37.7	10.7	6.3	100.7	163.1	6.4	5.1
Filing returns	283.8	546.8	37.2	89.2	17.1	40.4	338.1	676.4	21.4	21.0
Audits	121.0	257.9	29.1	72.1	31.4	82.8	181.5	412.8	11.5	12.8
Appeals	32.0	67.4	4.5	1.8	35.7	29.8	72.2	99.0	4.6	3.1
Litigation	19.6	23.6	2.8	8.1	69.4	89.2	91.8	120.9	5.8	3.8
Preparing information for financial statements	48.8	92.0	38.6	91.9	7.5	7.2	94.9	191.1	6.0	5.9
Monitoring tax process	51.3	61.8	11.2	8.5	12.1	17.6	74.6	87.9	4.7	2.7
Other	0.0	n.a.	0.0	n.a.	3.0	n.a.	3.0	n.a.	0.2	n.a.
Total	962.2	1765.7	313.7	903.1	336.8	554.4	1576.7	3223.2	100	100

Note: These figures do not include within-firm non-personnel costs. All figures, except for those in the last two columns, are in \$thousands.

1992 and 1996 figures for the Fortune 500 firms are not strictly comparable due to a change in definition of the Fortune 500 ranking.

TABLE 9**Predicted Compliance Cost by Sector (% Deviation from Average)**

	1992	1996
<u>Sector</u>	<u>% Deviation from Average</u>	<u>% Deviation from Average</u>
Manufacturing	-3	+7
Wholesale Trade	-29	-6
Retail Trade	-21	-66
Services	+1	+28
Mining	+52	+0
Oil and Gas	+157	+77
Construction	0	n.a.
Transportation	-1	-17
Agriculture	+1	n.a.
Other	n.a.	+19

Note: These figures are based on forecasts from a multiple regression analysis of compliance costs, not including non-personnel costs, as a function of the logarithm of measures of firm size and principal sector. Because of the noncomparability of sales and assets figures, firms in the financial and life insurance sectors are not included.

TABLE 10**Ratings of Audit Team Competency****(Percentage in each category, and mean rating)**

Team Member	Year	1	2	3	4	5	Mean Rating	Change from 1992 to 1996
Case Manager	1992	7.3	13.4	30.1	32.2	17.0	3.38	+0.09
	1996	5.8	11.6	29.3	36.2	17.0	3.47	
Team Coordinator	1992	5.1	13.5	21.9	37.3	22.2	3.58	+0.10
	1996	4.2	10.6	20.8	42.0	22.3	3.68	
Domestic Team Member	1992	6.8	18.3	36.9	30.4	7.6	3.14	+0.25
	1996	2.8	14.5	33.2	40.2	9.3	3.39	
International Agent	1992	11.9	18.7	32.4	28.3	8.7	3.03	+0.17
	1996	7.1	16.5	34.6	33.0	8.8	3.20	
Engineer Specialist	1992	13.6	25.5	33.3	23.5	4.1	2.79	+0.01
	1996	12.2	29.8	29.3	22.9	5.9	2.80	
Economist Specialist	1992	23.9	25.4	31.0	18.3	1.4	2.48	+0.04
	1996	19.7	23.9	42.3	12.7	1.4	2.52	
Employment/Excise	1992	5.9	15.4	48.5	26.6	3.6	3.07	-0.07
	1996	11.4	15.2	39.9	29.1	4.4	3.00	
Specialist Manager: Engineering	1992	9.6	12.0	55.4	16.9	6.0	2.98	-0.13
	1996	10.7	15.5	54.8	16.7	2.4	2.85	
	1992	9.1	18.2	48.5	17.2	7.1	2.95	-0.11
	1996	10.8	14.9	55.4	17.6	1.4	2.84	
Computer Audit Specialist	1992	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
	1996	4.3	10.7	42.7	32.0	10.3	3.33	

- 1: Very Ineffective
- 2: Somewhat Ineffective
- 3: Neither Ineffective nor Effective
- 4: Somewhat Effective
- 5: Very Effective

TABLE 11**Satisfaction in 1996 with Field Office Attorneys, National Office Attorneys, and Technical Advice Personnel**

Field Office Attorneys						
	1	2	3	4	5	Mean
Development of Facts/Evidence	14.0	14.0	30.0	36.0	6.0	3.06
Application of Law or Regulations	16.3	20.4	29.6	30.6	4.1	2.86
Efforts to Resolve Issues	34.0	20.0	14.0	24.0	8.0	2.52
Timeliness of Actions	26.9	21.2	28.8	17.3	5.8	2.54

National Office Attorneys						
	1	2	3	4	5	Mean
Development of Facts/Evidence	22.2	30.6	19.4	25.0	2.8	2.56
Application of Law or Regulations	17.9	33.3	28.2	17.9	2.6	2.54
Efforts to Resolve Issues	36.8	34.2	13.2	7.9	7.9	2.16
Timeliness of Actions	43.6	30.8	7.7	10.3	7.7	2.08

Technical Advice						
	1	2	3	4	5	Mean
Development of Facts/Evidence	26.5	26.5	20.4	18.4	8.2	2.55
Application of Law or Regulations	29.2	29.2	16.7	18.8	6.3	2.44
Efforts to Resolve Issues	40.0	26.0	12.0	16.0	6.0	2.22
Timeliness of Actions	42.3	26.9	9.6	19.2	1.9	2.12

- 1: Very Dissatisfied
 2: Somewhat Dissatisfied
 3: Neither Dissatisfied nor Satisfied
 4: Somewhat Satisfied
 5: Very Satisfied

TABLE 12**Satisfaction with Currency of Current Examination****(Percentage in each category, and mean rating)**

	Year	1	2	3	4	5	Mean	Change from 1992 to 1996
Currency	1992	11.1	17.4	21.0	29.3	21.3	3.32	+0.17
	1996	11.2	13.8	15.9	32.6	26.4	3.49	

- 1: Very Dissatisfied
- 2: Somewhat Dissatisfied
- 3: Neither Dissatisfied nor Satisfied
- 4: Somewhat Satisfied
- 5: Very Satisfied

TABLE 13
Rating of Information Document Requests
(Percentage in each category)

	Year	Not Specific Enough	Appro- priately Specific	Too Many	Appro- priate Number	Not Clear	Clear
Domestic Issues	1992	29.2	70.8	47.0	53.0	26.5	73.5
	1996	24.1	75.9	44.9	55.1	24.5	75.5
	Change	+5.1		+2.1		+2.0	
International/Economics Issues	1992	36.6	63.4	32.6	67.4	38.2	61.8
	1996	34.6	65.4	35.0	65.0	33.5	66.5
	Change	+2.0		-2.4		+4.7	
Engineering Issues	1992	29.9	70.1	28.6	71.4	31.3	68.7
	1996	32.3	67.7	32.7	67.3	33.3	66.7
	Change	-2.4		-4.1		-2.0	

TABLE 14**Satisfaction with Lowest Level Resolution****(Percentage in each category, and mean rating)**

	Year	1	2	3	4	5	Mean	Change from 1992 to 1996
Satisfaction	1992	15.7	17.8	16.3	32.0	18.1	3.19	
	1996	12.4	17.7	18.0	33.2	18.7	3.28	+0.09

- 1: Very Dissatisfied
2: Somewhat Dissatisfied
3: Neutral
4: Somewhat Satisfied
5: Very Satisfied

TABLE 15**Overall Satisfaction with IRS Interactions****(Percentage in each category, and mean rating)**

	Year	1	2	3	4	5	Mean	Change from 1992 to 1996
Overall	1992	5.2	20.4	22.4	39.4	12.5	3.34	+0.02
	1996	1.7	21.9	25.0	41.3	10.1	3.36	
Exams	1992	10.0	21.7	21.1	34.9	12.3	3.18	+0.17
	1996	5.3	20.8	20.4	40.5	13.0	3.35	
Appeals	1992	4.1	14.1	30.9	38.5	12.4	3.41	-0.09
	1996	5.5	11.1	38.7	35.0	9.7	3.32	
Counsel	1992	10.6	16.4	61.5	10.6	0.9	2.75	+0.21
	1996	5.2	19.0	52.3	21.8	1.7	2.96	

- 1: Very Dissatisfied
2: Somewhat Dissatisfied
3: Neither Dissatisfied nor Satisfied
4: Somewhat Satisfied
5: Very Satisfied

TABLE 16**Change in Overall Satisfaction Since 1992**

	1	2	3	4	5	Mean
Overall	5.2	9.6	58.5	22.2	4.4	3.11
Exams	4.9	12.1	52.5	23.0	7.5	3.16
Appeals	2.1	10.5	70.7	16.2	0.5	3.03
Counsel	1.9	13.4	80.3	3.8	0.6	2.88

- 1: Substantially Worsened
2: Somewhat Worsened
3: Neutral
4: Somewhat Improved
5: Substantially Improved

TABLE 17
Preferred Currency of Examinations
(Percentage in each category)

		12 mos.	18 mos.	24 mos.	Other
Start of Exam	1992	43.4	33.2	19.2	4.2
	1996	37.5	31.1	25.6	5.8

		1 year	2 years	3 years
Years in Audit Cycle	1992	5.4	69.9	24.7
	1996	2.1	64.0	33.9

Completion of Audit		6 mos.	12 mos.	18 mos.	24 mos.
If Audit Cycle Includes 1 Year	1992	73.9	23.2	2.5	0.4
	1996	65.1	33.2	1.7	0.0
If Audit Cycle Includes 2 Years	1992	17.7	61.8	16.2	4.3
	1996	16.4	54.4	25.5	3.6
If Audit Cycle Includes 3 Years	1992	6.7	28.6	48.5	16.2
	1996*	4.3	29.5	41.1	23.6

*1.6 percent wrote in 36 mos.

TABLE 18

Ratings of Audit Team Competency

Mean Rating By Region

	Case Manager	Team Coordinator	Domestic Team Member	Inter- national Agent	Engi- neering Specialist	Econo- mist Specialist	Employ- ment/ Excise	Engi- neering Manager	Inter- national Manager	Computer Audit Specialist
	1992 1996	1992 1996	1992 1996	1992 1996	1992 1996	1992 1996	1992 1996	1992 1996	1992 1996	1992 1996
North Atlantic	3.43	3.69	3.21	3.15	3.06	2.43	3.43	3.00	2.75	
Mid-Atlantic	3.49 3.93	3.68 3.95	3.42 3.32	3.44 3.31	2.77 2.84	2.46 2.57	3.11 3.22	2.95 3.27	3.00 3.26	n.a. 3.34
Southeast	3.39 3.59	3.59 3.53	2.96 3.36	3.00 2.94	2.91 2.64	2.40 2.38	3.33 2.75	3.29 3.50	2.67 3.00	n.a. 3.51
Central	3.22	3.92	3.09	3.32	2.56	2.25	2.55	2.43	2.92	
Midwest	3.44 3.23	3.67 3.48	3.54 3.13	3.02 2.80	2.75 2.58	2.45 2.40	3.16 2.90	2.22 2.74	2.56 2.82	n.a. 3.42
Southwest	3.50	3.60	3.28	3.22	2.97	2.23	3.00	3.21	3.33	
West	3.39 3.10	3.76 3.19	3.20 2.96	3.05 2.62	2.98 2.66	2.83 2.89	2.86 3.12	3.00 2.67	2.76 2.79	n.a. 3.10
A/C Internat'l	3.50 n.a.	3.25 n.a.	4.50 n.a.	3.25 n.a.	4.00 n.a.	4.00 n.a.	4.00 n.a.	4.00 n.a.	4.00 n.a.	n.a. n.a.
Total	3.38 3.47	3.58 3.68	3.14 3.39	3.03 3.20	2.79 2.80	2.48 2.52	3.07 3.00	2.98 2.85	2.95 2.84	n.a. 3.33

TABLE 19**Satisfaction with Currency of Current Examination, By Region**

	1992 Mean	1996 Mean
North Atlantic	3.44	3.55
Mid-Atlantic	3.96	
Southeast	3.03	3.68
Central	3.52	3.66
Midwest	3.12	
Southwest	3.71	3.13
West	2.81	
A/C International	3.75	n.a.
Total	3.32	3.49

TABLE 20**Satisfaction with Lowest Level Resolution, By Region**

	1992 Mean Rating	1996 Mean Rating
North Atlantic	3.39	3.36
Mid-Atlantic	3.91	
Southeast	2.94	3.72
Central	3.00	2.97
Midwest	2.92	
Southwest	3.27	3.23
West	3.00	
A/C International	3.25	n.a.
Total	3.19	3.28

TABLE 21

Rating of Domestic Issues Information Document Requests, By Region
(Percentage in each category)

	Appropriately Specific		Appropriate Number		Clear	
	1992	1996	1992	1996	1992	1996
North Atlantic	79.1	77.3	57.8	56.7	85.0	74.1
Mid-Atlantic	72.7		66.7		85.7	
Southeast	81.2	82.9	37.5	54.6	89.3	83.9
Central	69.2	69.5	72.0	55.4	81.8	70.9
Midwest	62.7		43.2		54.5	
Southwest	73.5	75.0	64.9	52.2	75.8	77.1
West	66.1		44.6		66.0	
A/C International	100.0	n.a.	75.0	n.a.	100.0	n.a.
Total	70.8	75.9	53.0	55.1	73.5	75.5

Rating of International/Economic Issues Information Document Requests, By Region
(Percentage in each category)

	Appropriately Specific		Appropriate Number		Clear	
	1992	1996	1992	1996	1992	1996
North Atlantic	66.7	78.4	54.3	65.2	62.5	75.4
Mid-Atlantic	65.8		73.0		67.6	
Southeast	56.2	68.4	52.9	73.7	56.2	64.7
Central	65.0	48.9	75.0	64.0	72.2	57.5
Midwest	61.7		69.6		53.5	
Southwest	76.0	59.1	75.0	61.0	69.2	62.2
West	52.6		67.6		53.1	
A/C International	75.0	n.a.	75.0	n.a.	100.0	n.a.
Total	63.4	65.4	67.4	65.0	61.8	66.5

TABLE 21 (Continued)

**Rating of Engineering Issues Information Document Requests, By Region
(Percentage in each category)**

	Appropriately Specific		Appropriate Number		Clear	
	1992	1996	1992	1996	1992	1996
North Atlantic	84.8	68.4	81.2	62.1	71.9	66.7
Mid-Atlantic	72.7		80.6		79.3	
Southeast	70.6	65.2	76.5	63.2	78.6	76.5
Central	71.4	63.0	61.5	63.6	66.7	62.8
Midwest	62.5		63.6		65.3	
Southwest	73.5	71.4	69.4	80.5	69.7	65.9
West	62.1		64.3		55.6	
A/C International	100.0	n.a.	100.0	n.a.	100.0	n.a.
Total	70.1	67.7	71.4	67.3	68.7	66.7

TABLE 22**Overall Satisfaction with IRS Interactions****Mean Rating By Region**

	Overall		Exams		Appeals		Counsel	
	1992	1996	1992	1996	1992	1996	1992	1996
North Atlantic	3.52	3.54	3.35	3.49	3.21	3.46	3.00	3.02
Mid-Atlantic	4.07		3.93		3.58		2.76	
Southeast	3.09	3.51	3.00	3.63	3.13	3.16	2.26	2.89
Central	3.11	3.23	2.93	3.14	3.09	3.24	2.64	2.94
Midwest	3.09		2.86		3.78		2.73	
Southwest	3.50	3.15	3.45	3.21	3.65	3.27	2.88	2.91
West	3.16		2.97		3.10		2.52	
A/C International	3.00	n.a.	3.50	n.a.	3.00	n.a.	3.00	n.a.
Total	3.34	3.36	3.18	3.35	3.41	3.32	2.75	2.96

TABLE 23

**Most Often Cited Examples of Recent IRS Initiatives
Companies Are Satisfied With
(at least two mentions)**

<u>Reason</u>	<u># of Companies Mentioning</u>
1. More authority to examination case manager to settle issues.	46
2. None	22
3. Currency/acceleration of audits	18
4. Working more closely with taxpayers concerning audit and audit planning	13
5. One-stop shopping/single point of contact	7
6. Advance pricing agreements	7
7. More competent, knowledgeable, or reasonable agents	5
8. Improvement of IDRs	4
8. Early referral to appeals	4
10. Global intangibles settlements	2
10. Independent contractor issues	2

TABLE 24

**Most Often Cited Examples of Recent IRS Initiatives
Companies Are Most Dissatisfied With
(three or more mentions)**

<u>Reason</u>	<u># of Companies Mentioning</u>
1. Lack of willingness to resolve issues at case level.	21
2. None	9
3. Poorly trained IRS staff	8
4. Inadequate taxpayer involvement	7
4. IDR's too vague and/or numerous	7
6. Slow audits/currency	6
6. Too much focus on minor/immaterial issues	6
8. Poor technical advice (specialists)	5
9. Unreasonable INDOPCO application	4
9. Inadequate field office implementation of national office initiatives	4
11. Record retention	3
11. Industry programs	3
11. Unwillingness to negotiate	3
11. Unresponsiveness to telephone or letter inquiries	3
11. Penalty provisions	3
11. Transfer pricing regulations	3

Table 25

Regression Equations Explaining Satisfaction Indices, 1992 and 1996

Equation No.		1	2	3	4	5	6	7	8	9
Dependent Variable		Overall Rating	Overall Rating	Overall Rating	Overall Rating	Overall Rating	Currency Rating	Level of Resolution Rating	Overall Rating	Overall Rating
<u>Independent Variables</u>										
LNE	1992	0.173					0.123	0.131	0.183	n.a.
	1996	0.054					0.084	0.050	0.073	0.089
STATES	1992		0.0129							
	1996		0.0062							
ENTS	1992			0.00272						
	1996			0.00049						
Exam Rating	1992				0.748					
	1996				0.574					
Appeals Rating	1992				0.113					
	1996				0.206					
Counsel Rating	1992				0.098					
	1996				0.232					
Currency Rating	1992					0.220				
	1996					0.217				
Level of Issue Resolution Rating	1992					0.419				
	1996					0.411				
IDR Clarity Rating	1992					0.337				
	1996					-0.118				
IDR Specificity Rating	1992					0.015				
	1996					0.042				
IDR Quantity Rating	1992					0.111				
	1996					-0.262				
APP	1992							-0.660	-0.173	n.a.
	1996							-0.577	-0.445	-0.375
LIT	1992							-0.342		n.a.
	1996							-0.633		-0.447
AGO	1992						-0.180		-0.043	n.a.
	1996						-0.231		-0.017	-0.014

Table 26

**Estimated Compliance Cost Savings from Various Tax Reforms,
as a Percent of Total Compliance Costs**

Reform	Estimated % Savings
1. Filing requirements reduced to audited financial statements plus Schedule M-1 detail.	9.9
2. Establish complete uniformity among state corporate income tax rules and conformity to federal rules.	6.9
3. Eliminate depreciation rules, to be replaced by immediate expensing of capital asset costs.	4.7
4. Eliminate reporting requirements of all non-tax-computation-related information, such as business activity code, ownership of over 50% of voting stock, and Forms 5471 and 5472.	3.9
5. Abolish Alternative Minimum Tax	2.4
6. Abolish Section 263A	1.6

Table 27

**Estimated Cost Savings from Fundamental Tax Reform as a
Percent of Total Compliance Costs-- Overall and by Sector**

<u>Sector</u>	<u>Estimated % Savings</u>
Insurance and Real Estate	36.6
Transportation and Public Utilities	25.2
Manufacturing	23.9
Financial	22.5
Oil and Gas	21.4
Wholesale Trade	18.1
Retail Trade	17.4
OVERALL	24.8

Note: Includes only those sectors with more than five responses.

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