

THE LARGEST AND THE HIGHEST

QUICK STATS

- ✘ **CONFERENCE:** Spending
- ✘ **TEAM:** Internal Revenue Service
- **FUMBLE:** \$17.7 billion in improper tax credits
- **HOW TO RECOVER THE BALL:** Clarify existing EITC requirements and update the processing system

The Earned Income Tax Credit (EITC) is the nation's largest anti-poverty cash program. It has also earned the ignoble distinction of having the nation's highest improper payment rate.²⁹⁶ The EITC is a refundable tax credit program enacted in 1975 as an anti-poverty measure that incentivizes work by providing qualified workers a refundable credit on their income taxes. While the EITC is sound in theory, in practice it has yet to live up to the expectation that it will only serve American families truly in need. With an error rate ranging from 23 to 28 percent, an estimated \$17.7 billion was erroneously paid in FY 2015, and \$133.9 billion in improper payments were made in the last 10 years.²⁹⁷

An audit by GAO on improper payments found much of the waste is preventable. The audit attributed EITC's large error rate to a number of factors including, "complexity of the tax law, structure of the program, confusion among eligible claimants, high turnover of eligible claimants, and unscrupulous return preparers."²⁹⁸ The law's complex eligibility requirements have led to confusion, especially regarding child relationship and residency rules.²⁹⁹ A 2006-2008 EITC compliance study found the largest issues involved overpayments from the incorrect claiming of a child (\$10.4 billion in overpayments). The most frequent

recipient error is the misstatement of income (\$5.6 billion in overpayments).³⁰⁰

Not surprisingly fraud and tax preparer errors also plague the program. Roughly 2/3 of tax returns that claim the EITC were filed by a tax preparer. In a 2014 study GAO found that of a limited sample of 19 paid tax preparers, 17 of them made mistakes when preparing tax returns that resulted in an incorrect refund amount. As GAO reported, "Nearly all of the returns prepared for our undercover investigations were incorrect to some degrees, and several of the preparers gave us incorrect advice, particularly when it came to reporting non-Form W-2 income (i.e., wage income) and the EITC."³⁰¹

The EITC program helps incentivize employment over welfare and helps provide an important transition for low-income workers into the middle class. However, allowing \$1 out of every \$4 to be doled out erroneously at a rate of more than \$15 billion per year is simply unacceptable.

RECOVERY

Congress should explore options to clarify and simplify the qualifications for claiming a child. Additionally Congress should consider

creating a two-track process for tax preparers and returns so certified tax preparers would have their submissions prioritized and processed faster. This would allow more time and scrutiny for returns from non-certified preparers. It would also incentivize continuing taxpayer education to combat EITC overpayments from misinformed tax preparers

and concentrate more resources on potential fraudulent filings. Such a two-track system would walk the line between compulsory federal certification and continuing education requirements. Programs that encourage Americans to work should be easily accessible not confusing and wasteful.

For more information, please visit:

[Payment Accuracy: High-Error Programs](#)

[Payment Accuracy: Earned Income Tax Credit \(EITC\)](#)

[GAO: Improper Payments: Remaining Challenges and Strategies for Governmentwide Reduction Efforts](#)

[CRS: The Earned Income Tax Credit \(EITC\): Administrative and Compliance Challenges](#)

[GAO: Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors](#)