

 News Release

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IRS to Launch EITC Certification Pilot Program In 2004 Filing Season

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WASHINGTON — The Internal Revenue Service announced today it will launch the Earned Income Tax Credit certification pilot program in early 2004. The EITC program is aimed at rewarding work and helping families out of poverty.

The new pilot program will allow the IRS to use an integrated approach to address potential erroneous claims by identifying cases that have the highest likelihood of error before they are accepted for processing and before any EITC benefits are paid. The General Accounting Office has identified EITC as a “high risk” area for the government because of the high rate of erroneous payments.

The announcement of the EITC certification program on June 13 included a 30-day comment period that ended in July. After reviewing the comments, the IRS is incorporating a number of useful suggestions by tax practitioners, social welfare groups, the general public and others.

“The EITC program helps lift millions of working families, especially single mothers, out of poverty each year. But it has consistently been found to have an erroneous payment rate higher than many other government benefit programs. To protect the long-term viability of this critical program, we must ensure those who qualify receive the credit they are due — but only those who qualify,” IRS Commissioner Mark W. Everson said. “After reviewing many constructive public comments, we have identified a number of steps we can take to improve the certification pilot and strengthen the integrity of the EITC program.”

To make the changes, the IRS will start the program in the 2004 filing season. The IRS will ask 25,000 EITC claimants to certify when they file that the eligible child claimed for EITC purposes resided with them for more than half a year as required by law.

Suggestions now being incorporated in the program’s launch include:

- **Targeting a better start date.** By starting efforts during the 2004 filing season, EITC claimants will have access to information about certification during a critical period. According to public comments, the effort needs to start in the filing season because some tax practitioners dealing with EITC claimants only operate during this peak period. Tax professionals prepare about 70 percent of EITC claims. The new pilot would start during the 2004 filing season, with the first notices going out shortly before year’s end.

- **Improving forms.** The IRS will improve the form and instructions for the pilot, incorporating comments and suggestions on how to improve usability and reduce complexity. The goal will be to make the forms easier to understand and to ensure participation in the program.
- **Improving outreach and effectiveness of the pilot.** The IRS received a number of comments on outreach efforts and the size of the pilot. The IRS agreed to reduce the pilot sample size from 45,000 to 25,000. This group will provide an adequate basis for statistical verification, which will help give the agency an accurate assessment of the program's future course. At the same time, it will enable the IRS to direct additional resources to outreach efforts. The IRS will also seek an outside group to validate its sample selection and data.

In addition, the IRS also announced today it would maintain a sustained level of compliance activities by expanding efforts to reduce erroneous payments to taxpayers who underreport their income in order to claim the credit. Next year, the IRS will expand its compliance efforts involving at least 300,000 taxpayers who claim the credit but failed in the past to report all of their income. These taxpayers may not be eligible because the EITC has an income cap. This group will also include EITC claimants who misrepresent their filing status.

Following the 2004 certification pilot, the IRS will carefully assess the pilot results and performance before deciding on how to proceed with the program.

The goal of the certification pilot is to evaluate high-risk EITC claims before they are paid, using a process that is less burdensome to taxpayers and less costly to the government than an audit. In addition, the certification program will enable eligible taxpayers to receive their refunds faster than if their refunds were to be held pending an examination.

All these actions are a continuing part of a five-point initiative for improving the effectiveness of the EITC announced by the IRS in June.

“Our goal is a fair and balanced EITC program — one that clearly encourages eligible people to apply while reducing erroneous claims,” Everson said. “We want to make sure this pilot meets those important standards.”

The EITC is a refundable credit for low-wage taxpayers. Approximately 19 million taxpayers claimed more than \$32 billion in EITC for tax year 2002. It is intended as an offset for Social Security taxes and as an incentive to work. Families with children receive a larger EITC credit. However, studies consistently have shown a high rate of erroneous payments. A recent study indicated the error rate was between \$8.5 billion and \$9.9 billion (27 percent to 31.7 percent) for tax year 1999.