

The Pattern of EITC Claims Over Time: A Panel Data Analysis

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The earned income tax credit (EITC) was enacted nearly 35 years ago. One goal of the EITC is to encourage people to work, while another is to lift families out of poverty. Yet little is known about the long-term effects of the credit on recipients due to data limitations.¹ This paper introduces a new data set that contains the tax records of over 60 million individuals who claimed or received the EITC between 2000 and 2006.² The panel follows those individuals over the 7-year period and should provide new insight into how people respond to the credit over time.

This paper is largely descriptive, laying the foundation for future research that could explore some of the long-term effects of the EITC. Using the new panel data set, we examine how the incidence and duration of EITC receipt change over time and the reasons for those changes—focusing particularly on the impact of changes in family structure and income over the period.

Description of the EITC

The EITC is refundable, meaning that low-income individuals and families may receive the full amount of the credit even if they have little or no income tax liabilities. To be eligible for the EITC, a claimant must work during the tax year.

¹ Findings from recent studies suggest that the EITC is very effective in meeting its goals of increasing labor force participation and reducing poverty (particularly for single mothers), but most studies rely on annual Current Population Surveys (CPSs) and difference-in-difference analysis to isolate the effects of changes in the EITC over time (Eissa and Liebman, 1996; Meyer and Rosenbaum, 2001; Grogger, 2003). A recent study by Dahl et al. (2009) matched several panels of the Survey of Income and Program Participation (SIPP) with administrative earnings records from the Social Security Administration to show that the expansion of the EITC for taxpayers with two or more qualifying children in the mid-1990s not only increased employment of single mothers, but also contributed to earnings growth over time. However, that study—as with the earlier cross-sectional studies that solely used Census data—does not contain tax return information indicating whether the person actually received the EITC and must infer the benefits of the credit from imputations of eligibility. A second study by Dowd and Horowitz (2008) used a panel of tax returns to follow EITC claimants over time. They find that about half of filers with children received the EITC over a period of nearly 2 decades, but this number may be an underestimate because their sample did not follow both spouses when married filers divorced or separated over the span of the panel.

² An earlier version of this data set was described in Masken (2006).

The amount of the credit initially increases with earnings, reaches a maximum amount, and then phases out gradually as income (the greater of earned income or adjusted gross income) rises.

Eligibility for the EITC was initially limited to filers who resided with qualifying children, and the amount of the credit did not vary with the number of children in the household. Those restrictions were lifted in the early 1990s. Since 1991, families with two or more children have been allowed a somewhat larger EITC, and, beginning in 1994, very low-wage workers who do not reside with any qualifying children have been eligible for a small credit.³

Table 1 shows the EITC parameters for 2000 and 2006—the first and last years of the panel data set. Consider, for example, how the credit was

**Table 1: EITC Parameters for Tax Year 2000 and 2006
by Filing Status and Number of Qualifying Children**

EITC Parameters	Tax Year 2000		
	No Qualifying Children	One Qualifying Child	Two Qualifying Children
Credit percentage	7.65%	34.00%	40.00%
Phaseout percentage	7.65%	15.98%	21.06%
Maximum credit	\$353	\$2,353	\$3,888
Income at which begin maximum credit	\$4,610	\$6,920	\$9,720
Income at which credit begins to phase out [1]	\$5,770	\$12,690	\$12,690
Income at which credit completely phased-out [1]	\$10,380	\$27,413	\$31,152
	Tax Year 2006		
Credit percentage	7.65%	34.00%	40.00%
Phaseout percentage	7.65%	15.98%	21.06%
Maximum credit	\$412	\$2,747	\$4,536
Income at which begin maximum credit	\$5,380	\$8,080	\$11,340
Income at which credit begins to phase out [1]	\$6,740	\$14,810	\$14,810
Income at which credit completely phased-out [1]	\$12,120	\$32,001	\$36,348

[1] Beginning in 2002, the income at which the credit begins to phase out (and hence, is completely phased out) was increased for married taxpayers. In 2006, the amount of this increase was \$2,000.

³ For 2009 and 2010, a new schedule was added, increasing the EITC for workers with three or more qualifying children.

calculated for a worker with one child in 2000. At very low-income levels, the EITC increased by 34 cents for each dollar of earned income, up to a maximum credit of \$2,353 when earnings reached \$6,920. The credit remained at this maximum amount as earnings continued to rise. The EITC was then reduced by 16 cents for each additional dollar of earnings or adjusted gross income (whichever was greater) in excess of \$12,690. Filers were no longer entitled to any credit when their incomes exceeded \$27,413. In 2006, the credit parameters were the same as in 2000, and, because the credit income thresholds are indexed for inflation, the amounts shown for 2006 are the same (in real dollars) as those shown for 2000.

As Table 1 suggests, the panel period—2000 through 2006—was one of relative stability for the EITC. During the prior 2 decades, the EITC parameters had been increased substantially, and eligibility for the credit was expanded to new populations, including workers who do not reside with children. In contrast, the EITC parameters were (with one exception for married filers, described below) unchanged during the panel period.

Nonetheless, there were some changes to EITC eligibility rules during this period, largely as a result of marriage penalty relief and simplification provisions included in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA).

- Marriage penalty relief extended the beginning and endpoints of the phaseout range for married couples filing jointly by \$1,000 in 2002 and then again by an additional \$1,000 in 2005.
- EGTRRA simplified the rules for determining who would receive the EITC when more than one taxpayer could claim the same qualifying child. Previously, if more than one person qualified to claim a child, then the EITC was awarded to the person who had the highest adjusted gross income. This provision was difficult to administer, because the IRS could not easily observe that more than one person was qualified to claim a child if only one person actually declared that child on his or her tax return. As a result of EGTRRA, tie breaker rules only apply when more than one taxpayer actually claims the same child.⁴

⁴ Under both prior and current law, a taxpayer can claim a qualifying child for the EITC if the child meets certain residency, relationship, and age tests. Those tests, however, sometimes result in more than one taxpayer being eligible to claim the same child. For example, both a mother and her daughter are eligible to claim the daughter's baby if all three live together for over half the year. Previously, the EITC could be claimed only by the woman with the higher adjusted gross income. As a result of EGTRRA, the tie breaker test only applies if both women actually claim the EITC—and the winner would be the child's mother, regardless of her AGI. If, instead, the household consists of a child and the child's grandmother and aunt, then the tie breaker is AGI, with the credit going to the woman with the higher AGI—but, unlike pre-2002 law, the tie breaker would only apply if both women actually claim the child on their tax returns.

- The definitions of adjusted gross income and earned income were also simplified by EGTRRA. Beginning in 2002, taxpayers no longer include nontaxable forms of earned income when computing the EITC, and various modifications to adjusted gross income—solely for purpose of calculating the EITC—were dropped.

While the marriage penalty relief provision unambiguously extended eligibility to more married couples, the impact of the two simplification provisions on claiming behavior is less clear. Those provisions were motivated, in part, by concern that EITC claimants did not understand prior law, resulting in unintentional errors. Simplification of the tie breaker rules and definitions of income, therefore, may have legitimized EITC claims by some filers. Those changes also made some individuals eligible for the credit who had previously not claimed it—and conversely made others ineligible who had. For example, changing the tie breaker test could have shifted eligibility for the credit from one member of a family to another.

During this period, other changes occurred that affected all taxpayers, including EITC recipients. First, EGTRRA created a new 10-percent tax rate bracket and expanded eligibility for the refundable child tax credit to include low-income workers with at least \$10,000 of income. Those two provisions, in combination, effectively reduced marginal tax rates for EITC claimants with children in the credit's phaseout range. Second, the definition of qualifying child for various child-related tax benefits (including the dependent exemption and child tax credit) was made more uniform in 2004. The 2004 legislation generally conforms the definition of a qualifying child for other tax benefits to the definition used for the EITC, making it more likely that a person who claimed a child for the EITC also claimed that same child for other tax benefits.⁵

EITC Panel Data

The EITC panel data are derived from tax returns stored in the IRS's Compliance Data Warehouse. There are several advantages to using these administrative data for the population. First, doing so allows for a longitudinal file

⁵ Although the focus of the 2004 legislation was primarily on other child-related tax benefits, it did change EITC eligibility in two ways. First, it denied the EITC to certain individuals who previously had been able to claim their siblings as qualifying children. Under the 2004 law, those individuals would no longer be able to claim the credit if they were under 19 or 24 if a full-time student. That provision was largely repealed in the Fostering Success and Increasing Adoptions Act of 2008. Second, simplifying the tie breaker rules for all child-related tax benefits—while at the same time requiring only one taxpayer to claim a given child—made it easier for families to game and allocate children among family members so as to maximize tax benefits received by the household. The 2008 act made it more difficult for such gaming to occur.

to be built retrospectively. Also, since this file is not based on a sample, it is not dependent on any underlying sample design. This is particularly important when there are changes in tax law—as there were between 2000 and 2006—since a sample may not adequately capture or reflect responses to tax law changes. Finally, it allows for individuals—rather than the return filing unit—to be followed. The ability to follow both the primary and secondary taxpayers alleviates several issues encountered with sample panel data in which only the primary taxpayer is followed. Following only the primary taxpayer can lead to false attrition rates when the couple stops filing a joint return and the secondary taxpayer continues to claim the EITC while the primary taxpayer does not. In this instance, sample data would not capture the behavior of the secondary taxpayer. This also leads to gender bias over time since the secondary taxpayer is typically female. Using the population data makes it possible to capture changes in the composition of the household and follow all members of the household.

Tax returns were selected from Tax Years 2000 through 2006.⁶ Returns were included if the taxpayers claimed the EITC on their original returns or if the credit were allowed in processing or examination. The data also include the returns of individuals who did not claim the EITC but received notices from the IRS informing them of their potential eligibility. In total, 62 million taxpayers are included in the panel, including 1.2 million taxpayers who died between 2000 and 2006. For purposes of this paper, we limit the analysis to people who were alive throughout the panel. Our analysis focuses on individuals who were allowed the EITC during processing, bringing our total population down to 57 million.

While the panel is rich, the size of the population file makes it unwieldy to use for analysis. Therefore, for our analysis, we took a simple random sample of 1 percent of the individuals in the population file. All individuals were equally likely to be chosen in the random sample. Thus, each individual has a weight of 100.

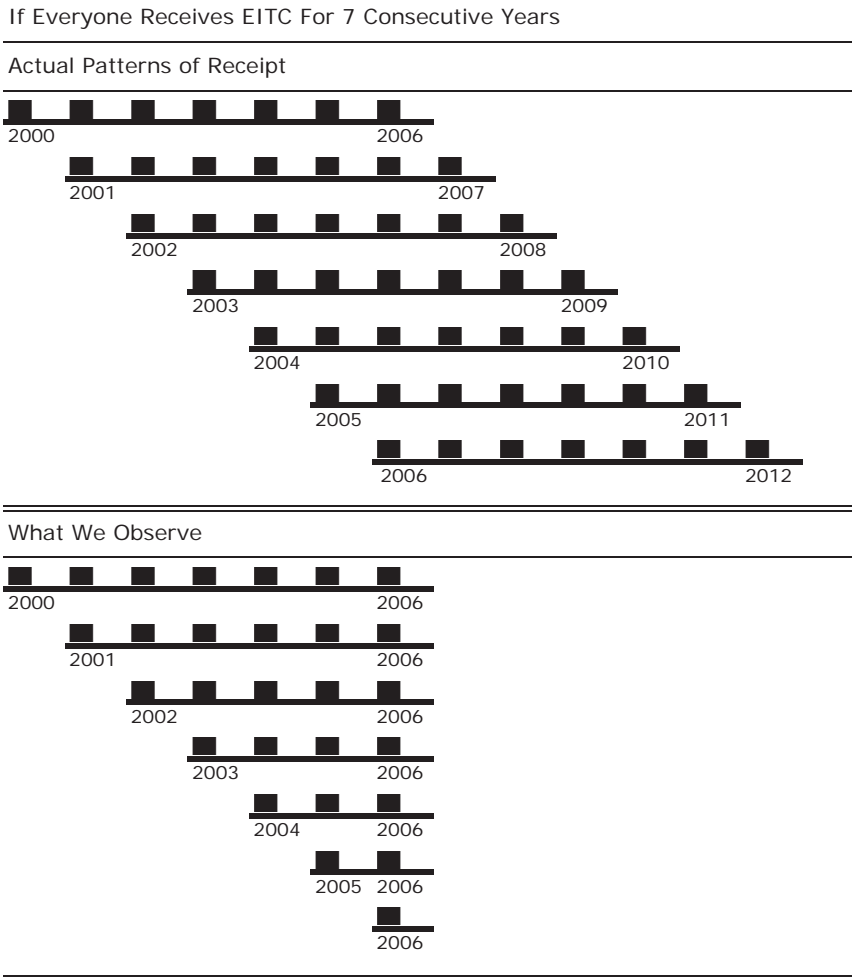
In both the population and sample panel files, tax return data are augmented with information from each individual's Form W-2 and Schedule SE. In addition, the panel file also contains some information regarding certain IRS enforcement actions, including indicators showing whether an individual received notification of a mathematical or clerical error that might have increased, reduced, or eliminated the EITC in processing. The file also contains

⁶ An advantage of the panel is that we are able to include returns that were filed 2 or 3 years after the end of the tax year. Consider a taxpayer who files a return for Tax Year 2000 in 2002 or 2003. That return is included in our population.

information on whether the return was the focus of an IRS examination and, if so, the results of that audit.

A virtue of the data is that it allows a longer-term perspective on EITC reciprocity than the typical 1-year snapshot provides. That virtue allows us, in the next section, to contrast the characteristics of EITC recipients in 2000 with those who receive the credit at any point between 2000 and 2006.

Figure 1: The Difference between Recipient Behavior and Observation in a 7-Year Panel



A limitation of the data is that the file does not contain the full history of EITC claims for those who received the credit at some point throughout the panel. The panel effectively censors receipt of the EITC for years before 2000 and after 2006. For example, consider if everyone in the panel received the EITC for 7 consecutive years—but people began receiving the credit in different years. As Figure 1 demonstrates, only those who began receiving the credit in 2000 would be identified as receiving the credit for all 7 years. The remaining individuals would appear to receive the credit for fewer years.

The number of EITC participants changes little from year to year, as shown in Figure 2. In 2000—at the beginning of the panel—about 23 million people received the EITC. By the end of the period, the number of recipients had increased by 17 percent to 27 million. Most of that growth was attributed to a spurt in EITC participation in 2002, following both a recession and the enactment of the EGTRRA marriage penalty relief and simplification provisions described above. After 2002, the number of EITC participants increased by about 1 percent a year—and nearly all that growth was attributable to growth in the number of recipients with qualifying children.

A snapshot of EITC participants taken in 2000 reveals that 84 percent had qualifying children and nearly half filed as heads of households (generally meaning that they were unmarried and had a child or other dependent

Figure 2: Number of Individual EITC Recipients 2000-2006

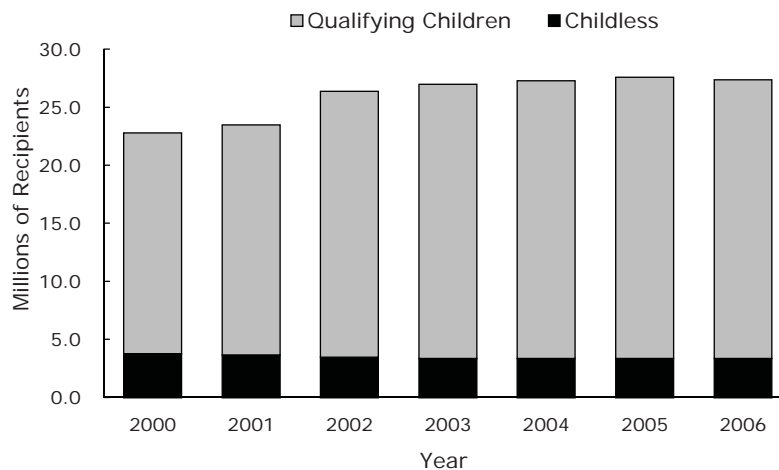


Table 2: Basic Demographic Characteristics of Individual EITC Recipients in Panel

Characteristics of Individual in First Year EITC Received	TY 2000 Cross Section	Received EITC at Some Point in Panel Period (universe)
Total Number of Individuals (thousands)	22,816	57,061
Average Age of Recipient	36	36
Average Number of Years EITC Received	4.5	3.2
Average Number of Years Tax Return Filed	6.1	5.8
Percent Female	62%	55%
Filing Status		
Single	17%	26%
Female	8%	11%
Head of Household	47%	37%
Female	36%	25%
Married Filing Jointly	36%	38%
Number of Qualifying Children in First Year		
0	16%	26%
1	38%	39%
2	46%	34%
Ages of Children In First Qualifying Year (Among those with Children)		
Average age of oldest child	11.6	9.7
Percent with oldest child under 2	9%	18%
Number of Dependents		
0	17%	27%
1	36%	37%
2	33%	26%
3	10%	8%
4 or more	4%	3%

living with them). Tables 2 and 3 summarize key demographic and income characteristics of the participating population. EITC participants, on average, were 36 years old, and their oldest child (if they had any) was nearly 12. Among filers with EITC qualifying children, 9 percent had an oldest child who was under the age of 2. Over 60 percent of EITC recipients were female. On average, EITC recipients (and their spouses, if married) reported nearly \$17,000 in adjusted gross income, and most EITC recipients were wage earners rather than self-employed. Among wage earners, the average

Table 3: Income Characteristics of Individual EITC Recipients in Panel

[Income in Constant 2006 dollars]

Average Positive Income in First Year EITC Received	TY 2000 Cross Section	Received EITC at Some Point in Panel Period (universe)
Return Level Income Characteristics		
Adjusted Gross Income (Return Level)	16,670	15,890
Earned Income (Return Level)	16,300	15,290
Individual Level Income Characteristics		
Average Wage Income (among those with wage income)	14,470	13,580
Average Self-Employment Income [1] (among those with SE income)	8,640	7,990
Individuals with Wage Income (thousands)	18,289	45,255
Individuals with Self-Employment Income	3,013	7,673
Total Number of Individuals (thousands)	22,816	57,061

[1] This table includes self-employment income as reported on Schedule SE. Thus, taxpayers with net self-employment income under \$400 are omitted from the calculations.

Table 4: Receipt Patterns of Individual EITC Recipients in Panel

Pattern of EITC Receipt	Total (thousands)	Percent of All Recipients
Received EITC at least once in Panel Period (Total Recipients)	57,061	100%
Once	17,183	30%
Consecutive		
Two or Three Years	11,760	21%
Four to Six Years	8,749	15%
All Years	6,523	11%
Sporadic (Receipt was not in Consecutive Years)		
Two or Three Years Total	6,136	11%
Four to Six Years Total	6,711	12%

wage (per worker) was \$14,470. In contrast, those with self-employment earnings reported, on average, \$8,640 from those activities.⁷

Yet a snapshot misses significant turnover within the EITC recipient population. Table 4 looks at patterns of EITC receipt over the panel

⁷ Adjusted gross income and aggregate earned income are measured at the return level. Wage and self-employment income is measured at the individual level from Form W-2 and Schedule SE, respectively. Because we are using Schedule SE, the first \$400 of net self-employment income (which is not taxable for Social Security purposes) are omitted from these tabulations.

Table 5: Demographic Characteristics of Individual EITC Recipients in Panel by Pattern of Receipt

Characteristics of Individual in First Year EITC Received	Received EITC Once	Received EITC In Consecutive Years During Panel Period [1]		
		2-3 Years	4-6 Years	All Years
Total Number of Individuals (thousands)	17,183	11,760	8,749	6,523
Average Age of Recipient	38	36	35	35
Average Number of Years EITC Received	1.0	2.4	4.9	7.0
Average Number of Years Tax Return Filed	5.1	5.4	6.3	7.0
Percent Female	47%	53%	62%	73%
Filing Status				
Single	37%	26%	16%	8%
Female	15%	12%	9%	6%
Head of Household	25%	35%	44%	57%
Female	14%	22%	33%	49%
Married Filing Jointly	38%	39%	40%	34%
Number of Qualifying Children in First Year				
0	43%	26%	13%	5%
1	34%	44%	46%	36%
2	23%	30%	41%	58%
Ages of Children In First Qualifying Year (Among those with Children)				
Average age of oldest child	11.3	8.9	8.6	9.4
Percent with oldest child under 2	21%	24%	21%	8%
Number of Dependents				
0	43%	13%	14%	6%
1	32%	41%	44%	34%
2	18%	23%	30%	42%
3	5%	7%	9%	12%
4 or more	2%	2%	4%	5%

Footnotes at end of table.

period. While 22.8 million people got the EITC in 2000, 57.1 million received the credit at least once over the entire 7-year period, including 17.2 million people (30 percent) who were paid the credit for just 1 year during the span of the panel.⁸ In contrast, only 6.5 million individuals (11 percent) collected the EITC for all 7 years. On average, individuals in the panel received the EITC for 3 years. While most people received the EITC

⁸ Throughout the paper, we will sometimes refer to these individuals as one-time recipients. It is, of course, possible that some of these individuals received the EITC more than once—but at a time outside the span of the 7-year panel.

Table 5: Demographic Characteristics of Individual EITC Recipients in Panel by Pattern of Receipt—Continued

Characteristics of Individual in First Year EITC Received	Received EITC Sporadically During Panel Period [1] (Total Years)	
	2-3 Years	4-6 Years
Total Number of Individuals (thousands)	6,136	6,711
Average Age of Recipient	36	35
Average Number of Years EITC Received	2.5	4.9
Average Number of Years Tax Return Filed	5.6	6.3
Percent Female	49%	60%
Filing Status		
Single	32%	19%
Female	12%	9%
Head of Household	32%	44%
Female	19%	31%
Married Filing Jointly	37%	37%
Number of Qualifying Children in First Year		
0	33%	17%
1	37%	41%
2	30%	42%
Ages of Children In First Qualifying Year (Among those with Children)		
Average age of oldest child	9.9	10.0
Percent with oldest child under 2	18%	14%
Number of Dependents		
0	33%	18%
1	35%	38%
2	22%	31%
3	7%	10%
4 or more	3%	4%

[1] These categories are mutually exclusive. Thus, the category of individuals who "received the EITC in 2 or 3 consecutive years" excludes any taxpayers who received the EITC for 2 or 3 consecutive years and then again at some point thereafter. Such taxpayers would be classified in the "sporadic" category.

in spans of consecutive years, over 12.8 million (23 percent) floated in and out of the EITC population—being paid the credit on and off throughout the panel period.

Demographic Characteristics

A comparison of Table 2 with Table 5 illustrates that there are marked differences among EITC recipients that are associated with the pattern of receipt.

Those who received the EITC only once over the span of the panel were somewhat older (38, on average). They were also more likely to be male, single, and have no qualifying children or other dependents.

In contrast, long-term EITC recipients were more likely to be single mothers. Nearly three-quarters of those who received the EITC for 7 consecutive years were female, and nearly 60 percent filed as heads of households. Long-term recipients were also more likely to have more than one child—58 percent of those who claimed the EITC every year during the panel had at least two children. In the first year they received the EITC (2000 for this group), they were, on average, aged 35 and thus slightly younger during the first year of receipt than those who received the credit for 3 or fewer years, and their oldest child was typically older than those who received the credit for 2 to 6 consecutive years.

These images, however, are not typical. In a given year, the sample is dominated by EITC recipients who were paid the credit during most but not all years. Thus, the 1-year snapshot looks most like the EITC recipients who were awarded the credit for 4 to 6 years. A somewhat different perspective is provided by looking at the characteristics of EITC recipients over the entire panel. Because the majority of EITC participants over the course of the panel received the credit for only 1 to 3 years, the profile of the panel looks more like those individuals: slightly over half were female, one in four had no children, and only about one-third filed as heads of households.

We also compare individuals who receive the EITC over consecutive years to those who pop in and out of the EITC population. Among those who claimed the credit for a total of 2 or 3 years, the key difference is that those who received the EITC sporadically were more likely to be single and childless. This distinction is also true, though to a lesser degree, among those who received the credit for more years.

Income

The magnitude and source of income also vary with the pattern of EITC receipt over the span of the panel. Those who claimed the EITC only once reported lower adjusted gross income—and lower earnings—than those who received the credit for multiple years. Generally, average adjusted gross income and earnings in the first year of receipt increased with the number of years of receipt of the EITC. Thus, the average income and earnings of one-time recipients (and their spouses, if married) were,

Table 6: Income Characteristics of Individual EITC Recipients in Panel

[Income in Constant 2006 dollars]

Average Positive Income in First Year EITC Received	Received EITC Once	Received EITC In Consecutive Years During Panel Period [1] (Years Received)		
		2-3	4-6	All Years
Return Level Income Characteristics				
Adjusted Gross Income (Return Level)	15,090	15,780	16,660	16,460
Earned Income (Return Level)	14,350	15,120	16,110	16,190
Individual Level Income Characteristics				
Average Wage Income (among those with wage income)	13,000	13,480	14,150	14,550
Average Self-Employment Income [2] (among those with SE income)	7,420	7,800	8,350	8,740
Individuals with Wage Income (thousands)	13,550	9,212	6,881	5,309
Individuals with Self-Employment Income (thousands)	2,315	1,656	1,206	792
Total Number of Individuals (thousands)	17,021	11,752	8,748	6,523

Footnotes at end of table.

respectively, \$15,090 and \$14,350—compared to \$16,460 and \$16,190 for long-term participants (see Table 6). We also observe the same pattern when we look at the individual's share of earnings in the first year he or she received the EITC.

That result, however, is likely driven by the underlying family characteristics of the EITC population. As Table 5 demonstrated, one-time users of the credit were more likely to be childless individuals—and to be eligible for the EITC, childless individuals must have very low incomes. Thus, turning to Tables 7A and 7B, we observe—as we would expect—that the average adjusted gross incomes and earnings for those without children were substantially lower than for those with children.

When we distinguish EITC recipients by family characteristics, we observe that average incomes in the first year of receipt, in fact, decline

Table 6: Income Characteristics of Individual EITC Recipients in Panel—Continued

[Income in Constant 2006 dollars]

Average Positive Income in First Year EITC Received	Received EITC Sporadically During Panel Period [1] (Total Years)	
	2-3	4-6
Return Level Income Characteristics		
Adjusted Gross Income (Return Level)	15,840	16,560
Earned Income (Return Level)	15,210	16,130
Individual Level Income Characteristics		
Average Wage Income (among those with wage income)	13,280	13,790
Average Self-Employment Income [2] (among those with SE income)	8,140	8,550
Individuals with Wage Income (thousands)	4,898	5,404
Individuals with Self-Employment Income (thousands)	834	871
Total Number of Individuals (thousands)	6,136	6,711

[1] These categories are mutually exclusive. Thus, the category of individuals who "received the EITC in 2 or 3 consecutive years" excludes any taxpayers who received the EITC for 2 or 3 consecutive years and then again at some point thereafter. Such taxpayers would be classified in the "sporadic" category.

with the number of years of receipt. For example, a married couple with qualifying children had, on average, \$24,780 of adjusted gross income in the year they received the EITC if they claimed the credit only once during the span of the panel, but a couple who received the credit for all 7 years had an average of \$19,220 in the first year of receipt. The same pattern applies, to somewhat lesser degrees, to heads of households with children and single filers. We also observe similar patterns when we look at total earned income reported on the return, as well as at each individual's share of wage income.

Another interesting observation is that people who receive the EITC sporadically tend to have slightly higher income in the first year of receipt than their counterparts who receive the credit for the same number of years

Table 7A: Income Characteristics of the Tax Returns of Individual EITC Recipients in Panel by Filing Status

[Income in Constant 2006 Dollars]

Average Income in First Year EITC Received	TY 2000 Cross Section	Received EITC at Some Point in Panel Period (universe)	
		Received EITC at Some Point in Panel Period (universe)	Receive EITC Once
Adjusted Gross Income Attributable to Tax Return			
Single, Childless	6,560	6,750	6,910
Single, Qualifying Children	11,740	11,660	12,600
Head of Household, Childless	11,480	9,640	8,730
Head of Household, Qualifying Children	17,240	16,890	17,900
Married Filing Jointly, Childless	8,690	8,260	8,250
Married Filing Jointly, Qualifying Children	21,190	22,550	24,780
Earned Income Attributable to Tax Return			
Single, Childless	6,380	6,490	6,600
Single, Qualifying Children	11,510	11,380	12,230
Head of Household, Childless	11,220	9,120	7,960
Head of Household, Qualifying Children	16,890	16,410	17,240
Married Filing Jointly, Childless	8,200	7,360	7,110
Married Filing Jointly, Qualifying Children	20,730	21,700	23,700
Average Income in First Year EITC Received	Received EITC In Consecutive Periods During Panel Period [1]		
	2-3 Years	4-6 Years	All Years
Adjusted Gross Income Attributable to Tax Return			
Single, Childless	6,530	6,440	6,130
Single, Qualifying Children	11,690	11,280	11,310
Head of Household, Childless	9,490	10,540	11,180
Head of Household, Qualifying Children	16,910	16,490	16,140
Married Filing Jointly, Childless	8,050	8,190	9,730
Married Filing Jointly, Qualifying Children	22,290	21,100	19,220
Earned Income Attributable to Tax Return			
Single, Childless	6,310	6,270	6,100
Single, Qualifying Children	11,430	11,040	11,140
Head of Household, Childless	9,020	10,160	10,970
Head of Household, Qualifying Children	16,360	16,040	15,870
Married Filing Jointly, Childless	7,210	7,800	9,580
Married Filing Jointly, Qualifying Children	21,290	20,280	18,910

Footnotes at end of table.

Table 7A: Income Characteristics of the Tax Returns of Individual EITC Recipients in Panel by Filing Status—Continued

[Income in Constant 2006 Dollars]

Average Income in First Year EITC Received	Received EITC Sporadically During Sample Period [1] (Total Years)	
	2-3 Years	4-6 Years
Adjusted Gross Income Attributable to Tax Return		
Single, Childless	6,860	6,610
Single, Qualifying Children	11,150	10,830
Head of Household, Childless	9,750	10,120
Head of Household, Qualifying Children	17,470	16,530
Married Filing Jointly, Childless	8,110	8,770
Married Filing Jointly, Qualifying Children	24,250	22,110
Earned Income Attributable to Tax Return		
Single, Childless	6,590	6,440
Single, Qualifying Children	10,860	10,630
Head of Household, Childless	9,230	9,800
Head of Household, Qualifying Children	16,900	16,160
Married Filing Jointly, Childless	7,490	8,380
Married Filing Jointly, Qualifying Children	23,300	21,480

[1] These categories are mutually exclusive. Thus, the category of individuals who have "received the EITC in 2 or 3 consecutive years" excludes any taxpayers who received the EITC for 2 or 3 consecutive years and then again at some point thereafter. Such taxpayers would be classified as "sporadic."

but without any breaks in participation. For example, a married couple with qualifying children who received the EITC for 2 to 3 consecutive years had, on average, \$22,290 in adjusted gross income during the first year of receipt—while those who received the credit on and off for 2 to 3 years had \$24,250 in the first year of receipt.

Dynamics of EITC Participation

Of the nearly 23 million people who received the EITC in 2000, more than half were no longer receiving the credit 6 years later. In this section, we consider the reasons why people who received the EITC in 2000 were no longer receiving the credit in 2006. The reasons for these findings reflect both ups and downs in their financial circumstances, as well as changes in their family structures.

Table 7B: Income Characteristics of Individual EITC Recipients in Panel by Filing Status

[Income in Constant 2006 Dollars]

Average Income in First Year EITC Received	TY 2000 Cross Section	Received EITC at	
		Some Point in Panel Period (universe)	Receive EITC Once
Average Own Wage Income (Among those with Wage Income Greater than Zero)			
Single, Childless	6,530	7,020	7,330
Single, Qualifying Children	11,570	11,520	12,290
Head of Household, Childless	11,240	9,520	8,750
Head of Household, Qualifying Children	17,090	16,760	17,860
Married Filing Jointly, Childless (per W-2)	6,510	7,160	7,540
Married Filing Jointly, Qualifying Children (per W-2)	13,990	15,210	17,380
Average Own Self-Employment Income (Among those with Self Employment Income Greater than Zero)[2]			
Single, Childless	5,340	5,040	4,920
Single, Qualifying Children	7,560	7,470	7,620
Head of Household, Childless	8,610	7,580	6,480
Head of Household, Qualifying Children	8,860	8,750	9,020
Married Filing Jointly, Childless	6,340	5,390	5,060
Married Filing Jointly, Qualifying Children	10,450	10,290	10,380
Average Income in First Year EITC Received	Received EITC In Consecutive Periods During Panel Period [1]		
	2-3 Years	4-6 Years	All Years
Average Own Wage Income (Among those with Wage Income Greater than Zero)			
Single, Childless	6,640	6,480	6,000
Single, Qualifying Children	11,850	11,070	11,150
Head of Household, Childless	9,380	10,700	10,590
Head of Household, Qualifying Children	16,710	16,390	16,000
Married Filing Jointly, Childless (per W-2)	6,450	6,500	7,170
Married Filing Jointly, Qualifying Children (per W-2)	15,320	13,820	12,780
Average Own Self-Employment Income (Among those with Self Employment Income Greater than Zero)[2]			
Single, Childless	4,980	5,100	5,320
Single, Qualifying Children	7,650	6,890	7,260
Head of Household, Childless	7,610	7,970	8,300
Head of Household, Qualifying Children	8,790	8,620	8,210
Married Filing Jointly, Childless	5,240	5,740	7,560
Married Filing Jointly, Qualifying Children	9,960	10,060	10,060

Footnotes at end of table.

Table 7B: Income Characteristics of Individual EITC Recipients in Panel by Filing Status—Continued

[Income in Constant 2006 Dollars]

Average Income in First Year EITC Received	Received EITC Sporadically During Sample Period [1] (Total Years)	
	2-3 Years	4-6 Years
Average Own Wage Income (Among those with Wage Income Greater than Zero)		
Single, Childless	7,020	6,700
Single, Qualifying Children	10,940	10,710
Head of Household, Childless	9,620	10,030
Head of Household, Qualifying Children	17,420	16,360
Married Filing Jointly, Childless (per W-2)	7,170	6,800
Married Filing Jointly, Qualifying Children (per W-2)	15,930	13,700
Average Own Self-Employment Income (Among those with Self Employment Income Greater than Zero)[2]		
Single, childless	5,210	5,330
Single, Qualifying Children	7,710	7,520
Head of Household, Childless	7,750	8,380
Head of Household, Qualifying Children	9,310	8,660
Married Filing Jointly, Childless	5,470	5,930
Married Filing Jointly, Qualifying Children	10,990	10,650

[1] These categories are mutually exclusive. Thus, the category of taxpayers who have "received the EITC in 2 or 3 consecutive years" excludes any taxpayers who received the EITC for 2 or 3 consecutive years and then again at some point thereafter. Such taxpayers would be classified in the "sporadic" category.

Changes in Family Structure and Income

We first consider how people's family and income characteristics changed over the course of the panel, and how those changes were associated with their patterns of EITC receipt over the span of the panel.

One benchmark is the characteristics of people who received the credit every year between 2000 and 2006. Among people who received the EITC in every year of the panel, we observe signs of both stability and expansion among their families. 84 percent of married couples who filed jointly and 87 percent of unmarried people who filed as heads of households in 2000 reported the same filing status in 2006 (see Table 8). Over half still appeared to have the same

Table 8: Characteristics of Individuals Who Received the EITC in 2000: Filing Status in 2000 and in 2006 by Intensity of Participation

Filing Status in 2000	Filing Status in 2006		
	MFJ [1]	HOH	Single
Received the EITC in 2000 Only			
MFJ [1]	60%	2%	5%
HOH	26%	16%	17%
Single	19%	2%	29%
All Filers	36%	7%	17%
Received the EITC in 2 or 3 Consecutive Years Including 2000			
MFJ [1]	56%	2%	5%
HOH	25%	16%	17%
Single	16%	3%	27%
All Filers	34%	9%	15%
Received the EITC in 4, 5 or 6 Consecutive Years Including 2000			
MFJ [1]	61%	3%	4%
HOH	20%	25%	17%
Single	15%	7%	31%
All Filers	35%	15%	14%
Received the EITC in All Years from 2000 through 2006			
MFJ [1]	84%	14%	2%
HOH	7%	87%	6%
Single	10%	51%	39%
All Filers	34%	59%	7%
Received the EITC in 2000 and Sporadically 1 or 2 Additional Years			
MFJ [1]	63%	7%	8%
HOH	19%	32%	19%
Single	15%	10%	40%
All Filers	34%	17%	21%
Received the EITC in 2000 and Sporadically 3-5 Additional Years			
MFJ [1]	70%	16%	6%
HOH	15%	62%	14%
Single	15%	28%	43%
All Filers	35%	39%	16%

Footnotes at end of table.

Table 8: Characteristics of Individuals Who Received the EITC in 2000: Filing Status in 2000 and in 2006 by Intensity of Participation—Continued

Filing Status in 2000	Filing Status in 2006		
	MFS	Non-Filer	Total
Received the EITC in 2000 Only			
MFJ [1]	1%	32%	100%
HOH	2%	39%	100%
Single	1%	48%	100%
All Filers	1%	39%	100%
Received the EITC in 2 or 3 Consecutive Years Including 2000			
MFJ [1]	1%	35%	100%
HOH	2%	40%	100%
Single	1%	52%	100%
All Filers	2%	41%	100%
Received the EITC in 4, 5 or 6 Consecutive Years Including 2000			
MFJ [1]	1%	31%	100%
HOH	2%	37%	100%
Single	1%	45%	100%
All Filers	2%	35%	100%
Received the EITC in All Years from 2000 through 2006			
MFJ [1]	n.a.	n.a.	100%
HOH	n.a.	n.a.	100%
Single	n.a.	n.a.	100%
All Filers	n.a.	n.a.	100%
Received the EITC in 2000 and Sporadically 1 or 2 Additional Years			
MFJ [1]	1%	21%	100%
HOH	1%	29%	100%
Single	1%	34%	100%
All Filers	1%	28%	100%
Received the EITC in 2000 and Sporadically 3-5 Additional Years			
MFJ [1]	*	8%	100%
HOH	*	10%	100%
Single	*	13%	100%
All Filers	*	10%	100%

[1] Qualified widows are included with joint filers.

* Less than 0.5%

number of qualifying children or dependents in 2006 as in 2000 (see Table 9). But we also see evidence of family growth among this population: over 60 percent of those who filed as single in 2000 claimed head-of-household filing

Table 9: Characteristics of Individuals Who Received the EITC in 2000: Number of Children in 2000, and Number of Dependents in 2006 by Intensity of Participation

Number of Qualifying Children in 2000	Number of Dependents in 2006				
	None	One	Two or more	Non-Filers	Total
Received the EITC in 2000 Only					
None	44%	4%	3%	48%	100%
One	38%	16%	12%	35%	100%
Two	20%	10%	37%	33%	100%
Total	35%	10%	16%	39%	100%
Received the EITC in 2 or 3 Consecutive Years Including 2000					
None	41%	4%	3%	53%	100%
One	36%	15%	12%	37%	100%
Two	20%	9%	32%	39%	100%
Total	31%	10%	18%	41%	100%
Received the EITC in 4, 5 or 6 Consecutive Years Including 2000					
None	43%	5%	5%	47%	100%
One	30%	21%	16%	34%	100%
Two	19%	12%	35%	34%	100%
Total	25%	15%	24%	35%	100%
Received the EITC in All Years from 2000 through 2006					
None	56%	18%	25%	n.a.	100%
One	4%	52%	44%	n.a.	100%
Two	2%	18%	79%	n.a.	100%
Total	6%	31%	64%	n.a.	100%
Received the EITC in 2000 and sporadically 1 or 2 Additional Years					
None	50%	9%	7%	34%	100%
One	28%	26%	20%	26%	100%
Two	15%	15%	45%	24%	100%
Total	30%	17%	25%	28%	100%
Received the EITC in 2000 and sporadically 3-5 Additional Years					
None	54%	17%	16%	14%	100%
One	16%	40%	35%	10%	100%
Two	8%	20%	63%	8%	100%
Total	18%	27%	45%	10%	100%

or joint status by 2006; 44 percent of those without any children in 2000 had at least one dependent by 2006; and 44 percent of those with only one qualifying child in 2000 had two or more dependents by 2006. Among this group, families rarely contracted: Only 2 percent of families with two or more qualifying children in 2000 had no dependents by 2006; similarly, only 2 percent of married individuals filed as single in 2006.

The picture is somewhat different (and more diverse) among those who received the EITC only in 2000. About 39 percent did not file any return in 2006—and the percentage not filing a return in 2006 was highest among those who filed as single in 2000. Among those who continued to file tax returns, they typically either gained a spouse or lost a dependent. One in four of those who filed as heads of households in 2000 was married by 2006. And 38 percent of those who had one qualifying child in 2000 had no dependents by 2006. Similar patterns are observed for those who received the EITC for 1 or 2 more years.

The remaining EITC participants generally look more like the one-time claimants. A large share of those who claimed the EITC more than 1 consecutive year (particularly those who filed as single in 2000) were no longer filing returns by 2006—and, among those who did file, they were about as likely as the one-time recipients to gain a spouse or lose a dependent. This is less true, though, of those who received the credit sporadically over the span of the panel.

Table 10 examines changes in adjusted gross income (in 2006 dollars) between 2000 and 2006. By definition, those who received the EITC for all 7 years had to maintain income levels within the credit's eligibility range. Among those who reported less than \$10,000 of income in 2000, 31 percent remained in that income category in 2006, and 45 percent had moved up to the next income category (\$10,000 to \$20,000). 38 percent of those whose incomes had been between \$10,000 and \$20,000 remained in that income range in 2006—but over half saw their incomes rise by 2006. Among those who had earnings between \$20,000 and \$30,000 in 2000, one in four reported an increase in adjusted gross income by 2006. Still, about one-third had a drop in income during the period.

As might be expected, the income growth among those who received the EITC only in 2000 and were still filing a return in 2006 was far more dramatic. Among those who had earned between \$10,000 and \$20,000 in 2000, nearly a third were earning more than \$50,000 in 2006; 43 percent of those who had received between \$20,000 and \$30,000 of income were also in that higher bracket by 2006. But, as noted earlier, about 39 percent of this population did not file a tax return in 2006—and that difference was most marked among those with the lowest incomes. Among those who had earned under \$10,000 in 2000, 55 percent did not file a return in 2000.

Table 10: Characteristics of Individuals Who Claimed the EITC in 2000: AGI of Individuals in 2000 and in 2006 by Intensity of Participation

Adjusted Gross Income in 2000 (2006 Dollars)	Adjusted Gross Income in 2006				
	less than \$0	\$0- \$10,000	\$10,000- \$20,000	\$20,000- \$30,000	\$30,000- \$40,000
	Received the EITC in 2000 Only				
\$0 - \$10,000	*	5%	7%	7%	6%
\$10,000 - \$20,000	*	*	7%	10%	10%
\$20,000 - \$30,000	*	*	*	6%	14%
All Recipients	1%	3%	6%	7%	9%
	Received the EITC in 2 or 3 Consecutive Years Including 2000				
\$0 - \$10,000	*	6%	7%	6%	5%
\$10,000 - \$20,000	*	2%	7%	11%	10%
\$20,000 - \$30,000	*	*	3%	7%	17%
All Recipients	1%	3%	6%	8%	9%
	Received the EITC in 4, 5 or 6 Consecutive Years Including 2000				
\$0 - \$10,000	*	7%	11%	6%	8%
\$10,000 - \$20,000	*	3%	9%	12%	17%
\$20,000 - \$30,000	*	*	4%	9%	25%
All Recipients	1%	4%	9%	10%	15%
	Received the EITC in All Years from 2000 through 2006				
\$0 - \$10,000	*	31%	45%	19%	4%
\$10,000 - \$20,000	*	11%	38%	41%	10%
\$20,000 - \$30,000	*	8%	24%	43%	24%
Total Recipients	*	19%	39%	32%	9%
	Received the EITC in 2000 and sporadically 1 or 2 Additional Years				
\$0 - \$10,000	2%	19%	18%	9%	6%
\$10,000 - \$20,000	*	9%	14%	15%	14%
\$20,000 - \$30,000	*	5%	9%	14%	24%
Total Recipients	1%	13%	14%	12%	12%
	Received the EITC in 2000 and sporadically 3-5 Additional Years				
\$0 - \$10,000	1%	34%	29%	13%	6%
\$10,000 - \$20,000	*	16%	26%	27%	16%
\$20,000 - \$30,000	*	9%	18%	28%	29%
Total Recipients	1%	22%	26%	21%	14%

Footnotes at end of table.

Among the remaining EITC participants, the growth in adjusted gross income was more dramatic for those who received the credit for fewer years—and that finding was particularly true among those who received the credit for 2 or more consecutive years.

Table 10: Characteristics of Individuals Who Claimed the EITC in 2000: AGI of Individuals in 2000 and in 2006 by Intensity of Participation—Continued

Adjusted Gross Income in 2000 (2006 Dollars)	Adjusted Gross Income in 2006			Total
	\$40,000- \$50,000	more than \$50,000	Non-Filers	
	Received the EITC in 2000 Only			
\$0 - \$10,000	5%	14%	55%	100%
\$10,000 - \$20,000	11%	32%	30%	100%
\$20,000 - \$30,000	20%	43%	14%	100%
All Recipients	10%	25%	39%	100%
	Received the EITC in 2 or 3 Consecutive Years Including 2000			
\$0 - \$10,000	5%	13%	58%	100%
\$10,000 - \$20,000	12%	26%	32%	100%
\$20,000 - \$30,000	22%	32%	18%	100%
All Recipients	11%	21%	41%	100%
	Received the EITC in 4, 5 or 6 Consecutive Years Including 2000			
\$0 - \$10,000	8%	10%	50%	100%
\$10,000 - \$20,000	15%	15%	30%	100%
\$20,000 - \$30,000	23%	18%	20%	100%
All Recipients	13%	13%	35%	100%
	Received the EITC in All Years from 2000 through 2006			
\$0 - \$10,000	n.a.	n.a.	n.a.	100%
\$10,000 - \$20,000	n.a.	n.a.	n.a.	100%
\$20,000 - \$30,000	n.a.	n.a.	n.a.	100%
Total Recipients	n.a.	n.a.	n.a.	100%
	Received the EITC in 2000 and sporadically 1 or 2 Additional Years			
\$0 - \$10,000	4%	6%	37%	100%
\$10,000 - \$20,000	10%	14%	23%	100%
\$20,000 - \$30,000	17%	18%	14%	100%
Total Recipients	8%	11%	28%	100%
	Received the EITC in 2000 and sporadically 3-5 Additional Years			
\$0 - \$10,000	2%	2%	13%	100%
\$10,000 - \$20,000	4%	3%	8%	100%
\$20,000 - \$30,000	7%	4%	5%	100%
Total Recipients	4%	3%	10%	100%

* Less than 0.5%

Rows may not sum to 100 percent due to rounding.

Reasons for Changes in EITC Participation

In Table 11, we try to isolate the key reason why over half of those who claimed the credit in 2000 no longer received it in 2006. As the previous section suggests, one reason that people stop claiming the EITC is that they no longer file tax returns. 20 percent of EITC recipients in 2000 dropped out of the filing population by 2006. Without a tax return, it is difficult to know exactly what happened to those people in 2006. However, we do know

Table 11: Analysis of Reasons Why EITC Was Not Received in 2006 by Individuals Who Received Credit in 2000

Total EITC recipients in 2000	22,816,200
Did not receive EITC in 2006	52.2%
Did not file tax return in 2006	20.0%
Had W-2 wages above filing threshold in 2006 (based on last known filing status)	2.5%
Had W-2 wages below filing threshold in 2006 (based on last known filing status)	4.1%
Had no W-2 wages	13.4%
In 2000, had W-2 wages but no self-employment income	10.5%
In 2000, had self-employment income and W-2 wages	2.1%
In 2000, had self-employment income but no W-2 wages	0.8%
Filed tax return in 2006	32.3%
Received notice (CP 09/27) from IRS but did not receive EITC	0.3%
Do not appear to be eligible for the EITC in 2006	32.0%
Filing status changed, making individual ineligible for EITC	6.9%
Filing status changed to MFS by 2006	0.8%
Single or HOH filer married a worker and combined income exceeded EITC threshold in 2006	6.2%
Filing unit's income increased above EITC threshold in 2006	20.4%
Childless in 2000, no child dependents in 2006, and AGI or earned income exceed childless threshold	3.0%
Childless in 2000, child dependents in 2006, and AGI or earned income exceed child threshold	0.3%
Qualifying children in 2000 and dependents in 2006, and AGI or earned income exceed child threshold	10.8%
Qualifying children in 2000, no dependents in 2006, and AGI or earned income exceed childless threshold	6.3%
Earned income dropped to zero by 2006	1.4%
Other	3.2%

Table 12: Analysis of Reasons Why EITC Was Not Received in 2000 by Individuals Who Received Credit in 2006

Total EITC Recipients in 2006	27,396,900
Did not receive EITC in 2000	60.4%
Did not file tax return in 2000	23.6%
Had W-2 wages above filing threshold in 2006 (based on first known filing status)	1.2%
Had W-2 wages below filing threshold in 2006 (based on first known filing status)	3.2%
Had no W-2 wages	16.2%
In 2006, had W-2 wages but no self employment income	12.4%
In 2006, had self-employment income and W-2 wages	1.5%
In 2006, had self-employment income but no W-2 wages	2.3%
Filed tax return in 2000	36.9%
Do not appear to be eligible for the EITC in 2000	36.1%
No dependents claimed in 2000 and AGI above childless threshold	26.0%
No dependents claimed in 2000 and age outside range for childless EITC	7.6%
Other	2.5%

whether they received a W-2. In a small number of instances (2.5 percent), the individuals appeared to have sufficient earnings (given their last known filing statuses) to have been required to file a return in 2006. In most cases, though, they appear to have had no earnings at all in 2006: 13 percent of EITC claimants in 2000 did not file a 2006 tax return nor had any record of wages reported on a W-2 for that year.⁹

About one-third of those who received the EITC in 2000 filed a tax return in 2006, even though they did not receive the credit. In the majority of these cases, the incomes for their filing units exceeded the EITC thresholds—and typically without any changes in family status that might have contributed to losing eligibility for the EITC. Thus, among the 32 percent who filed a tax return in 2006 but did not claim the credit, roughly one-third had children in 2000 and dependents in 2006—but their incomes in 2006 exceeded the EITC thresholds. However, only about 1 percent reported that they no longer had any earned income.

⁹ Although it is possible that these nonclaimants had earnings from self-employment in 2006 that would not have been reported on a Form W-2, only a small number of those individuals had reported such income in 2000. Among EITC claimants in 2000, only about 2.9 percent reported self-employment income in 2000 and neither filed a tax return nor had a W-2 record in 2006.

Changes in family status also contributed to a dropoff in participation. Over 6 percent of those who claimed the EITC in 2000 had married another worker by 2006, and their combined earnings brought them over the EITC thresholds. Notably, changing filing status to married filing separate—a status that causes married couples to lose the EITC—did not significantly affect participation in 2001. Another 6 percent who had claimed a qualifying child in 2000 no longer had any dependents in 2006 and earned too much to qualify for the childless credit.

From the perspective of the IRS in 2006, very few of the former EITC recipients looked eligible in 2006. Based on the information on their current tax returns, the IRS sends people notices—the CP09 if they have child dependents and the CP27 otherwise—indicating that they may be eligible for the EITC and urging them to apply for the credit. Those notices were sent to less than 1 percent of those who did not receive the credit in 2006.

We also looked backwards. Table 12 looks at EITC recipients in 2006 to determine why over 60 percent did not claim the credit in 2000. Over 20 percent did not file a return in 2000, and, in most cases, they did not have any earnings reported on W-2s. Among the 37 percent who did file a return, most did not have dependents in 2000 and either earned too much to qualify for the childless EITC or were too young. (To qualify for the childless EITC, recipients must be at least 25 years old or under age 65.)

Conclusions and Future Research

EITC participation is dynamic. An annual snapshot of EITC participants includes people who receive the EITC for only 1 year, others who will receive the credit for a long period, and the majority who receive the credit for several years (sometimes with breaks between years of receipt). Seen from a long-term perspective, millions more people flow in and out of the EITC population than a one-time snapshot reveals.

The contrasts are striking between those who received the EITC for 1 year during the course of the panel and those who received the credit for all 7 years. Short-term recipients were more likely to be male—and a substantial number were also single and childless. In contrast, long-term recipients tend to be single females with children.

Over time, the reasons for participation vary, reflecting changes in both family and financial circumstances. The largest factor explaining why people became eligible or lost eligibility for the EITC between 2000 and 2006 appeared to be changes in income—both positive and negative. 15 percent of EITC participants in 2000 did not have a record of wage income by 2006

(including both nonfilers who did not have any record of a W-2 being filed on their behalf and filers who reported that earned income on their tax returns was zero). On the other hand, about 20 percent had income in excess of the credit's eligibility thresholds in 2006. But changes in family circumstances also caused people to lose eligibility for the EITC by 2006—generally either through the acquisition of a working spouse or the aging or departure of a dependent.

As noted at the beginning, this paper lays the foundation for future research that can examine the effectiveness of the EITC in achieving its goals of increasing work effort and reducing poverty. Panel data would allow researchers to examine changes in an individual's employment status and earnings over time. Achieving those goals may require tradeoffs with other policy goals; for example, the EITC—by changing incentives to marry and have children—may affect family structure in ways that were not intended by the legislation. Panel data would provide greater insight into the effect of the credit on family formation. Panel data can also address questions concerning the administration of the EITC. Turnover among EITC claimants over time may present challenges for tax administrators, as new people enter the filing population and must learn the credit's eligibility rules. Another question regards the effectiveness of EITC enforcement efforts. The IRS has invested substantial resources to reduce noncompliance among EITC claimants, but little is known about the effect of those compliance efforts on individual filers. The data in this panel file would enable researchers to consider the effectiveness of IRS efforts to improve both participation and compliance.

Unlike Census data or other public surveys, the new EITC panel allows us to follow actual recipients of the EITC. Unlike some earlier tax panels, this dataset also allows us to follow, among couples who initially file joint returns, both spouses, even if their marriage dissolves and the individuals file separate returns in subsequent years. The richness of this panel data also extends to the inclusion of information on IRS administrative actions—including both outreach and enforcement. As a consequence, the new EITC panel promises to provide new insight into the effectiveness of the credit in meeting both its policy and administrative goals.

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