
Session Three:

Measuring and Facilitating Low-Income Tax Benefits



2009 IRS Research Conference

Earned Income Tax Credit TY2005 Taxpayer Participation Rate

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EITC Background

Purpose: Provide low income taxpayers with an incentive to work by providing a refundable credit.

Qualifications: Eligibility based on number of Qualifying Children (QC), AGI, Earned Income, Investment Income, US Residency, Age (if no QC), & Filing Status.

Population: 22.7 million taxpayers were paid \$41.5 billion on TY2005 returns (as of 3/31/2009)

Compliance: 9 million returns over claimed EITC totaling \$13.6 billion in over claims on TY2001 returns (Source: TY2001 National Research Program Audit Results of Individual Tax Returns.)

Importance of Estimating Participation

Participation is one of the EITC Office's Program Assessment Rating Tool (PART) performance measures and it is a 'balanced measure.'

Congressional interest in increasing participation to all eligible taxpayers.

IRS provides external Partners and Stakeholders with the participation estimate.

Need for updated demographics on eligible non-claimants to focus outreach strategies.

Simplified Overview of Methodology

1. Use the CPS to identify US residents that appear eligible for EITC (eligibles).
2. Use IRS administrative records to identify taxpayers that were paid EITC.
3. Link data sets on unique identifier to identify eligibles that were paid EITC (eligible claimants).*
4. Compute participation rate by dividing number of eligible claimants by total eligible.*

*Indicates steps completed by the U.S. Census Bureau.
The IRS does not have access to the linked data.

Previous Taxpayer Participation Estimates

TY2005: 77% — IRS W&I

(Regression Method using CPS and Compliance Studies)

TY1999: 75% — GAO

(TY1999 IRS Compliance Study and CPS)

TY1990: 80% to 86% — Karl Scholz

(IRS administrative data linked to SIPP)

TY1990: 70% to 88% — Jeffery Liebman

(IRS administrative data linked to CPS)

Deriving Eligible Tax Units from CPS

Create tax units (modeled “tax return”)

- Married couples are combined into one unit
- Children are assigned to parent (if present, otherwise to householder)

Develop tax return estimates for:

- AGI, earned income, exemptions, filing status, dependency status, number of QC.

Re-assign QC to other tax units when no tax benefit to parent is lost (impacts about 5% of population modeled eligible)

- Parent has no earned income
- Parent has more than two qualifying children & no loss in tax benefits

Deriving Eligible Tax Units from CPS

(continued)

Apply EITC eligibility rules

- 19 million tax units eligible for \$31.4 billion for TY2005

Limitations

- Survey error (reporting accuracy, non-response, imputations)
- Anticipating filing behavior
- Non-citizens legal status is unknown

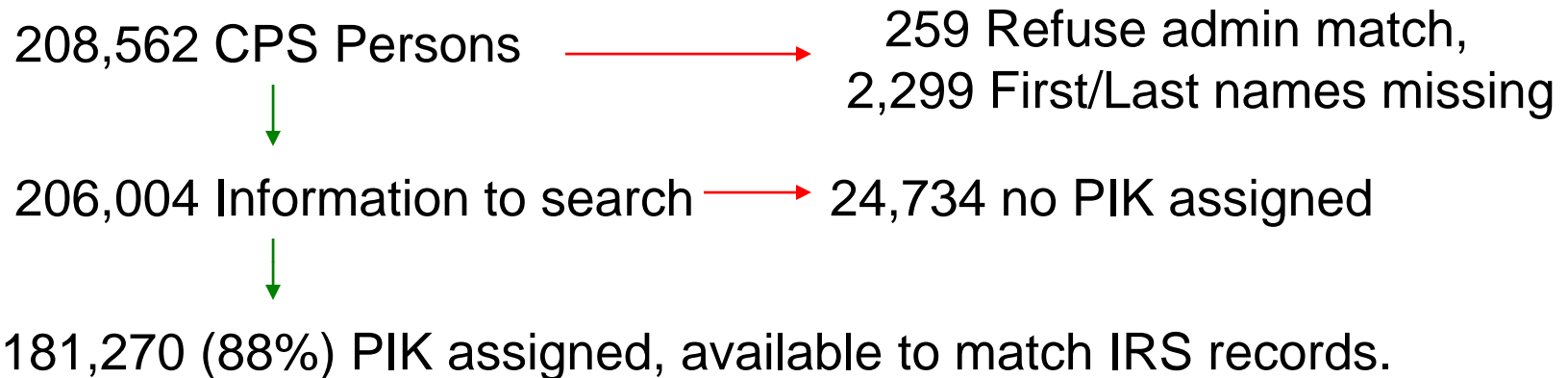
IRS Administrative Data

Individual Return Transaction File (IRTF) data fields for all TY2005 EITC returns.

- Variables included in annual IRS delivery to Census: TIN, number of dependents, wages, AGI, etc.
- Additional EITC-related data (claimed and paid amounts, along with the number of qualifying children) for taxpayers that claimed or were paid EITC.
- 23.5 million records were transmitted to Census.

Linking IRS and CPS Data

After Protected Identification Key (PIK)

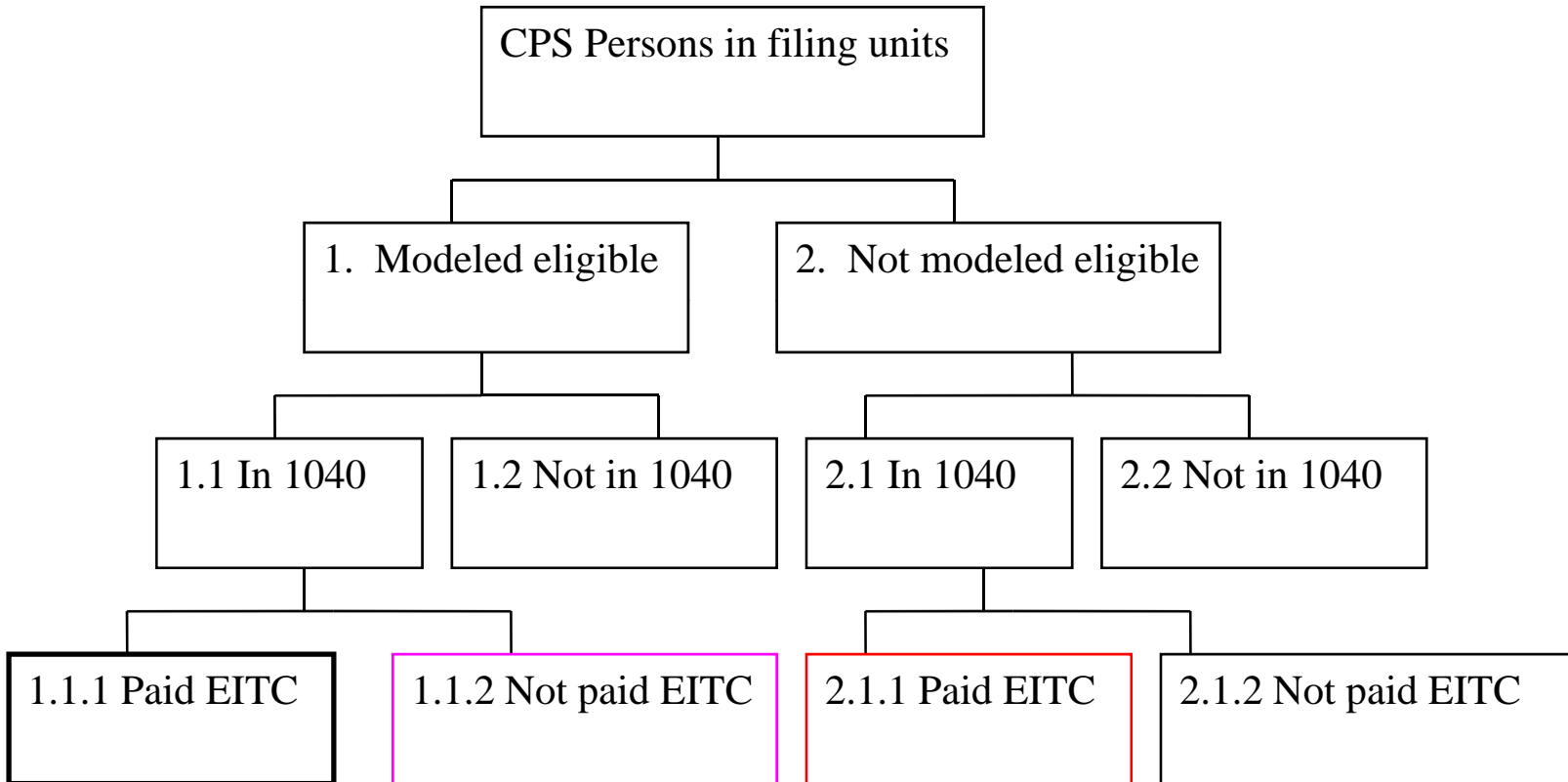


Remaining 88% is re-weighted to account for missing 12%.

Who is lost in the 12%?

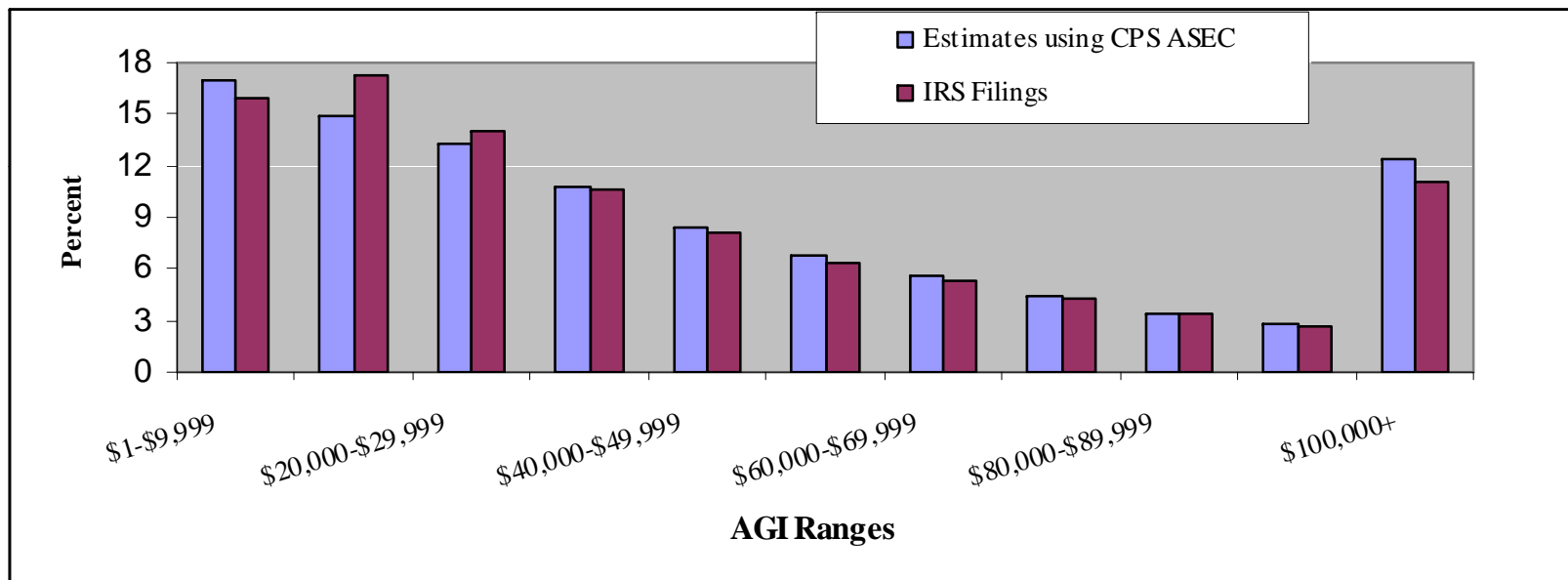
- Respondents without a SSN.
- Respondents who provide inaccurate name information to Census.
- Respondents with multiple matches.

Match Possibilities



Income Reporting/Comparison

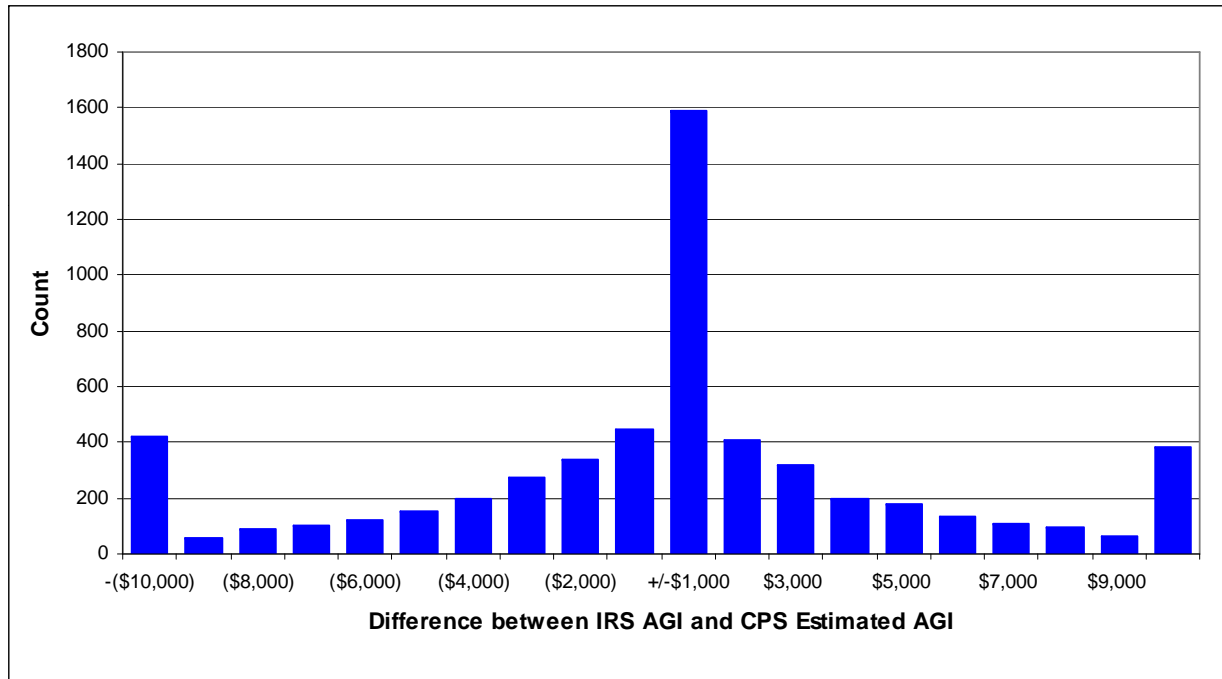
Comparison of Modeled Tax Units to Actual Tax Return Income Distributions



Source: Modeled tax units from 2006 CPS ASEC public use data and actual returns for Tax Year 2005 from IRTF IRS data

Income Reporting/Comparison

Difference between IRS AGI and estimated AGI for modeled and paid group



Source: Linked CPS ASEC and IRS IRTF records for Tax Year 2005 who were modeled eligible and received the credit

Clerical Review/Eligibility Realignment

- Census Bureau performed clerical review on households where QC alignment did not match modeled alignment
- Census Bureau removed taxpayers originally modeled eligible when information reported to IRS precluded eligibility
 - Claim denied by IRS
 - IRS AGI exceeded program thresholds
 - Unit modeled with QC but none claimed, survey income exceeded childless threshold
 - QC modeled correctly but IRS income exceeded threshold
 - Filing status was Married Filing Separate
- After adjustments and reweighting, 15 million tax units remained in analysis

National Participation Estimate

Taxpayer Participation Rate for TY2005:

Assumptions of prior studies (all eligible, 1040 filers) =84%

Based on present weighting scheme and eligibility
realignments=75% +/-2%.

Taxpayer Participation Rate by QC:

0 QC =56% (1.4 million non-claimants)

1 QC =74% (1.4 million non-claimants)

2 QC =86% (0.9 million non-claimants)

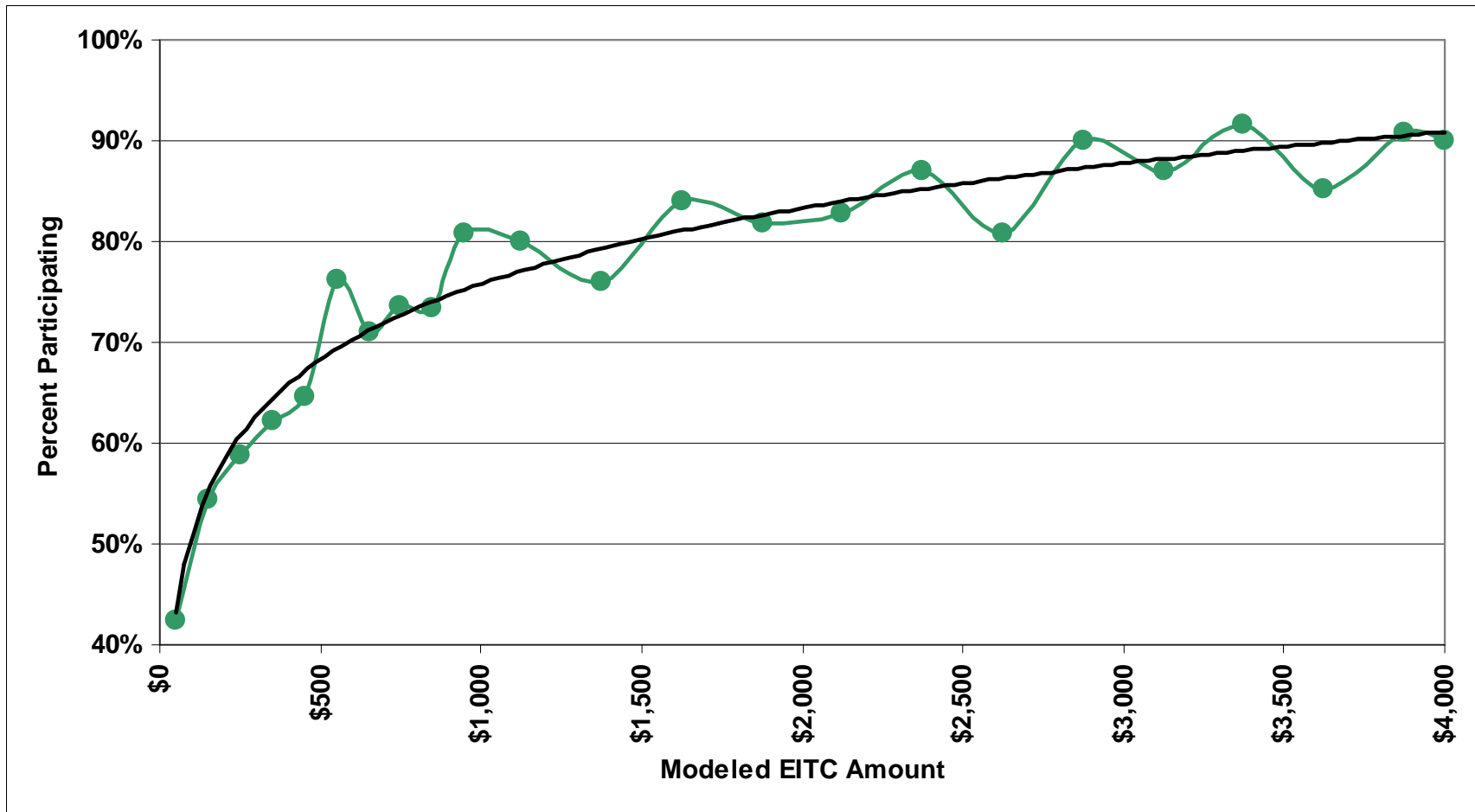
Filer Status of Non-Participants:

1.3 million filed a tax return (includes CP09/27 Population)

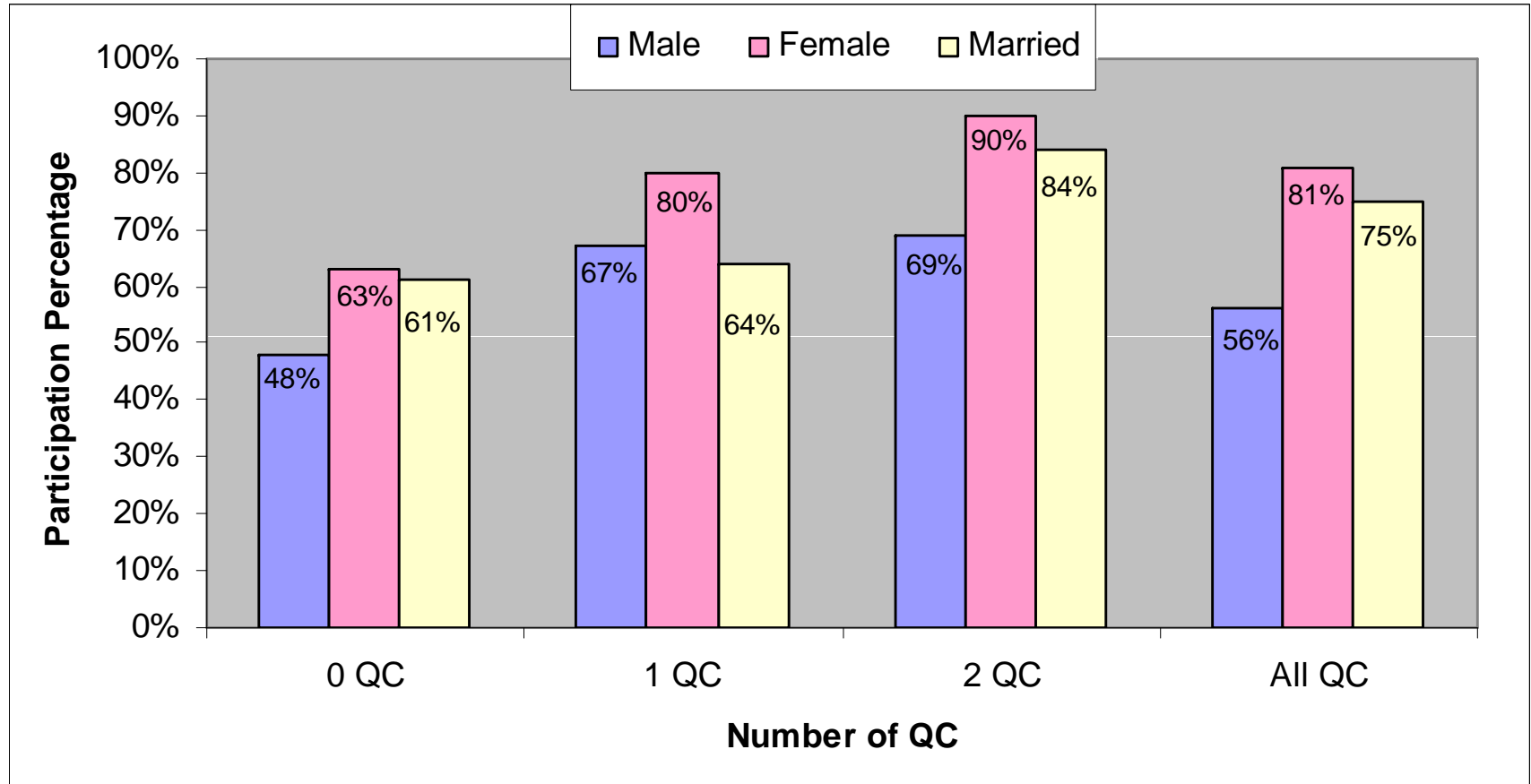
2.4 million did not file a tax return

Participation Rate by EITC Amount

Taxpayer participation rate shows increase as amount of credit increases (green line =actual, black line =smoothed participation rate).

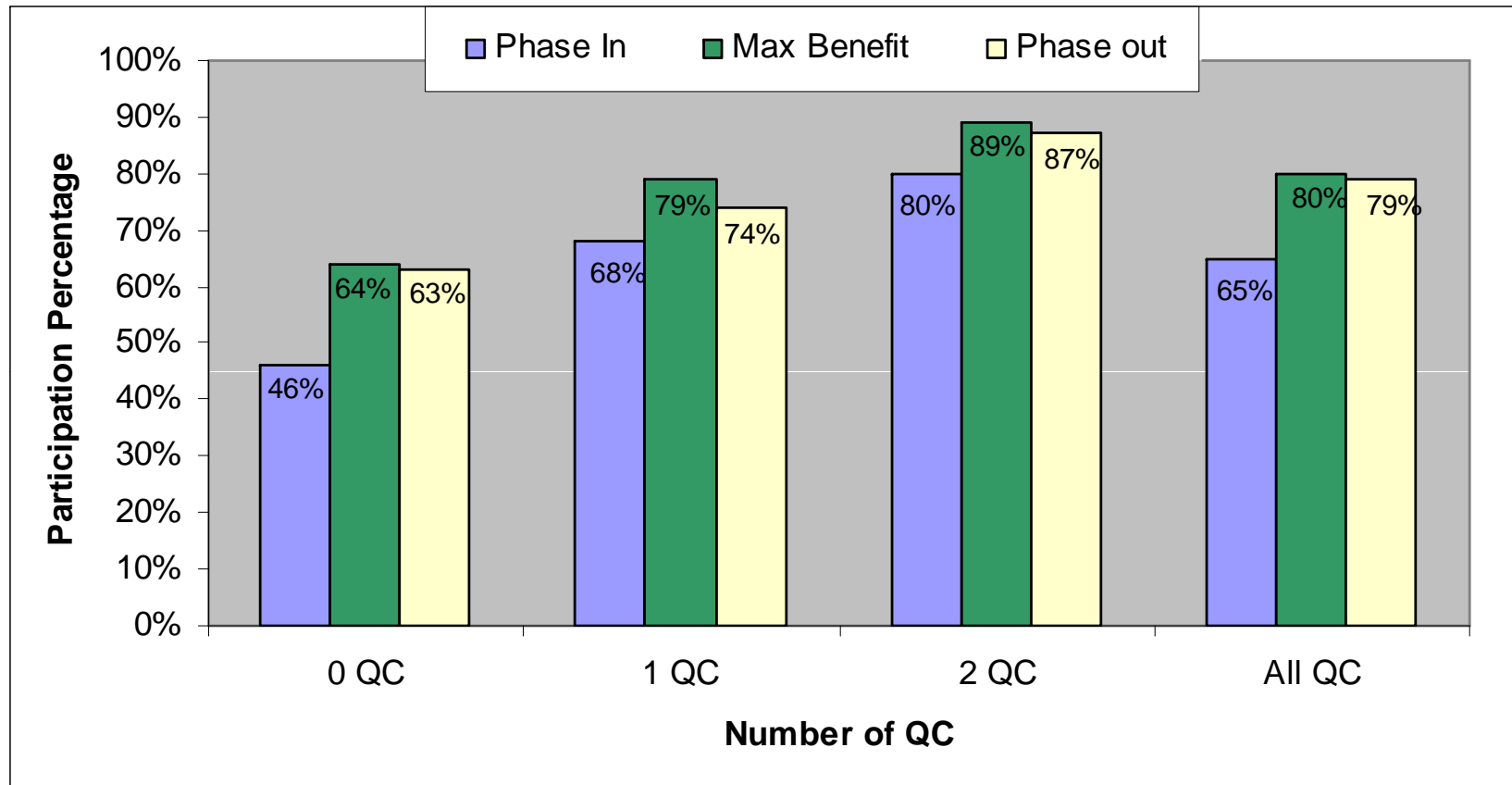


Participation Rate by Gender



Males lagged in participation compared to females in all QC groups.

Participation by Income Category



Phase-in category is lowest for the All QC Group, but some of the apparent differences in the subgroups are not statistically significant. Of the 2.4 million nonfilers, about 60% did not have a filing requirement.

Conclusions

- Findings Validate Methodology
 - Non-claimants primarily non-filers
 - Participation Rate increases with amount of credit
 - 75% is similar to previous estimates
- Improving participation among taxpayers with smaller credit amounts and/or no filing requirement will be difficult.
- Idea that non-participation is mainly a problem for taxpayers with 0 QC may be overstated (about 60% of non-participating tax had at least 1 QC).

Future Plans

- Investigate feasibility of producing dollar participation rate
- Research tax units in “not modeled-paid” group
- Research CPS respondents with no PIK
- Research differences in CPS and IRS reported incomes
- Develop improved weighting scheme
- Incorporate new variables into analysis (W-2, ITIN, CP09/27 data sets)
- Explore feasibility of ACS / compare results to CPS

Acknowledgements

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Jeff Wilson (formerly W&I Research)

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The Pattern of EITC Claims Over Time

Deena Ackerman (Treasury)

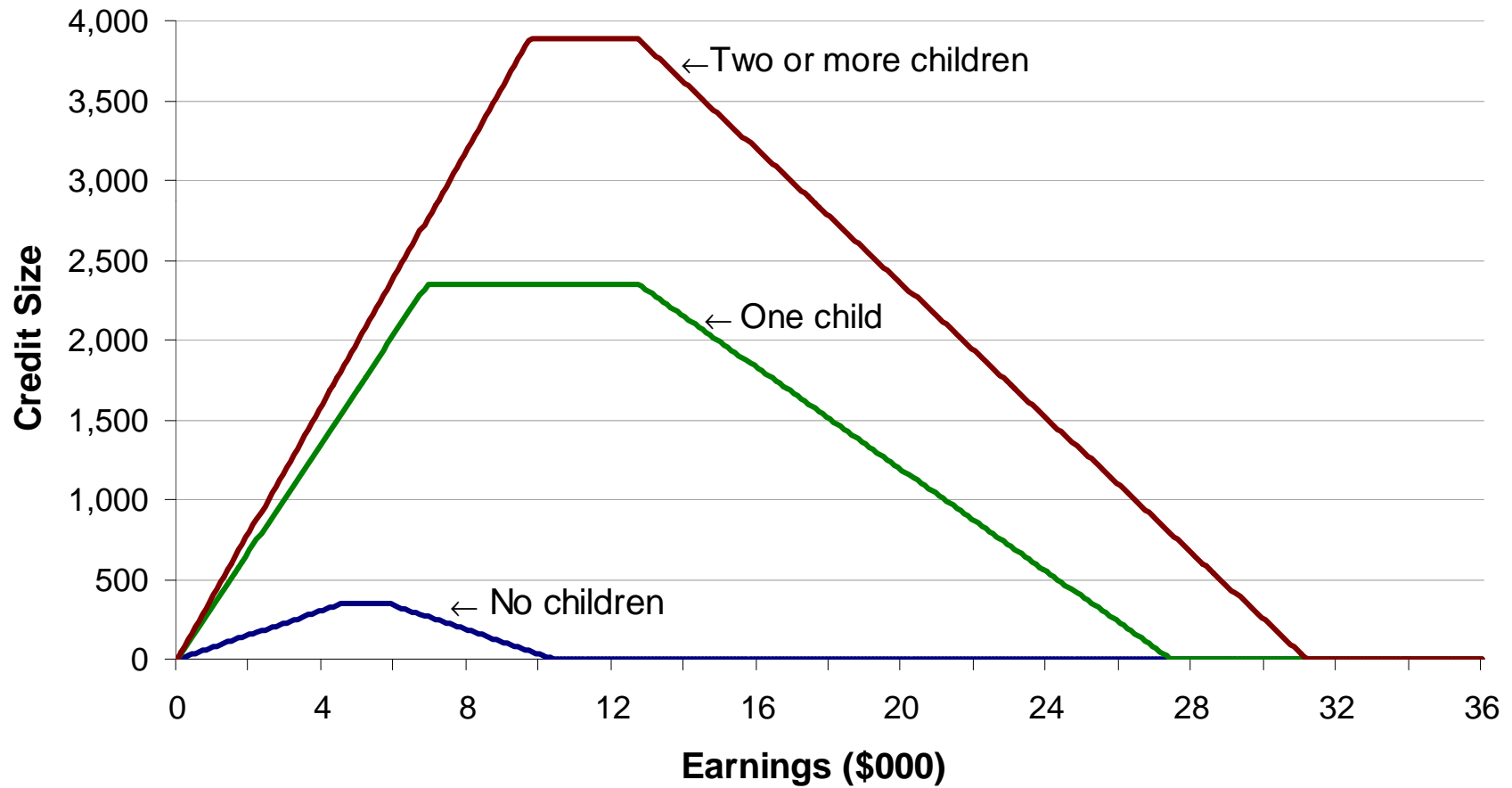
Janet Holtzblatt (CBO)

Karen Masken (IRS)

Overview

- First look at new panel data
 - Follows 62 million individuals who claimed or received the EITC between 2000 and 2006
- We examine how changes in income and family structure affect receipt of EITC

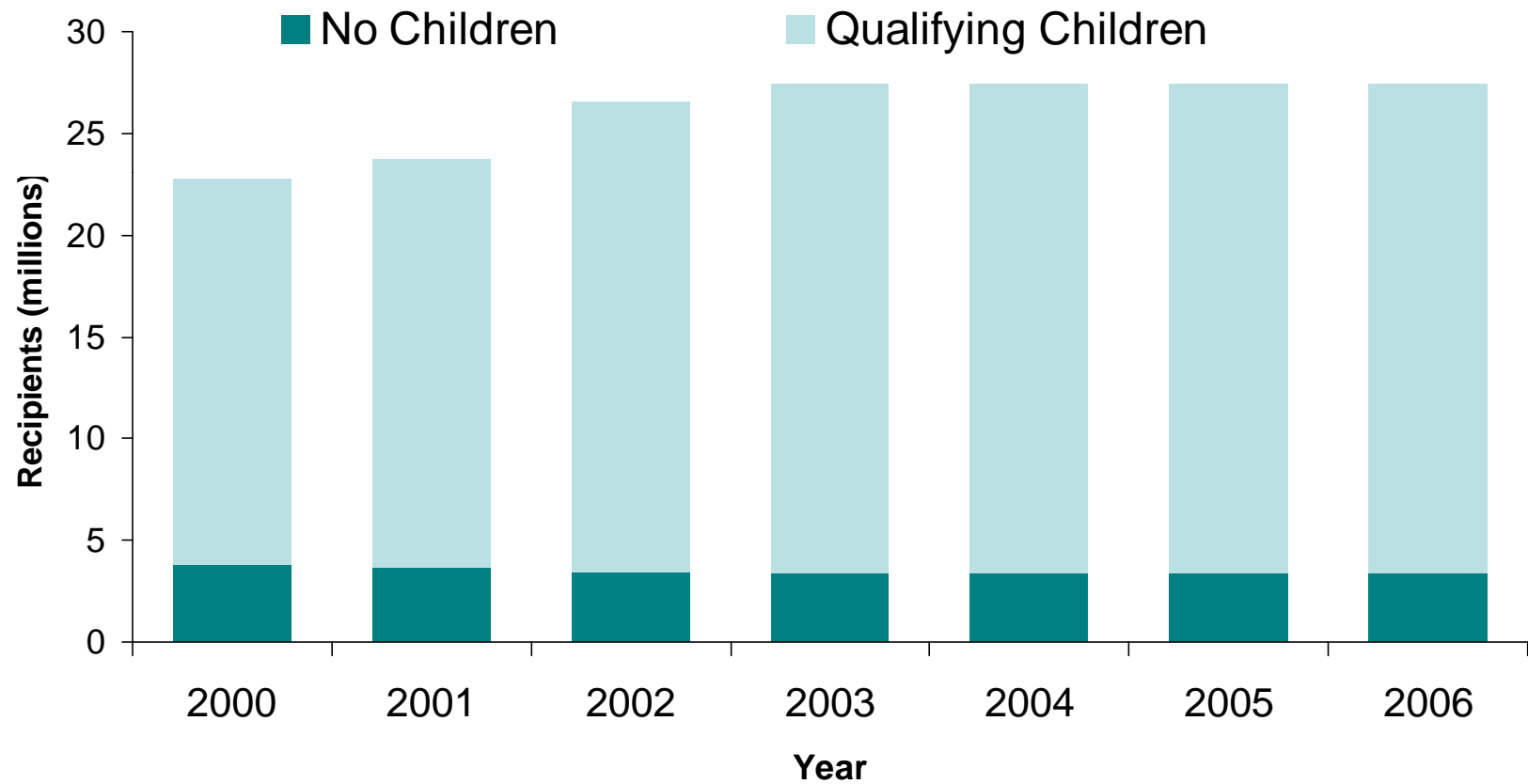
Basic Structure of EITC (2000 \$)



Description of Panel Data

- Contains tax returns for 62 million individuals who claimed or received EITC between 2000 and 2006
 - ***Panel:*** follows individuals over entire period
 - ***Universe:*** not constrained by sampling choices
 - ***Comprehensive:***
 - Includes W-2's
 - Includes post-filing interactions with IRS
 - ***Period of relative stability for EITC parameters***
- For analysis
 - limit to EITC recipients alive throughout period
 - use 1 percent sample.

EITC Recipients 2000 - 2006



Evidence of Turnover

Tax Year	Number of EITC Recipients (millions)
2000	23
2006	27
2000 thru 2006	57

Snapshot vs. Panel Perspectives: Demographic Differences

Characteristics	TY 2000 (% in 2000)	TY 2000 - 2006 (% in first year of EITC receipt)
Female	62	55
Filing Status		
Single	17	26
HOH	47	37
MFJ	36	38
Presence of children	84	74

Snapshot vs. Panel Perspectives: Average Income (2006 \$)

Income	TY 2000 (% in 2000)	TY 2000 - 2006 (% in first year of EITC receipt)
<i>Return Level Characteristics</i>		
Adjusted Gross Income	16,670	15,890
<i>Individual Level Characteristics</i>		
Wage and salaries	14,470	13,580
Self-employment	8,640	7,990

Number of Years of EITC Receipt

Years of Receipt	Taxpayers	
	Number (millions)	Percent
1	17.0	30
2 to 3	17.9	31
4 to 6	15.5	27
7	6.5	11
Average #	3.2	

Share of Women with Children Grows with Years of Receipt

Years of Receipt	Female (%)	Heads of Household (%)	Children Present (%)
1	47	25	57
2 to 3	52	34	71
4 to 6	61	44	85
7	73	57	95

Average AGI in First Year of Receipt Falls with Years of Receipt

Years of Receipt	Married Filing Jointly with Child (2006 Dollars)
1	24,780
2 to 3 (s)	24,250
2 to 3 (c)	22,290
4 to 6 (s)	22,110
4 to 6 (c)	21,100
7	19,220

What happens to EITC recipients between 2000 and 2006?

Characteristics	Received Credit Every Year	Received Credit Only in 2000
Filed Return	100% every year	39% no longer file by 2006
Filing status	Half of single filers became HOH	Over 1 in 5 of unmarried filers married
Dependents	Nearly half of filers with 0 or 1 children gained a dependent	About third of filers with children reported fewer dependents

Changes in AGI between 2000 and 2006: Received EITC Every Year

AGI in 2000 (2006 \$ 000)	AGI in 2006 (2006 \$ 000)			
	Less than \$10	\$10 to \$20	\$20 to \$30	\$30 to \$40
Less than \$10	31%	45%	19%	4%
\$10 to \$20	11%	38%	41%	10%
\$20 to \$30	8%	24%	43%	24%

Changes in AGI between 2000 and 2006: Received EITC in 2000 only

AGI in 2000 (2006 \$ 000)	AGI in 2006 (2006\$ 000)					
	Less than \$10	\$10 to \$20	\$20 to \$30	\$30 to \$40	More than \$40	Non-filers
Less than \$10	5%	7%	7%	6%	19%	55%
\$10 to \$20	*	6%	10%	10%	43%	30%
\$20 to \$30	*	*	6%	14%	62%	14%

Reasons why EITC recipients in 2000 no longer claim credit in 2006

Total EITC recipients in 2000	22.8 million
Did not receive EITC in 2006	52.2%
Did not file tax return in 2006	20.0%
Did not have W-2 wages	13.4%
Filed tax return in 2006	32.3%
Filing unit's income too high	20.4%
Married a worker and income too high	6.9%
Earnings fell to zero	1.4%

Reasons why EITC recipients in 2006 did not claim credit in 2000

Total EITC recipients in 2006	27.4 million
Did not receive EITC in 2000	60.4%
Did not file tax return in 2000	23.6%
Did not have W-2 wages	16.2%
Filed tax return in 2000	36.9%
No dependents and:	
AGI too high for childless	26.0%
Did not meet age test for childless	7.6%

Conclusions

- EITC participation is dynamic.
 - Majority of EITC recipients receive EITC for a few years.
 - Short-term users more likely to be male – and a substantial number are single and childless.
 - Long-term users tend to be female, single, and parents.
- EITC participation changes due to
 - Increases & decreases in income
 - Changes in family status

Future Research

- Does EITC achieve policy goals?
 - Effect on earnings, poverty
- Does EITC affect family structure?
- How does economy affect EITC claims?
 - Stimulus rebates
- Can tax administration be improved?
 - Implications of turnover in EITC recipients
 - Effect of IRS activities on future claims

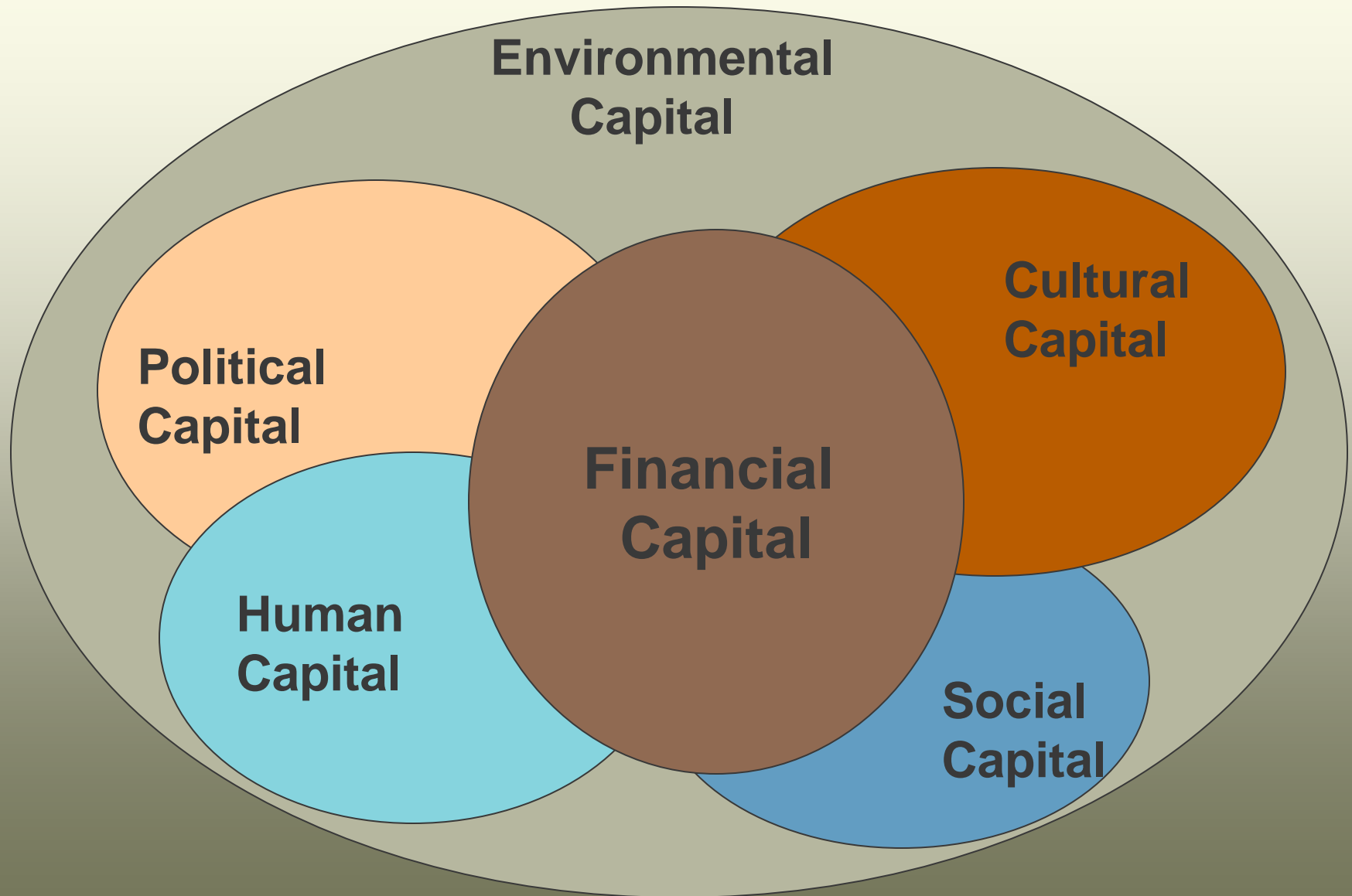
A Tax Education and Asset Building Campaign for Low-Income and Limited-English Worker Populations

Bárbara J. Robles, PhD
Center for Community Development & Civil Rights
and School of Social Work
College of Public Programs
Arizona State University

June 8-9, 2009

IRS Research Conference

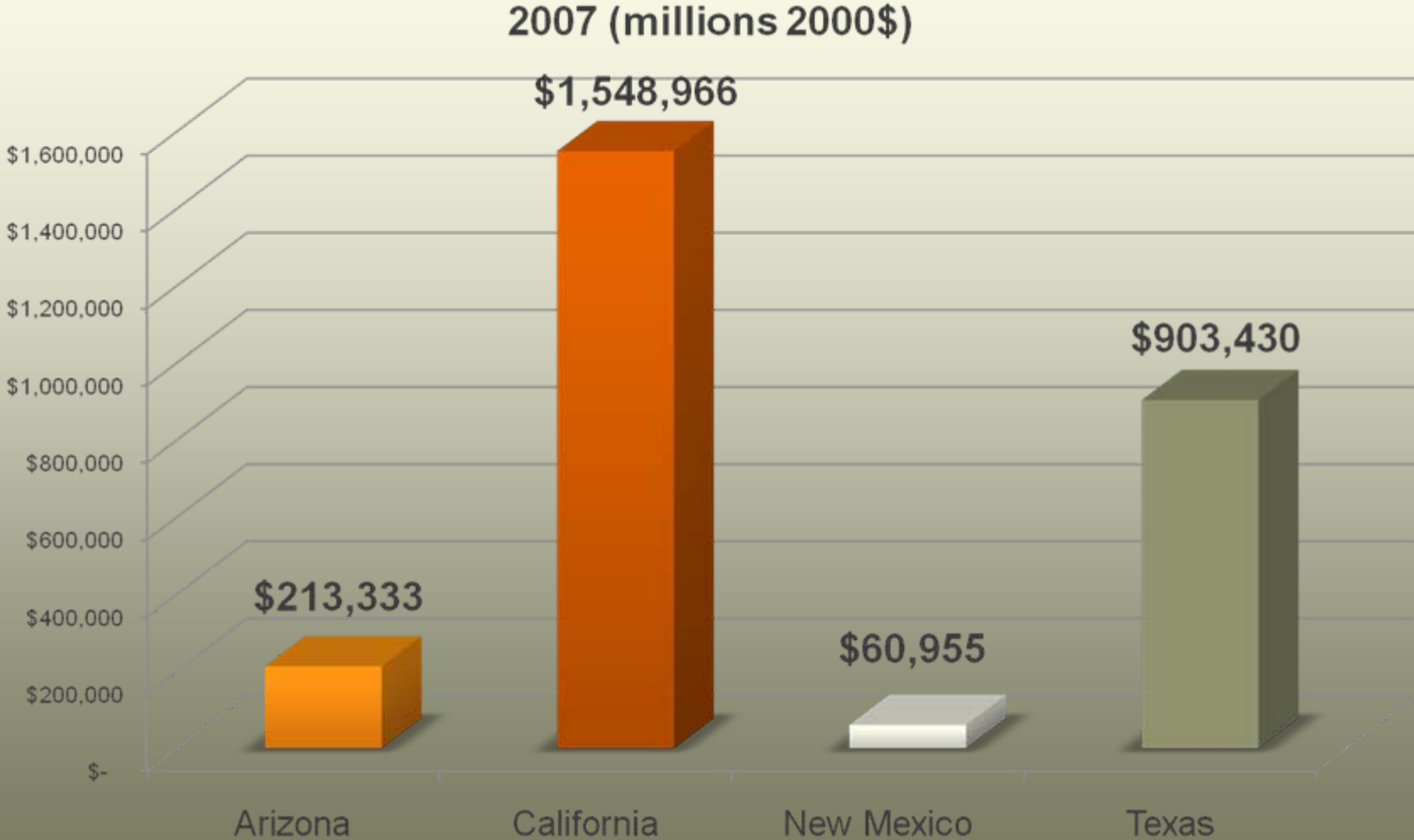
Sharing Resources and Assets: Family Assets-to-Community Assets



Communities of Color in the U.S.

- Landmark: 100 million minorities as of May 2007 or 1/3 of the total US Population
- 55% of all Latinos live in TX, NM, AZ and CA
- 55% of all African Americans live in the South and 18% live in the West, 14% live in TX, NM, AZ and CA
- Almost, 19% of Blacks and 13% of Latinos 25 years and older have a college degree compared to 32% of Non-Hispanic Whites (CPS 2007)

Border States: Gross Domestic Product



Source: BEA, Commerce Department, 2007

Latino Family Characteristics

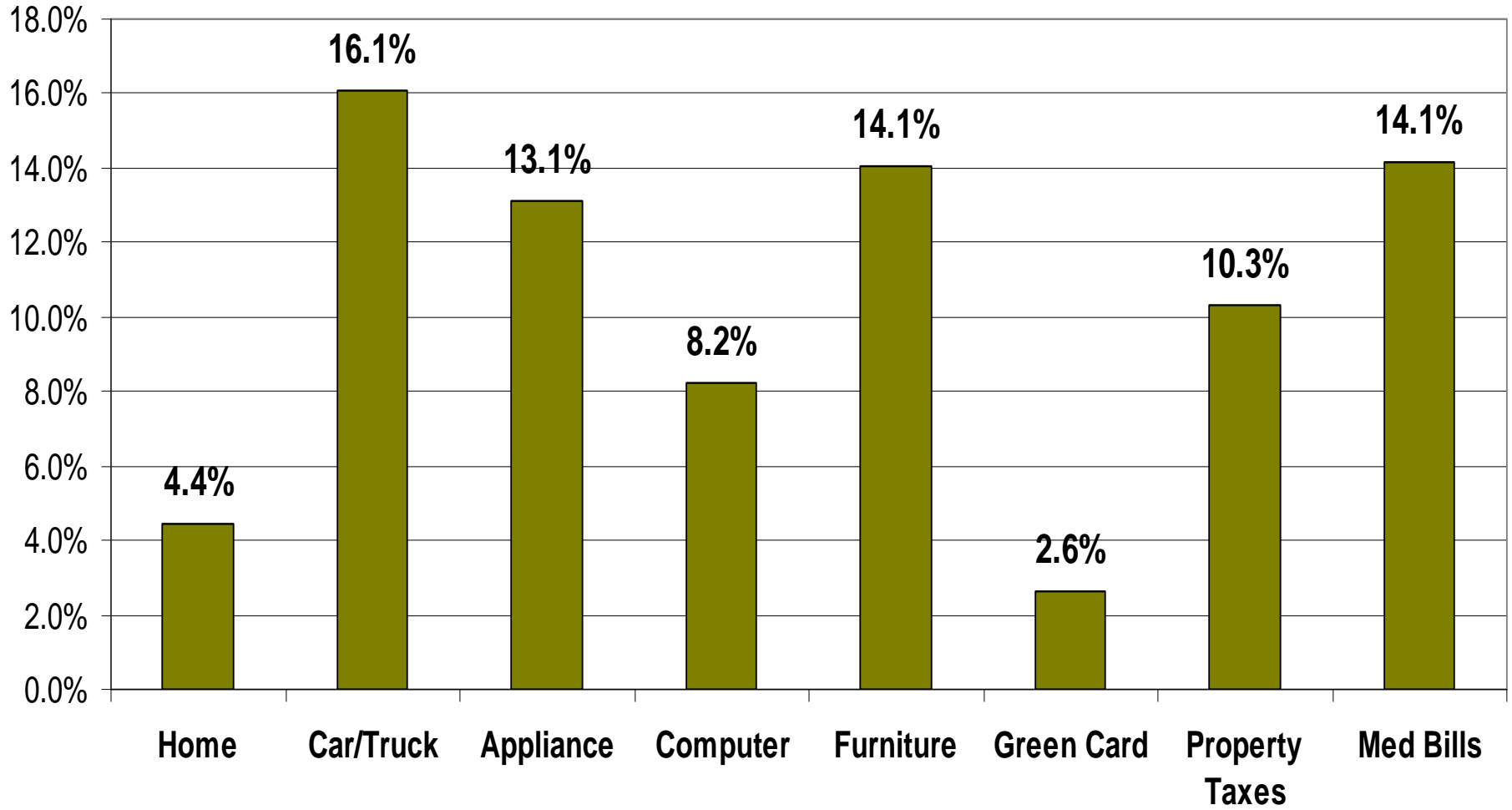
- 77.9% of all Latino Households (12 million) are families compared to 66.8% for the Total Population (112 million).
- Latino Families are Multi-generational and have 49.1% of families with children under 18 years compared to 31.3% for the Total Population
- 6.8% of Latino Grandparents are responsible for children compared to 3.5% of Grandparents for the Total Pop.
- Immigrant and Native Born Latino Family financial behaviors and needs are virtually identical in low-wealth communities
- Familiarity with US markets/institutions and educational attainment plays a significant role in Latino financial services and product consumption behaviors

Asset Building Issues for Latino Families and Communities

- Collaboration with community based organizations in low-wealth communities
- Providing isolated Communities with Financial Services, Culturally Relevant Products and Financial and Tax Education outreach
- Increasing participation in the Earned Income Tax Credit and Expanding Tax Filing Education
- Designing Financial Products and Services that create opportunities for multi-generational families to 'pool' resources for asset building

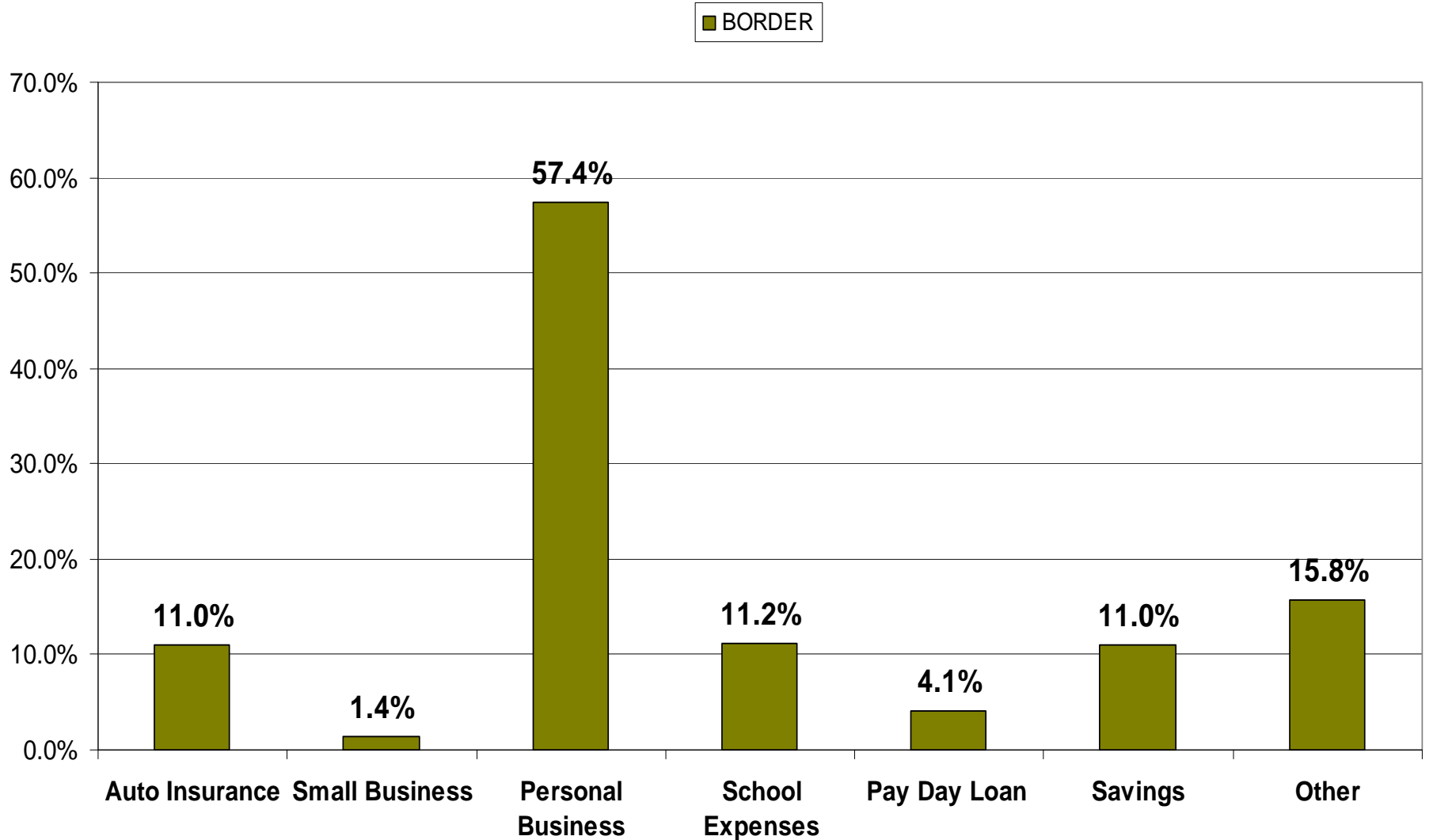
Have You Ever Used Your Tax Refund For:

■ BORDER



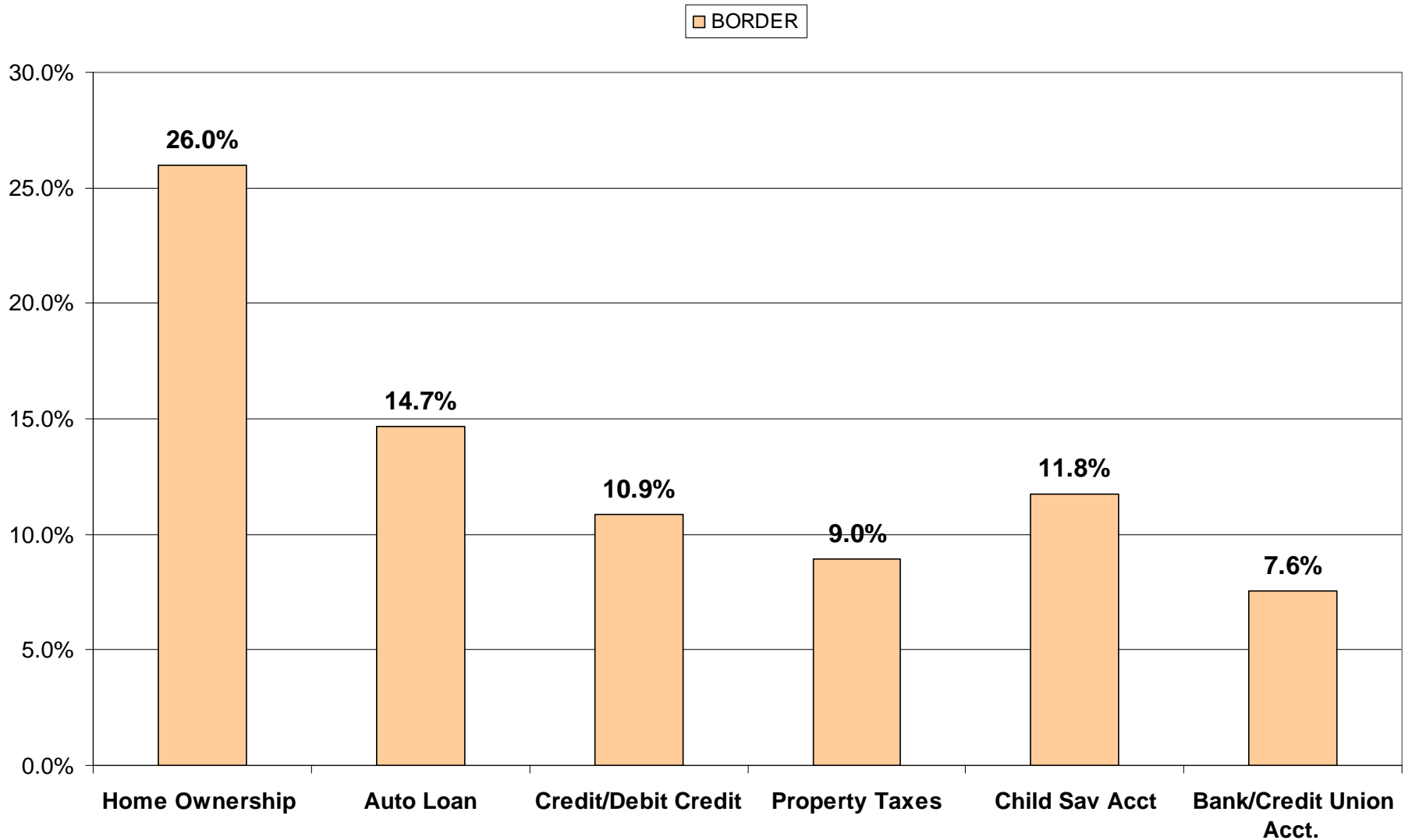
Source: Tax Season 2008/TY2007, FABN Financial Behaviors Survey, Border n=7377

Have You Ever Used Your Tax Refund For:



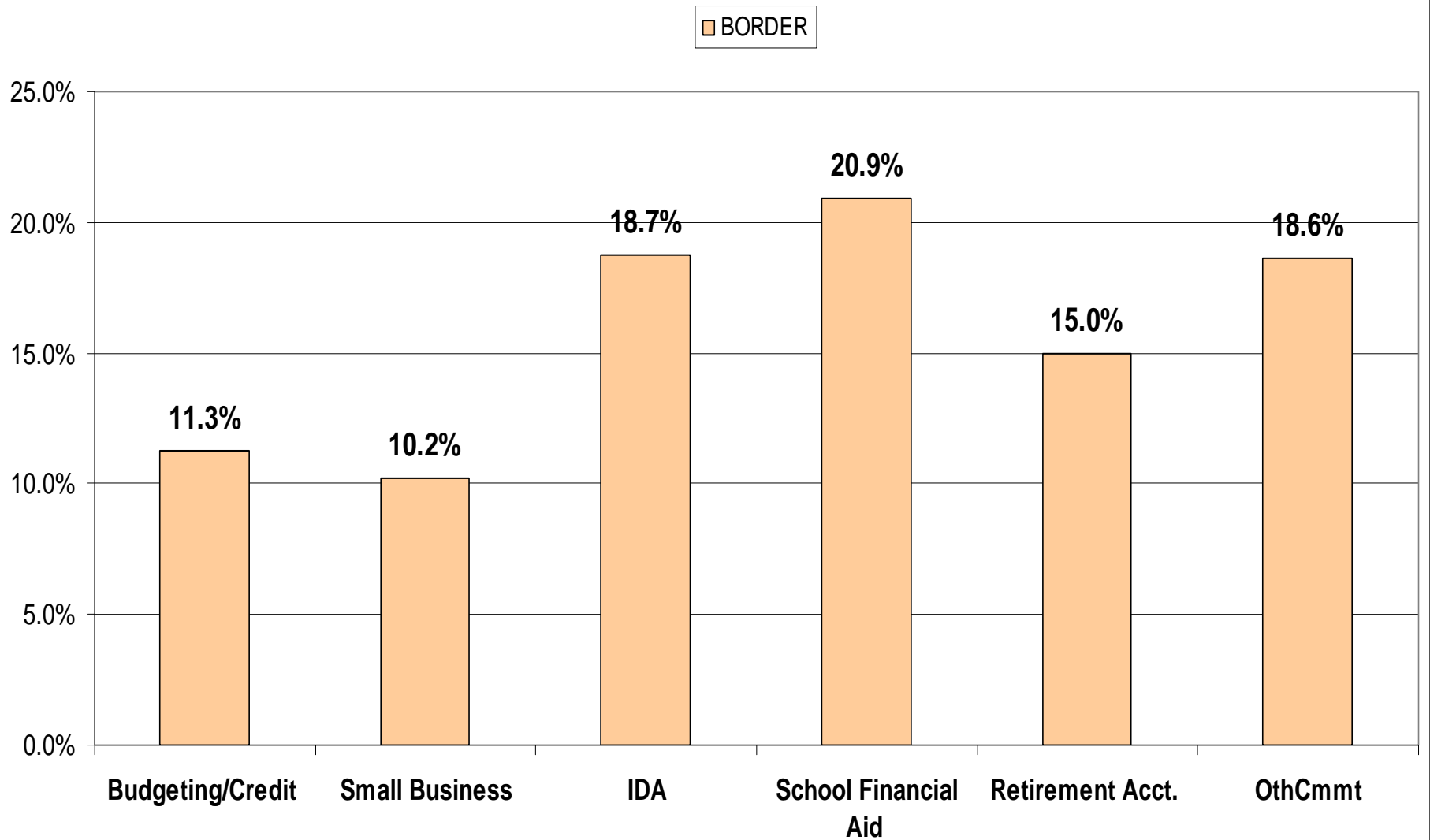
Source: Tax Season 2008/TY2007, FABN Financial Behaviors Survey, Border n=7377

What Families Want To Know More About:



Source: Tax Season 2008/TY2007, FABN Financial Behaviors Survey, Border n=7377

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Source: Tax Season 2008/TY2007, FABN Financial Behaviors Survey, Border n=7377

Logit Models

	TY2007 Model 1 n=1725 Dep Var = Use of a Financial Account LR(0-slopes): 166.72
Coefficients	
Constant	.4854 (2.04)
AGI	.00005 (7.44)
Fed Refund Amt	.00011 (2.56)
Lend	-.3599 (-2.90)
Home Owner	.1967 (1.60)
Education	.0435 (2.45)
No Dependents	-.1915 (-3.27)
Spanish Survey	-.6839 (-5.31)

	TY2007 Model 2 n=1736 Dep Var = Being a Home Owner LR(0-slopes): 82.77
Coefficients	
Constant	-.7234 (-3.45)
AGI	.00002 (5.526)
Fed Refund Amt	.00002 (.782)
Number of Dependents	-.019 1 (-.377)
Education	-.0089 (-.598)
Financial Acct	.2101 (1.727)
Spanish Survey	.6151 (5.822)

Logit Models

	TY2007 Model 3 n=1482 Dep Var = KidsSav LR(0-slopes): 66.69
Coefficients	
Constant	-3.277 (-8.65)
AGI	.000007 (1.10)
Fed Refund Amt	.00015 (3.34)
Education	.0296 (1.04)
Number of Depend	.2992 (3.82)
Spanish Survey	-.0920 (-.505)

	TY2007 Model 4 n=1481 Dep Var = IDAs LR(0-slopes): 93.73
Coefficients	
Constant	-2.974 (-10.19)
AGI	.000016 (3.06)
Fed Refund Amt	.000055 (1.42)
Education	.0522 (2.46)
Number of Depend	.1079 (1.69)
Spanish Survey	.9917 (7.02)

Border Asset Building: The Next Generation of Advocates

- Financial Education tied to Service Learning & Civic Engagement
- Training Community Development Undergraduate and Graduate Students in Financial/Tax Services and Products: The Basics
- Students intern with CBOs and community research partners providing asset building services and products
- Students become ‘Taxes Are FOR You’ Advocates
- Community Data-Sharing Forums
- Community Researchers that make a difference

¿Questions?

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