

US Tax Preparation Industry: Increasing Adoption of E-Filing

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Abstracts

The United States tax preparation industry has witnessed significant growth over the past few years on account of increasing complexity of the tax code as well as easy availability of the industry's services in various locations of the country. Thus, in 2007 more than 60% of the individual filers in the United States availed the services of paid preparers for filing their returns.

The industry typically has two business segments and the third do-it-yourself segment comprises of free online and other manual methods employed by the preparers during the filing of their returns. Among the two segments, i.e. retail and digital (online & software), the digital segment has been recording significant growth on account of increasing inclination of individuals to use online modes of transactions and applications as well as availability of low cost and free tax solutions. The digital segment is growing on the back of the government's initiatives to increase e-filing among the taxpayers in the last ten years as it receives tax information already in digital form as well as it is able to save on unnecessary costs. The consumers and preparers prefer e-filing as they are able to receive tax refund more quickly.

The industry on the whole generates revenue from three individual market segments that are classified on the basis of income as well as their tax filing behaviour. Amongst the market segments, the industry mostly generates revenue from the segment that has an annual income below US\$100,000. This segment in order to avoid the complexity of the law prefers acquiring the services of the paid preparers. In the coming years, as well, the industry hopes that with advances in technology and new cost-effective services, it will be able to acquire as well as retain both new and existing customers. Apart from income, age is another factor that affects the overall growth of the industry. It has been noticed, that mostly, individuals in the age group of 25 – 54 years are the

ones who typically avail the services of the paid preparers.

The tax preparation industry, although recession resistant, continues to be impacted by challenges like seasonality and availability of free do-it-yourself programs like the IRS Free File Alliance program.

On the whole, the report analyzes the growth drivers and challenges of the tax preparation industry and assesses opportunities available for the players. The report focuses on the growth of e-filing in the US as well as the impact of the various demographic factors on the paid preparation industry. Further, the report analyzes the large tax preparation companies – H&R Block, Jackson Hewitt and Intuit Inc.

The report also talks about the future outlook of the industry and its growth. By combining SPSS Inc.'s data integration and analysis capabilities with our relevant findings, we have predicted the future growth of the industry. We employed various significant variables that have an impact on this industry and created regression models with SPSS Base to determine the future direction of the industry. Before deploying the regression model, the relationship between several independent or predictor variables and the dependent variable was analyzed using standard SPSS output, including charts, tables and tests.

Contents

1. TAX PREPARATION SERVICES: AN OVERVIEW

- 1.1 Industry Definition
- 1.2 US Tax Preparation: Market Size
- 1.3 Tax Preparation: Business Segments
- 1.4 Tax Preparation: Market Segments

2. MARKET TRENDS

- Franchising for Business Expansion
- Product Innovations
- Demographics Affecting Tax Preparers Market

3. MARKET CHALLENGES

- Seasonality of Tax Preparation Industry
- Free and Less Profitable Do-it-Yourself Programs

4. E-FILING: A GROWING MARKET OPPORTUNITY

- Growth in Online E-File
- Forecast
- Increase in Individual Tax Filers

5. COMPETITIVE LANDSCAPE – MAJOR PLAYERS

- 5.1 H&R Block
 - 5.1.1 Company Overview
 - 5.1.2 Business Strategy
 - 5.1.3 Significant Developments
- 5.2 Jackson Hewitt
 - 5.2.1 Company Overview
 - 5.2.2 Business Strategy
- 5.3 Intuit Inc.
 - 5.3.1 Company Overview
 - 5.3.2 Business Strategies

6. INDUSTRY OUTLOOK

6.1 Market Forecast

6.2 Forecast Methodology

6.2.1 Dependent and Independent Variables

6.2.2 Correlation Analysis

7.2.3 Regression Analysis

Figures & Tables

FIGURES AND TABLES

Figure 1.1 US: Total Number of Individual Income Tax Returns Filed (2001 - 2008)

Figure 1.2 US: Percent of Returns Self Prepared & Paid Prepared (1997 VS. 2007)

Figure 1.3 US Tax Preparation Industry: Share by Segments (2008)

Figure 1.4 Tax Preparation Services: Market Segment Share, 2008 (US\$)

Figure 3.1 Percent of Annual Revenues Generated in January and April Quarters (2004 – 2008)

Figure 3.2 Participation of Individual Taxpayers in Free File Alliance Program: (2007 & 2008)

Figure 4.1 Individual Taxpayers Returns; Percent of Total E-filed: (2001 – 2008)

Figure 4.2 Individual Tax Projections: (2008A - 2014E)

Figure 4.3 US Population (15 - >80 Years) Projection: (2009F - 2015F)

Figure 4.4 Total Individual Tax Projections: (2009F - 2015F)

Figure 5.1 US Tax Preparation Services Revenue of Major Players: 2008

Figure 5.2 H&R Block's Tax Preparation Revenue: (2005 – 2008)

Figure 5.3 H&R Block: Percent Share of Expenditure (2008)

Figure 5.4 Jackson Hewitt's Tax Preparation Revenue: (2005 – 2008)

Figure 5.5 Intuit's Tax Preparation Revenue: (2005 – 2008)

Figure 6.1 US Individual Tax Return Projection: (2008A - 2011F)

Table 2.1 Taxpayers Who Did & Did Not Use a Preparer: 2008

Table 2.2 Taxpayers Who Did & Did Not Use a Preparer: 2008

Table 2.3 Taxpayers Who Did & Did Not Use a Preparer: 2008

Table 4.1 Tax Returns Filed by Individuals & Total E-filed: (1999 - 2008)

Table 4.2 Filing Season Statistics: (2007 & 2008)

Table 4.3 Growth in Online Filings (Million): (1999 – 2007)

Table 4.4 E-filing Individual Returns Forecast: (2008A – 2011F)

Table 6.1 Dependent & Independent Variables (1998 – 2008)

Table 6.2 Correlation Matrix

Table 6.4 Regression Coefficients Output

Table 6.3 Model Summary – Coefficient of Determination

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