

Poll of American Taxpayers Points to Poor Understanding of Laws that Could Affect their Liability

Many Plan to Use Their Tax Refunds to Pay off Debt



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Ipsos Public Affairs

Public Release Date: Thursday, April 2, 2009, 12:00pm EST

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Poll of American Taxpayers Points to Poor Understanding of Laws that Could Affect their Liability

Many Plan to Use Their Tax Refunds to Pay off Debt

New York, NY – As the deadline for filing their 2008 income taxes approaches, many Americans may be missing out on credits and deductions due to their lack of familiarity with the tax system and tax law changes, according to a new study conducted by Ipsos Public Affairs on behalf of H&R Block. Half of Americans who are filing taxes this year (50%) believe that they cannot claim credits or deductions they may have overlooked on previous returns. Thus, in this time of economic crisis, many Americans may be missing out on potential refund money.

- Even among adults with a college degree and those with a household income of at least \$50,000, over four in ten do not think it is possible to claim deductions or credits that were missed in previous tax returns.

As a reflection of the current economic crisis, over one in three 2008 income tax filers (36%) say that they plan to put their refund money towards paying down debt while 18% plan to save it and 12% plan to spend it on necessities. Only 4% plan to splurge on items such as a flat screen TV or on a vacation with their tax refund.

These are some of the findings of an Ipsos poll conducted March 25th-29, 2009. For the survey, a nationally representative sample of 1,001 randomly-selected adults aged 18 and over residing in the U.S. was interviewed by telephone via Ipsos' U.S. Telephone Express omnibus. With a sample of this size, the results are considered accurate within ± 3.1 percentage points, 19 times out of 20, of what they would have been had the entire population of adults in the U.S. been polled. The margin of error will be larger within regions and for other sub-groupings of the survey population, such as those who are filing taxes this year. These data were weighted to ensure the sample's regional and age/gender composition reflects that of the actual U.S. population according to data from the U.S. Census Bureau.

Confusion extends across a number of tax-related issues...

...Filing for an extension...

In addition to widespread misunderstanding around claiming missed deductions and credits, there is also a great deal of uncertainty around filing for an extension. Less than half (45%) are aware that, even if you file for an extension, you still have to pay your

taxes by April 15th. College graduates (55%) are most likely to know that taxes still need to be paid in April, even if the filing deadline has been extended until October.

One in four (39%) think that filing for an extension also buys more time to pay their taxes. An additional 16% are unsure about the implications of filing for an extension.

...Stimulus checks...

Despite all of the media coverage about the stimulus plan, nearly a quarter of filers are not sure whether they will get a stimulus check this year. Just over one in five filers (22%) expect to receive a stimulus check this year, though a majority (52%) says that they do not.

- Proportions hardly vary across income groups.
- Women are slightly more likely than men to expect a stimulus check (25% vs. 19%).

...Taxation of unemployment benefits...

Despite rising unemployment rates, many Americans are unsure about how unemployment benefits affect one's tax return. While the government does count unemployment benefits as taxable income, nearly one quarter (23%) of filers believe that people do not owe taxes on income from unemployment benefits. Nearly as many (20%) say that they are unsure about the impact of collecting unemployment on one's tax return.

Nearly four in ten filers (37%) believe that those collecting unemployment owe on the full amount, while 20% believe that they only owe taxes after a certain amount. Full-time workers are most likely to say that those receiving unemployment checks from the government owe taxes on all of this income.

...Tax law changes affecting 2009 income...

Uncertainty only escalates when it comes to next year's returns. Just 26% say that they are aware of tax law changes that will impact their return for 2009 income. Despite widespread media coverage about the stimulus bill and tax law changes, Americans are not sure how these changes will affect them personally.

- Those with at least some college education (31%) and full-time workers (31%) are among those most likely to be aware of these changes.

...And W-4 changes...

Even employed filers, who typically need to fill out a W-4 through their employer, express some confusion about this important tax form. While 60% of those who are employed and filing taxes for their 2008 income are aware that a W-4 can be adjusted at any time, some believe there are a number of restrictions. About one in six (16%) say that a W-4 can only be adjusted when starting a new job, and 5% do not think it is

possible to adjust it at any point. Additionally, 7% says that they are unsure about when a W-4 can be amended, and 12% that they do not even know what a W-4 is.

Given this lack of clarity, it is no surprise that it has been years since many workers have adjusted their W-4; a third of those who are employed and filing taxes for their 2008 income (31%) say that it has been over five years since they last adjusted their W-4. However, 21% report having done so in the past year, and a slightly smaller proportion (18%) did so a year or two ago while 13% three to five years ago. And again, a surprising proportion of volunteer that they do not know what a W-4 is (14%).

Relatively few are concerned about being audited by the IRS

Perhaps this lack of knowledge of the tax system stems from filers' lack of concern about being audited by the IRS. Nearly nine in ten (86%) say that they are not at all concerned about being audited, while just 14% express some level of concern (2% very concerned, 12% somewhat concerned.) Lack of concern about being audited prevails across gender lines and among all age and income groups.

However, ideas about what may trigger an IRS audit vary greatly across demographic groups, particularly when it comes to income. Overall, the number of credits and deductions claimed is seen as the number one trigger, selected by 28% of filers. It is seen even more widely as an influential factor among those with a household income of at least \$50,000 (35%) and college graduates (36%).

Being self-employed is the second most cited trigger, mentioned by 20% of respondents, followed by the amount of reported income (16%) and bad luck (15%); 8% believe that it is the number of dependents claimed that may prompt an audit.

Close to one quarter of filers (22%) are unsure as to what factors are most likely to trigger an audit. Women are much more likely than men to say that they are not sure (27% vs. 17%).

Turning to tax professionals for information

Possibly because they are daunted by the complexity of tax laws, Americans tend to rely highly on tax professionals for information and advice. Nearly half of filers (45%) say that they turn to a tax professional to find out about tax law changes that could affect how much they owe or get back.

- Those in the highest income bracket (\$50,000+) are even more likely to utilize the help and guidance of a tax professional (51%).

Other top sources of information are the internet (27%) and television news (26%). Adults under 35 are most likely to go online (34%) while lower-income adults are most likely to gather information from television news (32%).

Other, less commonly used sources of information include family and friends (17%), a financial advisor (16%), newspapers and magazines (15%), and radio news (14%).

Planning for and filing 2008 returns

A plurality (38%) say that they plan for their tax liability year round. Those with a higher income are especially likely to do so: That is the case of 52% of those with a household income of \$50,000 or more. Overall, one in ten (9%) plan for their tax liability on a quarterly basis, while one quarter (24%) wait until tax season to make this calculation. One in five (22%) do not plan at all.

Though many Americans don't plan ahead for their tax liability, a majority of filers (51%) say that they have already taken care of their 2008 return. One in ten plan to file in the last few days of March, while 19% are waiting until April to file their taxes and 5% aren't sure when they plan to file. Also, 15% are not planning to file at all this year. Half of those not filing (51%) have a household income of less than \$25,000.

Those who are waiting to file in the few weeks leading up to the deadline, are most likely to say that is it because they do not have all of their paperwork together (a reason cited by 40%). One in five (22%) are delaying filing because they expect to owe money and as many (22%, again) because they are just procrastinating. Few are putting it off because they are worried about being able to afford to pay their taxes (6%), or because they are still determining if they'll need help preparing and filing their taxes (10%). And 11% can't explain why they are waiting until the final weeks to file.

Impact of the economic crisis and the stimulus plan

With many Americans feeling the effects of the economic crisis, it is no surprise that they plan to use their tax refunds in practical ways. Over a third of filers (36%) plan to put their refund money towards paying down debt. Those who most tend to use a tax refund to pay off debt include younger adults aged 18-34 (45%), parents of children under 18 (44%), and those with no more than a high school education (42%).

Very few expect to invest their refund money (3%) or to use their tax refund to splurge on items such as a flat screen TV or on a vacation (4%). More plan to put the money into their savings (18%) or toward everyday necessities (12%). When it comes to these more conventional options, there are few differences across income groups.

However, 22% are not expecting to receive a refund this year, though this proportion is significantly higher among older adults aged 55+ (32%).

Many Americans are also looking to take advantage of additional tax credits, particularly first time homebuyers. Almost one quarter Americans who do not own a home (24%) say that the \$8,000 tax credit would make them more likely to buy a home this year.

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