



## **Fees Keeping American Taxpayers From Using Credit Cards To Make Tax Payments**

*Of Americans Who Owe the IRS For 2005, Balance Due Is An Average of \$3,400, According To New Ipsos Insight Survey*

**March 24, 2006, New York, NY** – American taxpayers are still hesitant to embrace the option to pay Uncle Sam with their credit cards, according to a study of 1,001 American adults conducted by global market research firm Ipsos Insight. The study revealed for the third year that while 68% of American adults are aware that the Internal Revenue Service accepts credit cards, a paltry 1% plan to use a credit card to pay incremental Federal income taxes for 2005. Meanwhile, both the percentage of Americans who owe and the amount they owe has increased, creating a larger potential market of Americans able to pay by credit card.

According to the study, Americans are extremely resistant to paying the convenience fees. More than three out of four (78%) say they “definitely will not” use a credit card the next time they owe incremental federal income taxes. Instead, they will resort to the usual personal check (62%), money order (11%) or direct debit from a bank account (7%). Concern around identity theft or information security do not appear to be an issue since the survey results also show that more than 60% of consumers are banking online.

The study reported that if the service were free, 23% of those open to the concept would use it, up slightly from the 21% reported last year. This sends the signal that the convenience and loyalty benefits of using a credit card are appealing, just not for a premium.

“A large convenience charge aimed directly at the consumer is clearly the barrier to broader use of this service,” said Doug Cottings, Senior Vice President with Ipsos Insight’s Financial Services practice. “The fees negate the attraction to credit card benefits such as convenience, habit, rewards points or payment deferrals. This negative outcome has effectively destroyed the effort to broaden taxpayer’s payment options through credit card payments.”

This year, 26% of Americans who owe or plan to owe federal income taxes expect to pony up an average of \$3,400 to Uncle Sam on April 15—an attractive sum to credit card companies. Last year 16% of Americans reported they owe or plan to owe federal income taxes with an average of \$1,200 payment amount.

“When a majority of consumers are trying to reduce their tax bill, a premium for a credit card service is not attractive. Any additional expenses to their taxes is the breaking point at which most people are turning away from the option,” continued Cottings. “Those planning on using their card to pay the IRS this year tend to be younger and work part-time – those least likely to be able to afford additional fees.”

The use of tax payments by credit card provides positive benefits for all those involved. The government receives payments from those that may not have the cash available at the time needed to cover their taxes. The credit card issuers and associations receive fees for every charge made. The taxpayer receives the benefit of added convenience, security, transaction record, and reward points for using their card to pay taxes. Removing the transaction fee from the taxpayer would increase usage dramatically and allow many stakeholders to enjoy more of the benefits mentioned.

Depending on the service provider, a credit card convenience fee of approximately 2.25% is charged to the taxpayer when paying federal taxes by credit card. The Taxpayer Relief Act of 1997 authorized the Treasury to accept credit card payments for federal taxes but prohibits the IRS from paying the standard credit card transaction fees merchants usually pay credit card companies to process their transactions. The convenience fee acts as a necessary revenue stream and is split between the service provider and the credit card company in exchange for the time it takes them to handle and process these transactions.



"To enable this system to work, the IRS in conjunction with the credit card companies need to find a way to reduce fees aimed at taxpayers. If the IRS is seriously considering credit cards to be a tangible payment option they will find a way to pay the credit card companies the processing fee, just like the millions of other merchants worldwide. Otherwise, the long term viability of this option is at risk, as credit card companies may pull out of the program," concluded Cottings.

Intent to Pay Taxes with a Credit Card			
	2004	2005	2006
Definitely/Probably will	4%	5%	4%
Might/Might not/Probably not	18%	19%	16%
Definitely will not	76%	75%	78%

Base: 1,001 Americans age 18+

Source: Ipsos 2006

### Methodology

*Data were gathered using the Ipsos U.S. Express omnibus survey from March 4-7, 2006. Interviews were conducted via telephone among a nationally representative U.S. sample of 1,001 adults aged 18 and older. The margin of error is +/- 3.1%.*

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