Two in Five Americans Filing Taxes Doing Nothing to Minimize Tax Liability

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Contributing to charities and deducting state and local taxes most common measures taken

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These are some of the results of an online survey of 2,009 U.S. adults conducted by Harris InteractiveÂ® between February 28 and March 2, 2006 for The Wall Street Journal Onlineâ€™s Personal Journal Edition.

Preparing Taxes

While many will either work with an accountant to file their taxes or will do it themselves by computer, 12 percent of U.S. adults have filed or plan to file their taxes themselves using hard copies of IRS forms, while another eight percent say they have or will have a friend or family member file for them. As one might expect, factors such as age, gender, marital status and income impact how one chooses to file.

Men ages 45 to 54 who are online are most likely to say they have filed or will file their taxes themselves using tax preparation software or an online tax preparation program (47%). Women in this age category who are online are less likely to say this (33%).

Women ages 35 to 44 are most likely to say they will utilize an accountant or tax service (47%), compared to only 36 percent of men in the same age category.

Perhaps due to the more complicated nature of the forms needed when filing, married adults (42%) and those who are divorced, separated or widowed (37%) are more likely than those who are single or have never been married (19%) to utilize an accountant or tax service to prepare their taxes.
Among online adults, those with household incomes of $75,000 or more (46%) are more likely than those with incomes less than $75,000 (35%) to file their taxes themselves using tax preparation software or an online tax preparation program.

"The accessibility and ease of use of tax preparation software has opened up this avenue to many tax payers and this method of tax preparation clearly appeals to people across a range of demographic characteristics," comments Anne Aldrich, senior vice president of the Financial Services Research Practice at Harris Interactive. "However, the peace of mind that comes with having oneâ€™s taxes prepared by a professional, especially for those with complicated financial circumstances, is of considerable importance to many."

Minimizing Tax Liability

While two-fifths (39%) of tax-filing adults did not or do not plan to do anything to minimize their tax liability when filing taxes this year, a majority (61%) has done something or is planning to do something to minimize their liability. The most popular tax minimizing strategies include: contributing to charities (42%), deducting state and local taxes (29%), giving deductible monetary gifts (21%), and itemizing certain purchases as work expenses (19%). Again, demographic differences exist.

When examining the data by age, those aged 45 to 54 are most likely to say they did or plan to do something to minimize their tax liability when filing this year (68%), while those 18 to 34 are least likely to say this (49%).

Those who are married (67%) and those who are divorced, separated or widowed (65%) are much more likely than those who are single (42%) to say they have done or plan to do something to minimize their tax liability.

Interestingly, those in the West (72%) are much more likely than those in the Northeast (49%) to have done or plan to do something.

As expected, the greater oneâ€™s education and income, the greater the likelihood that they have taken or plan to take steps to minimize their tax liability.

Immoral or Incorrect Tax-Saving Strategies

The poll also attempted to gauge how likely those using an accountant or tax service to prepare their taxes this year were to be presented with an immoral or incorrect tax-savings strategy by a professional. Overall, only three percent of these adults say an accountant or tax preparer has offered them an immoral or incorrect tax-saving strategy. One percent admitted to being presented with an immoral or incorrect strategy and actually using it. Interestingly, more than one-quarter (28%) is not sure if this has ever happened to them and more than half (58%) say their tax professional has never offered a tax-saving strategy.

Aldrich states, "Tax payers place enormous trust in their tax professionalâ€™s ability to accurately prepare their taxes, and the results of this survey reveal that very few in the profession have violated that trust with immoral or incorrect recommendations."

Tax Refunds

The saying "Itâ€™s better to give than to receive" doesnâ€™t usually apply to tax time and more than three in five (62%) tax-filin adults have received or expect to receive a refund this year. While a majority (52%) of these adults have used or plan to use this money to pay bills, others have done or plan to do such things as save it (32%), use it for an extravagance (15%), use it to pay off a loan (12%), invest it (9%) or donate it (2%). One in 10 (10%) say they have other plans for their refund. Gender, age and income all play a role in how people plan to spend their refund.

Women are more likely than men to say they have used or plan to use their refund to pay bills (58% vs. 44%), while men are more likely than women to say they have saved or are planning to save their refund (36% vs. 28%).

Men aged 35 to 44 (22%) are most likely to say they invested or plan to invest their refund.
Young women aged 18 to 34 (22%) are more likely than men of that age range (15%) to say they have used or plan to use their refund for an extravagance.

Those with incomes of $75,000 or more (38%) are more likely than those with lower incomes (27% of those with incomes less than $75,000) to have saved or plan to save their refund.

Those with incomes less than $35,000 (20%) are more likely than those with incomes of $35,000 or more (14%) to have used or plan to use their refund for an extravagance, such as a gift to themselves or someone else or a vacation.

Downloadable PDFs of The Wall Street Journal Online/Harris Interactive Personal Finance Polls are posted at http://www.harrisinteractive.com/news/newsletters_wsjfinance.asp.

Methodology

Harris InteractiveÂ® conducted this online survey within the United States between February 28 and March 2, 2006 among a nationwide cross section of 2,009 adults aged 18 and over, of whom 1,954 filed or plan to file taxes this year and 1,267 received or expect to receive a refund. Unless otherwise noted, data were weighted to reflect the total U.S. adult population on the basis of age, gender, race/ethnicity, education, income, region and propensity to be online. Data related to the use of online tax preparation programs were weighted to reflect the total U.S. adult online population on the basis of age, gender, race/ethnicity, education, region and hours spent online per week.

In theory, with probability samples of this size, one can say with 95 percent certainty that the overall results have a sampling error of plus or minus 3 percentage points of what they would be if the entire U.S. adult population had been polled with complete accuracy. Sampling error for the various sub-sample results is higher and varies. Unfortunately, there are several other possible sources of error in polls or surveys that are probably more serious than theoretical calculations of sampling error. This includes refusals to be interviewed (nonresponse), question wording and question order, and weighting. It is impossible to quantify the errors that may result from these factors. This online sample is not a probability sample.

These statements conform to the principles of disclosure of the National Council on Public Polls.

About the Survey

The Wall Street Journal Online/Harris Interactive Personal Finance Poll is an exclusive poll that is published in the Personal Journal Edition of The Wall Street Journal Online at www.wsj.com/personaljournal.

About The Wall Street Journal Online

The Wall Street Journal Online at WSJ.com, published by Dow Jones & Company (NYSE: DJ; www.dowjones.com), is the largest paid subscription news site on the Web. Launched in 1996, the Online Journal continues to attract quality subscribers that are at the top of their industries, with 768,000 subscribers world-wide as of Q4, 2005.

The Online Journal provides in-depth business news and financial information 24 hours a day, seven days a week, with insight and analysis, including breaking business and technology news and analysis from around the world. It draws on the Dow Jones network of nearly 1,900 business and financial news staff-the largest network of business and financial journalists in the world. The Online Journal also features exclusive content, including interactive graphics on business and world news, and online-only columns about the automotive industry, technology, personal finance and more.

The Online Journal offers three industry-specific verticals: the award-winning Health, Media & Marketing and now Law. Health offers authoritative analysis, breaking news and commentary from top industry journalists. Media & Marketing is designed for professionals in the advertising, marketing, entertainment and media industries. Law is designed to provide law firms and attorneys timely information on events and trends important to the legal market. Subscribers to all also get access to the full content of the Online Journal.

Â In 2005, the Online Journal was awarded a Codie Award for Best Online News Service for the second consecutive year, and its Health Industry Edition was awarded Best Online Science or Technology Service for the third consecutive year. In 2004, the Online Journal received an EPpy Award for Best Internet Business Service over 1 million monthly visitors.

The Wall Street Journal Online network includes CareerJournal.com, OpinionJournal.com, StartupJournal.com, RealEstateJournal.com and CollegeJournal.com.

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Harris Interactive serves clients worldwide through its United States, Europe (www.harrisinteractive.com/europe) and Asia offices, its wholly-owned subsidiary Novatris in Paris, France (www.novatris.com), and through an independent global network of affiliate market research companies.

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