Dependent Database And Earned Income Tax Credit

Applicability For Development Of Risk-Based Examination Strategies

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This paper was presented at the 2002 IRS Research Conference
Background

- 1997 EITC compliance study
  - Indicates high rate of non-compliance
  - Unintentional and intentional
- Kohl amend to Taxpayer Relief Act of 1997
  - Authorizes IRS to access federal case registry (FCR) of child support orders
- High noncompliance with EITC in TY 1999
  - $8.5 to $9.9 billion (27% to 31.7%) should not have been paid
Dependent Database (DDb)

- Identifies potentially non-compliant returns during processing
  - Return data and external data match
  - Scoring system applies points to returns based on programming of algorithms
- EITC workload selection tool
DDb Uses Data From:

- **INTERNAL DATA SOURCES**

- **EXTERNAL DATA SOURCES**
  - Department of Health and Human Services
    - Child Support Orders and Custodial Status from Federal Case Registry (FCR)
  - Social Security Administration
    - SSNs of parents linked with newborn children
EITC/DDDb Research Projects

- EITC DDdb Audit Study – Tax Year (TY) 1999
- Measuring Effectiveness of EITC DDdb – TY 2001
- FCR Evaluation Study – TY 2001
- EITC Claims Project – Processing Year 2002
Risk-Based Exam Approach

- Uses level-of-risk of non-compliance defined by relevant characteristics
- Applies differentiated treatments
  - Notification letter (soft notice)
  - Audit
  - Math error
- Contingent on specific level-of-risk
Benefits of Risk-Based Approach

- More efficient resource allocation
- Improved application of treatments
- Improved time sequencing
- Reduces burden on compliant taxpayers
Applicability of DDb

- Largest amounts of EITC over claims are due to taxpayers claiming children who are not their qualifying children
  - Residency issue
- DDb is best data source
- 2004 math error authority
Next Steps

- Develop more effective rules and scoring systems
- Build better models to predict EITC non-compliance
- Differentiate returns based on risk
- Apply treatment alternatives combined with appropriate time sequencing
Goals

- Combine DDb with a risk-based model
- Enhance and extend DDb scope
- Develop effective treatment criteria
- Reduce burden
- Protect revenue