



Bipartisan Policy Center

Improper Payments: Existing Challenges, Impact, and a Path Forward

**THE EARNED INCOME TAX CREDIT
AND THE CHILD TAX CREDIT**

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The Bipartisan Policy Center's Human Capital Program is working to ensure that every American, from early childhood through the classroom and career, has the knowledge, skills, and tools they need to access their full potential.

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Executive Summary

Ensuring that federal agencies can deliver payments across federal tax and benefits programs with minimal errors is critical to safeguarding taxpayer dollars and maintaining program integrity.

The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) are two of the federal government's most important anti-poverty programs, but improper payment rates (payments that should not have been made or those that were made incorrectly) have ticked up in recent years and now total \$22.4 billion annually for the two programs. These improper payments rates are partially due to enormous complexity in credit design and to administrative inefficiencies that complicate their delivery and hamper their effectiveness.

2025 presents a meaningful opportunity to protect taxpayer dollars through reduced improper payments, make the credits easier to administer and access, and mitigate the impact of these errors on claimant families as part of tax reform discussions in Congress.

BPC'S RECOMMENDATIONS

- **Authorize the IRS to regulate unenrolled tax preparers.** Efforts to regulate paid tax preparers have long garnered bipartisan support, with legislation introduced under the Obama, Trump, and Biden administrations to make changes. Interventions could focus on enforcement efforts and educational outreach, including administering competency tests and subjecting preparers to the same ethical and continuing education standards as other preparers.
- **Expand the IRS's math error authority to address identifiable taxpayer mistakes and streamline the verification processes.** The agency currently has limited math error authority—the ability to directly address mathematical or clerical issues without first providing a notice of deficiency to the individual.
- **Bolster support for free tax preparation services.** Using free tax preparation services can help low-income taxpayers sort through complex eligibility requirements and improve the overall claims accuracy for these tax credits. IRS-funded Volunteer Income Tax Assistance sites, Taxpayer Assistance Centers, and Low-Income Taxpayer Clinics can help taxpayers during the filing and audit processes.

- **Enhance processes and systems to better integrate third-party data into verification and data analytics.** Improving data sharing practices and agreements—specifically related to income and child eligibility—between the Treasury Department and other federal agencies, and between federal, state, and local tax authorities, could reduce the need for taxpayers to separately submit verification documentation. Incremental improvements to interagency data sharing have already led to small reductions in improper payments by the IRS and should continue to be a priority.
- **Require income verification before the IRS issues refunds.** The IRS should better leverage third-party data embedded in several forms, such as information contained in W-2s or 1099s, to conduct income verification and confirm credit eligibility when it processes returns. These changes would further reduce the ability of taxpayers to misreport income—currently the largest source of EITC improper payments.
- **Build AI guardrails around IRS sharing and the use of taxpayer data.** The agency should use caution when deploying enhanced data systems, balancing the need to ease administrative burdens, protect taxpayer rights, and increase efficiency by installing proper safeguards to protect taxpayer data.

Introduction

The Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) are two of the most important anti-poverty programs in the federal government, but long-standing concerns around inefficient administration—and elevated improper payment rates—hamper their effectiveness.¹

Improper payment rates have ticked up in recent years for both credits, hovering at 33.5% (\$21.9 billion) for the EITC and 14.5% (\$0.5 billion) for the refundable portion of the CTC in fiscal year 2023.² Policymakers are rightly concerned about instances of waste, fraud, and abuse that plague these credits and understand the need to address them. These improper payments rates, however, are partially the result of the enormous complexity in credit design and administrative inefficiencies that complicate their delivery, affecting the interventions needed to reduce improper payments.

Absent reforms, high rates of improper payments will persist, eroding political and public support for future expansions of the EITC and CTC. Safeguarding taxpayer funds is critical, especially considering the growing challenge that the U.S. fiscal outlook presents. Recouping the \$22.4 billion annually in improper EITC and CTC payments could partly offset the costs of any expansion to the credits while strengthening program integrity, paving common ground for both Republicans and Democrats as they advance negotiations.

This brief highlights the latest data on improper payments across federal programs, identifies key causes of improper payments within the EITC and CTC, and offers recommendations for policymakers to consider as part of next year's tax reform discussions in Congress.

Section I: What are Improper Payments?

Across federal tax and benefits programs, improper payments are defined as those that should not have been made or were made in an incorrect amount.³ Ensuring that federal agencies can accurately deliver payments with few errors is critical to safeguarding taxpayer dollars.

Improper payments are often a proxy for measuring program integrity.^a Government agencies are tasked with assessing the quality of payments made to determine instances of potential fraud or unintentional errors that can be corrected—although the difference may not always be immediately clear.⁴ Since 2003, improper payment rates government-wide have increased steadily, calling into question the integrity of benefits programs—especially those delivered through the tax code—on which millions of Americans rely.

The U.S. government tracks four types of improper payments across most federally administered programs, defined as:

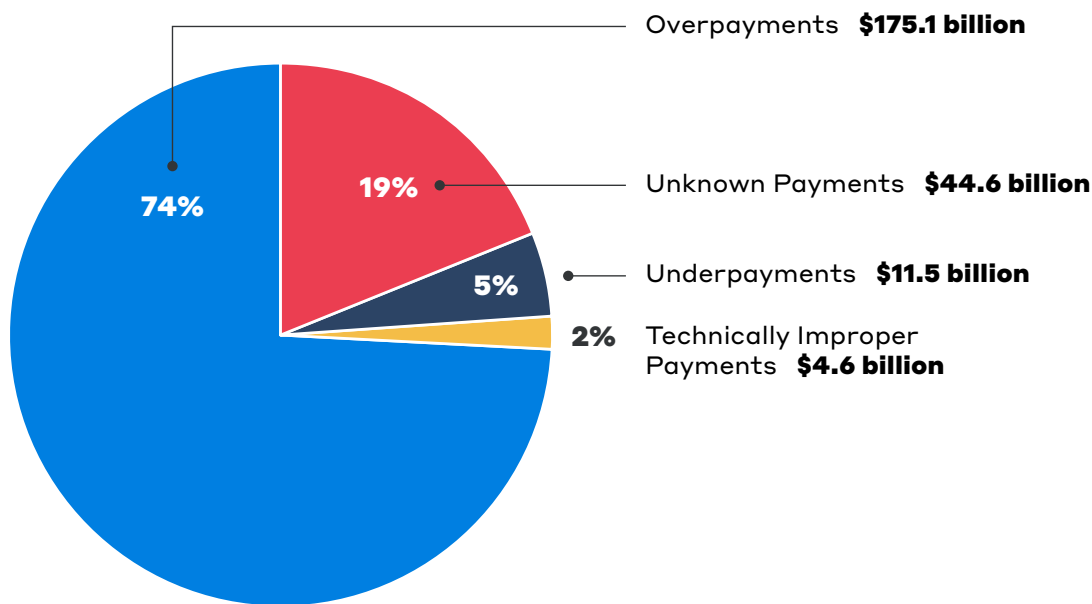
- **Overpayments:** those paid in excess of what is due, and those that, in theory, should or could be recovered.
- **Underpayments:** those in which recipients did not receive the funds they were due.
- **Unknown payments:** those that an agency cannot determine whether the payment was accurate or not due to insufficient or lack of documentation.
- **Technically improper payments:** those in which recipients received the correct amount, but the payment failed to meet all regulatory or statutory requirements, or both.⁵

It is also important to distinguish the role that intent plays in improper payments where possible. For example, all instances of waste, fraud, or abuse constitute improper payments, but not all improper payments are waste, fraud, or abuse.

^a Program integrity is whether a program has the capacity to achieve its intended purpose or mission without compromise. For more information, see Chief Financial Officers Council, “Program Integrity: Antifraud Playbook,” 2018. Available at: <https://www.cfo.gov/wp-content/uploads/2018/10/Interactive-Treasury-Playbook.pdf>.

Overpayments (74%) are by far the most common type of improper payment, amounting to nearly \$236 billion in FY2023 across government programs.^{b,6} Despite persistent increases since 2003, FY2023 saw a year-over-year decrease of \$11 billion in improper payments, largely due to the expiration of pandemic-era expansions to public health programs.

Figure 1: Estimated Improper Federal Payments by Type, FY2023



Source: [U.S. Government Accountability Office](#), March 2024

^b The estimate is inclusive of all programs subject to the Payment Integrity Information Act that have sufficient data to accurately estimate improper payments. Other highly susceptible programs, such as Temporary Assistance for Needy Families, are excluded because they lack the needed data for accurate reporting.

FEDERAL REPORTING GUIDANCE ON IMPROPER PAYMENTS

In recent years, increased federal reporting requirements have been implemented to try to identify and curtail improper payments. The 2019 Payment Integrity Information Act (PIIA) amended earlier legislation to increase federal agencies' reporting requirements related to improper payments.⁷ Specifically, the Office of Management and Budget (OMB) is responsible for identifying high risk or highly susceptible programs—typically programs that receive more than \$100 million in funding—for additional reporting. If identified, agencies must submit information to OMB annually that estimates improper payment rates and identifies the root causes of the improper payments within their programs. These agencies must also highlight reduction targets and name the officials who will be held accountable for meeting these targets.⁸

Of the 71 programs subject to the PIIA, most programs (77%) have met the requirement to reduce estimated improper payment rates below 10%. However, 16 programs (23%), including the EITC and CTC, continue to exceed 10%, with the programs failing to meet stated targets in consecutive years since its enactment.

Over the past few years, five programs have contributed overwhelmingly to the yearly improper payment total. In FY2023, the following made up 79% of the \$236 billion total:

- Medicare (\$51 billion);
- Medicaid (\$50 billion);
- Unemployment insurance, inclusive of the Federal Pandemic Unemployment Assistance (FPUA) (\$44 billion);
- The EITC (\$22 billion);
- The Small Business Administration's Paycheck Protection Program (\$19 billion).^{c,9}

The COVID-19 pandemic highlighted the tensions between expediency and accuracy, and resulted in heightened instances of claim errors, fraud, and abuse. Members of Congress responded by questioning existing accountability measures and calling for improved program administration to prevent improper payments.

Based on guidance from OMB, government officials designated improper payments across programs, as shown in **Table 1** based on a predetermined series of root causes.¹⁰

^c Medicare is inclusive of three programs: Medicare Fee-For-Service, Medicare Advantage (Part C), and Medicare Prescription Drug (Part D) programs.

Table 1: Agency-Reported Improper Payment Causes and Estimates for FY2023

Payment Type	Root Cause	Amount (in millions)	Percentage of all estimates
Overpayments within agency control	Data/information needed to validate payment accuracy before making payment does not exist	\$31	0%
	Inability to access data/information needed to validate payment accuracy before making payment	\$95	0%
	Failure to access data/information needed to validate payment accuracy before making payment	\$30,179	13%
Overpayments outside agency control	Inability to access data/information needed to validate payment accuracy before making payment	\$14,479	6%
	Data/information needed to validate payment accuracy before making payment does not exist	\$22,954	10%
	Failure to access data/information needed to validate payment accuracy before making payment	\$107,045	45%
Underpayments	Data/information needed to validate payment accuracy before making payment does not exist	\$331	0%
	Inability to access data/information needed to validate payment accuracy before making payment	\$485	0%
	Failure to access data/information needed to validate payment accuracy prior to making payment	\$10,724	5%
Unknown payments	Insufficient or lack of documentation from vendor or provider	\$464	0%
	Unknown payment caused by scenario not previously specified	\$557	0%
	Insufficient or lack of documentation from states	\$21,757	9%
	Insufficient or lack of documentation for eligibility by applicants	\$21,818	9%
Technically improper payments	OMB's guidance does not include cause category for technically improper payments	\$4,586	2%

Note: Percentages do not all add to 100 due to rounding. Due to rounding, some cells show 0%. For more information on the OMB's descriptions of these causes, see "Table 3: Cause Category Definitions and Examples," Office of Management and Budget Memorandum (M-21-19), March 2021. Available at: <https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf>.

Source: [Government Accountability Office](#), June 2024

Subsequent sections of this brief focus on the root causes of improper payments related to the EITC and CTC, which are designated as highly susceptible programs under the PIIA. Better homing in on the unique challenges of tax compliance will allow policymakers to implement solutions that are better suited to the IRS's mission and capabilities.

Section II: Tax Compliance and Improper Payments

With the expiration of the 2017 Tax Cuts and Jobs Act (TCJA) at the end of 2025, debates on Capitol Hill are focusing on whether to extend, enhance, or let several key provisions expire. Regardless of TCJA negotiations, policymakers should prioritize parallel efforts to improve administration of the tax code and curtail improper payment rates.

Erroneous payments not only waste taxpayer money but also jeopardize the strong, longtime bipartisan support for the EITC and CTC. Partially in response to these high levels of improper payments—34% (\$22.9 billion) for the EITC and 15% (\$0.5 billion) for the refundable portion of the CTC—taxpayers who claim refundable tax credits (particularly the EITC) face a substantially higher rate of audits than other taxpayers.^{d,11,12}

While not excusing the high improper payments of these two credits, analysts note an important trade-off between error rate and administrative cost as they contribute to this rate.¹³ The EITC has much lower administrative costs than other major means-tested programs: an estimated 1% of benefit costs, compared with an estimated 7% of benefits for Supplemental Security Income and 4% for Medicaid.¹⁴

The PIIA set yearly reporting requirements for federal agencies to update OMB on progress made toward reducing improper payment rates. The IRS has been largely compliant, meeting 12 of the 13 targets over the past few years. However, it has been unable to reduce the improper payment rate below the 10% threshold for the EITC and CTC. The IRS has played a dual role in recent years as a collection agency and benefits administrator, given the temporary, overlapping expansions to the EITC and CTC at the height of the pandemic.¹⁵ High improper payment rates persist despite the IRS's targeted efforts to address their root causes. Solutions may be more complex—and costly—than the agency can feasibly address without congressional intervention.

^d 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.

IMPROPER PAYMENTS BY THE IRS

Given the difference in priorities—specifically on enforcement—between the IRS and other federal agencies, the IRS has proposed exempting tax programs from improper payment requirements in their traditional sense. Because its primary focus is on enforcement, the IRS argued *which* payments it targets should be assessed within a different framework than other improper payments. Instead, it could be assessed with a framework that is focused primarily on reducing the tax gap. Specifically, the IRS has requested that cases be reviewed proportional to the tax gap rather than purely for PIIA compliance purposes.¹⁶ The EITC accounts for approximately 75% of all audits by the IRS's Wage and Income Division, suggesting that agency is directing a substantial portion of its resources toward these low-dollar returns.¹⁷

ROOT CAUSES OF IMPROPER PAYMENTS

Although waste, fraud, and abuse remain important concerns, many taxpayer errors are unintentional and are typically due to the complexity of these credits or the lack of documentation provided when taxpayers file their returns. Regardless of the intent, the financial impact erodes the effectiveness of the CTC and EITC, both in reaching eligible recipients and garnering broader public support. Policymakers should address the root causes, especially those within the agency's control, to preserve program integrity and strengthen the long-term political durability of the credits.

The EITC has historically been susceptible to high improper payment rates. The CTC has relatively lower improper payments—both in dollars and rate—but if Congress modifies the program further in 2025, this could cause rates to inch up. Monthly advance payments, the creation of a “baby bonus,” and different credit amounts based on a child's age are examples of provisions that could increase administrative challenges.

Federal law bars a taxpayer from claiming the CTC or EITC for two years if the IRS determines they improperly claimed the credit with “reckless or intentional disregard” for eligibility rules.¹⁸ If an improper claim is due to fraud, the taxpayer is prohibited from receiving the abused credit for 10 years.¹⁹ Although some improper claims are fraudulent, many are honest mistakes by individuals confused by the credits' intricate rules, and agency actions should reflect this reality.

The IRS identified several root causes of persistent improper payments. Although internal system weaknesses contribute to the agency's inability to reduce improper payments, statutory design complexity and unscrupulous preparers are major contributors.²⁰

Inadequate Risk Management and IRS Data Systems

Failure or inability to access needed data remains a persistent challenge in reducing improper payments across all federal agencies, as shown in **Table 1**. For the IRS, the lack of timely or accurate data hinders efforts to reduce an estimated 94% of improper payments of the EITC alone.²¹ Currently, it lacks the internal infrastructure to identify and adequately mitigate risk within its tax credit programs. The agency's 2023 Strategic Operating Plan outlines a path to modernize its systems in the coming years, but the IRS lacks clear metrics to measure the success of these interventions.²² This often leads the agency to underestimate and inadequately respond to improper payments.

The IRS's inability to authenticate eligibility in many instances and verify payment accuracy before payments are disbursed are major concerns. To confirm eligibility of the child dependent, residency, or income requirements, the IRS often must access data outside of the agency. However, this data is not always available when the agency processes returns, if at all.²³ Complexity and the lack of data to verify statutory eligibility requirements, coupled with the lack of correctable error authority when processing returns, means that the IRS must address most errors through the audit process.

Resource constraints also limit the overall number of returns audited. The agency's Dependent Database (DDb), Questionable Refund Program (QRP), and Duplicate Taxpayer Identification Number (DUPTIN) can flag potential errors pre-refund, but they do not go far enough to weed out higher risk returns, meaning that the IRS often goes after low value returns at greater rates.²⁴ Further, given that 75% of EITC audits are pre-refund, some low-income workers and families are left without critical funds for which they are likely eligible.²⁵

Correspondence audits, typically sent by mail, are used to communicate these errors and resolve disputes between the taxpayer and IRS.²⁶ Although the goal of these audits is to reduce unnecessary burdens on the taxpayer, inadequate technological infrastructure and staffing have led to severe delays, confusing or duplicate notices, and limited telephone interactions that often leave taxpayers in the dark on the status of their return.²⁷

The IRS has, however, identified seven mitigation strategies to reduce improper payments, including audits, automation, change process, cross-enterprise sharing, predictive analytics, statutory change, and training.²⁸ Absent sufficient resources, especially given the high costs attached to these efforts, the agency has turned to other strategies based on resources available. This has largely led to the agency relying more on audits—instead of improved data sharing and

risk management—given that returns claiming the EITC are audited (0.77%) at above average rates (0.25%).²⁹

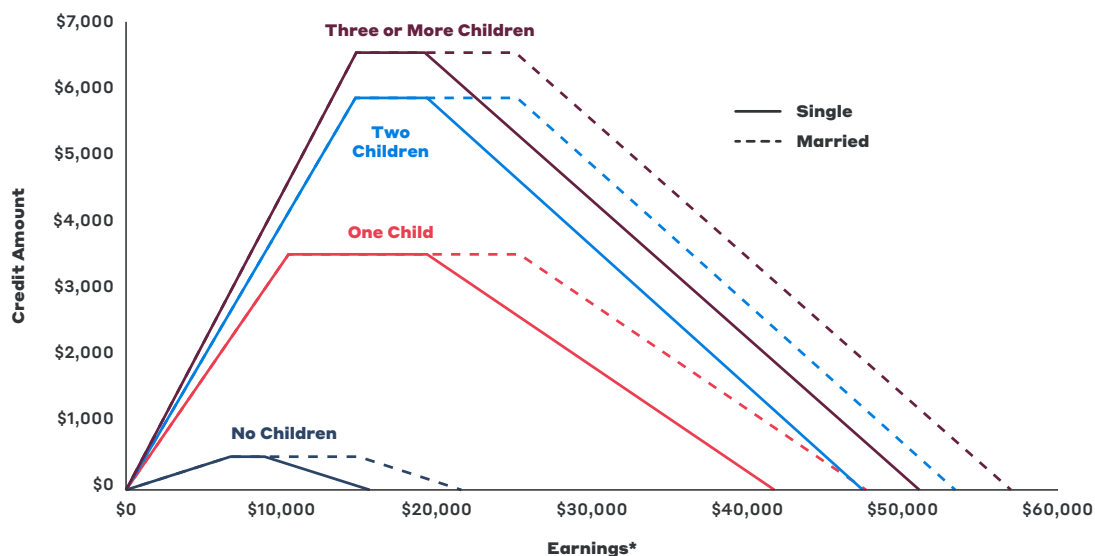
Additionally, the IRS has historically lacked performance information that would allow it to better understand how implemented mitigation strategies *actually* improve payment delivery.³⁰ Investments from the 2022 Inflation Reduction Act (IRA) allowed the IRS to make several critical upgrades to improve electronic records management, and the improvements could enhance its ability to resolve certain common problems like math errors, but it is still too soon to assess the potential effects.

Complexity of Credit Design

The EITC's design features complicate taxpayers' efforts to claim the credit and lead to many errors, regardless of the taxpayer's intent. Policymakers have implemented enormously complex rules, including on income, qualifying children, and residency, that reflect diverse family circumstances and that attempt to sort out who in a household can claim the credit. This complexity has made the EITC ripe for errors or abuse.

Income Reporting: For all claimants, where you fall on the income distribution spectrum can greatly affect the size of the credit you receive. **Figure 2** shows the credit amount at different phase-in and phaseout thresholds for the EITC, which vary by filing status (single or married) and for workers with or without children. For low-wage workers whose income may fluctuate year over year, determining the size of the credit—especially as claimants reach the bend points around the full credit—can be confusing. Oftentimes, the amount received may differ from a previous year if income levels also change, but many taxpayers may not realize this when they claim the credit.

Figure 2: The EITC's Schedule under Permanent Law



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

Some researchers and policymakers caution that potentially eligible taxpayers try to “game” the system by only reporting income within the band for the full credit amount.³¹ Indeed, research has shown that taxpayers tend to bunch around the first kink point—the point at which the credit is fully phased in—concentrated among self-employed EITC claimants.³² In clear instances of fraud or abuse related to income misreporting, the IRS should more consistently impose penalties, including two- or 10-year bans, already within its authority to deter or prevent fraudulent claims.³³

Alternatively, given the income volatility of many lower wage workers, many overpayments are likely due to errors when completing returns and anticipating income totals. Ensuring that taxpayers have access to free tax preparation services or educational materials explaining how the credit works can be critical to mitigating potential overpayments when the IRS processes returns.

Qualifying Children: To claim qualifying children through the EITC, taxpayers are required to attach an additional form that determines their eligibility. On this form, they must certify the child’s relationship to the taxpayer, return status (joint versus single), age, and residency to meet the needed requirement. The EITC’s complex child eligibility rules are partly a response to complex family circumstances. A child, for example, might live or split time living with their older sibling, mother, uncle, or grandfather, each of whom may have justification to claim them.

Residency: Residency requirements add to this complexity by asking taxpayers to self-certify whether a qualifying child has lived with the claimant for the requisite amount of time (more than half of the year).³⁴ To determine the correct claimant, Congress established elaborate tiebreaker rules that can be cumbersome. These rules seek to address situations where two taxpayers may have a reason to claim the same child. First, the child should be claimed by the taxpayer with whom the child lived the longest. If an equal split, then the parent with the higher adjusted gross income may claim the child. In instances where a child is claimed between a parent and non-parent, the parent will get priority. While reasonable at face value, this complexity leaves room for error and potential misuse or abuse of program requirements.

Given that the size of the credit received increases substantially when children are claimed, some taxpayers may try to incorrectly claim children to receive the larger benefit. Indeed, qualifying children claimed by multiple taxpayers and incorrect income reporting are two of the more common errors found across audited EITC returns.³⁵ Moreover, when payments made to claimants with children are deemed improper, it could also affect eligibility for the CTC on the same return.³⁶ In these instances, taxpayers may have received both credits in error, further exacerbating concerns around improper payments.

Ultimately, these complexities reflect a fundamental trade-off between targeting and simplicity. To properly target benefits, policymakers often include specific and intricate rules at the expense of simplification. Improved data sharing across agencies at the start of tax season would help reduce verification challenges. Currently, the IRS disburses payments *before* verifying income or qualifying child eligibility on most returns, causing increased headaches for both the agency and the taxpayer in trying to rectify the mistakes.

Instead, the IRS has prioritized education and outreach strategies to mitigate barriers to access. This effort includes hosting nationwide tax forums and refundable credit summits, preparing technical training and tax preparer toolkits, providing webinars and tax preparer alerts, and implementing EITC Central and EITC Awareness Day.³⁷ Although valuable, these mitigation efforts are an incomplete solution to a much more complicated problem. Additional steps the agency can take are discussed in Section 3.

Unscrupulous Preparers

Paid preparers are those who are paid to prepare, assist in preparing, or review a taxpayer's return; these individuals are classified as either tax practitioners or unenrolled preparers. Tax practitioners are subject to strict testing and education requirements, which allows them to practice before the IRS, represent a taxpayer, and prepare or file documents with the IRS. Alternatively, unenrolled preparers are not held to the same standards, often leading to more unscrupulous filing practices.

Fifty-three percent of all tax filers used a paid preparer in tax year 2019, and among CTC and EITC recipients, more than 60% paid a preparer to claim benefits on their behalf.^{38,39} More than three-quarters of all paid preparers are unenrolled preparers, so unscrupulous or low-quality filing could disproportionately affect low-income individuals who utilize these preparers at high rates.⁴⁰ Research consistently shows that unenrolled preparers are at higher risk of resorting to unscrupulous tax preparation methods that result in overclaims.⁴¹

Some unenrolled preparers go even further, intentionally inflating or falsifying client records to maximize the refund earned. In many cases, these preparers seek a fee based on the size of the return, creating perverse incentives to prepare returns inaccurately or dishonestly.⁴²

The IRS has limited authority to regulate preparers, which has led to significant errors in returns filed.⁴³ If the IRS does not have the ability to hold preparers accountable, any ensuing error ultimately burdens the taxpayer during the audit process, where they can end up owing more to the government or missing out on the credits altogether.⁴⁴

Absent improved regulatory authority over noncompliant return preparers, the IRS has turned its focus to education and enforcement.⁴⁵ In FY2024, the agency undertook several efforts aimed at nearly 24,000 noncompliant tax return preparers. These efforts included “knock and talk” visits involving in-person visits to remind preparers of due diligence requirements; improved notice letters encouraging compliance when claiming these credits; and the use of “ghost preparers” to identify claims with errors.⁴⁶

Moreover, as part of the IRS’s Strategic Operating Plan, the agency identified the need to implement an IRS-wide tax return preparer strategy to ensure consistent treatment and to better encourage compliance.⁴⁷ Under this strategy, the IRS would seek to better protect taxpayers who are currently susceptible to—and ultimately on the hook for—bad actions taken by any paid preparer.

Section III: Considerations for Policymakers

Although many of the root causes leading to improper payments in the tax system have been well documented for years, the infusion of funds from the IRA and debates over these credits' future make it more important than ever to address persistent challenges. The following interventions can meaningfully improve program administration and combat revenue losses:

- **Authorize the IRS to regulate unenrolled tax preparers.** The IRS relies on education and outreach campaigns to help taxpayers better understand their eligibility for different tax credits. These alone, however, cannot reduce filing errors to zero.⁴⁸ Efforts to regulate paid tax preparers have long garnered bipartisan support, with legislation introduced under the Obama, Trump, and Biden administrations.⁴⁹ In the absence of enacted legislation, interventions could focus on enforcement efforts and educational outreach within the agency's legal authority, including administering competency tests and subjecting preparers to the same ethical and continuing education standards as other preparers.⁵⁰ The budgetary effects could be large: In 2018, the IRS saved an estimated \$374 million in improper payments by intervening with those unenrolled paid preparers who were generating the highest rates of erroneous EITC claims.⁵¹
- **Expand the IRS's math error authority to address identifiable taxpayer mistakes and streamline the verification processes.** The agency currently has limited authority to directly address mathematical or clerical issues without first providing a notice of deficiency to the individual.⁵² There is strong bipartisan, bicameral support in Congress to streamline the IRS's verification processes in some instances. This is a recognition that taxpayers have a right and the agency has a duty to clarify, in plain language, how and where a taxpayer allegedly erred when claiming a refundable tax credit and to clearly identify the steps to resolve the issue. Recent legislative attempts, such as the bipartisan Internal Revenue Service Math and Taxpayer Help Act, would enhance the agency's ability to accurately and efficiently respond to errors.^{53,54}

- **Bolster support for free tax preparation services.** One of the most effective ways to reduce improper payments is to help individuals file returns correctly in the first place. Especially for low-income taxpayers, free tax preparation services can help them sort through complex eligibility requirements and improve the overall accuracy of their claims. IRS-funded Volunteer Income Tax Assistance (VITA) sites, Taxpayer Assistance Centers (TAC), and Low-Income Taxpayer Clinics (LITC) offer crucial support to taxpayers during the filing process and can help them navigate the audit process if needed. The IRS's VITA sites are a proven mechanism to increase tax credit take-up and reduce errors when taxpayers file returns.⁵⁵ Moreover, 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.⁵⁶ In addition to financial support, bolstering recruitment and retention efforts to ensure that these sites remain well staffed and knowledgeable is critical to their sustained success.
- **Enhance processes and systems to better integrate third-party data into verification and data analytics.** Improving data sharing practices and agreements—specifically related to income and child eligibility—between the Treasury Department and other federal agencies, as well as between federal, state, and local tax authorities, could reduce the need for taxpayers to separately submit documentation for verification. Incremental improvements to interagency data sharing have already led to small reductions in improper payments by the IRS. For example, analysis from the Government Accountability Office (GAO) previously recommended amending the Social Security Act to allow the Social Security Administration to share full death records with the Treasury Department.⁵⁷ This recommendation was enacted as part of the 2021 Consolidated Appropriations Act, which allowed Treasury to integrate this data into its Do Not Pay System to prevent payments to dead people, correcting previous errors.^{58,59} However, this authority will expire at the end of December 2026 unless Congress makes it permanent, as was proposed in the bipartisan Ending Improper Payments to Deceased People Act of 2024.⁶⁰
- **Require income verification before the IRS issues refunds.** The agency should better leverage third-party data embedded in several forms, such as information contained in W-2s or 1099s, to conduct income verification and confirm credit eligibility when it processes returns. These changes would further reduce the ability of taxpayers to misreport income, which is currently the largest source of EITC improper payments.⁶¹ 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 taxpayers. Further, as part of its modernization efforts, the IRS should continue to improve its internal data systems' capacity to ensure this can be done in a timely manner to verify and disburse accurate claims.

- **Build AI guardrails around IRS sharing and the use of taxpayer data.** If it uses data to improve tracking and verification systems within the IRS, the agency must take the necessary precautions to secure taxpayer information and rights. For example, the IRS recently began using artificial intelligence (AI) to identify representative samples of taxpayer returns for annual audits. This effort supplemented the manual process in which enforcement officers select returns for audits due to noncompliance concerns. The Treasury Department recovered \$375 million in FY2023 by using AI to mitigate check fraud and strengthen processes to reclaim potentially fraudulent payments. These efforts can ease burdens on the taxpayer while improving the accuracy of program administration. However, the GAO has also identified weaknesses in the IRS's ability to protect taxpayer information, which could increase risks when the agency turns to new technologies.⁶² Ultimately, the agency should install proper safeguards and use caution when deploying enhanced data systems, balancing the need to ease administrative burdens, protect taxpayer rights, and increase efficiency.

Conclusion

2025 presents a major opportunity for Congress to strengthen program integrity alongside any enhancements to the EITC and CTC. The proposed solutions outlined in this issue brief will improve the ability of taxpayers to accurately claim the credits; help the IRS administer the credits; and mitigate the impact of errors on claimants' families. BPC encourages lawmakers to prioritize strengthening the tax code for workers and their families as they debate tax policy next year. Improving the design and administration of these two critical programs will reduce pressure on the federal budget and help put the nation's fiscal trajectory on a more sustainable path.

Endnotes

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