



Bipartisan Policy Center

Claiming Complexity

**SOLUTIONS TO IMPROVE TAKE-UP
AND ADMINISTRATION OF THE
CHILD TAX CREDIT AND EARNED
INCOME TAX CREDIT**

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Executive Summary

The Child Tax Credit and the Earned Income Tax Credit have been effective policies in ameliorating poverty and providing crucial financial assistance for millions of American families. Despite decades of continued bipartisan support, administrative challenges—including underwhelming take-up rates, improper payments, and an ineffective audit process—have hampered the credits' effectiveness.

While no silver bullet will induce 100% of eligible Americans to claim the credits, the Treasury Department should consider a constellation of solutions to respond to the array of barriers. Further, as Congress continues to debate potential future expansions of either program, it should bear in mind the administrative hurdles that continue to leave some eligible families excluded. To be durable—rather than risk repeal once the opposing party is in power—any legislative reforms to the CTC or EITC should be enacted through a bipartisan process.

Working with experts from across the ideological spectrum, the Bipartisan Policy Center developed recommendations to achieve these goals that are grounded in the political foundation of bipartisanship. The following reforms would increase credit take-up among eligible Americans, curtail improper payments, and better attune the audit process to taxpayers' needs.

BPC'S RECOMMENDATIONS

Increase Awareness and Uptake

- Develop a dedicated office at the Internal Revenue Service focused on the administration of social benefit programs.
- Increase communication and outreach about the CTC and EITC.
- Improve coordination between federal agencies, state and local governments, the private sector, and nonprofits.
- Streamline the process of claiming state and local versions of the CTC and EITC.
- Strengthen technology resources people use to access public benefit programs.
- Bolster utilization of Volunteer Income Tax Assistance sites by expanding its grant program.

Reduce Improper Payments and Improve Audits

- Enhance upstream processes to increase tax credit claiming accuracy.
- Reinforce downstream processes to better respond to improper payments.
- Improve communication and support for taxpayers during audits.

Introduction

The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) help American families offset the high cost of raising children and support workers with low or moderate wages. The credits have been hallmarks of bipartisan success: They have been expanded multiple times since their enactment with the backing of both parties. Moreover, the spillover effects create societal benefits beyond the households they serve. By improving health and educational outcomes for children, creating incentives to participate in the labor force, and generating an increase in tax revenues, among other benefits, they are well worth the cost of government—and taxpayer—investment.¹

In recent years, each of these credits has been governed by overlapping layers of permanent law and temporary expansions. The Tax Cuts and Jobs Act of 2017 (TCJA) temporarily expanded the CTC and made the credit available to households with higher incomes.² In response to the economic impacts of the pandemic, the American Rescue Plan Act of 2021 (ARP) increased the value of both the CTC and EITC for tax year 2021 only.³ Additionally, the ARP further broadened eligibility criteria for the CTC, providing the credit for the first time to very low- or no-income households. The legislation also introduced monthly advanced payments of the CTC, temporarily transforming the credit into a child allowance akin to those offered in other Western nations. Now that the ARP expansions have expired, the TCJA expansion of the CTC remains in effect until the end of 2025 and permanent law governs the EITC.

While both the CTC and EITC have helped reduce poverty, administrative barriers hampered their effectiveness. Eligible participants often fail to claim them due to misperceptions about qualifications, claiming complexity, and lack of access to user-friendly online tools. These factors depress take-up rates, ultimately leaving funds unclaimed that could assuage financial concerns for many low-income earners and their families.

Additionally, persistent levels of improper payments have plagued both credits. Erroneous payments not only waste taxpayer money, but they also jeopardize the strong bipartisan support that has been a cornerstone of the credits' durability and expansion over the years. Partially in response to high levels of improper payments, taxpayers who claim refundable tax credits—in particular, the EITC—face a substantially higher rate of audits than other taxpayers.⁴ The audit process is often arduous and difficult to navigate, and even when taxpayers' returns are approved the IRS frequently takes more than a year to issue refunds.⁵ Robust customer service and enforcement of tax policies through the audit process are not inherently at odds, as many improper payments are due to the complexity of navigating the various forms and reporting

requirements. Thus, the IRS should increase customer support for taxpayers in conjunction with efforts to reduce payments made in error.

Administrative reforms to the CTC and EITC should seek to accomplish three objectives: increasing take-up among eligible Americans, curtailing improper payments, and better attuning the compliance process to taxpayers' needs. The one-year expansion of the CTC and EITC via the 2021 budget reconciliation process not only illustrates the whiplash American families face when Congress enacts short-term policy changes along partisan lines, but it also offers a timely case study through which to view these administrative issues and underscore needed action. To be durable—rather than risk repeal once the opposing party is in power—legislative reforms should be achieved through a bipartisan process.

Working with experts from across the ideological spectrum, the BPC developed recommendations aimed at achieving such goals. Further, we recognize that these proposals come on the heels of the Inflation Reduction Act of 2022 (IRA), which provides a monumental investment of nearly \$80 billion in additional funding for the IRS to address longstanding concerns over weakening tax enforcement, subpar customer service, and outdated information technology. With policymakers' attention rightly focused on bolstering taxpayer services, an immediate opportunity exists for the agency to direct resources to improve and support programs, such as the CTC and EITC, that touch millions of Americans each year and have a proven track record of success.

THE CHILD TAX CREDIT

The CTC was established by the Taxpayer Relief Act of 1997 and has been expanded under every president since.⁶ The credit can help parents pay for critical needs like healthy food, clothing, child care, utilities (including broadband access), school tuition, books, and housing.⁷ These necessities give children more stable, economically secure childhoods, thereby promoting healthy development that will benefit them in the long term. The CTC is also a powerful anti-poverty program. In 2018, the credit lifted 4.3 million Americans out of poverty, including 2.3 million children.⁸ When combined with the EITC, its poverty reduction is even greater. In the same year, the two credits together pulled 10.6 million Americans (including 5.5 million children) out of poverty and lessened poverty for another 17.5 million (including 6.4 million children).⁹

Under permanent law, the CTC gives parents a tax credit worth up to \$1,000 per child, phasing in with parental earnings and phasing out at higher incomes. If a parent's credit exceeds their tax liability, they receive the difference as a refund payment to the taxpayer.^a

^a The refundable portion of the CTC is technically known as the Additional Child Tax Credit. For simplicity, we refer to both the refundable and nonrefundable credit as the Child Tax Credit, abbreviated CTC.

Recently, this underlying law has been superseded by a temporary credit expansion under the TCJA, which increased the maximum credit to \$2,000 per child while limiting the refundable portion to \$1,400 per child, reduced the start of the credit's phase-in from \$3,000 of earnings to \$2,500, and increased the income at which the credit phases out to a modified adjusted gross income (AGI) of \$200,000 for single filers and \$400,000 for married couples.

In 2021, the ARP further expanded the CTC; for that tax year only, the law eliminated the CTC's refundability cap as well as its phase-in, allowing families to receive the full credit even if they had little or no earnings. The ARP also temporarily increased the maximum credit to \$3,000, introduced a larger credit of up to \$3,600 for children aged 5 or younger, and raised the maximum age of qualifying children from 16 to 17. Half of the credit was delivered in advance monthly payments that ran from July to December 2021, while the other half was available for families to claim when they filed their 2021 income tax returns.

Table 1 shows the three most recent legal layers of the CTC, and **Figure 1** illustrates how much a typical household with one child would receive under each law.

Table 1: The CTC, Under Permanent Law and Temporary Expansions

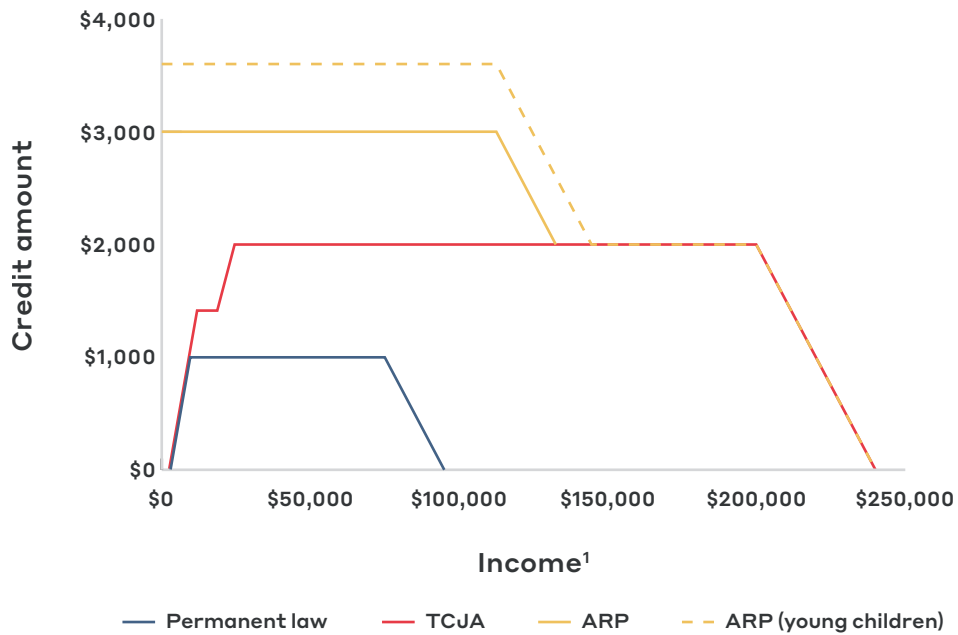
	Permanent Law	Tax Cuts and Jobs Act (Current)	American Rescue Plan Act (2021)
Expiration	-	End of tax year 2025	End of tax year 2021
Maximum credit	\$1,000 per child	\$2,000 per child	\$3,000 per child; \$3,600 per child aged 5 or younger
Phase-in rate and threshold	15% of earnings over \$3,000	15% of earnings over \$2,500	No minimum earnings requirement to receive full credit
Refundability	If credit exceeds tax liability, difference is issued as a refund	Same as permanent law, with refunds capped at \$1,400 per child	If credit exceeds tax liability, difference is issued as a refund with half distributed in monthly payments throughout the year and the rest claimed during tax season
Phaseout rate and threshold¹	5% starting at income of \$75,000 (single or head of household) or \$110,000 (married filing jointly)	5% starting at income of \$200,000 (single or head of household) or \$400,000 (married filing jointly)	\$3,000/\$3,600 credit phases down to \$2,000 at a rate of 5% starting at income of \$75,000 (single), \$112,500 (head of household), or \$150,000 (married filing jointly); then TCJA schedule
Maximum age of qualifying children	16	16	17
Refund timing	Annual	Annual	Half paid throughout year; half paid annually during tax season
Marginal annual cost (approximate)²	\$54 billion	\$64 billion more than permanent law	\$105 billion more than permanent law + TCJA

1 For a married couple filing jointly with two children under age 17 (permanent law, TCJA) or between ages 6 and 17 (ARP), the CTC is fully phased out at the following income limits: Permanent law – \$150,000; TCJA – \$480,000; ARP – \$480,000.

2 Cost estimates come from Joint Committee on Taxation for most recent year in which relevant law applied: Permanent law cost is from 2017, TCJA cost is from 2020, and ARP cost is a projection for 2021 and 2022.

Source: Congressional Research Service; Tax Cuts and Jobs Act of 2017; American Rescue Plan Act of 2021; Internal Revenue Service

Figure 1: The CTC's Schedule for a Single Parent of One Child, Under Permanent Law and Recent Temporary Expansions



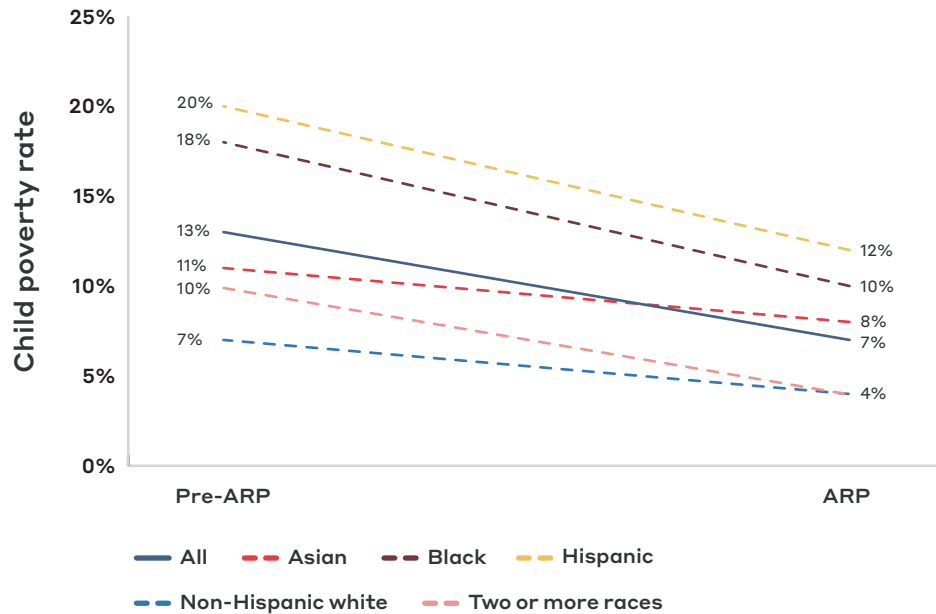
1 The CTC phases in with earnings but phases out with modified adjusted gross income. Adjusted gross income (AGI) is calculated by subtracting certain adjustments (e.g., self-employed retirement plan contributions and student loan interest) from total income. Modified adjusted gross income adds back in some of the income that was deducted when calculating AGI.

Note: TCJA is the Tax Cuts and Jobs Act of 2017. ARP is the American Rescue Plan Act of 2021. Graph assumes single parent takes the head-of-household deduction and no other tax benefits before applying the CTC. The TCJA schedule shows what would have applied in 2021 had the ARP not been enacted.

Source: Congressional Research Service; Tax Cuts and Jobs Act of 2017; American Rescue Plan Act of 2021; Child Tax Credit, Internal Revenue Service

By expanding the CTC in 2021 to the lowest-income Americans who were previously excluded from claiming it, the program had the potential to dramatically reduce child poverty. Indeed, the expansion was projected to reduce the child poverty rate by 46% if all eligible households received the credit.¹⁰ Notably, the CTC expansion was anticipated to comparably reduce child poverty across racial and ethnic groups (**Figure 2**).

Figure 2: Projected Change in Child Poverty Rate from the ARP CTC Expansion, by Race



Source: Congressional Research Service

Administration Issues

Last year’s temporary expansion of the CTC offers a timely case study of both new and existing administrative challenges families confront with the program.

Incomplete take-up—attributable in part to administrative challenges—hinders the poverty-reduction potential of the CTC. This problem was on heightened display during the expanded credit’s brief appearance last year. When the Biden administration rolled out the advance monthly payments of the CTC in July 2021, households covering 65 million children were eligible to receive it.¹¹ However, the initial advance payments disbursed to households fell short of this target, missing 6 million qualifying children.¹² At its high point in December 2021, the advance payments of the expanded CTC improved their reach from the summer, but still remained well short of the total eligible population by 4 million.^{13,b}

b At that time, the Center on Poverty and Social Policy at Columbia University estimated that the ARP’s short-term CTC reforms decreased the monthly child poverty rate by approximately 30%. It is important to note that monthly poverty reduction figures did not account for the portion of the CTC that families received at tax time—or the fact that some families received the entire credit owed at tax time—and therefore may have understated the program’s impact on child poverty. See Zachary Parolin, Sophie Collyer, and Megan A. Curran, “Sixth Child Tax Credit Payment Kept 3.7 Million Children Out of Poverty in December,” Center on Poverty and Social Policy at Columbia University, 2022. Available at: <https://www.povertycenter.columbia.edu/publication/monthly-poverty-december-2021>.

Very-low-income families, for whom the CTC expansion could have the largest economic security impact as it reached them for the first time, were at greatest risk of missing out on the expanded credit. While most households who file income taxes automatically received the monthly CTC payments, parents without a tax-filing obligation had to sign up using a separate portal.^{c,14} As such, many of these non-filer households ultimately did not receive the CTC.

In one survey of economically disadvantaged families, approximately 20% of households with children did not receive the monthly CTC payment disbursed in October 2021.^{d,15} Moreover, 27% of parents with less than \$500 in household monthly earnings did not receive the payment—a much higher rate than the 13% of parents earning \$2,000 or more per month who missed out on the payment. Parents out of the labor force were twice as likely not to have received the credit as were working parents. Thirty-nine percent of respondents who took the survey in Spanish missed out on the credit—double the rate of English speakers. The vast majority of survey participants would have been eligible to receive the advanced CTC in 2021, and the disparities in take-up highlight the administrative or educational outreach barriers that impeded many families attempting to claim the credit.

Polling data and conversations with CTC recipients and the organizations that serve them illuminate some of the hurdles that depress take-up. While the vast majority of parents—87%, according to a recent survey conducted by BPC and Morning Consult—were at least somewhat familiar with the CTC, misperceptions about the credit persist.¹⁶ For example, upon learning about the 2021 temporary changes to the CTC, 74% of parents said they qualified, 14% reported they did not qualify, and 12% did not know.¹⁷ Given that 96% of families with children were eligible for the expanded CTC in 2021, some parents incorrectly thought they did not qualify for the credit and may have missed out on significant financial assistance. (The average household CTC for 2021 is estimated to be more than \$5,000.¹⁸)

Moreover, low-income parents often have specific concerns about the CTC's potential adverse impact on their family finances. Outreach regarding the 2021 expansion of the credit failed to adequately allay such anxieties. In particular, non-filers were often fearful that they would have to pay back part of the CTC if they received more than they were eligible for in advance payments.¹⁹ In

c Technically, using the non-filer portal or an alternative sign-up tool like Code for America's GetCTC tool entailed filing a simplified tax return to the IRS. For simplicity, however, the federal government and organizations conducting outreach primarily described using the non-filer portal as "signing up" for the CTC rather than filing a return. We accordingly use the same terminology.

d This figure excludes households who did not receive the monthly payment for valid reasons, including those who elected to defer monthly payments and receive the entire credit as a lump sum at tax time, those who reported that another relative or parent received the credit, or those who had children born in 2021 who were not yet eligible for the credit. These households comprised an additional 7% of the sample. The figure also excludes households who had signed up for the CTC but whose payment was pending, who made up 4% of the sample.

reality, most non-filers would have been covered by repayment protection provisions included in the ARP—parents with less than \$40,000 to \$60,000 in modified AGI (depending on marital status) are not required to pay back any amount of excess advance CTC payments.^{e,20} Additionally, some low-income individuals raised concerns about being docked for back taxes if they signed up for advance payments, but advance payments were not subject to offsets for past due taxes from previous years or other federal or state debts. Indeed, monthly payments could make some taxpayers better off; if they received the full refund—compared to only half of the credit—when filing their 2021 return, any remaining CTC amount included in the refund could be subject to offsets.²¹

The complexities faced specifically by immigrant families in claiming the CTC also undermine the program's ability to meet its intended purpose. Many of these challenges manifest in the form of legal misperceptions. In 2021, some immigrant parents did not believe they could claim the CTC without a Social Security Number (SSN), or they were particularly wary about how claiming the credit could impact their immigration status by showing up as a public charge.²² Some individuals in mixed-immigration-status families were also concerned that accessing the credit could put undocumented family members at increased risk of deportation.^{f,23} However, while children are required to have a SSN to qualify for the CTC, parents only need to have an Individual Taxpayer Identification Number (ITIN).²⁴ Additionally, claiming a tax credit does not qualify an individual as a public charge, and receiving the CTC does not impact a person's immigration status or ability to get a green card.²⁵ Lastly, the IRS has strong privacy protections and restrictions on sharing taxpayer information with other government agencies, including immigration enforcement, so claiming the CTC is highly unlikely to increase an undocumented immigrant's risk of deportation.²⁶ Although immigrant parents' concerns about the CTC are understandable, they are often based on a lack of information or incorrect assumptions and likely contribute to the particularly low level of claiming among Spanish-speaking parents, among others.

Even among parents who understood they were eligible for the CTC and knew they needed to sign up via the non-filer tool, technological obstacles prevented many from receiving the credit. Low-income parents and non-English-speakers had trouble using the online non-filer portal. When it was first released, the portal was not mobile-friendly, even though low-income Americans—the population most likely to be non-filers who needed to sign up for the CTC—

e In reality, most non-filers would have been covered by repayment protection provisions included in the ARP — parents with less than \$40,000 to \$60,000 in modified AGI (depending on marital status) are not required to pay back any amount of excess advance CTC payments.

f A mixed-immigration-status family is a family whose members have various citizenship or immigration statuses. An example is one in which the parents are not U.S. citizens, but the children are U.S.-born citizens.

are more likely to rely on smartphones for internet access.^{g,27} Additionally, the non-filer tool was initially only available in English.^h Adding to the challenge of navigating the portal, many claimants had rarely, if ever, interacted with the tax system before. Lacking familiarity with the tax filing process and the information needed to fill out documents, many people found the forms confusing and had difficulty navigating the steps to claim the credit.

Identity verification posed a further technological challenge for some families. Although the non-filer sign-up portal did not require photo identification, a taxpayer did need either a driver's license, state-issued identification, passport, or passport card as part of the verification process to create a CTC Update Portal (CTC UP) account. The portal provided both non-filers and filers with access to important information, such as their eligibility for advance payments, the status of their monthly payments, and the ability to opt out of the payments. The photo identification requirement, however, posed a particular barrier for homeless and transient populations, who disproportionately lack such documents.

IRS online applications, especially personal IRS web accounts and those applications that contain taxpayer personal information (e.g., Social Security numbers or filing history), are subject to high volumes of fraudulent access attempts.²⁸ To safeguard against improper access to these online systems, the IRS requires users to go through in-depth identity verification procedures. Issues with completing this identity verification process, in conjunction with a time-consuming and complex application, also prevented parents across the income distribution from successfully opting out of the monthly advance payments. Approximately half of all parents (52%) who attempted to opt out of monthly payments said it was very or somewhat difficult to do so.²⁹ While monthly payments can help families cover the cost of raising children throughout the year, some parents prefer a larger credit at tax time for a variety of reasons. For example, some low-income families find a lump-sum credit a useful forced-savings mechanism.³⁰ Accordingly, the security protections put in place to defend against improper use of the CTC UP accounts created

g As of early 2021, 41% of households with less than \$30,000 in annual income did not have a desktop or laptop computer, and 43% of households in that income bracket did not have access to broadband internet. In contrast, 76% of these households did have a smartphone. See Emily G. Vogels, "Digital divide persists even as Americans with lower incomes make gains in tech adoption," Pew Research Center, June 22, 2021. Available at: <https://www.pewresearch.org/fact-tank/2021/06/22/digital-divide-persists-even-as-americans-with-lower-incomes-make-gains-in-tech-adoption/>.

h In partnership with the White House and Treasury Department, the nonprofit organization Code for America released a streamlined sign-up portal, [GetCTC.org](https://www.getctc.org), that was mobile-friendly and available in both English and Spanish. While this tool undoubtedly helped families sign up for the credit, it was not released until September 1, 2021, meaning that non-English-speakers and parents without computer access did not have an easy way to sign up for the CTC during the initial rollout. See Code for America, "Lessons for a Simplified Filing," January 2022. Available at: <https://files.codeforamerica.org/2022/01/15163938/lessons-from-simplified-filing-in-2021-getctc-report-january-2022.pdf?ga=2.110089413.1592518245.1655171612-1663969257.1655171612>.

administrative barriers to opting out of monthly payments and made it more difficult for these families to effectively manage their financial needs. While the IRS safeguards serve an important purpose in preserving the integrity of the tax system, security must be balanced with accessibility.

Now that the CTC has reverted to its pre-ARP form, many non-filers are no longer eligible to receive the credit due to having insufficient earnings. As Congress continues to debate the future of the CTC, however, lawmakers should bear in mind the ongoing administrative hurdles that continue to leave some families behind—a reality that was heightened under the expanded credit in 2021 and remains so under permanent law. Additionally, if Congress intends for families to have flexibility as to how they receive the CTC, administrative processes should facilitate, rather than impede, such decision making.

THE EARNED INCOME TAX CREDIT

The EITC lifts more than 5 million people out of poverty every year by raising the after-tax income of workers with low earnings.³¹ Initially introduced on a temporary basis in 1975, the credit has been significantly expanded multiple times over the ensuing decades on a bipartisan basis.³² It was most recently expanded in 2021 under the ARP in response to COVID-19. **Table 2** details the structure of the EITC for workers without children under both permanent law and the ARP expansion.

Table 2: The EITC for Childless Workers, Under Permanent Law and 2021 Temporary Expansion

	Permanent Law (2022)	American Rescue Plan (2021)
Phase-in rate	7.65%	15.30%
Maximum credit¹	\$560	\$1,502
Phaseout start^{1,2}	\$9,160	\$11,610
Phaseout rate	7.65%	15.30%
Phaseout end^{1,2}	\$16,480	\$21,430
Minimum eligibility age	25	19, excluding full-time students
Maximum eligibility age	64	None
Expiration	—	End of tax year 2021

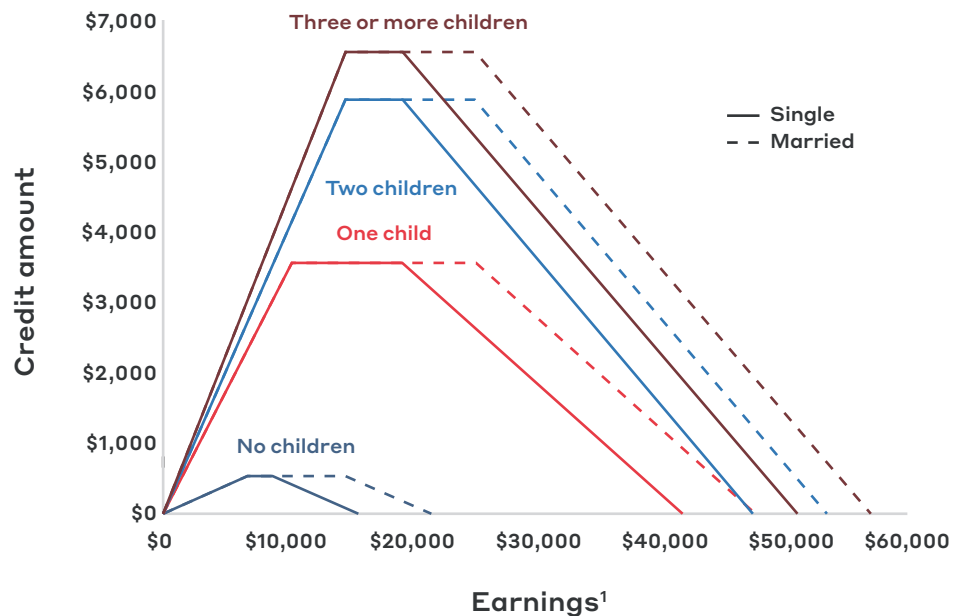
1 Values rise each year with inflation. “Permanent Law” values are the amounts that govern the EITC again beginning in 2022 following the expiration of the ARP.

2 Values shown are for single filers. Credit phases out at higher levels of income for married filers.

Source: Congressional Research Service; Internal Revenue Service

By supplementing wages, the EITC draws people with low incomes into the labor force and incentivizes them to increase their earnings.³³ In fact, it can significantly raise a worker's after-tax income: It paid recipients an average of \$2,411 in 2020, the most recent year for which tax return data is available.³⁴ Thus, the credit creates a double benefit for recipients: It gives them a large transfer and amplifies the income gain by encouraging them to earn more in the labor market.^{35,36} **Figure 3** shows how the credit phases in with a worker's earnings, plateaus, then phases out at higher incomes.

Figure 3: The EITC's Schedule, Under Permanent Law for 2022



¹ The EITC phases in with earnings but phases out with AGI.
Source: Internal Revenue Service

Workers with more children see their credit phase in faster, can receive a larger maximum credit, and remain eligible for at least a portion of the credit at somewhat higher income levels. For example, in 2022, a single childless worker can claim a maximum credit of only \$560, compared to a maximum credit of \$6,164 for a single worker with two qualifying children.³⁷ A single worker with two children who makes up to \$49,399 in AGI can claim the EITC, while the credit is only available to childless single workers earning \$16,480 or less.³⁸

Because the EITC increases earnings, it also raises revenue for the federal government and reduces spending on other benefit programs; after accounting for these savings, one study finds that each \$1 of net spending on the EITC creates more than \$3 of social value.^{i,39}

ⁱ Social value refers to the positive spillovers that result from the distribution of EITC benefits. Some of these effects include better health care outcomes and lower costs, a reduction in crime, and improved child well-being.

Administration Issues

While the EITC provides significant financial assistance to low-income workers, even prior to its expansion in 2021, take-up of the credit remained stuck at approximately 80% of eligible taxpayers.⁴⁰ Because taxpayers who qualify for larger EITCs are more likely to claim the credit, approximately 85% of potential EITC dollars are claimed annually.⁴¹

About 5 million taxpayers fail to claim the EITC every year, forgoing roughly \$7 billion in benefits.⁴² Most of these nonclaimants are non-filers—3.3 million did not file a federal tax return, compared to 1.7 million who did.⁴³ According to IRS researchers, workers with the following traits are less likely, on average, to claim the credit:⁴⁴

- rural
- self-employed
- on certain disability pensions or have children with disabilities
- childless or lack a qualifying child
- lack English proficiency
- grandparent raising a child
- recently divorced, unemployed, or have recently experienced other changes to their marital, financial, or parental status

Researchers have offered several hypotheses for why some eligible workers fail to claim the EITC. First, means-tested programs can carry stigma that imposes psychological and social costs on beneficiaries, which may decrease take-up.⁴⁵ However, the EITC differs from traditional welfare programs that make this explanation less likely. The credit is delivered via the tax code, rather than requiring an application through a welfare office—an often-laborious process that carries significant stigma.⁴⁶ Additionally, many EITC recipients view the credit as a reward for work, rather than a government handout. In one survey of 115 low-income EITC recipients, working parents spoke positively about the EITC and looked forward to the annual credit, whereas they felt the need to justify their receipt of Temporary Assistance for Needy Families (TANF) or other public benefits.⁴⁷ Furthermore, a 2015 experiment found that efforts to reduce stigma did not increase EITC take-up.⁴⁸ Based on EITC recipients' attitudes and study results, it is unlikely many people shy away from claiming the credit because of stigma.

Causes of persistent nonclaiming more likely include the effort associated with claiming the credit and lack of information. Determining EITC eligibility and the appropriate credit amount is a notoriously complex process with criteria including earned income, the number of qualifying children, and filing status.⁴⁹ A child must satisfy three requirements relating to relationship to the claimant, residency, and age to be deemed a “qualifying child,” and an elaborate

set of tiebreaking rules determine who can claim a child if multiple taxpayers would otherwise be eligible to claim the same child.⁵⁰ Immigrant families face additional restrictions when trying to access the EITC, as claimants must have a Social Security number, which denies access for nearly 2.4 million immigrant families who are ITIN filers.⁵¹ According to the National Taxpayer Advocate, this complexity is likely a source of nonclaiming, as some eligible taxpayers choose to forgo the credit because they do not know how to properly claim or are unsure if they are eligible, and they do not believe taking the time to figure out the process or hiring a paid preparer is worth the cost.⁵²

Notably, while only 80% of eligible Americans claim the EITC, 92% of eligible individuals who file taxes with an assisted preparation method (APM) claim the credit.^{j,53} APMs make determining eligibility for the EITC, as well as other tax credits, significantly easier. Accordingly, the marginal transaction cost of claiming the EITC is lower for filers than for non-filers, explaining—at least in part—their higher take-up rate.

A 2015 study suggested that lack of awareness and confusion about the credit also depress take-up. A survey of more than 1,100 low-to-moderate-income tax filers at volunteer tax clinics in Chicago found that only 56% of those eligible for the EITC were aware of the credit.⁵⁴ Additionally, after reading information about the EITC, one-third of eligible filers who qualified for the credit did not believe they qualified. Not only did individuals underestimate their eligibility for the EITC, but those who did correctly say they qualified for the credit significantly underestimated the size of the credit they could receive: 61% underestimated the benefit amount and 51% underestimated the benefit amount by more than half. The study found that providing accurate information to EITC-eligible individuals about the size of the credit they could receive increased take-up by 33%, suggesting that widespread underestimating of eligibility and benefit amount leads a significant number of otherwise eligible workers to forgo the EITC.

Misperceptions about the risks of claiming the credit, including the fear of being audited and potentially penalized by the IRS, may also deter claiming. Notably, EITC-eligible households often overestimate their likelihood of being audited, and this inflated sense of risk may contribute to lower levels of claiming. Indeed, in the same 2015 survey, respondents estimated that the IRS audits 15% of EITC recipients—more than eight times the actual rate.

Lastly, language barriers contribute to lack of information and confusion about the EITC for workers who are not proficient in English. Hispanic communities are particularly vulnerable to these language barriers—as of 2017, 36% of Hispanic adults in the United States were not proficient in English.⁵⁵ Perhaps not surprisingly, Hispanics have historically reported lower awareness and

j Filing with an assisted preparation method is defined as using tax preparation software and/or hiring a tax professional.

take-up of the EITC than have individuals of other racial and ethnic groups. A 2022 analysis found that the discrepancy in take-up between Hispanic and white households closes once language barriers are removed, suggesting that language challenges are a key depressor of EITC claiming among Hispanics.^{56,57}

IMPROPER PAYMENTS AND AUDITS

Persistently high CTC and EITC improper payment rates threaten to erode the broad, bipartisan support these tax credits have historically received. The refundable portion of the CTC is estimated to have an improper payment rate of 12%.⁵⁸ According to the IRS, this rate is 24% for the EITC.^{k,1,59} In other words, approximately one in four EITC dollars each year may go to either people who are ineligible or to filers who receive more than they should by law. The actual net rates of overpayment are less than these figures suggest because the estimates—which tally gross overpayments—do not account for overpayments the IRS can reclaim.⁶⁰

Federal law presently bars a taxpayer from claiming the CTC or EITC for two years if the IRS determines the taxpayer has improperly claimed the credit with “reckless or intentional disregard” for eligibility rules.⁶¹ If an improper claim is due to fraud, the taxpayer is prohibited from receiving the abused credit for 10 years.⁶²

Although some improper claims are fraudulent, many are honest mistakes by individuals confused by the credits’ intricate rules. The majority of illegitimate EITC dollars, for example, are due to improper claiming of children, whose attribution for household tax purposes is governed by enormously complicated regulations. The credit’s complex child eligibility rules are partly a response to complex family circumstances.⁶³ Because a child might live with their older sibling, mother, uncle, and grandfather—each of whom may have justification to claim them—Congress created elaborate tiebreaker rules. Ultimately, the program’s complexities reflect a fundamental trade-off between targeting and simplicity. To target benefits to exactly the right people, Congress must home

k Some experts, including former IRS National Taxpayer Advocate Nina Olson, have cautioned that this figure may overstate the true error rate of EITC payments. Olson notes that when an EITC claimant whose credit is denied in an audit seeks assistance from the IRS’ Taxpayer Advocate Service, about 40% of the denials are reversed. She observes that most people whose EITC is ruled invalid do not receive this help and the error rate estimate reflects some EITC claims that likely would be found valid if the claimants had received this assistance.

l Although the EITC has a high improper payment rate, the program also has much lower administrative costs than other major means-tested programs. EITC administrative costs are estimated to be about 1% of benefit costs. In comparison, administrative costs are estimated to be 7% of benefits for Supplemental Security Income and 4% for Medicaid. While not excusing high improper payments, analysts often note this trade-off between error rate and administrative cost. See Robert Greenstein, “Romney’s Charge That Most Federal Low-Income Spending Goes for ‘Overhead’ and ‘Bureaucrats’ Is False,” Center on Budget and Policy Priorities, January 23, 2012. Available at: <https://www.cbpp.org/research/romneys-charge-that-most-federal-low-income-spending-goes-for-overhead-and-bureaucrats-is>.

in on them with specific and intricate rules. Lawmakers may be reluctant to simplify the credit if the result is less-exact targeting.

Another major cause of improper payments, however, may be easier to address. Illegitimate payments can be the result of error or fraud by a tax preparer. Fifty-three percent of all tax filers used a paid preparer when filing for tax year 2019, and among CTC and EITC recipients, more than 60% paid a preparer to claim benefits on their behalf.^{64,65} More than three-quarters of paid preparers, however, are so-called “unenrolled preparers,” individuals who are not subject to government certification, training requirements, ethical standards, or competency tests—presenting quality issues that could disproportionately affect low-income individuals who utilize these preparers at high rates.⁶⁶ Indeed, when the IRS tested unenrolled preparers for competence, one in four failed.⁶⁷

The IRS does not currently have the authority to regulate paid tax return preparers, as Congress lacks consensus on reasonable standards for their regulation. Without the ability to hold them accountable, any ensuing error ultimately burdens the taxpayer, who can end up owing more to the government or missing out on the credits altogether.⁶⁸ Because one of the key ways to increase take-up of the EITC is assistance—either in understanding eligibility requirements, accessing technology to claim the credit, or foreign language translation—increasing the technical proficiency of paid preparers through the ability to regulate them could help reduce errors in filing.

A subset of unenrolled preparers combine this dubious proficiency with little risk of accountability for overclaims; as a result, they have the highest error rate of any type of return preparer. In fact, half of EITC returns submitted by unenrolled preparers claim a larger refund than for which their client is eligible.⁶⁹

To ensure taxpayer compliance, the IRS audits approximately 0.25% of all tax returns.^{m,70} EITC recipients face audit rates well above average: In 2019, the IRS audited 0.77% of tax returns claiming the EITC.⁷¹ Only taxpayers with \$1 million or more in income were audited more frequently than EITC claimants. As previously mentioned, refundable tax credits and the EITC, in particular, suffer from particularly high improper payment rates and therefore, merit scrutiny from the IRS.

^m Notably, audit rates have declined precipitously over the past decade, from 0.9% in tax year 2010 to 0.25% in tax year 2019. While audit rates for all income levels decreased over this time period, taxpayers earning over \$200,000 saw the greatest enforcement relief. The decline in audit rates comes against the backdrop of an increasing tax gap—the difference between taxes owed and taxes paid—which now stands at approximately \$600 billion per year, according to the Treasury Department. See Natasha Sarin, “The Case for a Robust Attack on the Tax Gap,” U.S. Department of the Treasury, September 7, 2021. Available at: <https://home.treasury.gov/news/featured-stories/the-case-for-a-robust-attack-on-the-tax-gap>.

The agency's chronic underfunding and staffing reductions have made audits increasingly punitive for EITC recipients and have created ripple effects leading to delays in the audit process.^{72,73} This is especially problematic, given that 75% of EITC audits are pre-refund audits—meaning the refund is not issued until the audit is completed.⁷⁴ Indeed, according to lawyers from the Low-Income Taxpayer Clinic program, the IRS regularly takes more than a year to release an audited EITC claimant's refund.⁷⁵ This is an eternity for a family that has done nothing wrong and is counting on the credit to make financial ends meet.

Additionally, many EITC recipients find audits confusing and cumbersome. A study by the Taxpayer Advocate Service found that 70% of audited EITC recipients found the audit notification letter difficult to understand, citing specific terminology and unclear instructions on what to send as primary reasons. More than 90% ultimately contacted the IRS after receiving the letter, with the majority seeking to understand the letter or what documents they needed to send.⁷⁶

Overall, less than a third of audited EITC returns for tax year 2018 were audited to completion—defined as a full interaction between the taxpayer and the IRS that leads to a resolution: an approval of the credit amount, an agreement to adjust or zero out the credit amount, or an appeal by the taxpayer—likely in part due to taxpayer challenges with navigating the audit process.⁷⁷ Forty-three percent of EITC audits were not responded to by the taxpayer and 26% were closed as a result of an incomplete interaction where the taxpayer and the IRS began the audit process but did not reach a resolution, often because the taxpayer stopped responding to IRS correspondence.⁷⁸ While some of these instances of nonresponse and incomplete audits surely reflect taxpayers who were ineligible for the credit amount they claimed trying to dodge the IRS, a sizeable portion were likely taxpayers who did not receive the initial notice or were unable to navigate the audit process to completion. Perhaps most concerning, between 2008 and 2015, 15% of audits of the poorest EITC claimants (those making less than \$10,000) were closed due to undeliverable mail, causing these taxpayers to lose out on their EITC benefit before they even had a chance to respond.⁷⁹

Further, the possibility of being audited and potentially penalized by the IRS may also deter otherwise eligible participants from claiming. During a BPC focus group with low-income taxpayers, participants reported fear of the IRS and universally negative experiences when they were audited. Some participants said they owed the IRS thousands of dollars because of audits, even though they believed they had not violated any policies and provided the IRS all the requested documentation. Although it is entirely possible that those who owed additional taxes and penalties made mistakes while filing, and the IRS efforts to recoup improper payments were legitimate, the fact remains that audits are a daunting specter haunting the EITC-claiming process for many low-income taxpayers.

BPC's Recommendations

While there is no one way to induce 100% of eligible Americans to claim the CTC or EITC, policymakers have a responsibility to address these varied challenges that currently impede the programs' take-up and administration. BPC developed a package of reforms for consideration that could not only increase credit uptake among eligible Americans but combat improper payments and humanize the audit process at the same time.

INCREASE AWARENESS AND UPTAKE

A variety of factors, including program complexity, widespread non-filing, lack of awareness and misperceptions of benefits administered through the tax code, and language barriers, contribute to incomplete CTC and EITC take-up. Along with opportunities for the IRS to lead the way through increased dedication to customer service, these suggested reforms also present opportunities to improve communication and coordination and provide more targeted education and outreach to eligible communities about these credits.

Develop a dedicated office at the IRS focused on the administration of social benefit programs

The IRS is no longer solely oriented around revenue collection: As Congress has increasingly implemented social benefit programs through the tax code, the agency has also evolved into a benefits distributor. As former National Taxpayer Advocate Nina Olson noted, the IRS maintains an enforcement-oriented, rather than service-oriented, culture.⁸⁰ The IRS's mission—to "provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all"—explicitly identifies enforcement as a priority while paying short shrift to benefit distribution.⁸¹

Currently, the agency supports dedicated offices for investigations and audits under the Treasury Inspector General for Tax Administration to address concerns after tax returns are filed, but it lacks a dedicated office to support taxpayers attempting to navigate the claiming process specifically.^{82,83} This focus on enforcement overshadows the need to provide better front-end customer service that would benefit taxpayers and lead to more accurate filing. The IRS's newly formed Taxpayer Experience Office, established in March 2022, could potentially offer a centralized location in the agency to focus on benefit administration, elevate the importance of these programs to the agency's overall mission, and empower it to better facilitate benefit take-up.⁸⁴

The additional recommendations that follow underscore the need for dedicated IRS resources that concentrate on direct outreach to help taxpayers understand the refundable tax credits for which they are eligible, liaise with state and local partners to conduct education and outreach efforts, provide customer support to taxpayers during the filing process, and assist taxpayers in complying with audits. These efforts will be most effective if the agency has a central hub overseeing such broad yet critical spokes.ⁿ

Increase communication and outreach about the CTC and EITC

One of the main obstacles to CTC and EITC uptake is confusion over eligibility criteria. This confusion is only heightened when there are temporary changes to the programs. For example, when BPC polled caregivers about the CTC's expansion in 2021, 87% said they were very or somewhat familiar with the credit.⁸⁵ But despite high levels of general awareness, uncertainty about if they qualified was a major barrier to take-up. Nearly one-third of caregivers who did not receive advance CTC payments last year said the primary reason was because they did not think their household was eligible, a reality that was heightened among families with incomes below 200% of the federal poverty level.⁸⁶ Improving communication and outreach on tax credit changes—particularly when they differ substantially from permanent law, as with the ARP expansions—must be a priority to increase take-up of the credits. And while the Biden administration has made concerted efforts to do so through the September 2021 launch of its revamped GetCTC.org non-filer portal, doing so earlier—for example, as the advance payments went into effect—could have improved take-up rates, especially among those households newly eligible for the credit.⁸⁷

Additionally, while the IRS currently houses informational documents and resources on its website explaining the two credits under permanent law and any intervening expansions, the lack of awareness and access to these web pages and other existing materials limits their effectiveness. BPC recommends that federal agencies, led by the Treasury Department, enhance their direct work with local agencies and partners to improve the delivery and reach of information. This should begin by implementing a broader omnichannel communications strategy at multiple levels of government to educate caregivers and workers about the CTC and EITC, eligibility criteria, and the process of claiming the credits. Coordinating these efforts with trusted community partners and organizations—such as pediatrician offices, schools, shelters, and community centers—would broaden outreach to hard-to-reach populations,

ⁿ One vision of what this office could look like is the Family and Worker Benefit Unit proposed by Nina Olson. See Nina Olson, "Thinking Out Loud about the Advanced Child Tax Credit – Part 3: The Family and Worker Benefit Unit," *Procedurally Taxing*, July 1, 2021. Available at: <https://procedurallytaxing.com/thinking-out-loud-about-the-advanced-child-tax-credit-part-3-the-family-and-worker-benefit-unit/>.

especially leading up to tax season. One New York City organization interviewed for this research shared how the city successfully modeled this with the CTC's expansion in 2021 by engaging residents in digital community-based outreach plans to relay information on the credits, estimates suggest the campaign reached nearly one million residents.^o

Improve coordination between federal agencies, state and local governments, the private sector, and nonprofits

A diverse set of governmental and non-governmental organizations serve taxpayers who claim refundable tax credits. However, there is a persistent lack of coordination and communication that makes it more difficult for taxpayers to access the credits for which they are eligible. While some informal working groups already exist amongst private-sector organizations and third parties, it is wise to include government agencies in these coordination efforts as well.

BPC recommends that the federal government act as a convener between these various stakeholders. Following the 2021 tax credit expansions, the White House successfully coordinated an effort to educate and discuss changes via regular conference calls with city and community leaders nationwide.^p Encouraging the IRS to mimic these coordination efforts and leverage its national presence by convening—and maintaining where already present—regular working groups, conferences, or calls to discuss changes to the programs and to improve data sharing and transparency efforts would improve the facilitation of these credits nationwide. Additionally, enlisting the tax industry in these efforts—rather than lumping in all return preparers as incompetent or fraudulent—would ensure all who are serving these communities have a vested interest in improving the outcomes.

The federal government should also spearhead efforts to partner with states to effectively identify individuals eligible for the CTC and EITC. They could do this by leveraging state- or locally-administered benefit data—such as those under the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Families (TANF), or Medicaid—to ensure eligible individuals and households appropriately claim the credits they are owed. In fact, the Treasury Department estimated that last year 2.3 million eligible children who participated in other government-sponsored benefit programs, including Medicaid, SNAP, and other state-level programs, did not receive the expanded CTC because they were not claimed as dependents on tax returns.⁸⁸ By leveraging existing state-level agencies and program data, for example, the

^o In recent months, BPC met with several city offices responsible for the implementation and oversight of public services and taxpayer support. Throughout these discussions, it was made clear that regular federal-state coordination—especially as the ARP was being implemented—has been and remains essential.

^p Ibid.

federal government can increase targeted communication and outreach on the CTC and EITC to households who could benefit most from the credits.

Streamline the process of claiming state and local versions of the EITC and CTC

Most states offer their own version of the EITC in addition to the federal credit, and some localities even provide a third level of the EITC.⁸⁹ Nine states offer an additional CTC.⁹⁰ There is room for states to make claiming these credits a more seamless process. As an example, Maryland previously provided its state-level EITC automatically if a taxpayer claimed the federal EITC, regardless of whether they claimed the Maryland credit on their tax return. The state no longer does so, however, due to issues around data sharing between the federal and state government—a change that likely has led to lower take-up of the state credit.⁹¹ As of 2020, Maryland implemented a new law requiring employers to flag if their employees might be eligible for the EITC at the federal and state levels based on their income.⁹¹ In October this year, the state will also roll out the Maryland Earned Income Tax Credit Assistance Program for Low-Income Families that further provides the state’s comptroller the authority to identify residents who are eligible to claim the credit but have failed to do so.⁹² The state continues to find ways to circumvent data sharing barriers between federal, state, and local governments while also increasing awareness of eligibility for the credit.

State and local governments should strongly consider harmonizing their requirements for CTC and EITC with the federal requirements and pursue ways to offer the credits automatically to reduce ambiguity around eligibility, as well as streamline the delivery of the credits to taxpayers. At a minimum, states and local governments should send notices to potentially eligible taxpayers alerting them about state and local CTC and EITC eligibility to improve uptake of the respective credits by taxpayers. This could help reduce confusion and increase take-up of all iterations of the credits.

Strengthen technology resources people use to access public benefit programs

Online filing tools and resources often unintentionally add an additional layer of complexity to accessing these programs. As previously discussed, lower-income individuals and families who need access to information about CTC and EITC claiming and eligibility are least likely to have stable broadband internet or computers readily available, which creates a significant access barrier. While many rely on mobile devices to access online resources,

q Some counties in Maryland do continue to automatically provide a county-level EITC if a claimant qualifies for the state’s EITC. For example, Montgomery County, MD provides a 100% match of the state EITC to eligible residents who file a Maryland tax return. See “Earned Income and Other Credits,” Available at: https://montgomerycountymd.gov/cashback/tax_credits.html.

sites are not always mobile-friendly. In BPC's focus groups, individuals reported confusion, difficulty, and frustration properly navigating to online resources and making selections, such as opting in or out of monthly CTC advance payments.

Improving the technological infrastructure of tax credit information and outreach can make resources more accessible. BPC recommends that public benefits websites, and particularly those that address the CTC and EITC, be mobile-friendly and translated in multiple languages. Improving technology resources is a simple step the IRS can take to enhance user experience, especially since it means adjusting the tools and websites already in place—not starting from scratch. The agency could immediately begin addressing these recommendations using the nearly \$5 billion provided through the IRA to invest in customer-service technology.⁹³

In addition to reducing access barriers, we recommend easing identity verification challenges that impede uptake of the credits. With the rollout of the ARP's expansion of the CTC in 2021, for example, identity verification expectations differed between filers and non-filers. The portal for non-filers did not require photo identification, while filers were required to show a state-issued identification document, limiting access for a swath of the population. Thus, modifying verification requirements will simplify the filing process, increase access to the credits, and allow the benefit to reach qualified participants sooner. Additionally, given the increased risk of identity theft, fraud, and scams, consideration could also be given to leveraging trusted partners to assist with in-person identity verification—for example, Transportation Security Administration sites, post offices, or nationwide branded tax preparation firms.

Bolster utilization of VITA sites by expanding its grant program

The most effective way to help taxpayers reduce improper payments is to help them file their taxes properly. IRS VITA sites are a proven mechanism to increase tax credit take-up and help Americans—particularly low-income earners—file tax returns at no charge. Further, these volunteers have some of the lowest EITC overclaim rates of any return preparers, yet only a small share of eligible filers uses the program.^{94,95} On the heels of the IRA's funding boost for the IRS, directing a portion of the \$3 billion targeted for taxpayer services towards VITA would help more claimants avoid errors, prevent preparer fees from eroding refunds meant to support low-income families, and reduce improper payments that waste taxpayer dollars.⁹⁶

Increased funding, however, does not always translate into increased capacity. VITA sites are only as productive as the capable volunteers who staff them. Recruiting and retaining volunteers should be prioritized by enhancing partnerships between government and the private sector. Because enrolled

agents—tax preparers who are certified by the U.S. Treasury to represent a taxpayer before the IRS—can earn their employer-required continuing education credits by being an IRS tax volunteer, companies could partner with local sites and provide staff with paid time off to volunteer their expertise, thereby giving back to the community.

REDUCE IMPROPER PAYMENTS AND IMPROVE AUDITS

To address the frequency of improper payments and improve the audit system, these recommendations aim to improve the quality of service experienced by both taxpayers and tax preparers. Three ways to ease the administrative burdens that lead to improper payments and a poor compliance experience include: improving upstream processes so people are more likely to claim the credit correctly; strengthening downstream processes to better identify and respond to improper payments when they occur; and providing better support to taxpayers when they are audited.

Enhance upstream processes to increase tax credit claiming accuracy

An important step to reduce improper payments and potential audits is to mitigate filing errors in the first place. VITA sites can immediately help alleviate this issue. In contrast, although education and outreach campaigns are another great way to get information directly to taxpayers before they begin the filing process, these efforts do not necessarily reduce filing errors. As previously noted, more than half of taxpayers rely on tax preparers to file on their behalf.

As such, improving the certification of tax preparers could substantially reduce fraudulent and improper claims. BPC urges Congress to allow the IRS to certify and regulate paid preparers to improve the quality and accuracy of claims filed—a recommendation that already has significant bipartisan support. Senators Rob Portman (R-OH) and Ben Cardin (D-MD) introduced legislation to do just that in 2018. President Joe Biden and former Presidents Barack Obama and Donald Trump also included the provision in their respective budget requests to Congress.^{97,98} Codifying such legislation would require unenrolled preparers to pass competency tests and be subject to the same ethical standards and continuing education requirements as other preparers. The budgetary impacts of such a change could be large: In 2018, the IRS saved an estimated \$374 million in improper payments by intervening with those unenrolled preparers who were generating the highest rates of erroneous EITC claims.^{r,99} In

^r This intervention consisted of enforcement and educational initiatives, not systematic regulation of the kind the IRS is legally prevented from issuing.

the absence of broader preparer certification reform, Congress could require any tax return claiming a refundable credit or any refund over \$2,000 be signed by an enrolled preparer.¹⁰⁰

In the absence of federal legislation, the IRS is commendably taking matters into its own hands. For example, its Annual Filing Season Program currently helps identify noncredentialed preparers and provides continuing education opportunities to help them meet certain standards through a voluntary process. Upon successful program completion, preparers are added to a public database housed by the IRS to help taxpayers find qualified preparers to file on their behalf.¹⁰¹ These preparers also earn limited representation rights, permitting them to represent clients whose returns they prepared and signed before revenue agents, customer service representatives, and similar IRS employees, including the Taxpayer Advocate Service. Importantly, unenrolled preparers who do not participate in the program and earn a certificate of completion are not legally permitted to represent clients before the agency under any circumstances.¹⁰²

While the program has the promise to overcome some of the immediate challenges posed, there are opportunities for the agency to do more. It could expand the marketing materials supplied to these preparers to attract and maintain clients and could also improve promotion of its public database to taxpayers. Navigating the IRS website to find the database can be challenging, especially without the knowledge such a resource even exists. Adding the database link with information on the preparer verification process to forms sent to taxpayers during filing season, such as the Form W-2, would increase its use as another mechanism to mitigate claiming concerns. Further, the IRS could leverage nationwide and regional branded return-preparer firms, as many have their own existing training and compliance oversight functions. By engaging in such partnerships, the IRS could not only ensure their programs are comprehensive and robust, but it could also focus efforts on hard-to-reach independent preparers who lack any other form of oversight.

Meanwhile, lawmakers could consider sensible modernizations to complicated child eligibility requirements and bifurcating the child and work portions of the EITC. The National Taxpayer Advocate, for example, recommends that Congress develop a “primary carer” definition that better reflects the variety of experiences of primary caregivers and their children, as this might not always be a child’s biological parent.¹⁰³ Such a change could mitigate some improper payments and increase take-up of the credit, as low-income children are more likely to live with a single parent, a multigenerational household, a cohabiting household, or a family with at least one non-biological child—as compared with higher-income families.¹⁰⁴ Another reform would be to determine a portion of the EITC by an individual’s earnings regardless of their status as a primary caregiver or their child’s eligibility, permitting the IRS to easily match a portion

of a claimant's EITC against their Form W-2.¹⁰⁵ Recognizing demographic changes and complexities in U.S. household structures could not only increase take-up of these refundable tax credits but also improve administration and curtail rates of improper payments.

Reinforce downstream processes to better respond to improper payments

Even with increased interventions to improve filing accuracy, improper claims—whether intentional or not—will occur. The IRS has several existing authorities at its disposal to deter taxpayers from erroneously or fraudulently claiming the CTC or EITC. The agency can assess penalties on erroneous tax credit refunds, require taxpayers to recertify that they meet eligibility requirements, and impose two- or 10-year bans on taxpayers who disregard credit eligibility rules.⁵ Independent audits by the Treasury Department's Inspector General, however, find that the agency does not effectively utilize these existing authorities, further contributing to the vicious cycle of CTC and EITC improper payments.¹⁰⁶

For example, although the agency has in place internal processes to impose a two-year ban on a taxpayer, it does not do so until an audit has been conducted, allowing a taxpayer to continue filing EITC claims. While the process avoids inflicting additional harm on those who commit honest filing mistakes and are awaiting resolution with the IRS, it does not immediately deter and punish actors—taxpayers or preparers—who intentionally seek to fraudulently deceive the system and claim benefits they have not earned and thus should more appropriately be held accountable to a 10-year ban or criminal investigation.¹⁰⁷ Greater clarity and consistency from the IRS when enforcing internal procedures could make a difference.

Additional modest changes could also help the agency humanize the process for taxpayers under audit. In up to 19% of cases where two-year bans have been imposed, the taxpayer never participated in the audit or their mailed notification alerting them of the audit was undeliverable.¹⁰⁸ In fiscal year 2018 alone, 43% of audited EITC claimants did not respond to their audit notice and waited an average of 207 days to resolve their return.¹⁰⁹ Thus, a single letter or attempt to contact a taxpayer under audit has clearly proven insufficient, and additional steps must be taken to follow up with an individual who did not respond to a correspondence audit, including by phone and email communication, to help expedite resolution before their case is closed.

Beyond directly contacting taxpayers, the IRS should utilize online tools already in place to bolster the compliance process. For example, the agency's "Where's My Refund?" site could be enhanced by sending taxpayers an update

⁵ The IRS can impose a two-year ban on taxpayers who recklessly or intentionally disregard refundable tax credit eligibility rules and a 10-year ban on taxpayers who file fraudulent credit claims.

if a correspondence audit has been initiated and then providing directions on how to contact the IRS to address the concerns. And while the IRS has the authority to apply some streamlined audit processes by, for example, directly addressing mathematical or clerical issues without first providing the individual a notice of deficiency—referred to as “math error authority”—the agency should communicate such instances clearly to claimants.¹¹⁰ Taxpayers have a right and the agency has a duty to clarify how and where a taxpayer allegedly erred when claiming a refundable tax credit, to inform them of their right to appeal the discrepancy, and to list fully all documentation needed to correct the error or support the appeal. With a long-overdue \$46 billion investment in tax enforcement included in the IRA, the IRS should soon have the capability to strengthen internal processes surrounding its existing legal authorities.

Congress’s renewed focus on tax enforcement also provides an opportunity for the federal government to enhance current data sharing practices—specifically those surrounding income and child eligibility—between the Treasury Department and other federal agencies, as well as between federal and state tax authorities. This is particularly important given the Treasury Department’s emphasis that current challenges to address improper payments are rooted less in internal control deficiencies and more in the complexities of verifying eligibility, including unavailability of relevant third-party data within the time periods prescribed by the tax system.¹¹¹ The IRS can share tax information with governmental agencies for tax administration purposes, pending individual interagency agreements, and has a state partnering program to facilitate and expand the relationship between federal and state taxing authorities.¹¹² Employers are currently required by law to complete and file Form W-2s with the Social Security Administration on behalf of their employees to document earned wages and withheld taxes, among other critical public benefit information.^t

With the additional resources provided by the IRA, the agency can further study and refine its use of third-party data, such as information that can be extracted from Form W-2s, to conduct income verification and confirm credit eligibility. In instances where income information reported on a tax return does not match Form W-2 information, data sharing and verification should also extend to Form 1099s that are predominantly used for self-employed income. This would further reduce the ability for taxpayers to misreport income, which is currently the largest source of EITC improper payments.¹¹³ Dedicating resources to deepening the agency’s data sharing agreements at the federal and state levels could result in fewer cumbersome audit investigations and reduce the reliance on seeking additional documentation from individual

^t The number-of-employee threshold at which companies must file Form W-2s electronically has been at 250 employees for decades. BPC recommends that this threshold be lowered to account for technological improvements and efficiencies in payroll and tax software.

taxpayers. In all, this could more expeditiously help resolve incorrect filing and prevent the denial of crucial benefits. Failure to at least take advantage of the IRS' existing data-sharing authorities will only continue to increase costs, impede verification accuracy, and require taxpayers to continuously provide the same information to each agency individually.

Improve communication and support for taxpayers during audits

The IRS is in dire need of reforms to its customer service model to better support all taxpayers, but especially for those under audit given the fear of being audited is a top reason why some individuals choose not to claim the CTC or EITC. In response to service concerns, in 2019 Congress enacted the Taxpayer First Act, which directed the IRS to create plans to improve customer service and modernize IT systems. With passage of the IRA's \$8 billion to support customer service and modernization efforts, the agency should now be able to execute its 2019 modernization plan and introduce more customer-centric services.^{114,115}

An area for immediate attention is the current audit notification process. Low-income taxpayers primarily receive correspondence audits where the IRS has selected them for a tax review.¹¹⁶ A letter is typically sent notifying taxpayers of the audit, but the correspondence often lacks sufficient information on the filing error being assessed and provides no direct contact information through which concerns can be addressed. Moreover, as previously discussed, nearly one in five letters go unanswered, undelivered, or are resolved entirely without engagement with a tax examiner. In some cases, this could result in denied benefits for a taxpayer whose filing mistakes that resulted in an audit are indeed rectifiable.¹¹⁷

Taxpayers under audit who have claimed a refundable tax credit should be able to seek direct, personalized support from an IRS representative. While the audit experience can be daunting for anyone, it is especially so when it creates financial hardship by delaying a significant portion of one's income.¹¹⁸ Currently, when audited, taxpayers contact the same toll-free number used for all IRS concerns, which can lead to long wait times or unanswered calls. In 2020, the IRS answered only 24% of more than 100 million calls it received and had an average hold time of 18 minutes.¹¹⁸ In 2021 and 2022, this figure decreased to 19% and 18%, respectively.¹¹⁹ Even when representatives do answer, they may lack proper training to answer all questions.¹²⁰ The IRS now finds itself equipped with budgetary resources to provide Americans with the

^u A 2019 study by the National Taxpayer Advocate found that the average AGI of taxpayers who claimed EITC was \$17,268, while the amount of denied EITC was \$4,004, comprising nearly 23% of claimants' income. See Taxpayer Advocate Service, "Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit," 2019. Available at: https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_02_EITCban.pdf.

taxpayer assistance they should expect from their government—support that could help them navigate the complex compliance process. Specifically, the IRS could designate more tax examiners as a point of contact to personally assist individuals who claim these refundable tax credits, as they make up a sizeable portion of the audited population and often need the most assistance in understanding what needs to be done.¹²¹

Better arming taxpayers with information about their rights and responsibilities throughout the audit process is another way to allay concerns that might deter eligible households from claiming.^v In addition to expanding IRS capacity, additional information should be provided and more resources should be directed towards referring taxpayers to the Low-Income Taxpayer Clinics, which offer crucial support when disputing a claim. Clinics offer an array of services, including pro bono representation on tax disputes with the IRS and tax-related outreach and education on topics such as the availability of the CTC and EITC. These community-provided services have proven effective in educating taxpayers about the audit process as well as in advocating for broad changes to taxpayer services through the IRS.¹²² In 2020 alone, clinics represented 19,413 taxpayers, educated 133,757 taxpayers and service providers, and helped secure \$5.8 million in refunds and correct \$50 million in tax liabilities.¹²³ For low-income filers, having awareness of and access to these services could increase tax credit take-up and improve the public's interactions with the tax system.

v The Taxpayer Bill of Rights outlines fundamental rights taxpayers should be aware of when interacting with the IRS. They include, among others, the right to challenge the IRS's position and be heard, the right to appeal an IRS decision in an independent forum, the right to retain representation, and the right to a fair and just tax system. See Internal Revenue Service, "Taxpayer Bill of Rights." Available at: <https://www.irs.gov/taxpayer-bill-of-rights>.

Conclusion

The CTC and EITC ease the high cost of raising children and the difficulty of making financial ends meet for those with low or moderate wages. These tax credits remain proof that bipartisanship is indeed possible, especially when it comes to policies that improve the well-being of those most in need of support.

Longstanding and significant barriers, however, impede effective administration of both programs. As policymakers continue deliberating longer-term structural reforms to the CTC and EITC, central to the discussion must be the notion that administrative processes should facilitate, rather than impede, access to information and decision making for participants. This goes for an individual's entire tax filing process—from determining eligibility to undergoing an audit. Reforms that achieve these ends will bolster the accuracy of tax credit claims and go hand-in-hand with other changes to cut down on improper payments, which in some quarters, have tempered enthusiasm for these programs.

The time is ripe for action. American workers and their families are depending on it.

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