



Tax Day Survey Findings

April 16, 2018

METHODOLOGY

A survey of 1,343 American adults was conducted April 3-8, 2018, via SurveyMonkey Audience, with respondents representative of American households in terms of political ideology, age, region, and income distribution. A data analysis of individual income tax codes in all 50 states and the District of Columbia provide background on the levels of tax complexity and burden for each. These state-level factors are used independently and as an additional cross-tabulation for analyzing survey results.

BACKGROUND ON STATE ANALYSIS

State-level differences provide an excellent chance to identify how differences in tax administration matter. Further, they provide strong evidence for the benefits of simplifying tax systems – both on individuals and on states. State individual income tax systems vary dramatically in terms of:

Complexity of the system (# of tax brackets and level of nuance)
Burden level (measured as the tax % paid by households at the state's median income)

1) Complexity of the system (how many tax brackets, etc.)

SIMPLE:

- 9 states have no state income tax on **wages** (= non-existent)
- 8 states have flat income tax rate (= simple)

COMPLEX:

- 19 states and D.C. have between 3 and 6 brackets with lower levels of nuance (= moderate complexity)
- 14 states have 6 or more brackets with greater levels of nuance (= high complexity)

2) Burden level (what % median-income households spend)

LOW BURDEN:

- 9 states: no tax on wages (7 of these states have no individual income tax at all; 2 – TN and NH – tax only interest and dividend income, not wages)
- In 3 states: households at median income spend less than \$900 in state individual income taxes each year

HIGH BURDEN:

- 22 states: \$1,000 to \$2,000
- 16 states and D.C.: \$2,000 to \$4,200

SURVEY & DATA ANALYSIS FINDINGS - DETAILS

1) Complexity and burden levels of state individual income tax systems matters in terms of:

a. The emotions people feel while filing

Most common emotions:

| | |
|----------|-----|
| Stressed | 30% |
| Annoyed | 29% |
| Relieved | 27% |

TAX BURDEN matters on "STRESSED":

| | |
|---------------------|-----|
| HIGH BURDEN STATES: | 34% |
| LOW BURDEN STATES: | 28% |

b. How much they spend to file

On average, households spend \$274 to file their taxes each year

SIMPLE TAX CODE STATES: \$201

COMPLEX TAX CODE STATES: \$316

i.e. households in complex income tax states are estimated to spend 57% more to file their taxes compared with residents in simple tax code states.

This pattern holds even when ELIMINATING any households that hire accountants:

SIMPLE STATES (no accountants): \$69

COMPLEX STATES (no accountants): \$176

i.e. households that file their own taxes without an accountant spend more than twice as much in complex tax system states compared with those in simple tax code states. (2.5x more ... or 155% more)

c. Whether they have to hire an accountant or prepare on their own

On average, 41% of households hire an accountant or advisor to prepare/file their taxes:

SIMPLE TAX CODES STATES: 40%

COMPLEX TAX CODE STATES: 49%

d. If they take standard or itemized deduction

Overall, one-quarter (25%) of Americans don't know whether they take a standardized or itemized deduction. This is also the case for:

- 32% of those who hire an accountant
- 42% of those under the age of 30

Among those who know what type of deduction they take, 45% take standardized:

| | |
|--------------------------|-----|
| SIMPLE TAX CODE STATES: | 53% |
| COMPLEX TAX CODE STATES: | 40% |

Among those who know what type of deduction they take, approximately 1 in 5 (21%) currently itemize between \$12,000 and \$24,000.

- This represents the portion of taxpayers who may be impacted by the federal tax plan's increased standard deduction.

e. How burdensome taxes feel on one's family

Perceptions of overall "burden" (federal and state combined) are far greater among residents in states with higher state income tax rates than among those in lower state income tax rates.

| | |
|---------------------|-----|
| LOW BURDEN STATES: | 33% |
| HIGH BURDEN STATES: | 52% |

f. How complex people feel the federal tax system is

Most Americans (71%) believe that the federal income tax system is "very" or "somewhat" complex.

There are no differences in this perception based on where people live. This rate is also identical between conservatives and liberals. Only 15% see the system as "simple," and the remaining 14% are unsure.

Complexity is experienced most by those in households earning \$75,000 or more per year, with 84% in this group finding taxes to be complex.

g. What states spend, per capita, to operate their tax administration

State departments of revenue, often called departments or divisions of taxation, are responsible for collecting various taxes and fees. These include state income taxes (where applicable), sales taxes, and more. In some states, these agencies also administer lotteries, gambling, and/or motor vehicle registration. For purposes of this analysis, agency spending is limited to operational costs for tax programs NOT including any spent toward administering lottery, gambling, motor vehicle, or other non-applicable programs. This ensures a more apples-to-apples review of what states spend to administer tax activities.

From there, revenues are divided over state population to provide a comparable view of spending independent of state size.

On average, states spent \$25 per resident in FY 2017 to administer their respective revenue agencies, with a range of \$8 to \$101.

| | | |
|-------------------------|------|------------|
| NO INCOME TAX STATES: | \$16 | AVG = \$18 |
| FLAT INCOME TAX STATES: | \$21 | |
| COMPLEX STATES: | \$28 | |

However, this is skewed by the position of Washington, D.C., as a major outlier with a per-capita cost of \$101 to operate its complex department of revenue. Without Washington, D.C., the highest is \$45 per capita.

Eliminating D.C. from the list results in:

COMPLEX STATES (w/out DC): \$26

h. What states get as return on that investment in terms of income tax \$ raised

On average, for every \$1 a state spends to administer its revenue agency, \$52 is generated in state income tax revenues on wages.

The return on this investment is substantially greater in states with flat income taxes:

| | |
|-------------------------|------|
| FLAT INCOME TAX STATES: | \$63 |
| COMPLEX STATES: | \$49 |

2) Regarding the new federal income tax plan, most Americans do not realize that:

a. It will lower tax burdens on middle-income families

For middle-income American households, the federal tax plan will result in an average reduction of around \$1,000 on individual income tax payments. This was calculated state by state, looking at households at each state's median income. Median-income households in every state and D.C. are estimated to owe less as a result of these reforms.

This is not widely understood, however. Overall, Americans believe that median-income households will:

OWE MORE: 34%
OWE LESS: 31%
NOT SURE: 35%

Conservatives are more aware that median-income households will owe less:

| | CONSERVATIVES | LIBERALS |
|----------|---------------|----------|
| OWE MORE | 21% | 46% |
| OWE LESS | 41% | 22% |
| NOT SURE | 38% | 32% |

Among middle-income survey respondents only:

OWE MORE: 37%
OWE LESS: 31%
NOT SURE: 32%

b. It will simplify the tax process for middle-income families

Likewise, only one-third of Americans believe the tax plan will result in a simpler process:

MORE COMPLICATED: 31%
NO DIFFERENCE: 36%
MORE SIMPLE: 33%

3) Feelings about the federal tax plan differ based on how it is labeled

Support for the new federal income tax plan follows partisan lines, with conservatives generally supporting the measure and liberals generally opposing it. However, when the plan is described in concept without identifying its origins, conservatives and liberals alike support its contents. Each respondent in our survey received just ONE of three descriptions of the new plan:

GROUP A: “Federal Tax Plan that recently passed and will change what people pay next year”

GROUP B: “Trump Tax Plan that recently passed and will change what people pay next year”

GROUP C: “Efforts to simplify the federal income tax code to the point where the return could fit on a post card”

The portion of respondents who claim they “support” the measure differs by treatment group:

| | | |
|---------------------------|-----|-----------|
| GROUP A (“federal plan”): | 23% | AVG = 25% |
| GROUP B (“Trump plan”): | 28% | |
| GROUP C (“simplified”): | 56% | |

Responses are statistically similar between GROUP A and GROUP B, for an average of 25% support overall. Here is how these rates break down by ideology:

| % SUPPORT | CONSERVATIVES | LIBERALS |
|-------------------------|---------------|----------|
| GROUP A | 46% | 6% |
| GROUP B | 50% | 7% |
| <i>GROUPS A & B</i> | 48% | 6% |
| GROUP C | 59% | 54% |

| % OPPOSE | CONSERVATIVES | LIBERALS |
|-------------------------|---------------|----------|
| GROUP A | 16% | 68% |
| GROUP B | 15% | 73% |
| <i>GROUPS A & B</i> | 15% | 71% |
| GROUP C | 11% | 16% |

Here’s what this says:

Self-identified conservatives support the three measures fairly consistently. Among self-identified liberals, however, support varies greatly based on what the plan is called:

Greater than half (54%) support efforts to simplify the federal income tax code to the point where the return could fit on a post card. However, when the plan is described as the “federal tax plan” or the “Trump tax plan,” support drops to 6% and 7%, respectively.

Conversely, it could be phrased: While just 16% of self-identified liberals OPPOSE efforts to simplify the federal income tax code, 68% oppose the “federal tax plan” and 73% oppose the “Trump tax plan” -- despite these three plans having identical, or very similar, content.