



The Quarterly Quality Report

March 2007

The ASQ Quarterly Quality Report provides a detailed look at a variety of quality-related topics and issues. The report is developed by the American Society for Quality in keeping with its role as the steward of the quality profession—to promote the use of quality as a global priority, an organizational imperative and a personal ethic, and to promote quality concepts, technology and tools to make the world a better place.

Quality Tools Reduce Tax-Time Tension

The United States Internal Revenue Service estimates that approximately 10 percent of the anticipated 136 million individual income tax returns filed this year will be submitted on the last day of filing. That means some 13 to 14 million people will be submitting their returns April 17. (The normal April 15 filing date falls on Sunday this year, and April 16 is a federal holiday in the District of Columbia.)

Some have simply been waiting to file because they have already determined they have to send a payment to Uncle Sam. But many are procrastinators. For them, completing the tax return is a frantic, nail-biting exercise in terror.

But the annual tax ritual needn't be traumatic. Taxpayers can take advantage of widely-used, basic business process improvement tools to reduce the time required to prepare their tax returns, prevent many common errors and get control over tax preparation. These techniques have helped major businesses save considerable costs in their own operations and taxes.

"It just makes a lot of sense to use basic quality tools to make tax time a less taxing experience," says Debra Owens, a course instructor for the American Society for Quality.

The taxpayers who have the greatest angst this time of year are often the least disciplined in their preparation for tax filing. Adapting and applying proven quality improvement approaches can help supply the needed discipline.

Here is a checklist of quality strategies and tools that can help taxpayers.

1.) Think of tax filing as a **process**.

Process management is one of the most fundamental quality management activities. If you treat tax filing as a process—with inputs, outputs, and clearly defined steps in between—you can then manage it, streamline it, and improve it.

2.) Use **PDCA** cycles.

For process improvement apply a disciplined cycle of activities to the process steps. This cycle is known as **PDCA** (Plan, Do, Check, Act), or sometimes PDSA (Plan, Do, Study, Act). It might also be called the Deming Cycle or Shewhart Cycle after two early quality pioneers who championed its use. Here is an outline of how the PDCA cycle can be applied to the task of completing a tax return.

PLAN

- Assemble all necessary information
 - o last year's returns
 - o documentation (receipts, canceled checks, W2s, 1099s, etc.)
 - o current year's forms, schedules and instructions
- Read up on changes and new developments affecting this year's return
- Set aside adequate time to complete your tax work on time

DO

- Select a preparer and turn over documentation, or
- Prepare the return yourself
 - o Choose electronic or manual filing

CHECK

- Double-check to make sure you have completed all necessary steps
 - o Sign and date return
 - o Include your taxpayer identification number
 - o Assemble all required documents in proper order
- Consider filing electronically. Electronic filings have error-proofing checks and safeguards built in to the software. Prevention is better than detection.

ACT

- Submit returns before deadline
- Income taxes aren't likely to go away, so be sure to incorporate the things you learned this year into a new PDCA cycle of improvement for next year.

The power of PDCA magnifies as the taxpayer continually seeks more ways to use it throughout the filing process, such as devising better methods for organizing receipts. The benefit of using the Plan,Do,Check,Act cycle increases as well when it is utilized year after year.

3.) Establish a good system of **documentation**.

Documentation is the first requirement of any quality process. Quality management standards rely heavily on documentation, broken down into categories to show that objectives are being accomplished.

The analogy for personal income tax filing is a personal or household chart of accounts that includes categories addressing the principal items required by the income tax return. Your personal chart of accounts should allow quick and easy identification of the necessary items for your tax return, such as deductions for medical expenses, taxes paid, mortgage interest, charitable contributions and income items segregated by category such as interest, dividends, capital gains and wages.

4.) Establish **metrics**.

Once you've established your documentation system and chart of accounts, you can use these tools to establish metrics and set control points for income and expense items that will affect your income tax return.

A common quality improvement dictum states that if you can't measure it, you can't manage it. This is where you can employ quality tools such as simple control charts, graphs and other charts to provide easy-to-read visual clues to indicate whether you're in control of not only your taxes, but all of your household finances.

A mother of four, Owens found that a simple measurement technique shed light on how her own family was overspending in certain areas. "We made a simple pie chart of my family's major categories of expenses and discovered at one point that we were spending more on food than on our mortgage," Owens said. "Knowing that put things in perspective and prompted us to look for ways to economize and make some significant savings in our food budget."

5.) Make it an **ongoing activity**.

The whole point behind establishing these quality systems is that they make it less likely you'll find yourself scurrying at the last minute to do your taxes. The ongoing discipline of having these processes in place makes tax time less of a burden since you're managing these aspects of your finances all year long.

6.) Practice **prevention** rather than detection.

Quality systems employed in most businesses long ago stopped relying on inspection (finding the mistakes after they've been made) and instead built quality into processes. Being prepared—by establishing reliable processes with metrics at critical control points and a system of documentation—is the first step in prevention.

One of the best ways to do this is to prepare and file your tax returns electronically. Readily available, inexpensive software has built-in checks to eliminate many of the most common tax preparation errors. Electronic filing also ensures more accurate processing once your return reaches the IRS. That reduces the chances you'll get an error letter from the IRS—and it cuts in half the amount of time it takes for taxpayers to receive any refunds owed to them. Electronic filing is encouraged by the IRS and is rapidly growing—up nearly 7 percent last year and expected to grow another 8 percent this filing season.

7.) Use **benchmarks**.

Are you concerned that the IRS might single out your return for extra scrutiny? There are certain benchmarks you can use to let you know if you are more likely to be audited. The IRS won't tell you what their audit selection criteria are, but tax experts advise that some of the triggers include:

- high income or income from a business you own;
- claiming deductions that are atypical for filers sharing similar adjusted gross income and other characteristics;
- claiming many credits;
- and, of course, careless errors.

Frequency of audits increases markedly for filers with adjusted gross incomes exceeding \$100,000. The IRS makes available Statistics of Income that include tables of data on deductions claimed by taxpayers in various income ranges. You can benchmark your deductions against the deductions claimed by all filers in your income range and see how far you deviate from the mean.

You can also benchmark against lists of common errors to check your own work in areas that are known to cause problems for many tax filers. When you compare your work to various lists of common tax-filing errors, you are engaging in a variation on the common quality practice known as benchmarking.

Although benchmarking usually entails comparison to recognized standards of excellence or best practice, it can also apply to learning from the pitfalls that many others have encountered. For example, tax preparer H&R Block lists the following most common errors on individual tax returns:

1. Social Security number incorrect, missing, or does not match name
2. Not attaching necessary documentation (W-2, etc.)
3. Not signing return
4. Recording incorrect filing status
5. Math errors
6. Incorrect or missing forms or schedules
7. Using standard deduction when itemizing would be more advantageous
8. Failing to complete Social Security taxable benefits worksheet
9. Failing to claim credits or figuring credits incorrectly
10. Omitting income items

On the other hand, if an audit letter from the IRS ever arrives, you can confidently justify all of the items on your return thanks to your personal tax preparation quality control program.

8.) Make it a **team activity**.

If you're filing a joint return, both spouses assume the tax liability, so it makes sense for both to be involved in preparing the return and know what they have entered on the forms. Beyond that, everyone in the household can participate to varying degrees, and in the process, gain a better understanding of the household economics.

When it comes to her family, this practical knowledge is a big feature for Owens. "My kids are getting a valuable education in personal finance that goes well beyond what they could learn in school."

The American Society for Quality www.asq.org is the world's leading authority on quality. With more than 90,000 individual and organizational members, the professional association advances learning, quality improvement and knowledge exchange to improve business results, and to create better workplaces and communities worldwide. As champion of the quality movement, ASQ offers technologies, concepts, tools and training to quality professionals, quality practitioners and everyday consumers, encouraging all to Make Good Great®. ASQ has been the sole administrator of the prestigious Malcolm Baldrige National Quality Award since 1991. Headquartered in Milwaukee, Wis., the 60-year-old organization is a founding partner of the American Customer Satisfaction Index (ACSI), a prominent quarterly economic indicator, and also produces the Quarterly Quality Report.

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