

TAS RESEARCH REPORTS

A Review of Online Accounts and Web Services Offered by U.S. State and Foreign Country Taxing Authorities

EXECUTIVE SUMMARY

As part of its vested interest in IRS online operations, TAS Research and Analysis employees completed a broad overview of state taxing authority websites and review of a few foreign taxing authority websites during Spring and Summer 2022. Specifically, TAS reviewed the IRS website along with websites of 41 U.S. states that have an individual income tax, the District of Columbia, Puerto Rico, and three countries – Canada, Australia, and the United Kingdom (UK) (“entities”).

Overall, the IRS website offered several services in common with U.S. states and the three countries reviewed, but there were notable differences. Commonly available services across nearly all states included the option to set up an online payment plan, conduct refund inquiries, receive and respond to notices online, and provide third-party access.

The IRS website was a leader in secure features for online account creation, online payment options, and language translation options. The IRS website included the most secure requirements for setting up an online account compared to other taxing authority websites. Though requiring documentation and verifying identity via a photo or video is more time-consuming for taxpayers, it results in a higher level of security. The IRS exceeded the payment options offered by state and country taxing authority websites. The IRS offered online payment options even if a taxpayer had not established an online account. Taxpayers could pay online or over the phone, using bank transfers, credit cards, debit cards, and digital wallets such as PayPal and Click to Pay. The IRS emerged as a leader in offering language translation options, with information for basic tax questions in 20 languages and the IRS homepage in English and seven other languages.

However, we identified three areas in which the IRS website lags behind other taxing authority websites.

- First is the lack of a full online filing option. There is an ongoing discussion and consideration of adding such an option to the IRS website.
- Second, the IRS Taxpayer Online Account website lacks the ability to receive most notices online. The IRS does not permit a taxpayer to submit an online response to a notice. However, the IRS was not the only entity lacking such options. This is anticipated to improve during the 2023 filing season. In addition to increasing the functionality of the online accounts, the IRS should incorporate its 18-plus standalone applications. The IRS should consolidate these features into the taxpayer's online account and provide access to their representatives – a one-stop shop.
- Lastly, we found several differences between in-person or digital contact options on the IRS website and the options available on state and foreign country websites. Unfortunately, despite the clear demand for the ability to contact the IRS via email, the IRS does not make this a contact option available for general information or requests for appointments. Moreover, the IRS has limited availability for telephone or in-person appointments, made even more difficult by consistently low levels of telephone customer service, whereas U.S. states offered taxpayers the ability to schedule an in-person appointment, and a few entities went above and beyond by providing taxpayers with contact options via social media platforms.

The IRS can learn much from a review of its own digital services and that of others, finding common ground as well as inspiration and lessons learned for future improvements. This report can form a basis for reviews of future changes and can build upon future reviews of other local tax agencies, states, and countries.

BACKGROUND

The National Taxpayer Advocate's 2020 and 2021 Annual Reports to Congress include online accounts, digital services, and barriers in electronic filing as three of the ten Most Serious Problems facing taxpayers. In the IRS's 2021 Comprehensive Taxpayer Attitude Survey, 84 percent of taxpayers reported the desire for a personal IRS online account to access their tax information, and 81 percent wanted to email questions to the IRS. Eighty-six percent agreed with the statement, "The more information and guidance the IRS provides, the more likely people are to correctly file their tax returns."¹ TAS has a vested interest in the success of the IRS's online operations as it can provide taxpayers the ability to resolve issues without assistance from IRS or TAS employees, which can decrease workload demands, and provide prompt answers. But more importantly, a robust online account together with a tax professional online account will provide the level of quality service taxpayers deserve and crave.

According to the Organisation for Economic Co-operation and Development (OECD) 2022 Report, there has been a significant trend toward e-administration with an increasing uptake of online filing of tax returns, online payments, and, in many jurisdictions, a move toward the full or partial prefilling of tax returns.² This report also highlighted that around 75 percent of administrations have a digital transformation strategy in place.

TAS has worked with IRS Online Services (OLS) to stress the needs of taxpayers and preparers for a robust online system. TAS requested copies of research studies OLS completed when determining new features or offerings. It should be noted that a systemic review of similar systems from tax collecting authorities was not conducted. As part of this study, TAS collected information on the online services offered by state and foreign country taxing authorities as a comparison to the online services available at the IRS.

We supplemented this review with recent focus groups held by TAS to gather ideas from tax practitioners about taxpayers' needs and preferences for online services. Participants expressed feeling frustrated, exasperated, disappointed, and angry with their inability to effectively communicate with the IRS.³ The

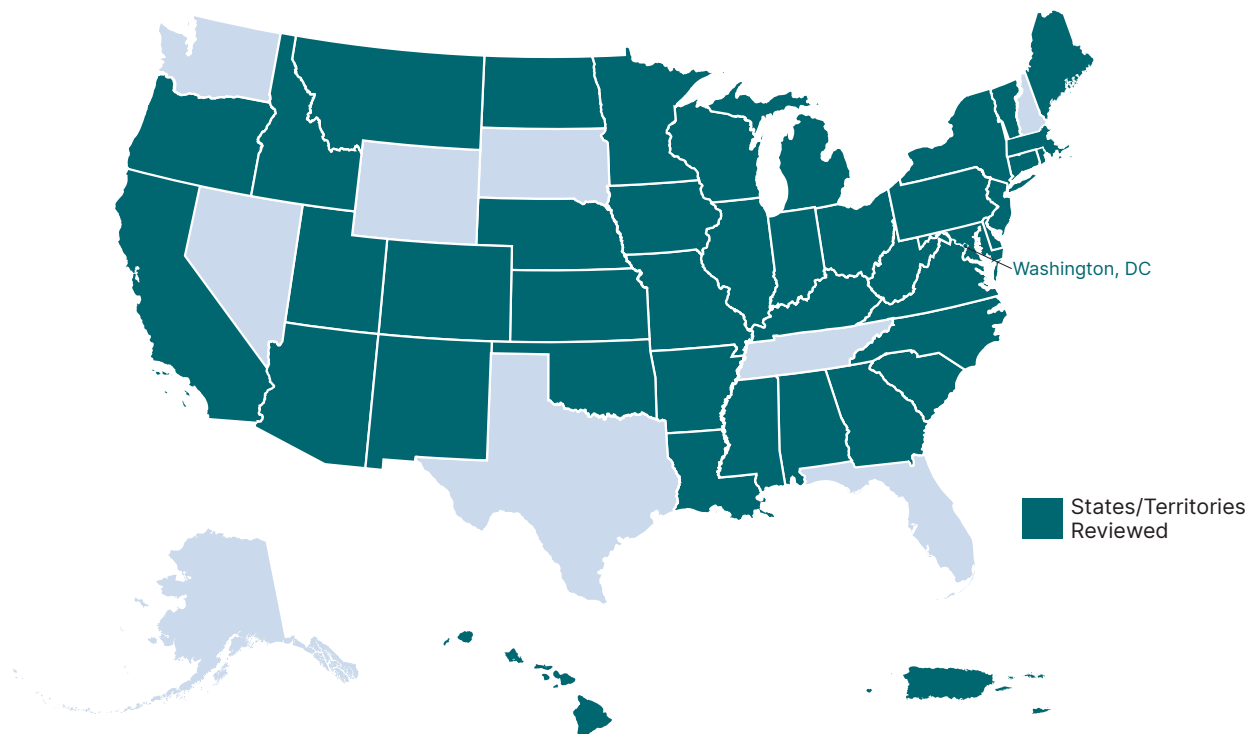
National Taxpayer Advocate has been consistently advocating for a robust online account for taxpayers and their representatives. Along with this report, TAS is leading several other research efforts including collecting information on other financial institutions, offering online account access, and conducting taxpayer focus groups on online services and authentication requirements. TAS plans to use the information gleaned from these focus groups to design surveys of taxpayers to better understand their needs and preferences for establishing an IRS Online Account and the desired functionality associated with that account. As the IRS makes further technological upgrades, it must prioritize the customer experience and make Online Account a hub for all taxpayer-IRS interactions. Through our research efforts, we hope the IRS implements highly desirable and easy-to-use online account features while ensuring the process to create an account is straightforward and painless.

INTRODUCTION

This report summarizes a review of state and foreign country taxing authority websites and compares the online services available on the IRS website from May to August 2022. Our review included the taxing authority websites of 41 U.S. states that have an individual income tax, the District of Columbia, and Puerto Rico. Figure 5.1.1 displays the states with individual income tax in this report.

FIGURE 5.1.1

Map of States and Territories Reviewed



We also reviewed the taxing authority websites of three countries – Canada, Australia, and the UK. Please see Figures 5.1.7 and 5.1.8 in Appendix A for the states and countries reviewed as well as the links to their websites.

We reviewed all entity websites to determine the online services available to taxpayers. Our objective was to survey the online services widely accessible to taxpayers and identify which services had limited availability. The findings section first summarizes the availability of the online service among state taxing authority websites, followed by foreign country taxing authority websites, and lastly, the availability of the online service on the IRS website. Where applicable, we have included responses from TAS's focus group interviews that occurred during the 2022 IRS Nationwide Tax Forums to illustrate some issues taxpayers experienced interacting with online services on the IRS website.

METHODOLOGY

TAS Research designed a data collection instrument (DCI) to capture information about online services offered on each entity website. Several TAS Research analysts reviewed U.S. state and foreign country government-sponsored taxing authority websites and captured data in the DCIs, and one analyst completed final review and edits for consistency.

Limitations and Disclaimer

Throughout this report, numerical references to U.S. states will include the District of Columbia and Puerto Rico in the count. In the self-governing commonwealth of Puerto Rico, *bona fide* residents are generally exempt from U.S. income tax on Puerto Rico-sourced income. Puerto Rico's tax system is patterned after the U.S. tax system, but there are variations in law and tax rates. U.S. citizens who have income derived from Puerto Rican sources may be liable for payment of Puerto Rican taxes. Though we considered other countries to include in this report, and their taxing authorities deserve future attention, language and access barriers prevented further review for this report.

The reviews were conducted during Spring and Summer 2022. Changes and enhancements to websites are likely and expected and are not reflected in this report. Limited interaction with the websites was possible, but we did not evaluate how well the websites worked in practice but rather focused on the services offered on the websites.

Some services were only available upon successfully logging into accounts, so it is possible there were services we could not determine without account access. TAS did not have account access to the states reviewed and relied on items posted on the website to determine services available for accounts. On many websites, help videos and how-to documents provided details about services that the reviewer could not see due to the lack of account access.

While payment and filing options existed, we did not make payments or file returns. Some sites offered notice responses; however, we could not determine the effectiveness or timeliness of processing those responses. Additionally, we did not test chat and other communication features on some websites. We merely noted chat and other features were or were not available, but we did not test their efficacy. We also did not evaluate the complexity of the tax obligations required of taxpayers.

FINDINGS

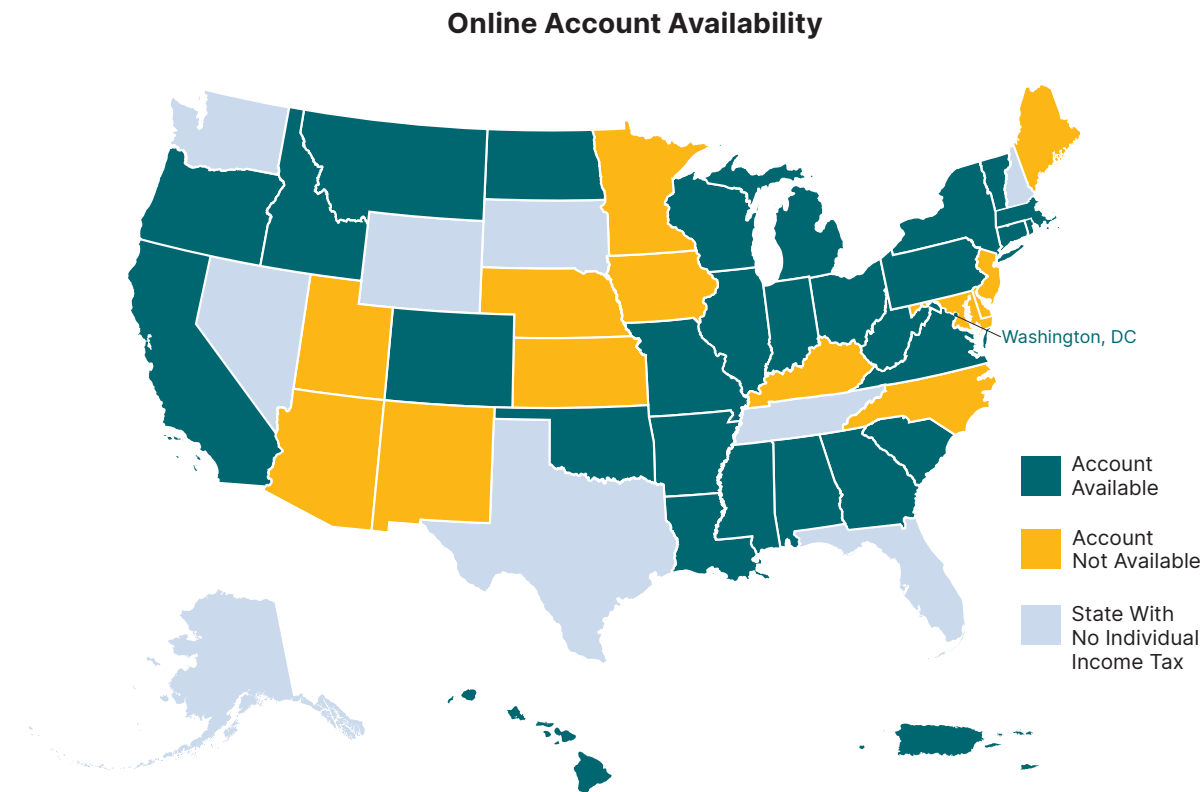
We provide findings in eight areas of online service functionality including creating an online account, online filing services, online payment options and payment plans, refund inquiries, online notice receipt and response, providing access to third parties, contact options, and language options. In each area, we include subheadings, which discuss the online account functionality offered by state taxing authorities, three foreign countries, and the IRS.

Creating Online Accounts

U.S. States

Seventy percent of states reviewed (30 of 43) offered an account setup using various verification methods. At a minimum, taxpayers were asked for identifying information, such as name and Social Security number. Figure 5.1.2 displays the states with and without an online account service on their taxing authority website.

FIGURE 5.1.2



Several states offered account registrations by sending a letter to the taxpayer with an access code. For some states, any tax-related notice provided a reference number while other entities sent specific account setup notices. Many required information from filed tax returns, and a few asked for information about prior payments sent to the taxing agency.

We found no state requiring the use of photos or other biometric information to establish an online account. Figure 5.1.3 details the requirements by category, and several states offer multiple options.

- **Tax Return Information.** This can require specific line items from past filings, typically the adjusted gross income (AGI) amount.
- **Account Registration Letter.** This indicates the organization will mail a letter upon request specifically to set up an account.
- **Tax Account Letter.** This indicates taxpayers can refer to a tax-related notice that includes a number or PIN that taxpayer can use to enable access.
- **Past Payment Information.** This indicates a taxpayer needs to verify a prior amount paid to the state.
- **Online Registration.** This indicates there is a method for a signup without the need for receipt of a letter in the mail. As the figure indicates, some states have a choice of an online or letter receipt method.

FIGURE 5.1.3, Online Account Creation Requirements for U.S. State Taxing Authority Websites

ST	U.S. State or Territory	Tax Return Information Required	Account Registration Letter Option	Tax Account Letter Option	Past Payment Information Option	Online Registration Option
AL	Alabama	X				X
AR	Arkansas	X				X
CA	California	X	X			X
CO	Colorado	X	X	X		X
CT	Connecticut	X				X
DC	District of Columbia	X		X		X
GA	Georgia	X				X
HI	Hawaii	X		X	X	
ID	Idaho		X			
IL	Illinois		X	X		
IN	Indiana	X	X	X		X
LA	Louisiana		X	X	X	X
MA	Massachusetts	X	X			X
MI	Michigan	X				X
MO	Missouri	X	X			
MS	Mississippi	X				X
MT	Montana	X	X	X		
ND	North Dakota		X			X
NY	New York	X		X		X
OH	Ohio	X				X
OK	Oklahoma					X
OR	Oregon	X		X	X	X
PA	Pennsylvania		X			
PR	Puerto Rico	X		X	X	X
RI	Rhode Island		X	X		
SC	South Carolina	X		X	X	X
VA	Virginia	X				X
VT	Vermont					X
WI	Wisconsin	X	X			
WV	West Virginia	X		X		

As displayed in the figure, most states offered an online registration process to create an account. In addition, the user typically needed to have tax return information available to complete the registration process. Multifactor authentication was required for one-half of the states (15 of 30), and about one-quarter did not require it (seven of 30); it was unclear if it was required or not for the remaining eight states.

Countries

To create an online account in the Canada Revenue Agency Portal, taxpayers needed to:

- Provide personal information: social insurance number, date of birth, postal code;
- Enter an amount from a filed and assessed income tax and benefit return; and
- Create a user ID, password, and security questions and answers.

These initial steps provided access to limited features in the portal. As a final level of security, Canada would send taxpayers a security code they would then need to enter on the website to gain access to all features in the portal. In Australia, taxpayers could create an online account to link to a range of services with the Australian Taxation Office. Information required included an email address that only the taxpayers had access to and an Australian mobile number to receive SMS security codes to sign in. Taxpayers verified their identity by taking a live photo and providing information from identity documents such as their passport and birth certificate. In the UK, many government services are available through a Government Gateway account, requiring a name, email address, password, and a recovery word. Optional multifactor authentication is offered by receiving access codes by text message, by voice call, or through an app.

IRS

In contrast to many states and countries, the process for creating an IRS account is more involved, requiring more steps and information with the added benefit of providing a high level of security.⁴ To sign up for an IRS account, taxpayers are required to use the ID.me service, a private third-party company. This self-service process requires a photo of a government ID and either a video selfie, still photo selfie, or a live call with an ID.me video chat agent.⁵

The company administering the process, ID.me, explains the process:

The Internal Revenue Service (IRS) has partnered with ID.me, an IRS-trusted technology provider, to provide identity verification for IRS applications. Individual taxpayers and tax professionals are required to verify with ID.me to National Institute of Standards and Technology (NIST) 800-63-3 IAL2+Liveness and AAL2 for secure login. These identity proofing services are crucial for the IRS to ensure millions of taxpayers and tax professionals can securely access the IRS and its applications.

Taxpayers and tax professionals will be able to prove their identity with ID.me by uploading government documents, taking a video selfie, and filling out personal information. Once complete, taxpayers can access the IRS application for which they verified.⁶

For self-service, taxpayers need their email address, Social Security number, photo ID (driver's license, passport, passport card, or state ID), and a smartphone or computer with a camera to establish an IRS Online Account. After submitting the documentation, taxpayers must set up multifactor authentication to continue using one of the following multifactor authentication methods:

- Phone call;
- Text message;
- Push notification;
- Code generator; or
- Security key.

For those preferring an alternative to self-service, a live call with an ID.me video chat agent that does not require biometric data is available.

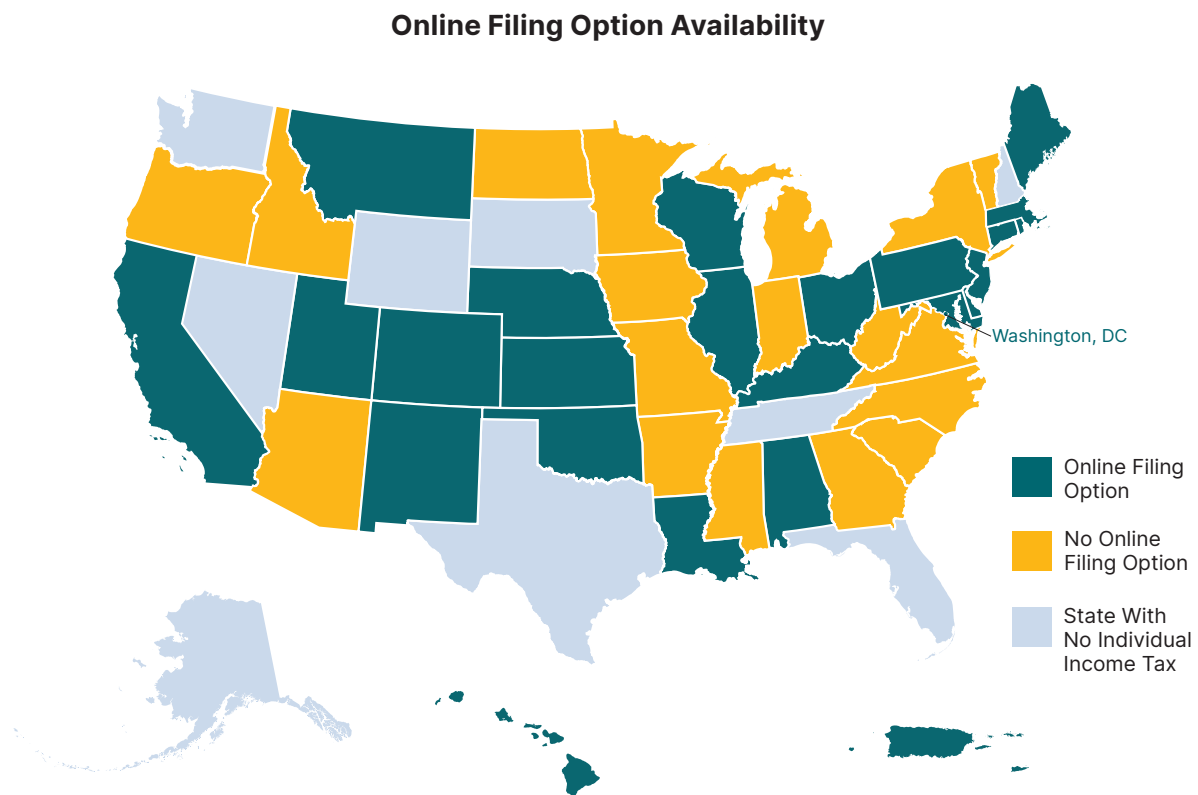
Participants from the tax forum focus groups shared that the process for setting up an online account was unintuitive and seemed to change frequently.⁷ Some participants stated they set up their account in ten to 15 minutes, while others had spent weeks trying to get an account.

Online Filing Options

U.S. States

Over half of the states reviewed (25 of 43, or 58 percent) offered an online filing option for individuals. We did not include those websites that simply referred visitors to third-party filing options, such as Free File or commercial service providers. Figure 5.1.4 displays the states with and without the online filing service on their taxing authority website.

FIGURE 5.1.4



Several state websites included logos to signify their own specific online filing platforms, while other states provided an option for filing directly by logging into their online account. While some states offered online filing for all taxpayers, several states had limiting requirements, such as residency, income levels and types, and histories of prior filings on their websites. For example, to complete online filing in Nebraska, taxpayers could not have any income or withholding from another state, claim a refund for a deceased taxpayer who is not their spouse, file married filing jointly with their deceased spouse, or claim certain credits or adjustments.

Countries

Australia and Canada offered online filing options on their websites. Despite tax information being directly reported to the government, making individual filing rarely required, the UK still lists an online filing option on its website for those who need to file.

IRS

When we compared onsite filing on state websites to the IRS, we found that although the IRS website was not set up to accept online filings of Form 1040, it offered Fillable Forms and links to Free File partners available to taxpayers whose AGI was \$73,000 or less in 2022. When completing Fillable Forms, taxpayers are required to know how to prepare their own tax return using form instructions and IRS publications. Taxpayers are able to submit Fillable Forms electronically; however, Fillable Forms doesn't provide an option to walk the taxpayer through the process with a question-and-answer type experience.

The Inflation Reduction Act mandates the IRS to study options to provide a free tax filing option for all taxpayers. The bill provides \$15 million to study how the IRS could implement such a program, how much it would cost, and how taxpayers would view it. The report, which must include the input of an independent third party, is due to Congress by May 2023.⁸

Online Payment Options**U.S. States**

All states reviewed offered online payment options for individual taxpayers. Most states did not require taxpayers to create an account before accessing the payment portal. All payment portals accepted direct payments from bank accounts, and 42 accepted payments via credit cards. Only 16, or about 37 percent, accepted payments via debit cards.

Countries

All three countries provided online payment options. Australia and Canada accepted credit cards and direct transfers from bank accounts. In the UK, bank transfers and personal debit cards were accepted, but personal credit cards were not. Australia required logging into an account to pay, but Canada and the UK did not.

IRS

The IRS matched or exceeded the offerings of the websites reviewed. The website did not require taxpayers to create an account before accessing the payment portal. The IRS accepted payments via bank transfers, credit cards, debit cards, and digital wallets such as PayPal and Click to Pay.

Online Payment Plans**U.S. States**

The majority of states reviewed (41 of 43, or 95 percent) provided information on online payment plans for taxpayers who could not fulfill their tax obligations. Of those 41 states, 33 (80 percent) provided an option for requesting the payment plan directly through the website. Only three states allowed for online modification of existing plans, with most requiring contact by mail or phone for modifications.

Countries

Australia and the UK offered the option to set up an online payment plan depending on the amount and time needed to pay. Canada required a phone call to set up or modify a plan.

IRS

Similar to state-sponsored websites, taxpayers were able to request online payment plans through the IRS website.⁹ The IRS provided taxpayers the ability to view their outstanding balance, due date, and payment history in their online accounts. Taxpayers could also make modifications to their payment plans under certain conditions, including a request for reinstatement if in default. Fees applied to plans and modifications, depended on the outstanding amount, payment type, repayment length of time, and taxpayer income level.¹⁰

Refund Inquiry

U.S. States

All states with an individual income tax offered an online refund inquiry service on their websites. The service was typically an onsite form for taxpayers to enter personal information along with the expected refund amount for the latest, and possibly earlier, tax years.

Consider the examples of three states:

- In Hawaii, taxpayers needed to enter the Social Security number and the refund amount requested on the original tax return. Refund status was provided online for returns filed within the last six months. For older returns, taxpayers needed to contact the Customer Service Administration to inquire about the status of their refund. We could not determine the types of responses online, but the site indicated taxpayers can access their online account and offered a refund tracing option.
- In Indiana, taxpayers could check the status of a refund online by providing their Social Security number and exact amount of refund. Refund status updates were available for returns filed as early as 2017. The service asks taxpayers “to allow two to three weeks before inquiring about status, as some returns may take longer due to factors like return errors or incomplete information. Every return is screened to protect taxpayer identities and refunds. You can rest assured that DOR is processing your return and refund as quickly as possible while ensuring your information is accurate and safe. Once DOR initiates a direct deposit, our system will reflect the date it was processed. Normally, it takes seven business days for your financial institution to receive and process the funds.”
- In New York, taxpayers could check the status of a refund online by entering their Social Security number, identifying the form filed from a dropdown menu, and entering the exact amount of refund. Possible responses included:
 - We do not have any information about your return at this time.
 - We have received your return and it is being processed.
 - We received your return and may require further review. This may result in your New York State return taking longer to process than your federal return.
 - A refund is scheduled to be issued or mailed on mm/dd/yyyy.

Countries

All three countries allowed for online refund inquiries under their respective tax systems. Taxpayers needed to provide their ID number, amount expected, and filing information.

IRS

In comparison, for an online refund inquiry, the IRS required the tax year (2019, 2020, or 2021), Social Security number, filing status, and refund amount as shown on the tax return. The service was available for original returns 24 hours after e-filing for tax year 2021 and three or four days after e-filing for tax years 2019 or 2020. System updates were made daily, usually overnight. Inquiries resulted in a personalized refund date after processing the return and approving the refund. Inquiries provided progress updates through three stages: Return Received, Refund Approved, and Refund Sent. In other cases, when the IRS was still reviewing the return, the response screen would display instructions if further action was needed by the taxpayer or provide a progress update.

Refund information regarding Form 1040X, Amended U.S. Individual Income Tax Return, was not available on Where’s My Refund?, but the Where’s My Amended Return? service provided the status of an amended return that could reflect “in process” for months at a time without any explanation.

Online Notice Receipt

U.S. States

Sixty percent (26 of 43) of the states offered taxpayers the option to receive notices within taxpayer online accounts. Not all notices were available for this option, and it did not necessarily opt taxpayers out of receiving such notices via U.S. mail.

Countries

All three countries offered an option to receive notices in their online accounts.

IRS

The IRS offered taxpayers an option to receive certain notices in their online accounts, but we could not find a specific list on the website. For some notices, taxpayers could opt out of having them mailed to them.

Online Notice Response

U.S. States

Of the states that provided online notices, 24 of 26 (92 percent) offered taxpayers the option to respond to notices with an online method of communication, such as replying by email, filling out an online form, or even using a chat function. For the remaining two states, we could not determine if an online response option was available. For some states, taxpayers could respond to all notices through an online method of communication. For others, the availability of online response options was limited by the type of notice. For example, the New York website included instructions for responding to at least ten notices. The Ohio website had an Online Notice Response Service portal for taxpayers to securely respond to most notices through an online account.

Countries

Canada offered taxpayers the ability to respond to notices through their online accounts. Australia and the UK did not appear to offer a response service in their online accounts.

IRS

Although the IRS allowed some notices to be received and viewed online, taxpayers could not respond with an online method of communication. However, this is expected to change for the 2023 filing season.¹¹

Providing Access to Third Parties

U.S. States

Sixty-three percent of states (27 of 43) offered online methods to authorize third-party representatives to access accounts. For many, it was a matter of adapting an authorization form for online submission. Others had specific user login features for third parties. Fourteen states did not appear to have an online method, and we could not determine the answer for two states. Of the 27 states with an online method to authorize third parties, 22 states (81 percent) allowed the taxpayer to view the authorization online.

Access could expire or be canceled for nearly all the states by submitting a paper form, while an in-app or online option was noted for at least 16 states. Access expired automatically for some states: Ohio expired after one year; Indiana expired after five years; and California expired after six years.

Countries

Australia and Canada provided online methods for approving, viewing, and changing access to third parties. The UK required taxpayers to send a form by mail to establish and modify account access.

IRS

The IRS allowed two methods for authorizing third-party representatives. Taxpayers could submit a paper version of Form 2848, Power of Attorney and Declaration of Representative, via fax or U.S. mail. Alternatively, taxpayers could submit an authorization with taxpayer signature through their online account. The authorization remained in effect until the taxpayer revoked the authorization or the representative withdrew it.

Practitioners are a vital part of the U.S. tax system; there are over 783,000 tax professionals who prepare tax returns for a fee.¹² They also assist with other tax administration issues and alleviate taxpayer barriers to compliance. Through a Tax Pro Online Account and appropriate authorization, tax professionals should have the ability to perform actions such as request an installment payment agreement, view the status of a tax return, respond to a notice, request penalty relief or abatement for their client, apply for an extension of time to file, obtain a tax balance, and much more. While the IRS ultimately plans to expand additional functionality, a robust Tax Pro Online Account must be a priority as the agency moves toward a digital tax system. Participants from the tax forum focus groups shared a desire to review a list of all client accounts to which they have access in one location. Additionally, practitioners want to request and receive power of attorney access through their online accounts without the need for their clients to establish their own online account.¹³

Contact Options**U.S. States**

State websites displayed several methods for contacting the tax organizations for assistance. All states provided a contact option by telephone. Most state websites displayed this option prominently, though a few required some searching to find the phone number. A few state websites offered a callback service. Seventy-seven percent of state websites listed email as another contact option, via a specific address or through an online contact form. In-person locations for taxpayer assistance were listed on 74 percent of state websites, with some offering or requiring the scheduling of an appointment. Fax numbers were listed on 13 state websites. An online chat feature was a contact option on at least one state website, and another state included several social media options. Figure 5.1.6 displays the contact options available by state website.

FIGURE 5.1.6, Contact Options Provided on U.S. State Taxing Authority Websites

U.S. State	Phone	Email	In Person	Other
Alabama	X		X	
Arizona	X	X	X	
Arkansas	X	X		
California	X		X	Chat
Colorado	X	X	X	
Connecticut	X	X	X	
Delaware	X	X	X	
District of Columbia	X		X	Social media
Georgia	X	X	X	
Hawaii	X	X	X	
Idaho	X	X	X	
Illinois	X	X	X	
Indiana	X	X	X	

U.S. State	Phone	Email	In Person	Other
Iowa	X	X	X	
Kansas	X	X	X	
Kentucky	X	X	X	
Louisiana	X		X	
Maine	X	X		
Maryland	X	X	X	Virtual appointment
Massachusetts	X	X	X	
Michigan	X			
Minnesota	X	X		
Mississippi	X	X		
Missouri	X	X		Scheduled call back
Montana	X	X		
Nebraska	X		X	
New Jersey	X	X	X	
New Mexico	X	X	X	
New York	X	X		
North Carolina	X		X	
North Dakota	X	X	X	
Ohio	X	X	X	
Oklahoma	X	X	X	
Oregon	X		X	
Pennsylvania	X	X	X	Scheduled call back
Puerto Rico	X		X	
Rhode Island	X	X	X	
South Carolina	X	X	X	
Utah	X	X	X	
Vermont	X	X		
Virginia	X			
West Virginia	X	X		
Wisconsin	X	X	X	

Countries

Each country's taxing authority website listed several contact methods taxpayers could use for assistance. In Australia, online and phone methods were promoted first. Further options include office visits, with or without an appointment, and mail. The website also offered the opportunity to participate in online discussion groups via social media platforms, though with several cautions about privacy and information sharing. In Canada, taxpayers could use their online account, call by phone, use postal mail, or visit an office in person. In the UK, options varied by topic, with options to use online services available for most of them. Its website presented an extensive list of topics with specific methods allowed. Methods included online forms, email, and webchat. Taxpayers could also call by telephone or send postal mail.

IRS

The IRS website included phone and in-person contact options for taxpayers to seek assistance. Phone numbers were listed on the IRS homepage. The website listed phone and address information for each walk-in Taxpayer Assistance Center nationwide along with a national number for requesting appointments. Even though the website included phone and address information, according to the IRS's 2021 Comprehensive Taxpayer Attitude Survey, 81 percent of taxpayers surveyed wanted to be able to email questions to the IRS. Despite such preferences, there was no option to email the IRS.

When discussing the payment options in the tax forum focus groups, participants gave examples of having the client in the office and being on hold for an hour or longer.¹⁴ Participants expressed that if there was an option for online chat or email or availability to self-help through a Tax Pro account, they could resolve the issue more quickly and reduce the client's frustration with the process.

Language Options**U.S. States**

Twenty-four state websites (57 percent) offered language translation from English. The most common option offered was translation via Google Translate. While many languages were offered, a disclaimer was commonly added to note that incorrect translation that misrepresented the intended meaning was not the responsibility of the taxing authority. The taxing authority website for Puerto Rico was only available in Spanish and English.

Countries

Australia provided 35 language options, listed as follows:

Arabic, Assyrian, Bengali, Burmese, Chaldean, Chinese, Hrvatski Croatian, Dari, Dinka, Filipino, Greek, Gujarati, Hazaragi, Hindi, Indonesian, Italian, Japanese, Karen, Khmer, Korean, Macedonian, Nepali, Persian (Farsi), Portuguese, Punjabi, Russian, Serbian, Sinhalese, Somali, Spanish, Tamil, Thai, Turkish, Urdu, and Vietnamese.

Canada provided an option for a version of its website in French, and the UK provided a version in Welsh. No disclaimers were noted on the three country websites.

IRS

The IRS website displayed answers to basic tax questions in 20 languages, and the homepage allowed taxpayers to select from eight languages in a dropdown list: English, Spanish, Chinese (Simplified), Chinese (Traditional), Korean, Russian, Vietnamese, and Haitian Creole. Unlike most states, the website did not have a disclaimer.

Unique Website Features

Several state websites featured unique methods for providing taxpayer assistance that went above and beyond offerings on the IRS website. In Montana, taxpayers could watch a video of Director Brendan Beatty describing Montana values and reminding them to file an income tax return:

We leave gates how we find them. We wave to the people we meet on our country roads. And we're good neighbors. And, if you worked in Montana in the last year, and if you earned any income – including by teleworking – you need to file a Montana income tax return.

In Georgia, taxpayers could receive a notification by email or phone when a return was filed with their Social Security number. In Louisiana, taxpayers could electronically submit penalty waivers via an online

form. In Nebraska, taxpayers could e-file a Petition for Redetermination (Protest). This applied to Notices of Deficiency Determination issued by the Nebraska Department of Revenue. In Ohio, the Ohio Attorney General website included a link to apply for an offer in compromise. A speaker service was also available. In Puerto Rico, taxpayers could view W-2s directly in their online accounts after the forms had been processed.

SUMMARY OF FINDINGS AND DISCUSSION

Overall, the IRS offered several services in common with U.S. states and the three foreign countries reviewed, but there were notable differences.

The most notable difference was the IRS's more stringent requirements for **setting up an online account** through the ID.me process. While this partnership with a private entity raised concerns from Congress and others, it is currently in place and active. More stringent verification by other governmental entities is a trend attracting more adherents, such as the requirement to obtain a REAL ID by the Department of Homeland Security.¹⁵ Compared to the IRS website, Canada, Australia, and the UK had similar processes for taxpayers to create online accounts. All three countries required taxpayers to provide personal information such as full name, date of birth, and an email address. Like the IRS, taxpayers were required to complete a multistep authentication process, either by entering a code sent to their email or phone or by receiving a voice call through an app. Only Australia required taxpayers to take a live photo, similar to the ID.me registration process at the IRS.

A second difference between the IRS and other entities was the lack of **online filing** options. Congress recently mandated that the IRS conduct a study of its ability to offer direct online filing to taxpayers without using an intermediary, which is currently available with the IRS Free File Alliance. Specifically, the Inflation Reduction Act set aside \$15 million for the Treasury Department to study a free federal tax-filing website. Treasury Secretary Janet Yellen expressed support for simplifying the process, saying: "Tax filing should be simple: I recently came across a statistic it takes an average American 13 hours to file a tax return," she said during a visit to an IRS facility in Maryland. "Compare that with Sweden. Some taxpayers can file simply by replying to a text message. We can and must do better."¹⁶ While the IRS is exploring the feasibility of direct online filing of federal income, there is still no certainty on when or if such an option is feasible or will be made available. This is not a simple task, as there are many considerations that must be accounted for in the short term and long term. And if the IRS designs and creates a direct online filing option, questions remain:

- Will it be for simple returns such as Form W-2 wage earners only?
- Will it have a dollar limitation?
- Will it be for individuals only or will it include joint returns, Head of Household returns?
- Will it apply to returns with a Schedule A or Schedule C, or will it expand to business returns?
- Would the direct file online software be designed for federal income tax returns only, leaving taxpayers in the position of having to use different software for federal and state returns and having to access multiple websites to file all of their annual filings?
- Will the taxpayer be able to download third-party forms such as Forms W-2 and 1099 provided to the IRS and directly download into the online filing option?
- Will the taxpayer be able to upload his or her federal return information into a state return direct file online software?

Another difference was the **lack of online notice receipt and response options**, though the IRS was not the only entity lacking such an option. While some notices can be received and viewed in a taxpayer's IRS online account, there is no online response option. This may change for the 2023 filing season. On September 15, Treasury Secretary Yellen stated, "The IRS will also build online capabilities to enable taxpayers to fully interact with the agency digitally. Currently, when taxpayers receive a notice from the IRS, they generally

must respond via mail.”¹⁷ Adding online capabilities would provide taxpayers access to key data, provide a portal for responses and chats, and reduce the need for telephone contacts.

The option to provide **third-party access** to individual accounts was commonly available for nearly all sites, including the IRS. Over half of individual federal income tax returns are prepared by a tax professional.¹⁸ However, these professionals cannot generally interface with the IRS regarding their clients’ returns unless their clients also have an online account. This prevents many tax professionals from providing adequate service to their clients. Through a Tax Pro Account and appropriate authorization, tax professionals should have the ability to access all of their client’s tax information in one portal. That would be a game changer for tax administration.

As for **payment options**, the IRS exceeded the options offered by the entities reviewed. The IRS offered online payment options regardless of whether a taxpayer had established an online account. Taxpayers could pay online or over the phone, using bank transfers, credit cards, debit cards, and digital wallets such as PayPal and Click to Pay, or use a self-assisted voicebot to create an installment agreement with a **payment plan**. The option for setting up a payment plan was common to most, including the IRS.

All states and the three countries, along with the IRS, allow for online **refund inquiries** under their respective tax systems. The information required was relatively simple with the need for an ID number, amount expected, and filing information. However, the IRS’s Where’s my Refund? application was not able to address any outstanding issues that may be holding up the refund, the timeframe involved with the delay, or actions required by a taxpayer. If there were no delays or issues, the application provided useful information such as return received, payment made, and date of payment.

Reviewing in-person or electronic **contact options**, we found several differences between current offerings on the IRS website and the options available on state and foreign country websites. One difference was that the IRS required a phone call to set up an in-person appointment, made difficult by consistently low levels of telephone customer service. Several states offered taxpayers the ability to schedule an in-person appointment via an online appointment system, while others did not require an appointment. Another difference captured was how non-IRS entities allowed in-app communications that included account information. This was another contact option not available in IRS online accounts. Finally, the District of Columbia and Australia went above and beyond by providing taxpayers with contact options via social media platforms. Unfortunately, despite the clear demand for the ability to contact the IRS via email, the IRS did not make this a contact option for general information or request for appointments.

The IRS emerged as a leader in offering language translation options, with information for basic tax questions in 20 languages and the homepage in eight languages, including English.

Throughout the review process, we saw the advancement of offerings on the websites, as many seemed to add or refine features as we collected the information. The IRS was no exception, with more features expected to roll out. Much more can be learned from additional reviews of those websites in this report as well as from additional countries and taxing authorities beyond income tax-based agencies. The IRS should be the gold standard for tax agencies and needs to find innovative ways to successfully interact with taxpayers and their representatives in the digital environment while also ensuring it provides the online functionality that taxpayers need, expect, and deserve in a secure environment.

Appendix A

FIGURE 5.1.7, State Taxing Authorities and Their Websites

State	Link
Alabama	https://revenue.alabama.gov/
Arkansas	https://www.dfa.arkansas.gov/
Arizona	https://azdor.gov/
California	https://www.ftb.ca.gov/
Colorado	https://tax.colorado.gov/
Connecticut	https://portal.ct.gov/drs
District of Columbia	https://otr.cfo.dc.gov/
Delaware	https://revenue.delaware.gov/
Georgia	https://dor.georgia.gov/
Hawaii	http://tax.hawaii.gov/
Iowa	https://tax.iowa.gov/
Idaho	https://tax.idaho.gov/index.cfm
Illinois	https://www2.illinois.gov/rev/Pages/default.aspx
Indiana	https://www.in.gov
Kansas	https://www.ksrevenue.gov/
Kentucky	https://revenue.ky.gov/Pages/index.aspx
Louisiana	https://revenue.louisiana.gov/
Massachusetts	https://www.mass.gov/orgs/massachusetts-department-of-revenue
Maryland	https://www.marylandtaxes.gov/index.php
Maine	https://www.maine.gov/revenue/
Michigan	https://www.michigan.gov/taxes
Minnesota	https://www.revenue.state.mn.us
Missouri	https://dor.mo.gov/online-services
Mississippi	https://www.dor.ms.gov/
Montana	https://mtrevenue.gov/
North Carolina	https://www.ncdor.gov/
North Dakota	https://www.tax.nd.gov/
Nebraska	https://revenue.nebraska.gov/
New Jersey	https://www.nj.gov/treasury/taxation/
New Mexico	https://www.tax.newmexico.gov/
New York	https://www.tax.ny.gov/
Ohio	https://tax.ohio.gov/
Oklahoma	https://oklahoma.gov/tax.html
Oregon	https://www.oregon.gov/dor/Pages/index.aspx
Pennsylvania	https://www.revenue.pa.gov/Pages/default.aspx

State	Link
Puerto Rico	https://hacienda.pr.gov/
Rhode Island	https://tax.ri.gov/
South Carolina	https://dor.sc.gov/
Utah	https://incometax.utah.gov/
Virginia	http://www.tax.virginia.gov
Vermont	https://tax.vermont.gov/
Wisconsin	https://www.revenue.wi.gov/Pages/home.aspx
West Virginia	https://mytaxes.wvtax.gov/

FIGURE 5.1.8, Countries and Their Websites

Country	Link
Australia	https://www.ato.gov.au/
Canada	https://www.canada.ca/en/revenue-agency.html
United Kingdom	https://www.gov.uk/income-tax

Appendix B

DATA COLLECTION INSTRUMENT – STATE AND COUNTRY WEBSITE REVIEWS

- A. Who is completing this DCI? Select your initials**
- B. State or Country (if outside U.S.)**
- C. Organization Name:**
- D. Web Link for organization:**
- E. Are other languages offered?** If yes, (please list, if any in addition to English)
- F. Is website available to the following user type? Choose only one and complete a separate DCI for each.**
- Individual
 - Business
 - Tax Professional
- G. Can an account be established on the website?**
Describe process for setting up account
Are communication preferences available?
- H. Can a POA be designated on the website?**
Can user view any authorization requests from tax professionals?
Can user approve and electronically sign Power of Attorney and Tax Information Authorization for your tax professional?
How can the POA Expire?
 - Form submittal
 - Timed Expiration
 - Other method (If Other Method, please list)
- I. Is a Terms of Service available to read?**
- J. Is account Information available on the website?**
Can the user see the account refund status?
What can be viewed?
 - View key data from the most recently filed tax return,
 - Account Transcripts
 - View digital copies of notices
 - View the amount you owe and a breakdown by tax year
 - View payment history, including your estimated tax payments
 - Paste any other account features not listed above
What can be changed?

K. What communication options are available?

- Receive In App notifications
- Receive SMS Alerts
- Received notices digitally
- Chat or correspond In App
- Callback feature
- Other (If Other, please list)

L. Is a Notice Response option available?

If yes, how can user respond?

M. Describe Authentication Requirements?

What are the Authentication Methods?

- In-person
- Online
- Phone
- Other
- If other, please describe

N. Can a payment be made from the website?

What payment methods are available?

- Credit Card
- Debit Card
- Direct from Bank Account
- PayPal or other online Service
- Other (If other, please describe)
- What are Payment Plan Options?
- Learn about payment plan options
- Apply for a new payment plan
- View details of your existing payment plan
- View any pending or scheduled payments
- Renegotiate or Reinstate Plan
- Receive payment reminders
- Other (If other, please describe)

What is cost to set up plan?

O. Can a user file on the website?

- What types of filings are available?
- Original Filing
- Amended Filing
- Are there qualifications to file?
- What is the cost to file?

P. What Other Features are available?**Q. Are there any other items you thought were interesting or useful on the website that were not part of this form?****Endnotes**

- 1 IRS, Pub. 5296, Comprehensive Taxpayer Attitude Survey (CTAS) 2021, at 34, 41, 43 (Apr. 2022), <https://www.irs.gov/pub/irs-pdf/p5296.pdf>, (last visited Nov. 22, 2022).
- 2 OECD, *Tax Administration 2022: Comparative Information on OECD and Other Advanced and Emerging Economies*, <https://www.oecd-ilibrary.org/sites/3991b5f3-en/index.html?itemld=/content/component/3991b5f3-en#section-d1e985>, (last visited Nov. 22, 2022).
- 3 Observations from TAS's Focus Group Interviews, 2022 IRS Nationwide Tax Forums.
- 4 In 1996, Congress directed the National Institute of Standards and Technology (NIST) to develop and issue best practices and other guidance for secure operation of U.S. Government systems. Six years later, Congress further strengthened requirements by enacting the Federal Information Security Management Act (FISMA) of 2002. FISMA requires federal agencies to safeguard systems based on the impact categorization (FIPS 199) such that residual information security risk is mitigated to an acceptable level.
- 5 IRS, Accessibility and Compatibility Features for Signing In and Creating an Account, <https://www.irs.gov/help/accessibility-and-compatibility-features-for-signing-in-and-creating-an-account> (last visited Dec. 19, 2022).
- 6 ID.me, IRS – What does ID.me do for the IRS? – ID.me Help Center, <https://help.id.me/hc/en-us/articles/4402754222615-IRS-What-does-ID-me-do-for-the-IRS> (last visited Nov. 22, 2022).
- 7 Observations from TAS's Focus Group Interviews, 2022 IRS Nationwide Tax Forums.
- 8 An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14 (commonly referred to as the "Inflation Reduction Act of 2022"), Pub. L. No. 117-169, 136 Stat. 1818 (2022).
- 9 IRS, Apply Online for a Payment Plan, <https://www.irs.gov/payments/online-payment-agreement-application> (last visited Nov. 22, 2022).
- 10 *Id.*
- 11 On September 15, 2022, Treasury Secretary Yellen stated, "The IRS will also build online capabilities to enable taxpayers to fully interact with the agency digitally. Currently, when taxpayers receive a notice from the IRS, they generally must respond via mail. During this coming filing season [FY 2023], millions of taxpayers will be able to receive and respond to notices online." U.S. Department of the Treasury, Remarks by Secretary of the Treasury Janet L. Yellen at the IRS facility in New Carrollton, Maryland (Sept. 15, 2022), <https://home.treasury.gov/news/press-releases/jy0952> (last visited Dec. 20, 2022).
- 12 IRS response to 2022 Return Preparer Oversight Most Serious Problem (Sept. 30, 2022).
- 13 *Id.*
- 14 Observations from TAS's Focus Group Interviews, 2022 IRS Nationwide Tax Forums.
- 15 U.S. Department of Homeland Security, REAL ID Information Page, <https://www.dhs.gov/real-id> (last visited Nov. 22, 2022).
- 16 U.S. Department of the Treasury, Remarks by Secretary of the Treasury Janet L. Yellen at the IRS facility in New Carrollton, Maryland (Sept. 15, 2022), <https://home.treasury.gov/news/press-releases/jy0952> (last visited Dec. 20, 2022).
- 17 See U.S. Department of the Treasury, Remarks by Secretary of the Treasury Janet L. Yellen at the IRS Facility in New Carrollton, Maryland (Sept. 15, 2022), <https://home.treasury.gov/news/press-releases/jy0952> (last visited Nov. 22, 2022).
- 18 IRS, Compliance Data Warehouse (CDW) Individual Returns Transaction File Table (IRTF) Tax Year (TY) 2021 (Dec. 20, 2022).

Exploring Earned Income Tax Credit Structures: Dividing the Credit Between a Worker and Child Component and Other Considerations

EXECUTIVE SUMMARY

In tax year (TY) 2019, over 26 million low- and middle-income taxpayers received the Earned Income Tax Credit (EITC). These taxpayers claimed over 32 million qualifying children and received an average amount of \$2,424 per return for a total amount of nearly \$64 billion.¹ The EITC is one of the largest anti-poverty programs in the United States. Unfortunately, in FY 2020 the IRS estimates over \$16 billion of the EITC was improperly claimed – over a quarter of the total EITC outlays.

The National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress recommended that the EITC be split between a worker portion and a child portion. This report explores possible options for bifurcating the EITC by discussing seven new EITC structures. Each of the structures sets the worker portion of the EITC at 15.3 percent of earned income while exploring different formulas for determining the child portion of the credits. Two possible EITC structures considerably increase the expected EITC payments, and we designed five other possible new EITC structures to produce similar outlays to the existing tax law.

This report explains each of the new structures and explores which types of taxpayers would benefit from the proposed structure and which taxpayers would receive a loss of benefits. We explore these changes both graphically, as the structure would apply to any eligible taxpayer, and we look at the actual effects on existing EITC claimants. To this end, we calculate the total outlays and the disbursements depending on filing status, income ranges, and number of qualifying children.

The IRS continues to spend significant resources auditing taxpayer returns claiming the EITC. The IRS audits a higher percentage of taxpayers with the EITC than any other taxpayers, except those with at least \$5 million of total positive income. Therefore, we explored another data source that could potentially be used as a proxy suggesting that the child meets the residency requirement. Our analyses show that the IRS could potentially use Affordable Care Act (ACA) data to validate the EITC claims of many additional taxpayers, and exploring this data source is worth further study, especially since a child's residency is necessary for other credits including the Child Tax Credit, where significant noncompliance is also likely.

The report highlights data from the Census Bureau's match with IRS data, which estimates the number of eligible taxpayers who claim the EITC. Taxpayers are much more likely to claim EITC when they can claim the credit for one or more children. However, millions more taxpayers with purported qualifying children claim the EITC than Census Bureau data suggest actually qualify. The complex structures of today's families undoubtedly contribute to this situation.

Finally, the report highlights the positive benefit that splitting the EITC between a worker and child credit could have on the EITC improper payment rate. While the data from the most recent IRS EITC compliance study is dated, our estimates suggest that these new EITC structures could reduce the EITC improper payment rate by about 35 percent.

INTRODUCTION

The EITC² stems from a policy designed for low- and moderate-income working taxpayers by providing the opportunity for struggling individuals and families to step out of poverty toward meaningful economic security. The credit reduces the tax owed by taxpayers, and any additional amounts beyond the filer's tax liability will be paid to the taxpayer in the same way that excess withholding is refunded. Nearly 26.4 million

income tax filers received approximately \$64 billion in EITC in TY 2019.³ Researchers have consistently shown that the EITC reduces poverty, encourages work, and improves the health and education of lower-income taxpayers.⁴

Overall, the EITC participation rate is relatively high at over 79 percent,⁵ while the cost for the IRS to administer the program is about one percent of the benefits distributed.⁶ Unfortunately, however, even though the EITC program costs little to administer and many taxpayers file returns to claim the credit, the improper payment amount is estimated to have exceeded \$16 billion in FY 2020.⁷ As a result, the IRS audits a number of tax returns with EITC claims (EITC returns). For TY 2019, the IRS examined about 203,000 EITC returns. While this audit rate was only 0.8 percent, it was four times greater than the audit rate for all individual income tax returns, and only taxpayers making more than \$5 million had a higher audit rate. Audits on EITC returns comprised nearly 60 percent of the TY 2019 individual income tax return audits that had begun by FY 2021. However, in TY 2019, EITC returns comprised less than 17 percent of all individual returns filed.⁸

The National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress included a third volume, a special report that proposed a variety of reforms to both the EITC structure and its administration by the IRS. The prior report recommended splitting the EITC into a worker component and a child component. This report will explore the impact of this bifurcation on the amount of EITC paid to taxpayers, possible new ways to verify the eligibility of a child claimed for EITC, observations about the EITC participation rate, and the effect of splitting the EITC into a component based solely on income and a component based on the presence of a qualifying child. Planned objectives of this study originally included:⁹

1. Identify possible options for a new earnings-based per-worker credit and per-child credit to replace the existing EITC credit.
2. Compare the existing EITC to the credit amount afforded by possible new per-worker and per-child structures and the effect on taxpayers not currently eligible for EITC.
3. Analyze the hypothetical outcomes of prior EITC audits if the rules for the proposed per-worker and per-child credit were in place.
4. Explore IRS and Census Bureau data to quantify the number of children who would qualify their parents for a per-child tax credit under various definitions of a “qualifying child.”
5. Estimate the new improper payment rate for the EITC based on the rules for the proposed per-worker and per-child credit.

Primarily, this report details the effect on the amount of the EITC if the credit were split into a worker portion and a child portion. While the National Taxpayer Advocate Fiscal Year 2020 special report on EITC recommended a separate child credit, our first approach is to split the existing EITC into two components – a credit based solely on earned income and a credit based on the number of qualifying children. We explore seven possible EITC structures depending on whether the child portion of the credit is a flat rate for up to three children, a flat rate that decreases as the number of qualifying children increases (up to three), or a variable amount per child that decreases in the higher income ranges. We explore the significant features of each of these possible structures. We also look at the effects of these various structures on actual TY 2019 taxpayers receiving the EITC by comparing these total credits to each other and to the EITC paid out for TY 2019 returns based on the existing law. We examine underutilized data sources that could enable the IRS to validate EITC claims and reduce the volume of EITC returns with questionable validity. We then analyze the effects if these data sources had been used on previous EITC audits and identify whether this data could also quantify the number of EITC claims where the additional data could validate the qualifying child(ren). We examine the results of the TY 2019 data provided to the IRS from the Census Bureau, which estimate the EITC participation rate based on information provided in the Current Population Survey. Finally, we will estimate the effect of the new EITC structures on the improper payment rate.

We used TY 2019 data to explore the effects of new EITC structures on the EITC received by taxpayers. We chose TY 2019 because it was the most recent year of complete data prior to the COVID-19 pandemic. We believe 2019 data is the most current data best reflecting the employment and income of taxpayers. However, it would also be worthwhile to repeat these analyses after the data is available for most 2022 tax returns.

BACKGROUND

EITC was implemented on a temporary basis in 1975 and made a permanent feature of the U.S. tax code in 1978. The Tax Reform Act of 1986 adjusted the formula for EITC, significantly increasing the credit and providing for continual adjustments to the credit based on inflation. In 1990, the credit formula was modified to account for family size – one formula for families with one child and a different formula for families with two or more children. In 1993, Congress increased the amount of the credit and also expanded the credit to include families without qualifying children. In 1996, a tax law required EITC claimants to provide valid Social Security numbers (SSNs) for themselves, a spouse if married filing jointly, and any qualifying children. In 2002, the EITC for married claimants phased out at a higher income level to provide “marriage penalty relief.”¹⁰ Then, in 2009, a larger EITC amount was temporarily provided for claimants with three qualifying children and ultimately made a permanent feature of EITC.¹¹ The rules for all potential EITC claimants in TY 2019 include:¹²

1. Your adjusted gross income (AGI) must be less than:
 - \$50,162 (\$55,952 for married filing jointly) if you have three or more qualifying children,
 - \$46,703 (\$52,493 for married filing jointly) if you have two qualifying children,
 - \$41,094 (\$46,884 for married filing jointly) if you have one qualifying child, or
 - \$15,570 (\$21,370 for married filing jointly) if you don’t have a qualifying child.
2. You must have a valid SSN by the due date of your 2019 return (including extensions).
3. Your filing status can’t be married filing separately.
4. You must be a U.S. citizen or resident alien all year.
5. You can’t file Form 2555 (relating to foreign earned income).
6. Your investment income must be \$3,600 or less.
7. You must have earned income.

Figure 5.2.1 describes the computation of the EITC in TY 2019.

FIGURE 5.2.1, Existing EITC Thresholds by Number of Qualifying Children, TY 2019¹³

	0 Children	1 Child	2 Children	3 Children
Credit Rate (Phase-in)	7.65%	34%	40%	45%
Maximum EITC	\$529	\$3,526	\$5,828	\$6,557
Income Phase-out Threshold for EITC				
Single	\$8,650	\$19,030	\$19,030	\$19,030
Married	\$14,450	\$24,820	\$24,820	\$24,820
Income Threshold for EITC				
Single	\$15,570	\$41,094	\$46,703	\$50,162
Married	\$21,370	\$46,884	\$52,493	\$55,952

In 1975, the EITC did not exceed \$400 and was only available to taxpayers with children.¹⁴ In TY 2021, the maximum amount of EITC for taxpayers with three or more children was \$6,728, and taxpayers with no children could qualify for \$1,502 of EITC.¹⁵ Adjusting for inflation, the maximum amount of EITC received in 2022 is over three times as large as the maximum EITC amount in 1976.¹⁶

Taxpayers with qualifying children must meet four requirements to claim the EITC. These requirements include the age test, joint return test, the relationship test, and the residency test. The age test states that qualifying children must be either under 19 years of age, 24 years of age if the child is a full-time student, or any age if the child is permanently disabled. To meet the joint return test, the qualifying child must not file a joint return (or file a joint return only to claim a refund of all taxes paid). The relationship test states that qualifying children must have a qualifying relationship to the EITC claimant.¹⁷ The residency test states that a qualifying child must have lived in the same home with the claimant for more than half of the year. The joint return test and the age test are relatively easy for the IRS to verify. The IRS can easily verify if a qualifying child is a son or daughter of the claimant, but other qualified relationships are more difficult to verify such as nieces and nephews.

Unfortunately, the residency test is very difficult for the IRS to verify. While it is generally easy to determine that a qualifying child is being claimed by both parents on a jointly filed return, this occurred in less than 21 percent of the EITC claims in TY 2019.¹⁸ A claimed qualifying child on a married filing joint return may stem from a second marriage, meaning that a former spouse would also have the necessary relationship to claim the child for EITC. The rightful EITC claimant would depend on which parent the child lived with for more than half of the year. Only one person can claim EITC benefits for a qualifying child.

Determining if a child resided with the EITC claimant for over half of the tax year is very difficult for the IRS. The IRS can determine if the child is being claimed by both of his or her biological parents or legal guardians; however, the IRS would not know if financial or other circumstances dictated that the child lived with other relatives during the majority of the tax year. The IRS has access to federal case registry data that rolls up custody information from the courts in all 50 states and can generally determine if the child is claimed by the custodial parent. However, the IRS will not know if the custody arrangements for the child have changed unless the parents involve the courts, or the taxpayer provides the information to the IRS during an examination.

While EITC amounts have significantly increased in the last 45 years, the family structure in the United States has changed considerably. The divorce rate increased by 55 percent from 1975 to 2019,¹⁹ while the marriage rate decreased by 63 percent.²⁰ Just about 20 percent of EITC claimants are married taxpayers filing jointly, suggesting that the majority of EITC qualifying children reside in single parent households or blended families.²¹ Taxpayers rarely understand the requirements to identify qualifying children. Therefore, the IRS has the difficult responsibility of verifying residency even as children are less likely to live with both parents. The IRS is placed in the unenviable position of trying to determine if the child claimed for EITC purposes resided with the claimant for more than half of the year.

The results of a 2014 IRS EITC compliance study from National Research Program data demonstrates that the residency test is the most likely reason that a claimed child is not a qualifying child for EITC purposes. Misidentifying a child as a qualifying child without any other error in the EITC claim accounted for more than a quarter of known EITC errors and accounted for 38 percent of overclaimed EITC attributable to qualifying children and other errors.²² Fifteen percent of EITC claims with qualifying children claimed at least one qualifying child in error.²³ Failure of the residency test accounted for 75 percent of all EITC qualifying child errors while the relationship test only accounted for 20 percent of EITC child errors.²⁴ Overall, qualifying child errors account for over half of the EITC overclaim amount – between \$7 and \$10 billion.²⁵

OBJECTIVES AND DEVIATIONS

The first two objectives remain unchanged from the those originally envisioned for the project.

1. Identify possible options for a new earnings-based per-worker credit and per-child credit to replace the existing EITC credit.
2. Compare the existing EITC to the credit amount afforded by possible new per-worker and per-child structures and the effect to taxpayers not currently eligible for EITC.

The EITC research study published by TAS in 2019 recommended a worker-based credit and a separate fixed credit for each qualifying child. In this report, we explore the outcome of this EITC structure with a worker credit and a fixed per-child credit. We also explore bifurcating the existing structure of EITC between a worker credit based on income and a per-child credit also based on income instead of only a fixed amount. While the new structures do not change the number of taxpayers eligible for the EITC, these possible formulas alter the amount of the EITC to which they are entitled.

When we originally formulated the objectives for this research study, we envisioned exploring different rules for determining if a child was a qualifying child for EITC. After reviewing the eligibility rules for other credits depending on a qualifying child, we found these other credits also involved criteria the IRS could not easily verify without becoming extremely obtrusive into taxpayers' private lives. Therefore, we have modified the third objective to focus on which returns selected for audit could have been cleared using other data and how the available data on potentially qualifying children could narrow the population of EITC returns that should be considered for audit.

3. Analyze the selection of TY 2019 EITC audits to determine in what percentage of these audits the EITC claim could have been validated without the need for an audit and determine the total number of TY 2019 EITC claims requiring an audit to verify eligibility of the child claimed.

Since various definitions of an EITC qualifying child would generally require the IRS to significantly intrude into taxpayers' lives, for Objective 4, we show the results of a Census Bureau study estimating the number of taxpayers eligible for EITC under the current definition for an EITC qualifying child so we can compare the number of likely eligible EITC claimants to the actual number of claimants.

4. Explore IRS and Census Bureau data to quantify the number of children who would qualify their parents for a per-child tax credit under the current IRC definition of a "qualifying child."

Objective 5 also remains unchanged.

5. Estimate the new improper payment rate for EITC based on the rules for the proposed per-worker and per-child credit.

METHODOLOGY

We created a base file of taxpayers receiving EITC on a TY 2019 return processed as of the end of calendar year 2021. We also extracted various other data for these taxpayers including filing status, AGI, the IRS computed amount of earned income,²⁶ the number of claimed EITC qualifying children, and other credits claimed on the return. We supplemented this data with the Dependent Database rules broken and final score and with the results of EITC audits for TY 2019.

For the first objective, we computed the worker component of the EITC at 15.3 percent. Several commentators have recommended this percentage for childless workers, and Congress actually increased the childless worker EITC phase-in credit rate from 7.65 percent to 15.3 percent for TYs 2020 and 2021, although the amount is slated to return to 7.65 percent in TY 2022.²⁷ For the child portion of the credit, we considered a flat rate amount per child (up to three children), a flat rate per child that decreased as the

number of children increases, a child portion that fluctuated based on income and number of children, and using percentages that maintained the existing EITC credit but split it into a worker component based solely on income and a child component based on income and the number of qualifying children. Overall, we considered seven possible EITC structures.

While we explore the effect of these different EITC structures graphically across all eligible income ranges and numbers of qualifying children (up to three) in the second objective, we also compare the actual effect of the possible new EITC structures on taxpayers who received EITC in TY 2019. This approach allows us to determine the cost of each structure and the actual effects on various groups of taxpayers.

To accomplish the third objective on reducing the population of EITC claims for audit, we extracted the insurance coverage data for household members from ACA Forms 1095-B, Health Form, and 1095-C, Employer-Provided Health Insurance Offer and Coverage.²⁸ We matched the individuals on these ACA information documents to the children claimed by the taxpayer as EITC qualifying children.²⁹ We compared this data to the taxpayers claiming EITC (after the IRS exercised its math error authority) to determine how many of the EITC claims had EITC qualifying children also provided with health insurance coverage for at least six months of the year. We also determined the number of claimed children provided health insurance coverage by the taxpayer for four and five months of the year. The IRS may allow a taxpayer's EITC claim if he or she can verify the eligibility of a claimed child for most of the six-month period. The ACA data was compared both to the returns audited because of their EITC claim in TY 2019 and to all TY 2019 returns receiving EITC.

To accomplish the fourth objective, we relied on the Census Bureau match of IRS EITC claims to sample census data. This match forms an estimate of the number of EITC eligible taxpayers based on the Census Bureau Current Population Survey sample data. This sample estimates the EITC participation rate by the number of qualifying children. The match also estimates the number of childless workers eligible for the credit in TY 2019.

The fifth objective was accomplished by quantifying the portion of the EITC stemming from the proposed EITC worker credit based solely on income and then estimating the improper payment rate percentages attributable to unreported income detected in the EITC Compliance Study published in 2014.³⁰ We project a new estimated improper payment rate for FY 2020 based on these factors:

1. The IRS-estimated EITC improper payment percentage for FY 2020.
2. The EITC attributable to the worker component of the proposed structure, which the IRS can more easily verify.
3. The EITC attributable to the child component of the proposed structure, which the IRS has more difficulty verifying.
4. The percent of the dollars of EITC non-compliance attributable to income misreporting.
5. The percent of the dollars of EITC non-compliance attributable to claiming children ineligible to be a qualifying child for EITC.
6. The total EITC expected to be paid out under each EITC structure considered.

FINDINGS

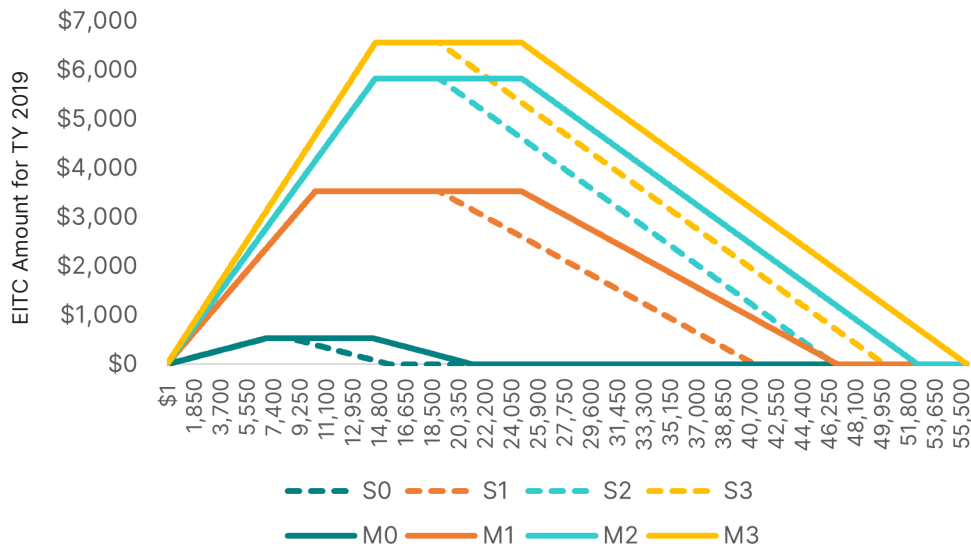
We have developed our findings from TY 2019 data. Overall, we considered the data reported on TY 2019 income tax returns, Dependent Database scoring, administrative audit data, and information documents associated with ACA. In order, this section discusses the findings for each of the five study objectives (shown in bold).

Objective 1: Identify possible options for a new earnings-based per-worker credit and per-child credit to replace the existing EITC credit.

Figure 5.2.2 depicts the existing EITC amount depending on income and number of children and compares the credit amount for single and married filing jointly taxpayers.³¹

FIGURE 5.2.2

Difference Between Single (Dashed) and Married (Solid) EITC Amount for TY 2019 by Income



We explored seven possible options for a new structure of determining the EITC amount. Each of the structures is based on splitting the EITC into a worker component based on income and a child portion, providing a credit amount for up to three children. In all scenarios, we set the worker component of EITC at 15.3 percent, although we also examine the effects if this amount were reduced by half to 7.65 percent.³² The possible EITC structures we explore look at differing amounts for the child portion of the credit, including a flat, stable credit per child, a flat credit per child that decreases as the number of qualifying children increases, and different variations of a structure where the portion of the EITC credit attributable to qualifying children fluctuates based on income.

Option 1: A Worker-Based Credit and a Constant Allowance for Each Qualifying Child

The first structure we considered was a worker component of the credit based on 15.3 percent of earned income and a flat, unchanging child-based portion of the credit at \$2,000 per child, regardless of income, up to the existing maximum of three children. Figures 5.2.3 and 5.2.4 separately explore the effect of this possible EITC structure on single and married taxpayers in greater detail.

FIGURE 5.2.3

Difference for Single Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income

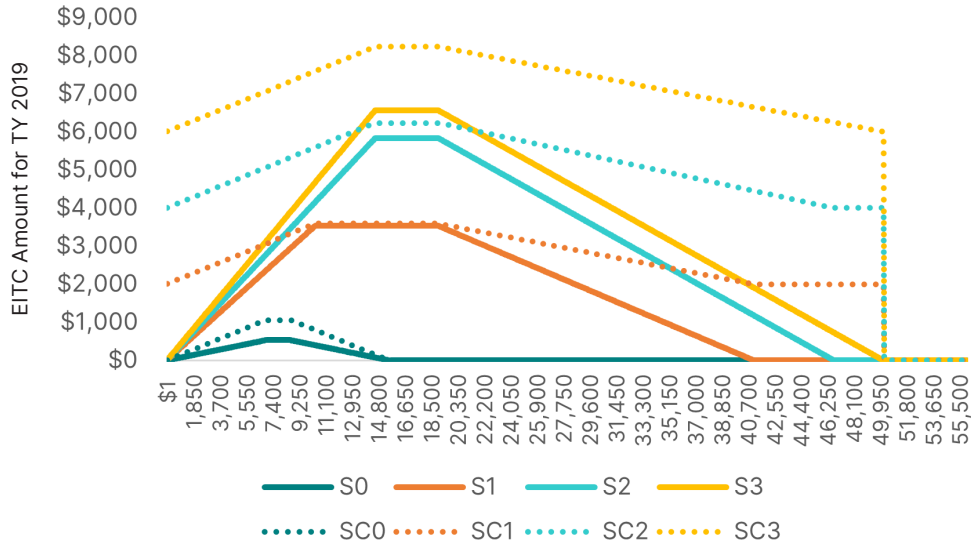
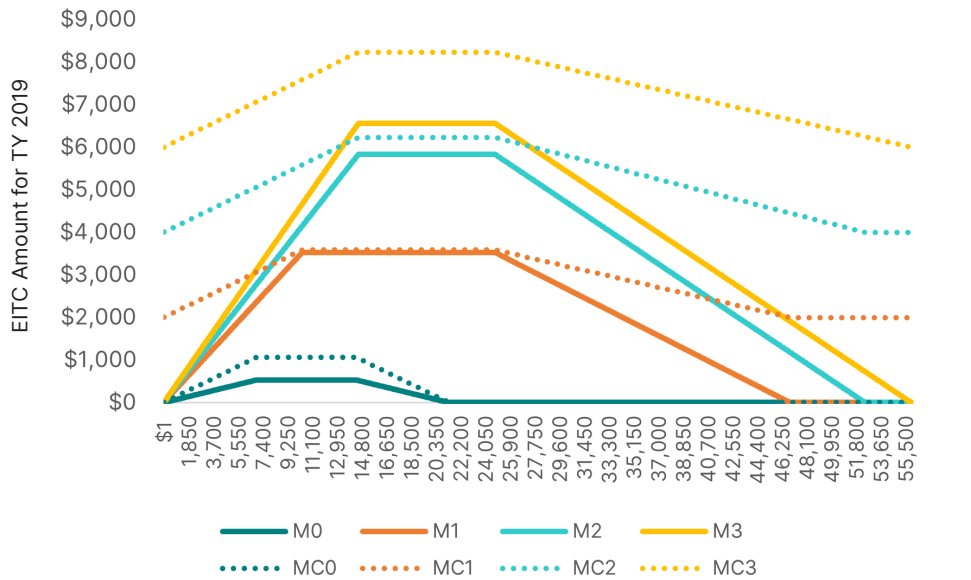


FIGURE 5.2.4

Difference for Married Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



We have these observations for this possible structure's effect on the EITC.

- The EITC amount increases for the lowest income taxpayers with children as the flat child credit boosts the starting amount.
- The EITC amount increases for higher income taxpayers with children as only the worker portion of the credit phases out.

Option 2: A Worker-Based Credit and a Decreasing Allowance for Each Additional Qualifying Child

The second possible structure we explore also splits EITC between a worker and child portion but decreases the flat rate allowed per child as the number of qualifying children increases. The existing EITC structure operates in a similar fashion, where the maximum credit for one child is about \$3,000 and increases by about \$2,300 when claiming two qualifying children instead of one, but the maximum credit only increases by about \$700 when claiming three qualifying children instead of two. For this possible structure, we set the worker portion of the credit to phase in at 15.3 percent of income and to also phase out at this same rate. The credit amount was \$3,000 for one qualifying child, \$2,000 for the second qualifying child, and \$1,000 for the third qualifying child. Figures 5.2.5 and 5.2.6 depict the amount of this possible EITC at the possible eligible incomes and number of qualifying children for both single and married taxpayers claiming the credit.

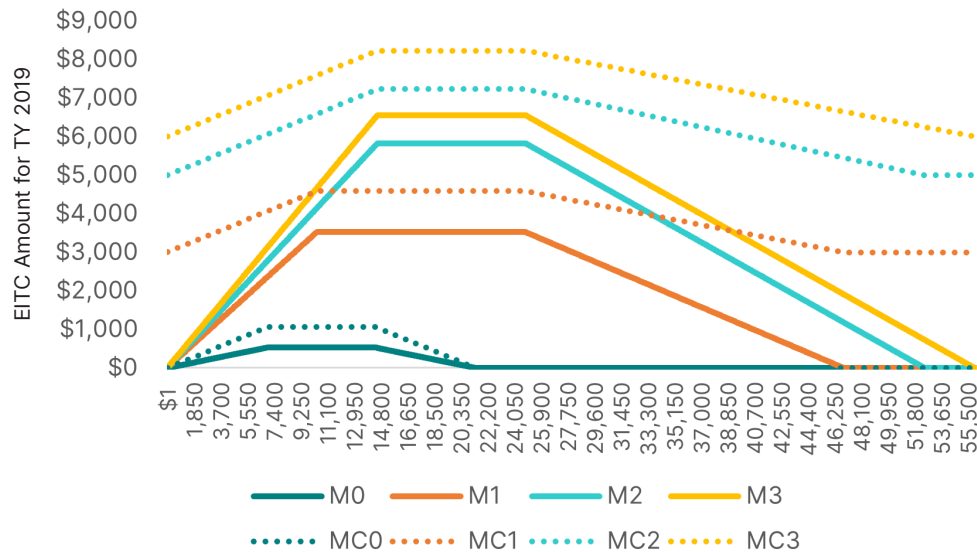
FIGURE 5.2.5

Difference for Single Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



FIGURE 5.2.6

Difference for Married Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



Additional observations for this possible EITC structure, specifically related to whether the taxpayer files a single or married filing jointly return include:

- Since this structure awards an amount for each qualifying child, the credit amounts do not continue to decrease past the flat amounts awarded for one, two, or three qualifying children (\$1,000; \$2,000; and \$3,000).
- EITC claimants in the lowest and highest income ranges would be entitled to significantly more credit.
- Because there are more EITC claims with one qualifying child (than two or three qualifying children), this proposed structure leads to significantly more EITC outlays.
- Overall, the EITC benefit under this structure is about 70 percent more than what is afforded by the existing EITC structure for TY 2019.

We designed the third, fourth, and fifth possible EITC structures to generally mimic the total amount of EITC that was paid out for TY 2019 returns. Through the end of 2021, taxpayers received approximately \$63.8 billion in EITC for TY 2019 returns.³³

Option 3: A Worker-Based Credit and a Constant Allowance for Each Additional Qualifying Child – Similar EITC Paid Out as in TY 2019

A third possible EITC structure retains the split between a worker and child portion of the EITC but also uses a smaller constant flat rate per qualifying child to produce a similar EITC payout to what occurred for TY 2019. The structure we considered allowed a 15.3 percent worker credit and a flat credit for each qualifying child (up to three) of \$1,092 per child. Figures 5.2.7 and 5.2.8 depict the amount of this possible EITC at the possible eligible incomes and number of qualifying children for both single and married taxpayers claiming the credit.

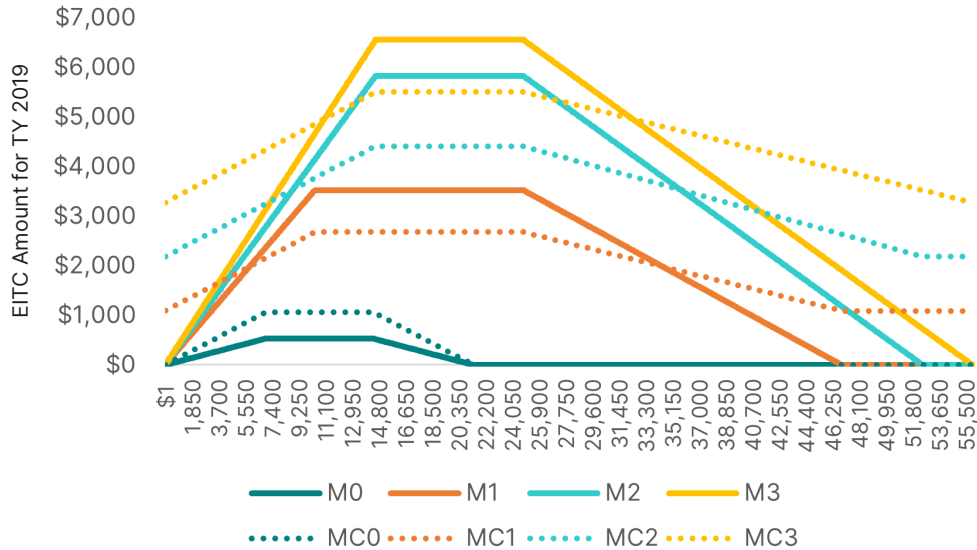
FIGURE 5.2.7

Difference for Single Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



FIGURE 5.2.8

Difference for Married Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



Even though the flat rate option for all qualifying children and the flat rate option (see next section) that decreases the allowance per qualifying child as more children are claimed (up to three) represent rather different EITC structures, because most taxpayers claim only one qualifying child, the observations for both options are very similar and will be discussed at the end of the next section.³⁴

Option 4: A Worker-Based Credit and a Decreasing Allowance for Each Additional Qualifying Child – Similar EITC Paid Out as in TY 2019

The fourth possible structure we explore also splits the EITC between a worker and child portion but decreases the flat rate allowed per child as the number of qualifying children increases. For this possible structure, we set the worker portion of the credit to phase in at 15.3 percent of income and to also phase out at this same rate. The credit amount was \$1,290 for one qualifying child, \$995 for the second qualifying child, and \$315 for the third qualifying child. Figures 5.2.9 and 5.2.10 depict the amount of this possible EITC at the possible eligible incomes and number of qualifying children for both single and married taxpayers claiming the credit.

FIGURE 5.2.9

Difference for Single Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income

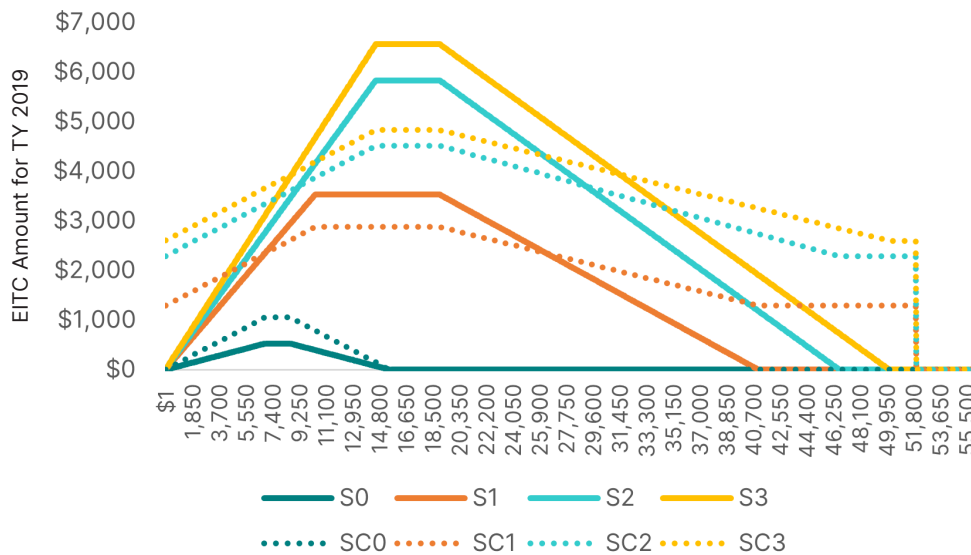
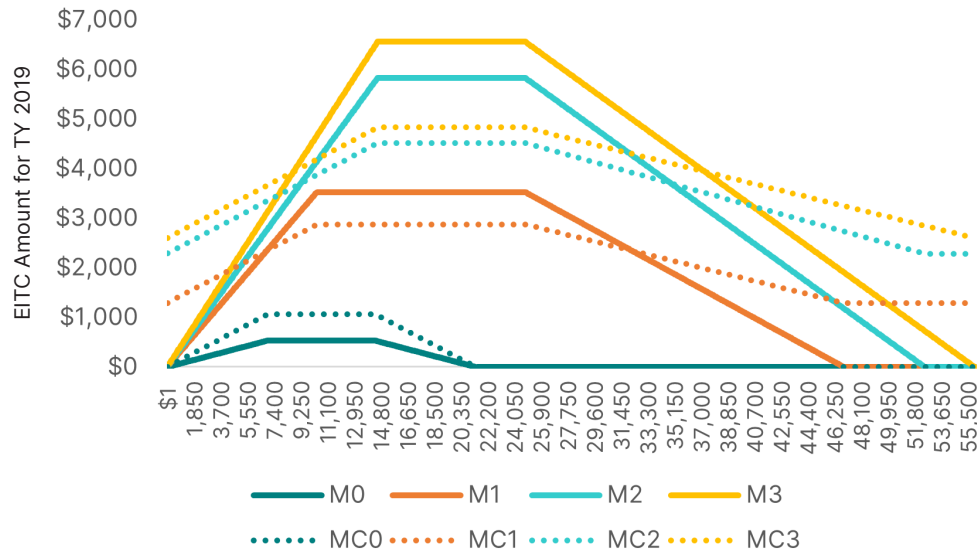


FIGURE 5.2.10

Difference for Married Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



We have these observations for the EITC structure of options three and four on the amount of EITC allowed.

- Over 85 percent of taxpayers with incomes less than \$10,000 will receive a larger credit under these options.
- All taxpayers with incomes greater than \$40,000 will receive a larger credit.
- Fifty-seven percent of married taxpayers will receive a larger credit.
- EITC decreases for taxpayers with qualifying children and incomes roughly between \$10,000 and \$30,000.

Option 5: A Worker-Based Credit and a Decreasing Allowance for Each Additional Qualifying Child That Also Phases Out as Incomes Increase Past the Plateau Range

The fifth possible structure we explore also splits the EITC between a worker and child portion and again the amount of the credit per child decreases as the number of qualifying children increases (up to three); however, in this structure, the amount of the credit also phases out as the income increases beyond a maximum amount. For this possible structure, we set the worker portion of the credit to phase in at 15.3 percent of income, and it also phases out at this same rate. The credit amount was \$1,758 for the first child, \$1,350 for the second qualifying child, and \$428 for the third qualifying child. We phased out the EITC at \$4 per \$50 increase in income for taxpayers with one qualifying child and at \$6 per \$50 increase in income for taxpayers with two or more qualifying children. The phase-out income ranges remain roughly the same as under the TY 2019 tax law (see Figure 5.2.1). Figures 5.2.11 and 5.2.12 depict the amount of this possible EITC at the possible eligible incomes and number of qualifying children for both single and married taxpayers claiming the credit.

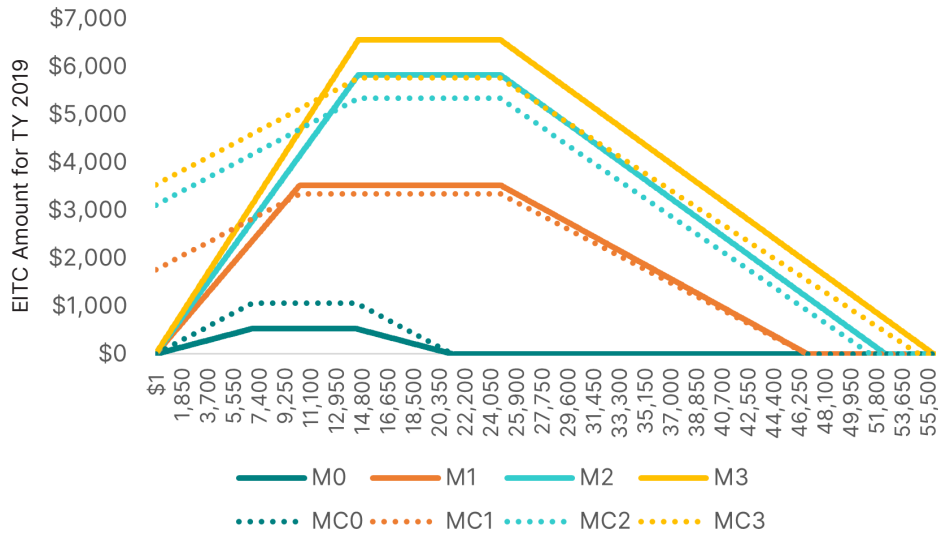
FIGURE 5.2.11

Difference for Single Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



FIGURE 5.2.12

Difference for Married Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



We have these observations for the EITC structure of option five on the amount of EITC allowed.

- Ninety-eight percent of taxpayers with incomes less than \$10,000 will receive a larger credit.
- Five percent of taxpayers with incomes greater than \$40,000 will receive a larger credit.
- Taxpayers with qualifying children generally received less EITC to compensate for the increase in the childless worker’s EITC.
- Single taxpayers benefit more than married taxpayers from child tax credits that phase-out.
- EITC decreases for most taxpayers with qualifying children and incomes greater than \$10,000.

Option 6: A Worker-Based Credit and a Decreasing Allowance for Each Additional Qualifying Child – Increases EITC Paid Out to Childless Workers

The sixth possible structure we explore is identical to the previous structure explored except that the total outlays may increase to approximately \$66 billion to account for doubling the childless worker credit phase-in amount from 7.65 percent to 15.3 percent. The amounts offered per qualifying children are not diminished as much as in the structure we just discussed. Specifically, the credit amounts per qualifying child are: \$1,839 for one child; \$1,413 for the second qualifying children, and \$447 for the third qualifying child. Figures 5.2.13 and 5.2.14 depict the possible EITC at the possible eligible incomes and number of qualifying children for both single and married taxpayers claiming the credit.

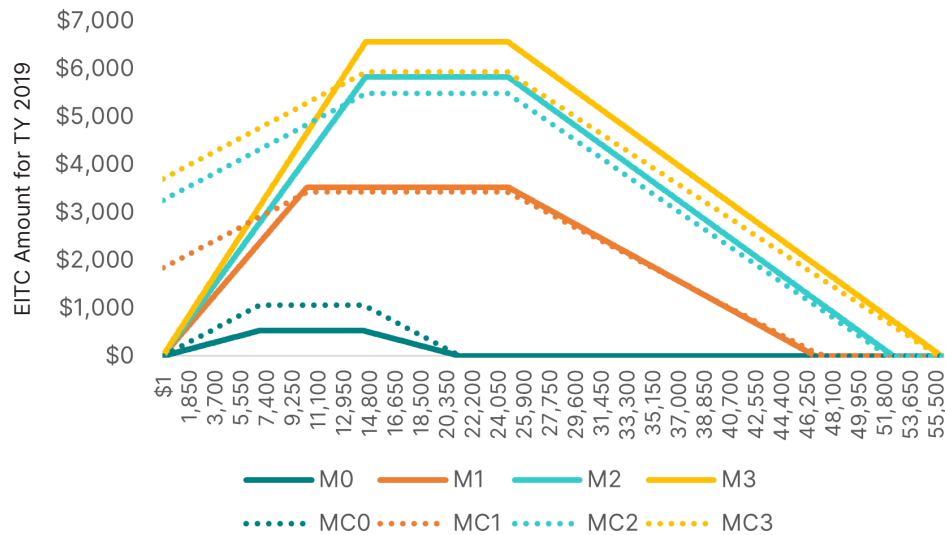
FIGURE 5.2.13

Difference for Single Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



FIGURE 5.2.14

Difference for Married Taxpayers Between Current (Solid) and Proposed (Dotted) EITC Amount for TY 2019 by Income



Option six is similar to option five but is different because it allows for an increase in the total EITC outlays by about \$2 billion to account for doubling the childless worker EITC amount. On the other hand, option five tries to mimic the total TY 2019 EITC outlays so the increase in the childless worker EITC is compensated by a reduction in the amount of EITC per qualifying child. We have these observations for the EITC structure of option six on the amount of EITC allowed.

- At least 99 percent of taxpayers with incomes less than \$10,000 will receive a larger credit.
- Single taxpayers benefit more than married taxpayers from child tax credits that phase out.
- EITC decreases for most taxpayers with multiple qualifying children and incomes greater than \$10,000.

Finally, we have a few general observations about the first six options.

- All taxpayers with incomes less than \$5,000 will receive a larger credit.
- The childless worker EITC doubles; however, this amounts to only about \$2 billion.
- Married taxpayers benefit more from flat child tax credits.

Option 7: A Worker-Based Credit and a Child-Based Credit Paying the Same Amount of EITC at the Same Income Levels Except for Also Increasing EITC Paid Out to Childless Workers

Finally, we considered a seventh EITC structure where the total EITC amount is nearly identical to the credit amount afforded under the existing EITC structure, yet the credit is split between a component based on income and a component based on qualifying children, resulting in the payout of about \$2 billion more EITC.³⁵ In this structure, the portion of the credit based on income is 15.3 percent, even for childless workers. The income phase-ins, phase-outs, plateau ranges, and maximum credit amount do not change; however, we adjust the percentages attributable to the number of qualifying children so the amount of EITC does not change. The benefit of this structure over the existing structure is that the IRS can much more easily verify the portion of the credit based on income. Therefore, the portion of the EITC based on qualifying children is reduced, lowering the improper payment rate without altering the amount of the credit. We do not show figures for the variation of the amount of EITC structure by income and number of qualifying

children because it is identical to Figure 5.2.1, except that the childless worker EITC doubles, allowing about \$2 billion more EITC.

Objective 2: Compare the existing EITC to the credit amount afforded by possible new per-worker and per-child structures and the effect on taxpayers not currently eligible for EITC.

While we explored the effects of the proposed EITC structures across all income ranges and numbers of qualifying children (up to three), in this second objective we compare the actual effect of the proposed changes on those taxpayers receiving EITC from the IRS in TY 2019. The income groupings are defined as follows:

1. < \$5,000
2. ≥ \$5,000 & < \$10,000
3. ≥ \$10,000 & < \$20,000
4. ≥ \$20,000 & < \$30,000
5. ≥ \$30,000 & < \$40,000
6. ≥ \$40,000

Figure 5.2.15 depicts the total amount of EITC outlays and the amount of EITC afforded by the first six of the seven structures we explored by filing status (FS: married or single), number of qualifying children (QC: up to three), and income category (IC: amount of earned income). The appendix contains various combinations of filing status, number of qualifying children (up to three), and income categories.

FIGURE 5.2.15, Total EITC Outlays by Indicated Combinations of Filing Status, Number of Qualifying Children, and Income Category³⁶

Total Credit Outlay (in Millions)									
FS	QC	IC	TY 2019 Existing EITC Structure	Flat Rate Per Child	Decreasing Flat Rate	Flat Rate Per Child Similar Outlay	Decreasing Flat Rate Similar Outlay	Decreasing Flat Rate With Income Phase-out Similar Outlay	Decreasing Flat Rate With Income Phase-out and Increase Childless Worker Phase-in Rate to 15.3%
Total Outlay			\$63,624	\$92,587	\$108,245	\$63,622	\$63,625	\$63,623	\$65,809
M			\$23,635	\$26,793	\$15,695	\$15,204	\$14,569	\$14,302	\$14,866
S			\$68,951	\$81,452	\$47,928	\$48,421	\$49,055	\$49,320	\$50,943
	0		\$4,370	\$4,370	\$4,370	\$4,370	\$4,370	\$4,370	\$4,370
	1		\$28,727	\$38,024	\$20,286	\$22,034	\$21,406	\$22,459	\$23,212
	2		\$34,900	\$41,261	\$23,348	\$23,895	\$24,372	\$23,729	\$24,632
	3		\$24,590	\$24,590	\$15,618	\$13,326	\$13,476	\$13,064	\$13,595
		1	\$2,833	\$3,378	\$2,014	\$2,053	\$2,415	\$2,434	\$2,499
		2	\$7,863	\$9,067	\$6,053	\$6,141	\$6,940	\$6,982	\$7,125
		3	\$31,922	\$36,986	\$23,005	\$23,114	\$26,913	\$27,111	\$27,797
		4	\$24,021	\$28,250	\$16,514	\$16,590	\$17,330	\$17,537	\$18,113
		5	\$17,003	\$20,409	\$10,810	\$10,835	\$7,802	\$7,888	\$8,361
		6	\$8,946	\$10,155	\$5,225	\$4,893	\$2,224	\$1,672	\$1,915

Instead of displaying the actual EITC outlay amount by filing status, number of qualifying children, and income category, Figure 5.2.16 shows the percentage increase or decrease by these same groupings. Increases in EITC outlays at or above 50 percent are shaded in green. Decreases in outlays are shaded in red.

FIGURE 5.2.16, Difference in Total EITC Outlays (From Actual) by Indicated Combinations of Filing Status, Number of Qualifying Children, and Income Category

Total Credit Outlay (millions)								
FS	QC	IC	Flat Rate Per Child	Decreasing Flat Rate	Flat Rate Per Child Similar Outlay	Decreasing Flat Rate Similar Outlay	Decreasing Flat Rate With Income Phase-out Similar Outlay	Decreasing Flat Rate With Income Phase-out and Increase Childless Worker Phase-in Rate to 15.3%
M			60%	82%	6%	3%	(3%)	1%
S			41%	67%	(2%)	(1%)	1%	4%
	0		100%	100%	100%	100%	100%	100%
	1		28%	69%	(10%)	(2%)	(0%)	3%
	2		41%	67%	(6%)	(3%)	(4%)	(0%)
	3		73%	73%	10%	(6%)	(8%)	(4%)
		1	173%	226%	94%	98%	135%	141%
		2	58%	82%	21%	23%	40%	43%
		3	14%	32%	(18%)	(18%)	(3%)	(1%)
		4	27%	50%	(12%)	(12%)	(7%)	(4%)
		5	97%	136%	25%	25%	(9%)	(3%)
		6	336%	395%	155%	138%	(19%)	(7%)

An analysis of the difference in EITC outlays by filing status and number of qualifying children indicates:

- The first two EITC structures considered, a flat rate per qualifying child and a flat rate per child that decreases per additional qualifying children, both show a significant increase in the total EITC outlay, by about \$29 billion and \$44 billion respectively.
- The third through fifth EITC structures create a similar total outlay as the existing structure.
- Because of doubling the childless worker credit, the EITC outlay for taxpayers without qualifying children increases by 100 percent or about \$2 billion more.
- The EITC significantly increases in the lowest two income categories and increases in the highest income category in the flat rate per child structure and the decreasing flat rate per child structure.

The seventh possible EITC structure we considered is not included in Figure 5.2.16 because the EITC outlays are the same as what occurred for TY 2019, except the childless EITC worker amount doubled from slightly over \$2 billion to a little over \$4 billion.

Objective 3: Analyze a selection of TY 2019 EITC audits to determine in what percentage of these audits the EITC claim could have been validated without the need for an audit and determine the total number of TY 2019 EITC claims not requiring an audit to verify eligibility of the child claimed.

An analysis of Form 1095-B and Form 1095-C data indicates that taxpayers claimed over 7.1 million qualifying children for whom they also provided health insurance coverage for at least six months of the year. This number increases to 7.6 million if only five months of health coverage are required, and 8.1 million if only four months of health insurance coverage are required. However, IRS systems did not always question the residency of these individuals. Considering those children not deemed to meet the residency requirement, the Form 1095 data could verify that the taxpayer provided health insurance coverage for roughly 500,000 (about seven percent) of the children where the IRS could not verify residency, but where the IRS could confirm relationship. If this verification were allowed, the IRS could verify over \$1.6 billion of EITC claims. If health insurance coverage were only required for five months, Form 1095 data could verify that the taxpayer provided health insurance coverage for roughly 536,000 of the children where the IRS could previously not verify residency, but where the IRS could confirm relationship. And if health insurance coverage was only required for four months, Form 1095 data could verify that the taxpayer provided health insurance coverage for roughly 572,000 of the children where the IRS could previously not verify residency, but where the IRS could confirm relationship. When considering the lesser verification requirement of only five or four months of provided health insurance coverage, the total EITC claims that could be verified rises to \$1.8 and \$1.9 billion, respectively.

We also explored the number of EITC audits where the Form 1095 data shows that the taxpayer provided health insurance coverage for the child claimed for EITC purposes; however, we found these documents could only verify the children claimed on about one percent of the audited returns. Further research could be done to determine the efficacy of states providing information documents from schools to verify a child's residency with the taxpayer for over half of the year. The IRS could also use math error authority for relationship only when the information from the Social Security Administration did not verify the claimant was a parent of the child being claimed for EITC purposes and the taxpayer did not provide information with the return for another qualified relationship, including being an adopted child. Qualifying children not meeting the relationship test represented about 20 percent of qualifying child errors in the most recent IRS EITC compliance study.³⁷

Objective 4: Explore IRS and Census Bureau data to quantify the number of children who would qualify their parents for a per-child tax credit under the current definition of a "qualifying child."

Based on data provided to the Census Bureau by the IRS, Figure 5.2.17 estimates the EITC participation rate by number of qualifying children.

FIGURE 5.2.17, EITC Participation Rate by Number of Qualifying Children, TY 2019³⁸

Number of Qualifying Children	Estimated Eligible Taxpayers (in Thousands)	Participation Rate	Margin of Error
0	7,436	65.9%	2%
1	6,399	86.9%	1%
2	4,386	86.5%	1%
3 or more	3,587	84.0%	2%

About 21.8 million filers were eligible to claim EITC on TY 2019 returns; however, over 26 million taxpayers claimed EITC on their TY 2019 tax returns. The IRS estimates that about 34 percent of EITC-eligible TY 2019 filers had no qualifying children, while the remaining approximately 66 percent had at least one qualifying child. As expected, the percentage of filers eligible for but not claiming EITC decreased as the number of qualifying children increased. Interestingly, almost 4.7 million more taxpayers claimed EITC with qualifying children than what the IRS estimates are eligible. This high number of ineligible EITC claims is consistent with the fact that many children's living arrangements and family structures do not fit nicely into the eligibility rules for qualifying children.

Objective 5: Estimate the new improper payment rate for EITC based on the proposed rules for the per-worker and per-child credit.

We made some rudimentary estimates of the effect of bifurcating the EITC credit between a worker credit based solely on income and a component based on the number of qualifying children. In all EITC structures we explored, the worker portion of the credit phased in and out at 15.3 percent. The child portion of the credit was a flat rate credit, a flat rate credit that decreased as the number of qualifying children increased, or a decreasing credit per child that phases out at higher income ranges. We did not change the phase-in or phase-out income ranges in effect for TY 2019, although for ease of computation we did phase out the credit similar to how the existing phase-out of the child tax credit occurs, where the credit decreases for every \$50 increase in income over the phase-out income threshold.

We used the percentages of EITC non-compliance detected in the last EITC compliance study for misreported income and qualifying child errors. Because of other errors such as an incorrect filing status, the tie-breaker rule, and other overall EITC requirements such as having a valid SSN, being a U.S. citizen or resident alien all year, not filing Form 2555 or Form 2555-EZ, and not being a qualifying child of another person were presumed to continue under the new structure, we calculated these errors to continue under the possible new structures.

For the worker component of the proposed EITC structure, we used the IRS Compliance Study upper-bound noncompliance percentages for income and qualifying child errors. We then created a proportion of the estimated EITC improper payments for FY 2020 (generally corresponds to TY 2019 returns) to the total EITC outlays from TY 2019. We set this proportion of improper payments under the various EITC structures we explored equal to the amount of total EITC outlay attributable to the worker component and solved for the improper payment rate of the new structure. We computed the improper payment amount in the same way for the child portion of the credit. Since the credit is limited for both the income and child portions of the credit, the improper payment rate is reduced. The IRS has a greater opportunity to verify income since the passage of the Protecting Americans from Tax Hikes (PATH) Act,³⁹ so the improper payment rate attributable to income may actually be less than what was observed in the prior IRS EITC compliance study. Figure 5.2.18 shows the estimated total outlays, improper payment amounts attributable to income, child, and other components of the EITC regulations, as well as the estimated improper payment rate, and the percent decrease from the current improper payment rate.

FIGURE 5.2.18, Estimated EITC Outlays, Improper Payments, and Improper Payment Rates (Dollars in Millions)⁴⁰

	Flat Rate Per Child	Dec. Flat Rate	Flat Rate Per Child Similar Outlay	Dec. Flat Rate Similar Outlay	Dec. Flat Rate with Income Phase-out Similar Outlay	Dec. Flat Rate With Income Phase-out and Increase Childless Worker Phase-in Rate to 15.3%	TY 2019 EITC Structure Split Between a Worker and Child Component and Increase Childless Worker Phase-in Rate to 15.3%	Unchanged TY 2019 EITC Structure
Total Outlays	\$92,587	\$108,245	\$63,622	\$63,625	\$63,623	\$65,809	\$65,924	\$63,624
Total Estimated Improper Payments - Existing EITC Structure	\$21,786	\$25,470	\$14,970	\$14,971	\$14,970	\$15,485	\$15,512	\$14,971
Proposed Structure - Income Estimated Improper Payments	\$2,413	\$2,820	\$1,616	\$1,606	\$1,605	\$1,664	\$1,641	
Proposed Structure - Child Estimated Improper Payments	\$4,493	\$5,251	\$3,009	\$2,991	\$2,988	\$3,099	\$3,177	
Other Non-Compliance Issues Causing Improper Payments	\$7,407	\$8,660	\$5,090	\$5,090	\$5,090	\$5,265	\$5,274	
Estimated Total Improper Pay. Amt.	\$14,313	\$16,731	\$9,715	\$9,688	\$9,682	\$10,028	\$10,092	
Estimated Improper Pay. Rate	15.5%	15.5%	15.3%	15.2%	15.2%	15.2%	15.3%	23.5%
Estimated Reduction in Improper Pay. Rate	34.3%	34.3%	35.1%	35.3%	35.3%	35.2%	34.9%	0.0%

We note these changes in the EITC improper payment rate are merely estimates. The information used to determine the percent of EITC non-compliance (by amount) is from the IRS's most recent EITC compliance study published in 2014 using data from tax returns and audits at least five years prior.⁴¹ Additionally, there are other economic factors not explored, most notably the effect of the changes in the EITC structure on economic incentives, which may affect taxpayer claims of EITC. For instance, doubling the size of the childless worker EITC may incentivize some childless taxpayers to fraudulently claim EITC. Nevertheless, the data clearly show that splitting EITC between a worker and child component can have a positive effect in reducing its improper payment rate.

CONCLUSIONS

The EITC structure is plagued by a high improper payment rate. Exacerbating this issue is that often the existing rules for qualifying children do not coincide with the modern family structure. According to a 2016 study by the Tax Policy Center, only slightly over half of children in families earning not more than 200 percent of poverty level income live in married couple household and over 20 percent of the children in these households are not the biological child of at least one of the spouses.⁴² The National Taxpayer Advocate 2020 Objectives Report to Congress also recommended splitting EITC between a worker and child component. While this prior report envisioned moving the child portion of the credit, this report has continued to treat the child portion of the credit as a component of EITC, although policy makers could consider transferring the child portion of the EITC to another credit, such as the Child Tax Credit. The National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress also recommended that the worker component of the credit be offered to both parents of the child, if eligible. The calculations in this report continue to allow the EITC to only one parent if the child resides in a single parent household. However, reducing the worker credit to 7.65 percent would allow for the possibility of paying the worker credit to both eligible parents without increasing the total EITC outlay shown in Figure 5.2.18. We also propose using ACA information reporting documents to validate EITC claims. While this method of validating claims would not necessarily verify the child's residency with the taxpayer, it would ensure that the parent claiming the child was contributing to the support of the child for at least half the year, which is presumably a primary reason for the residence requirement. However, legislative change would need to occur to formalize this change. Future research could be conducted to determine how likely a child included as a member of a taxpayer's health insurance plan is to reside with the taxpayer. Specific findings from this study include:

- Both the flat rate of \$2,000 per child EITC structure and a flat rate of EITC per child that decreases from \$3,000 to \$2,000 to \$1,000 as the number of children increase from one to two to three significantly increase the EITC outlays.
- A new EITC structure can be designed as either a smaller flat rate per child or a smaller flat rate per child that decreases as the number of qualifying children increases, with or without the presence of income-based phase-outs, to provide credit outlays similar to the EITC afforded by the current guidelines.
- The amount of credit for childless workers offered by the proposed EITC structures doubles since we double the EITC phase-in rate; however, the actual dollar amount of the increase only amounts to about \$2 billion.
- An analysis of the EITC participation rate shows that the rate for childless workers significantly lags behind EITC claimants with children and that at least 4.4 million ineligible taxpayers claimed the credit in TY 2019.
- Splitting the credit between a worker and child component can significantly reduce the improper payment rate.

RECOMMENDATION

The EITC is an important lifeline for many low-income taxpayers and for the children they support; however, the qualifying child eligibility rules are difficult for taxpayers to navigate, particularly considering the modern-day living arrangements of many families, and intrusive for the IRS to audit. Therefore, we recommend that Congress retain the EITC, but alter its structure so the IRS can reduce the EITC improper payment rate by facilitating the IRS's ability to enforce the requirements without being overly burdensome to taxpayers.

APPENDIX A

FIGURE 5.2.19, Total Credit Outlay (in Millions)⁴³

Total Credit Outlay (in Millions)									
FS	QC	IC	TY 2019 Existing EITC Structure	Flat Rate per Child	Decreasing Flat Rate	Flat Rate Per Child Similar Outlay	Decreasing Flat Rate Similar Outlay	Decreasing Flat Rate with Income Phase-out Similar Outlay	Decreasing Flat Rate with Income Phase-out and Increase Childless Worker Phase-in Rate to 15.3%
Total Outlay			\$63,624	\$92,587	\$108,245	\$63,622	\$63,625	\$63,624	\$65,810
M			\$23,635	\$26,793	\$15,695	\$15,204	\$14,569	\$15,140	\$14,739
S			\$68,951	\$81,452	\$47,928	\$48,421	\$49,055	\$50,670	\$48,885
	0		\$4,370	\$4,370	\$4,370	\$4,370	\$4,370	\$4,370	\$2,186
	1		\$28,727	\$38,024	\$20,286	\$22,034	\$21,406	\$22,119	\$22,515
	2		\$34,900	\$41,261	\$23,348	\$23,895	\$24,372	\$25,301	\$24,721
	3		\$24,590	\$24,590	\$15,618	\$13,326	\$13,476	\$14,019	\$14,202
		1	\$2,833	\$3,378	\$2,014	\$2,053	\$2,415	\$2,481	\$1,037
		2	\$7,863	\$9,067	\$6,053	\$6,141	\$6,940	\$7,086	\$4,992
		3	\$31,922	\$36,986	\$23,005	\$23,114	\$26,913	\$27,611	\$28,028
		4	\$24,021	\$28,250	\$16,514	\$16,590	\$17,330	\$17,916	\$18,867
		5	\$17,003	\$20,409	\$10,810	\$10,835	\$7,802	\$8,248	\$8,648
		6	\$8,946	\$10,155	\$5,225	\$4,893	\$2,224	\$2,468	\$2,052
M	0		\$603	\$603	\$603	\$603	\$603	\$603	\$302
M	1		\$4,634	\$6,158	\$3,251	\$3,537	\$3,346	\$3,461	\$3,526
M	2		\$8,736	\$10,369	\$5,769	\$5,909	\$5,704	\$5,943	\$5,755
M	3		\$9,663	\$9,663	\$6,072	\$5,154	\$4,916	\$5,133	\$5,157
S	0		\$3,767	\$3,767	\$3,767	\$3,767	\$3,767	\$3,767	\$1,885
S	1		\$24,093	\$31,866	\$17,035	\$18,497	\$18,060	\$18,659	\$18,989
S	2		\$26,164	\$30,892	\$17,579	\$17,985	\$18,668	\$19,358	\$18,966
S	3		\$14,927	\$14,927	\$9,546	\$8,171	\$8,560	\$8,886	\$9,045
M		1	\$389	\$461	\$257	\$257	\$313	\$323	\$120
M		2	\$931	\$1,062	\$682	\$680	\$785	\$804	\$566
M		3	\$4,787	\$5,400	\$3,449	\$3,401	\$3,951	\$4,051	\$4,017
M		4	\$6,035	\$6,822	\$4,179	\$4,085	\$4,689	\$4,827	\$5,048
M		5	\$5,675	\$6,505	\$3,697	\$3,594	\$3,235	\$3,382	\$3,459
M		6	\$5,818	\$6,542	\$3,431	\$3,188	\$1,597	\$1,754	\$1,528
S		1	\$2,443	\$2,917	\$1,756	\$1,797	\$2,102	\$2,158	\$917
S		2	\$6,932	\$8,004	\$5,371	\$5,461	\$6,156	\$6,282	\$4,425
S		3	\$27,135	\$31,587	\$19,555	\$19,713	\$22,962	\$23,560	\$24,011
S		4	\$17,985	\$21,427	\$12,336	\$12,505	\$2,640	\$13,089	\$13,819
S		5	\$11,328	\$13,904	\$7,114	\$7,241	\$4,567	\$4,866	\$5,189
S		6	\$3,128	\$3,612	\$1,795	\$1,704	\$628	\$715	\$524

Total Credit Outlay (in Millions)									
FS	QC	IC	TY 2019 Existing EITC Structure	Flat Rate per Child	Decreasing Flat Rate	Flat Rate Per Child Similar Outlay	Decreasing Flat Rate Similar Outlay	Decreasing Flat Rate with Income Phase-out Similar Outlay	Decreasing Flat Rate with Income Phase-out and Increase Childless Worker Phase-in Rate to 15.3%
	0	1	\$754	\$754	\$754	\$754	\$754	\$754	\$377
	1	1	\$959	\$1,351	\$603	\$677	\$855	\$887	\$389
	2	1	\$681	\$834	\$403	\$416	\$538	\$560	\$181
	3	1	\$439	\$439	\$253	\$206	\$268	\$279	\$90
	0	2	\$2,270	\$2,270	\$2,270	\$2,270	\$2,270	\$2,270	\$1,135
	1	2	\$2,755	\$3,619	\$1,971	\$2,133	\$2,526	\$2,597	\$2,284
	2	2	\$1,762	\$2,102	\$1,145	\$1,174	\$1,445	\$1,494	\$1,052
	3	2	\$1,076	\$1,076	\$668	\$563	\$700	\$724	\$520
	0	3	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341	\$1,341	\$671
	1	3	\$10,916	\$13,980	\$8,133	\$8,709	\$10,089	\$10,344	\$10,636
	2	3	\$12,214	\$14,214	\$8,581	\$8,753	\$10,340	\$10,632	\$11,013
	3	3	\$7,452	\$7,452	\$4,950	\$4,311	\$5,143	\$5,295	\$5,708
	0	4	\$6	\$6	\$6	\$6	\$6	\$6	\$3
	1	4	\$8,131	\$10,693	\$5,805	\$6,287	\$6,112	\$6,325	\$6,681
	2	4	\$9,660	\$11,327	\$6,632	\$6,775	\$7,302	\$7,546	\$7,818
	3	4	\$6,224	\$6,224	\$4,072	\$3,522	\$3,909	\$4,040	\$4,364
	1	5	\$5,180	\$7,233	\$3,315	\$3,701	\$1,752	\$1,886	\$2,384
	2	5	\$6,853	\$8,207	\$4,396	\$4,512	\$3,708	\$3,906	\$3,766
	3	5	\$4,970	\$4,970	\$3,099	\$2,621	\$2,342	\$2,456	\$2,498
	1	6	\$786	\$1,148	\$458	\$526	\$72	\$80	\$140
	2	6	\$3,730	\$4,578	\$2,191	\$2,264	\$1,039	\$1,163	\$891
	3	6	\$4,429	\$4,429	\$2,576	\$2,102	\$1,113	\$1,226	\$1,021

Endnotes

- 1 IRS, Compliance Data Warehouse (CDW), Individual Returns Transaction File (IRTF) including returns processed through November 24, 2022.
- 2 IRC § 32.
- 3 IRS, CDW, IRTF including returns processed through August 25, 2022.
- 4 Austin Nichols & Jesse Rothstein, *The Earned Income Tax Credit*, in 1 ECONOMICS OF MEANS-TESTED TRANSFER PROGRAMS IN THE UNITED STATES 137 (Robert A. Moffitt ed., 2016), <https://www.nber.org/chapters/c13484.pdf>.
- 5 In this, we combined EITC/CP09-27 recipient files, CPS ASEC, Form 1040, and Form W-2, TY 2019. The release authorization for this is CBDRB-FY2022-CES010-010.
- 6 National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 3, Figure 1 (June 2019).
- 7 [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) (last visited Nov. 27, 2022). Fiscal year (FY) 2020 primarily includes TY 2019 returns.
- 8 IRS, FY 2021 Data Book Table 17, Examination Coverage and Recommended Additional Tax After Examination, by Type and Size of Return, Tax Years 2011-2019. Overall, the COVID-19 pandemic reduced the number of IRS audits, including EITC audits.
- 9 National Taxpayer Advocate Fiscal Year 2022 Objectives Report to Congress vol. 3, at 57 (June 2019).
- 10 When a taxpayer’s earned income exceeds a certain threshold, the amount of the EITC begins to decrease from its maximum amount. See Figure 5.2.1, *supra*.
- 11 Congressional Research Service, *The Earned Income Tax Credit (EITC) For Childless Workers 2* (June 18, 2019).
- 12 IRS, Pub. 596, Earned Income Tax Credit, Tax Year 2019 (Jan. 28, 2020).
- 13 Congressional Research Service, *The Earned Income Tax Credit (EITC): Legislative History* (Apr. 2022).
- 14 *Id.*
- 15 IRS, Pub. 596, Earned Income Tax Credit, Tax Year 2021 (Jan. 10, 2022). The EITC for childless workers was temporarily doubled for TYs 2020 and 2021 but will return to the lower amount in FY 2022.
- 16 U.S. Bureau of Labor Statistics, Inflation Calculator, https://www.bls.gov/data/inflation_calculator.htm (last visited Dec. 19, 2022). The inflation adjusted value of \$6,728 in 2022 is over \$1,289, which is over three times the maximum of \$400 in EITC that could be received in 1976 (note that this calculation is from June 2022 to June 1976).

- 17 IRS, Pub. 596, Earned Income Tax Credit, Tax Year 2021 (Jan. 10, 2022). Qualifying children must be a son, daughter, stepchild, foster child, or a descendant of these individuals. Qualifying children may also be a brother, sister, half-brother, half-sister, stepbrother, stepsister, or any descendant of these individuals.
- 18 IRS, CDW, IRTF including returns processed through August 25, 2022.
- 19 U.S. Department of Health Education and Welfare, National Center for Health Statistics, Divorce and Divorce Rates (United States), Series 21 No. 29 (Mar. 1978). U.S. Census Bureau, U.S. Marriage and Divorce Rates by State (Oct. 20, 2020), <https://www.census.gov/library/visualizations/interactive/marriage-divorce-rates-by-state-2009-2019.html>, (last accessed Dec. 27, 2022).
- 20 U.S. Department of Health Education and Welfare, Vital Statistics of the United States 1975, vol. III – Marriage and Divorce (1979). Centers for Disease Control and Prevention National Center for Health Statistics (Mar. 25, 2022), <https://www.cdc.gov/nchs/fastats/marriage-divorce.htm> (last accessed Dec. 27, 2022).
- 21 IRS, CDW, Individual Master File for Tax Year 2019 (Nov. 2022).
- 22 IRS, Pub. 5162, Compliance Estimated for Earned Income Tax Credit Claimed on 2006-2008 Returns (Aug. 2014).
- 23 *Id.* at 21.
- 24 *Id.* at 23.
- 25 *Id.* at 19.
- 26 The amount of wages, salaries, tips, and other taxable employee pay computed by the IRS. Employee pay is earned income only if it is taxable.
- 27 Tax Policy Center, *How to Sensibly Expand the Child Tax Credit and the Earned Income Tax Credit* (Aug. 2021). Jim Nunns, Elaine Maag, and Hang Nguyen; *see also* Center on Budget and Policy Priorities, *Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty* (Feb. 2015), Chuck Marr and Chye-Ching Huang.
- 28 Form 1095-A data available to TAS did not have information to verify the length of time a dependent was a part of the taxpayer's household for insurance coverage purposes.
- 29 While the possibility exists that a child who is claimed as a member of a household for ACA purposes does not meet all the requirements to be an EITC qualifying child, a likelihood exists that the child is a member of the taxpayer's household and thus meets the residency requirement necessary to be an EITC qualifying child. Furthermore, the fact that the taxpayer has provided insurance coverage for the child indicates providing at least some of the support for the child, which is the underlying reason for the residency requirement (the taxpayer is providing for over half of the support for the child). While it is nearly impossible for the IRS to verify the residency status of a child claimed for EITC purposes, the IRS generally has internal data to verify the income of a taxpayer who is claiming a child for EITC purposes.
- 30 IRS, Pub. 5162, Compliance Estimated for Earned Income Tax Credit Claimed on 2006-2008 Returns (Aug. 2014). The IRS expects to release a new EITC compliance study in 2023.
- 31 Married taxpayers filing separate returns are ineligible to claim EITC.
- 32 In TY 2019, childless workers received 7.65 percent of generally earned income up to a maximum amount of \$8,649. We examine effects of EITC if the portion of the credit based on income is 15.3 percent (up to the plateau and phase-out range of the existing credit).
- 33 This refers to an amount received after math error authority but prior to audit.
- 34 In TY 2019, the volume of taxpayers claiming one qualifying child was nearly half again as large as the number of taxpayers claiming two qualifying children and nearly three times the volume of taxpayers claiming three qualifying children.
- 35 Because of rounding, the new credit can differ by up to two dollars from the existing credit.
- 36 Appendix A contains a figure showing the effect of various combinations of filing status, number of qualifying children, and income category.
- 37 IRS, Pub. 5162, Compliance Estimated for Earned Income Tax Credit Claimed on 2006-2008 Returns 23 (Aug. 2014).
- 38 At the 95 percent confidence level.
- 39 IRC § 6109(i)(1)(A).
- 40 We excluded 105,252 with an IRS-computed EITC amount of \$144,891,984 because data was not available on either these taxpayers' amount of earned income or the number of qualifying dependents claimed.
- 41 IRS, Pub. 5162, Compliance Estimated for Earned Income Tax Credit Claimed on 2006-2008 Returns 23 (Aug. 2014).
- 42 Elaine Maag, H. Elizabeth Peters, and Sara Edelstein, *Increasing Family Complexity and Volatility: The Difficulty in Determining Child Tax Benefits*, URBAN INSTITUTE (Mar. 3, 2016), <https://www.urban.org/research/publication/increasing-family-complexity-and-volatility-difficulty-determining-child-tax-benefits>.
- 43 In all figures, S0 represents a Single, Head of Household, or Qualifying Widow(er) taxpayer with no qualifying children; S1 represents a Single, Head of Household, or Qualifying Widow(er) taxpayer with one qualifying child; S2 represents a Single, Head of Household, or Qualifying Widow(er) taxpayer with two qualifying children; S3 represents a Single, Head of Household, or Qualifying Widow(er) taxpayer with three qualifying children; M0 represents a Married Filing Jointly taxpayer with no qualifying children; M1 represents a Married Filing Jointly taxpayer with one qualifying child; M2 represents a Married Filing Jointly taxpayer with two qualifying children; and M3 represents a Married Filing Jointly taxpayer with three qualifying children. In this table, FS represents filing status Married or single); QC represents the number of qualifying children; and IC represents the income category (see Findings Objective 2).