

EITC Improper Payments and Complexity

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The Basics

- EITC Improper Payment Rate, TY 2022
 - \$15.9 billion
 - 27% of amount claimed
 - Source: FY 2024 Agency Financial Report
- Includes:
 - Intentional and unintentional errors identified in NRP random sample
 - Overpayments and underpayments to claimants (not netted)
- Excludes:
 - Underpayments in the form of non-participation
 - Errors corrected by IRS enforcement (audits, math error correction)
- Error rate (and participation rate) largely unchanged over decades, despite relatively intense enforcement efforts

Categorization of Errors, TY 2006-2008

- QC errors (including tiebreaker): 42% to 56% of overclaimed amount
 - Residency ~ 75% of *children* claimed in error
 - Relationship ~ 20% of *children* claimed in error
 - Age ~ 10% of *children* claimed in error
 - Tiebreaker ~7% of *children* claimed in error (may be larger today)
- Income errors: 24% to 32% of overclaimed amount
 - Self-employment error only ~ 19% of all overclaimed amount (increasing over time)
 - Other errors and combinations ~ 9% of all overclaimed amount
- Filing status: 9% to 17% of overclaimed amount
- Other: 4% to 9% of overclaimed amount
- Source: Leibel (2014)

Possible Causes of Errors

- Evidence of complexity, unintentional errors
 - 6 eligibility criteria for all plus 5 more for QCs and 3 for those without QC
 - Tax year 2021 experience?
 - Leibel et al 2020
 - Earlier work
- Evidence of intentional non-compliance
 - Leibel et al 2020
 - Earlier work

Questions for Discussion

- What are the most promising suggestions for reducing EITC errors?
- What additional research would be useful?
- How should we frame/think about EITC errors given overall policy goals and administrative capabilities and costs?

References

- Leibel, Kara, *Taxpayer Compliance and Sources of Error for the Earned Income Tax Credit Claimed on 2006-2008 Returns*, IRS Publication 5161, August 2014. <https://www.irs.gov/pub/irs-soi/15rpeitctaxpayercompliancetechnpaper.pdf>
- Leibel, Kara, Emily Y. Lin and Janet McCubbin, *Social Welfare Considerations of EITC Qualifying Child Noncompliance*, Office of Tax Analysis Working Paper #120, January 2020. <https://home.treasury.gov/system/files/131/WP-120.pdf>
- U.S. Department of the Treasury, *Agency Financial Report FY 2024*, <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report>