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**IRS Earned Income Tax Credit (EITC) Initiative**

*Report on Fiscal Year 2005 Tests*

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**Department of the Treasury  
Internal Revenue Service**

**January 2007**

## **Executive Summary**

In June 2003, the Commissioner of Internal Revenue announced a five-point initiative to improve service, fairness, and compliance in the administration of the Earned Income Tax Credit (EITC). One goal of this initiative was to reduce EITC overclaims without adversely affecting participation among eligible taxpayers. To evaluate alternative approaches to achieving this goal, we conducted three studies in 2004 and several follow-up studies in 2005. This report addresses the 2005 studies on:

- EITC Qualifying Child Residency Certification
- EITC Filing Status
- EITC Automated Underreporter (AUR)

We designed these studies to determine, for the test taxpayers, the effect of the initiatives on EITC overclaims and participation rates among eligible taxpayers, and the associated burden, on the taxpayer and on the IRS. We intend to use the test results to guide future decisions on improving the administration of the EITC.

### **EITC Qualifying Child Residency Certification Study**

The Qualifying Child Study examined the effects of a residency certification requirement on:

- Amount of EITC claimed including the amount of erroneous claims
- Number of children claimed
- Taxpayer participation in the EITC
- Taxpayer burden
- Amount of erroneous claims that certification prevented us from paying to ineligible taxpayers

The primary focus of the evaluation was to determine how certification affected the taxpayers involved in the test, that is, those taxpayers who we actually asked to certify. The study design, however, enabled us to project the results to the population of EITC claimants from which we selected the test sample. This report identifies some important differences between the 2004 and 2005 test results. A comprehensive analysis of all three studies will be included in next year's report.

For the 2005 study, we were also interested in better understanding the likely effects of a full-scale program on individuals required to certify and on third parties who provide EITC claimants with documents and assistance. To address these issues, we selected a portion of the test for the 2005 study from a single community to simulate what might happen if we more broadly imposed a certification requirement. The selected community was Hartford County, Connecticut, which includes the city of Hartford. While there is some discussion of the differences between the city of Hartford and the rest of Hartford County, the primary focus of the evaluation is on Hartford County as a whole.

The EITC Qualifying Child Residency Certification Study included elements of an education/outreach program, a "soft-notice" program, and an examination program. It included:

- A random sample of 16,800 EITC claimants (the “National Sample test group”) and a community test group of 8,211 taxpayers (the “Hartford County test group”) for whom we could not establish qualifying child residency eligibility through available data. Therefore, we required these taxpayers to go through the certification process for Tax Year (TY) 2004.
- A control group the same size as the National Sample test group comprised of taxpayers with characteristics similar to the test groups.
- Extensive data collection, including information from a telephone/mail survey administered to a random sub-sample of taxpayers in the test and control groups and focus groups of document providers in Hartford County.

In November 2004, we mailed documents to the 25,011 taxpayers in the test groups who had claimed the EITC with qualifying children in TY 2003. These documents included a letter describing the study, a form offering three options for certifying residency of the qualifying children (letters, official records, or third party affidavits), the affidavits themselves, and IRS publications on the EITC. We have completed processing the information received from nearly all the taxpayers in the test groups.

The certification process gave taxpayers sufficient time to respond to our requests for additional information or notifications of decisions. Generally, we allow at least 30 days for a response from a taxpayer (90 days for the statutory *Notice of Deficiency*) before moving on to the next step in the process. Thus, completing the certification process could take several months for taxpayers who do not respond immediately to us.

The results in this report are based on taxpayer return filings through the end of December 2005 and certification processing activities through late May 2006. By the end of December 2005, 15,177 or about 90 percent of the control group filed returns. This response rate compares to 14,535 returns filed in the National Sample test group and 7,047 returns in the Hartford County test group, or 89 percent and 88 percent, respectively.<sup>1</sup> About 22 percent of the National Sample test group and 27 percent of the Hartford County test group filed returns but did not claim EITC. This rate compares to 14 percent of taxpayers in the control group who filed a return but did not claim EITC.

Approximately 3 percent of both test groups claimed the EITC without qualifying children. This rate is one percentage point higher than the control group percentage. About 35 percent of the control group claimed EITC with one qualifying child and 38 percent claimed EITC with two qualifying children. Thus, about 74 percent<sup>2</sup> of the control group claimed EITC with qualifying children. Compared with the control group, fewer taxpayers in the test groups claimed EITC with children. About 33 percent of the National Sample test group claimed EITC with one qualifying child and 30 percent claimed EITC with two qualifying children. For the Hartford County test group, 31 percent claimed EITC with one qualifying child and 27 percent claimed with two qualifying children. The differences are statistically significant. Therefore, about 63 percent of the National Sample test group claimed EITC with qualifying children –

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<sup>1</sup> After selection, the sample sizes were adjusted to reflect changes in taxpayers’ circumstances (i.e. excluding those located in disaster areas). The final counts were 16,829 for the control group; 16,400 for the National Sample; and 8,041 for the Hartford County study group.

<sup>2</sup> Figures do not add due to rounding.

about 11 percentage points<sup>2</sup> lower than for the control group. About 58 percent of the Hartford County test group claimed EITC with children, which is five percentage points lower than the National Sample test group. Most of the differences between the test and control groups are attributable to fewer claims in the test groups for two qualifying children.

The study results suggest that the certification requirement reduced EITC claims. The total amount of EITC claimed by the National Sample test group was about \$23.8 million. This amount is about \$4.8 million, or approximately 17 percent, less than the \$28.7 million claimed by the control group. This 17 percent difference in EITC claimed suggests that a certification requirement influences taxpayer behavior. While the size of the Hartford County test group was about half the size of the National Sample test group, they only claimed about 42% as much in EITC (\$10.0 million). The reduction in claims in the National Sample test group and the Hartford County test group may be the result of increased voluntary compliance through better understanding of the residency requirement, or deterrence of erroneous claims from ineligible claimants. The disproportionately lower claims in Hartford County might have resulted, in part, from the outreach efforts in the community that helped taxpayers understand the certification requirements. However, the result also may reflect a reduction in claims by eligible taxpayers who should have claimed the EITC, but the certification requirement deterred them from doing so. Based in large part on the survey data, we estimate that deterred erroneous claims for both test groups are between \$5.8 million and \$6.8 million while between \$0.7 and \$1.8 million of reduced claims are attributable to the unintended deterrence of eligible claimants.

The data also indicate the certification process prevented the payment of erroneous claims for taxpayers who made a claim but did not meet the residency requirements. As of May 2005, we had processed all but 324 returns of the 14,973 taxpayers in the test group who filed for TY 2004 and claimed EITC with qualifying children. We denied about \$8.0 million in EITC claims in the certification process. The amount of control group claims that we did not pay because of normal IRS enforcement programs was \$1.1 million.

The certification requirement in the Qualifying Child Study required proof of qualifying child residency in the form of records, a letter on official letterhead, or a third party affidavit. Last year's certification study pioneered the use of affidavits to support the child residency requirement in the EITC claim, and we repeated the experiment this year. The results showed that our tax examiners more frequently accepted affidavits over the other two types of documents as a reliable way to substantiate claims of residency. We attribute the higher acceptance rate, in part, to the fact that the affidavits were special forms with dedicated lines for all the required information. However, because we developed these forms specifically for this test, we cannot generalize these results.

Based on a survey of taxpayers, certification appeared to increase the average time, but not the average expense, for preparing and filing the tax return and certification materials. Respondents in the National Sample test group who reported claiming EITC with qualifying children said they spent an average of 9.8 hours preparing their tax returns—about 1.9 hours more than the Hartford Test group (7.9 hours), which in turn is about 5.2 hours more than the control group (2.7 hours, on average). For those who reported claiming EITC with children and using a paid preparer, the cost of that service was roughly the same for all three study groups (about \$164 for Hartford County, \$157 for the National Sample, and \$163 for the control group). Excluding the cost of paid preparers, out-of-pocket expenses for respondents reporting they

claimed EITC with children were, on average, about \$56 for the Hartford County test group, \$61 for the National Sample test group and about \$74 for the control group. These differences are not statistically significant. About 23 percent of the Hartford County test group and 26 percent of the National Sample test group who reported they claimed EITC with children said they took time off from work to complete their tax return, compared to 10 percent of the control group.

Taxpayers involved in the certification process seemed fairly evenly split in their assessments about their difficulty or ease in understanding the new forms and in deciding which documents to use for certification. More found it very or somewhat easy either to obtain the documents they needed or to respond to IRS requests for additional information. Nearly three-quarters of those in the test groups thought taxpayers should be required to prove EITC eligibility before they receive the EITC—compared to about two-thirds of the control group.

### **EITC Filing Status Study**

The EITC Filing Status Study, like the EITC Qualifying Child Residency Certification Study, examined EITC claimants who have a higher likelihood of filing returns with EITC overclaims. Based on data from the 2004 study, we developed two selection algorithms, one using administrative data available to the IRS internally and one using third party data. We applied the algorithms to a population of EITC claimants to determine two test groups. Taxpayers in this population claimed the EITC in TY 2002 and filed as “married filing jointly.” In TY 2003, they claimed the EITC again but filed as heads of households instead. We randomly selected a third group from the same population to serve as a comparison. The test included 2,204 taxpayers in the group selected using IRS data, 1,912 in the group selected using third party data and 2,644 in the randomly selected group. We also included in the test groups the related spouse who appeared on the TY 2002 return. The EITC Filing Status Study looked at the effect of requiring these EITC taxpayers to document marital status.

We did not contact taxpayers we selected for the EITC Filing Status Study before they filed their TY 2004 return. However, if they claimed the EITC and filed as single or head of household on their TY 2004 return, we held the EITC portion of their refunds and asked them to provide additional information about marital status for TY 2004. Generally, if the taxpayers could not demonstrate they were no longer married, we considered them to be married filing a separate return and, thus, ineligible to claim the EITC. Our examiners used the information claimants furnished as the sole basis for determining whether they satisfied the filing status requirements.

For TY 2004, 1,539 claimants in the IRS data test group (70 percent), 1,285 claimants in the third party data test group (67 percent), and 1,726 claimants in the randomly selected group (65 percent) filed as single or head of household and claimed the EITC. We processed all but 31 returns. In the IRS group, we disallowed 54 percent of the dollar amount of EITC claims compared to 37 percent for the third party group and 31 percent for the randomly selected group. We protected approximately \$3.9 million in total revenue.

## **Automated Underreporter (AUR) Study**

The EITC Automated Underreporter (AUR) Study focused on taxpayers who claim EITC but are either ineligible because their incomes are too high or eligible but overclaim the EITC because they misreport their incomes. In 2004, we initiated the EITC AUR Study to identify, through document matching, EITC claimants with a high likelihood of income reporting errors. The study had two objectives:

- To apply EITC income criteria to AUR-selected cases to determine the overall impact on EITC claims; and
- To use the resulting EITC data to update the AUR case selection method so that it identifies EITC claimants with a higher likelihood of income reporting errors.

For the 2005 study, we refined the selection methodology used in the 2004 study to better address both the net change in income tax and credits. We selected 300,270 taxpayers who claimed EITC and for whom there were indications of income misreporting for Tax Year 2003. We did not hold refunds or EITC claims because we identified the income mismatches well after the taxpayer filed the return.

We processed the 300,270 EITC returns selected for the AUR Study. For about 20,700 (7 percent) of these cases, the reviewer resolved the apparent income discrepancy and closed the case (these are called “screenout cases”). For the remaining 279,593 cases, we sent notices to taxpayers about the seemingly misreported income amounts. We have closed about 278,000 of these notice cases. We closed approximately 11 percent of the notices without a change to the taxpayer’s account. We closed nearly 89 percent with reductions in, or disallowances of, the EITC and/or increases in tax. We transferred about 1,100 cases to another IRS operation for additional processing.

The AUR study data indicates that both the screen-out and the no change rates for the AUR EITC cases in this 2005 study were lower than in the 2004 test. The data also show a reduction in, or disallowance of, EITC of approximately \$256 million and an increase in tax—net of offsetting withholding amounts—of approximately \$262 million. IRS expects eventually to recover approximately 80 percent of the EITC disallowed. While the EITC changes were similar to last year’s (\$250 million in 2004), the change in tax was nearly double (\$134 million in 2004), indicating the process change worked in the intended direction.

## **Summary**

This report provides an overview of the three EITC initiatives we tested—Qualifying Child Certification, Filing Status, and Automated Underreporter—and reports the results of these studies. Analysis of the data from these studies indicate that these efforts prevented payment of approximately \$19 million in erroneous EITC claims and resulted the abatement of approximately \$256 million in EITC that had previously been credited to taxpayers. The Qualifying Child Certification and Filing Status tests yielded low returns on investment primarily because of the costs associated with examiners collecting large amounts of data on each taxpayer. While this data was necessary to analyze the effects of the tests on taxpayer burden and compliance, it is not data that would be collected if these tests were implemented in

production. Therefore, the Qualifying Child Certification test return of \$2.65-\$2.85 and the Filing Status Test return of \$2.8 for each dollar spent are not comparable to any existing programs currently in place. The return on investment for the AUR study is expected to be \$22 for each dollar invested after collection activities. We ended the AUR test after two years and added the program to the existing base EITC compliance programs that include examinations and math error processing. We have also completed the test of the filing status program and will examine the results from this year's test to determine if existing methods of identifying returns with possible filing status errors that result in incorrect EITC claims can be improved upon. We will continue testing the certification approach through TY 2006. We have not reached a conclusion about whether to impose a certification requirement.

## Table of Contents

Executive Summary .....	i
I. Introduction .....	12
II. The Earned Income Tax Credit (EITC) .....	12
III. EITC Compliance Estimates .....	14
IV. IRS Five-Point Initiative .....	14
V. 2005 EITC Qualifying Child Residency Certification Study .....	15
V.A EITC Qualifying Child Residency Certification Study Group Development .....	17
V.B EITC Qualifying Child Residency Certification Process .....	19
V.C EITC Qualifying Child Residency Certification Study, Overview.....	22
V.D Qualifying Child Residency Certification Study, Study Groups .....	23
V.D.1 Qualifying Child Residency Certification Study, EITC Claims and Certification Outcomes .....	24
V.D.2 Qualifying Child Residency Certification Study, Characteristics.....	30
V.D.3 Qualifying Child Residency Certification Study, Response from Taxpayers in the Test Groups .....	37
V.D.4 Qualifying Child Residency Certification Study, the Effect of Mandatory Validation on Certification Outcomes .....	52
V.D.5 Qualifying Child Residency Certification Study, Taxpayer Costs and Experience	58
V.D.5.a Taxpayer Costs .....	60
V.D.5.b Taxpayer Opinions about Certification .....	60
V.D.6 Qualifying Child Residency Certification Study, Community Test in Hartford County .....	61
V.D.6.a Qualifying Child Residency Certification Study, Focus Groups of Third Party Document Providers in Hartford County .....	61
V.D.6.b Qualifying Child Residency Certification Study, Analysis of Burden on Third Party Document Providers.....	62
V.D.7 Qualifying Child Residency Certification Study, IRS Costs and Return on Investment .....	63
V.D.7.a TY 2004 Certification Test Return on Investment.....	64
V.D.7.b Estimating ROI for a Fully-Implemented Certification Requirement .....	67
V.D.8 Qualifying Child Residency Certification Study, Summary of Community Test in Hartford County .....	68
V.D.9 Qualifying Child Residency Certification Study, National Test Groups: Experience of First and Second Year Tests.....	69
VI. EITC Filing Status Study.....	71
V.I.B EITC Filing Status Study Evaluation .....	72
V.I.D Return on Investment of Filing Status Test .....	84
VII. EITC Automated Underreporter Study .....	85
V.II.C Return on Investment for Automated Underreporter Study.....	87
VIII. Conclusion.....	87



**Appendix A-Mathematica Review of EITC Qualifying Child Residency Certification Study.....A-1**  
**Appendix B-Certification Letters, Forms, and Schedules .....B-1**  
**Appendix C-Westat Final Survey Report..... C-1**  
**Appendix D-Westat Final Focus Group Report ..... D-1**

## List of Tables

Table 1. EITC Parameters for Tax Year 2004 by Filing Status and Number of Qualifying Children.....	13
Table 2: EITC Qualifying Child Residency Certification Study: Number of Study Returns Tax Year 2004.....	24
Table 3: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Filing Status for Test and Control Groups .....	25
Table 4: EITC Qualifying Child Residency Certification Study: Amount Claimed and Adjustments for Tax Year 2004 (money amounts are in thousands of dollars) .....	26
Table 5a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Outcome of Certification Process for Test Groups Compared to Examination Process for Control Group .....	27
Table 5b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Test and Control Groups (money amounts are in thousands of dollars).....	28
Table 6a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Test Groups by Subsample.....	29
Table 6b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Test Groups' Amount of Claims by Subsample (money amounts are in thousands of dollars) .....	29
Table 7a. EITC Qualifying Child Residency Certification Study: Tax Year 2004 Filers' Filing Medium.....	30
Table 7b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for Taxpayers Claiming EITC with Qualifying Child (ren) by Filing Medium .....	31
Table 8a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Returns by Type of Preparer .....	31
Table 8b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for Taxpayers Claiming EITC with Qualifying Child (ren) by Type of Preparer .....	32
Table 8c: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for Taxpayers Claiming EITC with Qualifying Child (ren) by Type of Preparer (money amounts are in thousands of dollars) .....	33
Table 9a: EITC Qualifying Child Residency Certification Study: Number of Returns by Filing Status for Tax Year 2004 .....	33
Table 9b: EITC Qualifying Child Residency Certification Study: Percent of Returns by Filing Status for Tax Year 2004 .....	34
Table 10a: EITC Qualifying Child Residency Certification Study: Filing Status Distribution for Tax Years 2003 and 2004, All Tax Return Filers for the Tax Year 2004 Study .....	34
Table 10b: EITC Qualifying Child Residency Certification Study: Filing Status Distribution for Tax Years 2003 and 2004, Filers Claiming EITC with Qualifying Child (ren) for the Tax Year 2004 Study .....	35
Table 11: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Outcome of Certification Process by Characteristics of Taxpayers for Test Groups .....	36
Table 12: EITC Qualifying Child Residency Certification Study: Interest in Spanish Language Forms and Assistance for Test Groups in Tax Year 2004 Study.....	37
Table 13: EITC Qualifying Child Residency Certification Study: Test Group Responses to IRS for the Tax Year 2004 Study.....	40

Table 14: EITC Qualifying Child Residency Certification Study: Distribution of Number of Telephone Calls Made to IRS per Taxpayer as Percent of Taxpayers Who Made Calls for the Tax Year 2004 Study .....	42
Table 15: EITC Qualifying Child Residency Certification Study: Distribution of Documents Submitted by Type of Document—Document Type as Percent of Total—for the Tax Year 2004 Study .....	44
Table 16: EITC Qualifying Child Residency Certification Study: Distribution of Number of Documents Submitted per Taxpayer as Percent of Taxpayers Who Submitted Documents for the Tax Year 2004 Study.....	45
Table 17: EITC Qualifying Child Residency Certification Study: Mandatory Validation Document Verification Rates by Document Type for the Tax Year 2004 Study.....	48
Table 18: EITC Qualifying Child Residency Certification Study: Document Acceptance Rates Pre- and Post-Mandatory Validation, by Document Type for the Tax Year 2004 Study.....	48
Table 19: EITC Qualifying Child Residency Certification Study: Documents Submitted by Type and Source by Test Groups for the Tax Year 2004 Study.....	49
Table 20a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Mandatory Validation Subgroups within the Test Groups.....	53
Table 20b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Mandatory Validation Subgroups within the Test Groups (money amounts are in thousands of dollars).....	54
Table 21: EITC Qualifying Child Residency Certification Study: Distribution of Number of Telephone Calls Made to IRS per Taxpayer as Percent of Taxpayers Who Made Calls, by Mandatory Validation Subgroups, for the Tax Year 2004 Study .....	55
Table 22: EITC Qualifying Child Residency Certification Study: Distribution of Documents Submitted by Mandatory Validation Subgroup and Type of Document—Document Type as Percent of Total—for the Tax Year 2004 Study .....	56
Table 23: EITC Qualifying Child Residency Certification Study: Distribution of Number of Documents Submitted per Taxpayer as Percent of Taxpayers Who Submitted Documents, by Mandatory Validation Subgroups, for the Tax Year 2004 Study .....	57
Table 24: EITC Qualifying Child Residency Certification Study: Distribution of Documents Accepted as Percent of Total Submitted by Type for the Tax Year 2004 Study.....	57
Table 25: EITC Qualifying Child Residency Certification Study: Highlights from Survey Results for the Tax Year 2004 Study .....	59
Table 26: EITC Qualifying Child Residency Certification Study: Distribution of Number of Documents Provided by Each Supplier by Type of Supplier for the Tax Year 2004 Study	63
Table 27: EITC Qualifying Child Residency Certification Study: Test Groups' Tax Year 2004 Return Filing Status and Eligibility .....	66
Table 28: EITC Filing Status Study: Study Group's Tax Year 2004 Return Status for the Tax Year 2004 Study .....	73
Table 29: EITC Filing Status Study: Amount Claimed and Adjustments for Study Group for the Tax Year 2004 Study (money amounts are in thousands of dollars).....	73
Table 30a: EITC Filing Status Study: Tax Year 2004 Return Status for the Selection Test Groups for the Tax Year 2004 Study .....	74
Table 30b: EITC Filing Status Study: Tax Year 2004 Return Status for the Selection Test Groups Amount of Claims for the Tax Year 2004 Study (money amounts are in thousands of dollars).....	75
Table 31a: EITC Filing Status Study: Tax Year 2004 Filing Medium for Study Group.....	75

Table 31b: EITC Filing Status Study: Tax Year 2004 Filing Medium for Study Group (money amounts are in thousands of dollars) .....	76
Table 32a: EITC Filing Status Study: Study Group’s Use of Paid Preparer for Tax Year 2004 Filers .....	77
Table 32b: EITC Filing Status Study: Study Group’s Use of Paid Preparer for Tax Year 2004 Filers (money amounts are in thousands of dollars) .....	77
Table 33: EITC Filing Status Study: Outcome of Certification Process by Characteristics of Study Group Taxpayers for the Tax Year 2004 Study .....	78
Table 34: EITC Filing Status Study: Study Group’s Interest in Spanish Language Forms and Assistance for the Tax Year 2004 Study.....	79
Table 35: EITC Filing Status Study: Study Group Claimant Responses to IRS for the Tax Year 2004 Study .....	80
Table 36: EITC Filing Status Study: Study Group Distribution of Number of Telephone Calls Made to IRS per Taxpayer as Percent of Taxpayers Who Made Calls for the Tax Year 2004 Study .....	80
Table 37: EITC Filing Status Study: Study Group Distribution of Documents Submitted by Type and Source of Document for the Tax Year 2004 Study.....	81
Table 38: EITC Filing Status Study: Study Group Distribution of Number of Documents Submitted per Taxpayer as Percent of Taxpayers Who Submitted Documents for the Tax Year 2004 Study .....	82
Table 39: EITC Filing Status Study: Total Number of Documents Submitted by Type for Study Group Taxpayers for the Tax Year 2004 Study.....	83
Table 40. Automated Underreporter Study: TY 2002 and TY 2003 Test Results .....	86

## **IRS Earned Income Tax Credit (EITC) Initiative: Report on Fiscal Year 2005 Tests**

### **I. Introduction**

In June 2003, the Commissioner of Internal Revenue announced a five-point initiative to improve service, fairness, and compliance in the administration of the Earned Income Tax Credit (EITC). One goal of this initiative was to improve compliance with the EITC without adversely affecting eligible taxpayers' participation. To evaluate the alternative approaches to meeting this goal, we conducted three tests during 2004: the EITC Qualifying Child Residency Certification Study, the EITC Filing Status Study, and the EITC Automated Underreporter (AUR) Study.<sup>3</sup> In October 2005, we issued a final report to Congress on these tests.<sup>4</sup>

For 2005, we continued the testing we began in 2004 and conducted follow-on tests for an additional tax year. For the tests we began in 2005, the EITC Qualifying Residency Certification and the EITC Filing Status Studies focused on TY 2004, while the AUR Study focused on TY 2003. These studies are similar to the ones we conducted in 2004, but include enhancements based on information we learned from the first year of testing. This evaluation of the 2005 tests focuses on the effect of the tests and on the effects of the enhancements. The report presents the results of the three test studies and includes an assessment of the costs and benefits of these studies

We are undertaking a third year of testing the qualifying child certification program. The results from all three tests, when available next year, will provide extensive information on the effects and costs of a certification program requiring taxpayers to provide the IRS with documentation showing that the qualifying child in their EITC claims lives with them. Testing of the filing status program, which required taxpayers to document their marital status in support of the EITC claim, concluded after two years. This test allowed us to evaluate the results of the second year test of alternative selection algorithms. The AUR test also ended after two years and we added the program to existing EITC compliance programs. Based on this test, the AUR program now incorporates EITC claims in the same manner as income tax liabilities when deciding which returns we select for contact in the document-matching program. However, we have not yet decided whether to impose a certification requirement or a filing status program. Once we complete the evaluation of all the test programs, we will assess the results to determine the best course of action.

### **II. The Earned Income Tax Credit (EITC)**

The EITC, enacted in 1975, provides a refundable tax credit for low-income working families. Originally intended to ease the burden of Social Security taxes and provide an incentive to work, the Congress has modified it several times since its introduction. The credit now provides a substantial benefit to millions of American taxpayers. Eligibility for EITC is based on three types of income: earned income, adjusted gross income and investment income. The amount of the credit depends on earned income and adjusted gross income, as well as the presence and number of qualifying children and the taxpayer's filing status. The credit amount is equal to a specified percentage of the taxpayer's

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<sup>3</sup> Throughout the remainder of the document, these studies will be referred to as the Qualifying Child Study, the Filing Status Study, and the AUR Study, respectively.

<sup>4</sup> The report is entitled *IRS Earned Income Tax Credit (EITC) Initiative: Final Report to Congress, October 2005*.

income, up to a ceiling that varies by filing status and the number of qualifying children. Taxpayers with investment income greater than a specified amount are not eligible for the EITC.

A qualifying child must meet residency, relationship, and age tests. In particular, the children must reside with the claimant for more than half of the tax year. Married taxpayers filing separately do not qualify for EITC.

The EITC program has grown significantly since its inception in 1975. In its first year, 6.2 million taxpayers claimed \$1.25 billion in earned income tax credits, or about \$4.4 billion in 2004 dollars. At that time, the maximum credit was \$400, or approximately \$1,400 in 2004 dollars, and the income level at which the credit phased-out completely was \$8,000, or about \$28,100 in 2004 dollars.

Between 1975 and 2002, Congress significantly expanded the credit. Since 1991, the amount of the credit has varied with the number of qualifying children (up to two). Since 1994, a small credit has been available for taxpayers without any qualifying children. Beginning in 2002, Congress provided an additional benefit to joint filers by extending the credit's phase-out range for married couples who file a joint return.

In TY 2004, taxpayers claimed about \$40 billion in credits. The maximum credit and income level at which the credit phased-out completely had grown to \$4,300 (for taxpayers with two or more children) and \$35,458 (for married filing jointly taxpayers with two or more children). For TY 2004, about two-thirds of all EITC claimants relied on paid preparers, and approximately three-quarters filed their tax return electronically.

For TY 2004, the second year of the Qualifying Child test, taxpayers who were married filing jointly with two qualifying children were eligible for the maximum credit at income levels between \$10,750 and \$15,040. The credit completely phased-out at \$35,458 for these taxpayers. The phase-out began at \$14,040 for single and head of household taxpayers with two qualifying children and completely phased-out at \$34,458. See **Table 1** for the EITC parameters applicable to TY 2004.

**Table 1. EITC Parameters for Tax Year 2004 by Filing Status and Number of Qualifying Children**

EITC Parameters	Filing Status					
	Single/Head of Household/ Qualifying Widow(er)			Married Filing Jointly		
	No Qualifying Children	One Qualifying Child	Two Qualifying Children	No Qualifying Children	One Qualifying Child	Two Qualifying Children
Credit percentage	7.65%	34.00%	40.00%	7.65%	34.00%	40.00%
Phase-out percentage	7.65%	15.98%	21.06%	7.65%	15.98%	21.06%
Maximum credit	\$390	\$2,604	\$4,300	\$390	\$2,604	\$4,300
Income at which begin maximum credit	\$5,100	\$7,660	\$10,750	\$5,100	\$7,660	\$10,750
Income at which begin phase-out	\$6,390	\$14,040	\$14,040	\$7,390	\$15,040	\$15,040
Income at which credit completely phased-out	\$11,490	\$30,338	\$34,458	\$12,490	\$31,338	\$35,458

### III. EITC Compliance Estimates

Our studies of EITC compliance have consistently shown significant overclaim rates for the credit. We provided our FY 2005 erroneous payments estimates to the Office of Management and Budget as part of reporting for the Improper Payments Information Act (IPIA). We based these estimates on TY 2001 National Research Program (NRP) individual income tax underreporting data. The estimates included adjustments to the TY 2001 NRP data to incorporate estimates of the expected changes to EITC claims and compliance for TY 2002 and later to incorporate the EITC-related legislative changes of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). For FY 2005, we estimated an EITC improper payment rate between 23 and 28 percent.

Although the TY 2001 NRP study provided more current information about the amount of erroneous EITC claims, the TY 1999 EITC Compliance Study remains the source for details about the source of the errors. The 1999 study estimates identified three major sources of errors: qualifying child errors, filing status errors, and income reporting errors.<sup>5</sup>

Qualifying child errors account for the largest share of overclaims. To claim a qualifying child, a taxpayer must satisfy relationship, age, and residency tests. However, the results from the 1999 EITC compliance study indicated the chief compliance issue associated with qualifying children involved the residency test.<sup>6</sup> In fact, the study estimates showed that about 80 percent of the EITC overclaimed on returns with qualifying child errors was associated with returns for which the child (or children) did not meet the qualifying child residency requirement or did not meet the residency and relationship requirements.

### IV. IRS Five-Point Initiative

In the summer of 2003, IRS Commissioner Mark W. Everson announced a five-point initiative to improve service, fairness, and compliance with EITC rules. We designed this initiative to:

- Reduce the backlog of pending EITC examinations to ensure that eligible taxpayers being examined receive their refunds timely
- Minimize burden and enhance the quality of communications with taxpayers by improving the existing audit process
- Encourage eligible taxpayers to claim EITC by increasing outreach efforts and making EITC requirements easier to understand

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<sup>5</sup> The 1999 study also identified another major source of error. This error involved taxpayers claiming EITC using a qualifying child who was also the qualifying child of someone else with a higher modified adjusted gross income. This EITC eligibility rule was known as the AGI-tiebreaker rule. However, the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA) simplified the tiebreaker rule by replacing, in most cases, an adjusted gross income comparison rule with a relationship-based hierarchy for determining the party eligible to claim the credit in situations where a child is the qualifying child of more than one person. The new rule only applies if a child is claimed (and may be claimed) by more than one person. This law change, first effective for TY 2002 returns, was expected to eliminate the tiebreaker rule as a significant source of EITC error. Consequently, efforts to reduce EITC overclaims were not focused on this source of error.

<sup>6</sup> IRS research has shown that the major source of error associated with qualifying children involves the residency test rather than the age or relationship tests. Errors occur because taxpayers claim qualifying children who did not live with them for more than half of the year – an EITC requirement.

- Ensure fairness by refocusing compliance efforts on taxpayers who claimed the credit but were ineligible because their income was too high
- Pilot a certification program to substantiate qualifying child residency eligibility for claimants whose returns are associated with a high likelihood of error

The three tests begun in 2004 address the last two points of the Commissioner's five-point plan. We designed the tests to determine how changes to the programs would affect EITC overclaims, participation rates among eligible taxpayers, and the associated burden on taxpayers and the IRS. Although the 2004 test results provided extensive information on the effect of the programs, we undertook similar tests for 2005 to gather and analyze additional data.

The 2005 tests included some modifications to the 2004 tests. The most significant change to the qualifying child certification test involved testing the certification requirement for an entire community, in addition to testing it on a national random sample. Mathematica Policy Research, Inc. had recommended the community test as part of their independent review of the 2004 certification test design. Both the 2005 filings status and AUR tests involved changes to the algorithms and procedures that we used for identifying and selecting returns with possible EITC errors. Later in the report we present more detailed information about the differences between the 2004 and 2005 tests.

The remainder of this report discusses each study. The analysis includes an assessment of the effects of the test programs and the impact of the changes made for 2005. As part of the analysis, we evaluated the costs and benefits associated with each of the studies. These estimates provide an additional year of information we will use for determining if certification and the two other processes studied provide a cost-effective way to reduce erroneous EITC payments while maintaining historically high EITC participation rates.

## **V. 2005 EITC Qualifying Child Residency Certification Study**

The 2005 Qualifying Child Study, like the 2004 test, sought to determine the impact of a residency certification requirement on the:

- Amount of EITC claimed including the amount of erroneous claims
- Number of children claimed
- Taxpayer participation in the EITC
- Taxpayer burden
- Amount of erroneous claims that certification prevented us from paying to ineligible taxpayers.

The study focused on the population of EITC claimants for whom we could not establish qualifying child residency through available data. Due to this selection to determine taxpayers in the study, the results from the study generally will not apply to all EITC claimants with qualifying children.

The 2005 test also sought to answer some additional questions. First, we were interested in better understanding the likely effects of a full-scale program on individuals required to certify and on third parties that provide EITC claimants with documents and assistance. Taxpayers in the 2004 study



were dispersed widely across the country. It was unlikely, therefore, that more than one study member would contact a third party. Consequently, the 2004 test could not assess the potential burden of a full-scale implementation on third parties. The 2004 test results also would not reflect the outcome of outreach and education that these third parties might provide under a full-scale program. It was also unlikely that individual test members would encounter other individuals with a certification requirement or third parties with extensive knowledge and experience of certification who could assist them with the certification process. To address these issues, we selected a portion of the test for the 2005 study from a single community to simulate what might happen if we imposed a broad certification requirement. We selected Hartford County, Connecticut for the test, which includes the city of Hartford.

Second, we were interested in learning whether mailing the certification requirement letters earlier and encouraging taxpayers to send their materials as soon as they were able affects the timing and outcome of the certification process. Processing certification materials before the filing season would alleviate some of the slow-downs that occur during the filing season and potentially allow us to speed refunds to qualified claimants.

The 2005 Qualifying Child Study design included two groups of EITC claimants for whom we could not establish qualifying child eligibility through available data. Therefore, we required them to go through the certification process for TY 2004. For the first group, 16,800 taxpayers were selected randomly nationwide. The second group included all 8,211 EITC claimants in Hartford County for whom we could not establish qualifying child eligibility.

The study also included a control group of similar size and taxpayer characteristics as the national test group but who would not go through the certification process. Because we randomly selected the national test group and control group from the same population of taxpayers, we believe the experiences of the control group reflect what we would have observed for the test group had they not been part of the certification test. This design separated the effects of the certification requirement on taxpayer behavior from changes that normally occur from one year to the next due to other factors. In this certification test, the only difference between the national test and control groups was the requirement to certify; consequently, we can attribute observed differences between the groups to certification.

The community test in Hartford County provided an opportunity for outreach and education that would be cost prohibitive for a nationwide test with a relatively small sample dispersed across the country. We selected Hartford County because the community was relatively compact, comprised a single media market, and had a demographic makeup similar to that of the United States as a whole. For the community test, we supported an outreach campaign in an effort to simulate what might happen if we imposed a certification test more broadly. This outreach included IRS-delivered educational materials and working with community-based organizations to educate taxpayers about the certification requirements. The outreach campaign did not include any exceptional efforts. The outreach effort was one way in which the Hartford County test differed from the nationwide test. Another difference in the tests was that third party document providers in Hartford County were much more likely to receive documentation requests from more than one taxpayer, which could potentially affect the third party's ability and/or willingness to fulfill a taxpayer's request. Taxpayers in the

Hartford County test group also were more likely to meet other taxpayers who also were required to certify and to share information about the requirement and the program.

These differences make the Hartford County test more characteristic of a broadly implemented certification program than the national test. They also create the possibility that the outcomes for the Hartford County test group may differ from the National Sample test group because of these differences. As differences between the national samples provide an estimate of the effect of the certification process, differences in the outcomes for the two test groups provide estimates of the effects of the differences in the characteristics of the certification program. However, because the City of Hartford filed a lawsuit against the IRS over the test, the resulting publicity may have affected the process of obtaining certification documentation from city agencies and led to different results than had the lawsuit not occurred.

We needed data that we could use to determine the impact of certification on taxpayer filing behavior and understand claimants' experience with the certification process and its effect on their filing choices. As a result, the study incorporated extensive data collection procedures that went substantially beyond those typically conducted as part of standard IRS operational programs. As part of the data collection activities, we contracted with the Westat Corporation to conduct a survey and focus groups. The survey, administered between July 2005 and October 2005, covered a sample of National Sample, Hartford County, and control group taxpayers. The survey collected data on a wide range of issues associated with the EITC and the certification program. We conducted two focus groups on November 30, 2005 with third parties in Hartford County where we had sufficient numbers of organizations from which to assemble enough individuals. The focus groups generated qualitative data on the experiences of third-party providers of certification documents.

#### **V.A EITC Qualifying Child Residency Certification Study Group Development**

We used an identical process for selecting study groups for 2005 as the one we used for 2004, except for the addition of the community group. Mathematica Policy Research Inc., (See Appendix A) the U.S. Government Accountability Office (GAO), and the Treasury Inspector General for Tax Administration (TIGTA) favorably reviewed the 2004 design.<sup>7</sup> In developing a study group for the Qualifying Child Study, we took advantage of multiple data sets, including data from numerous internal and external databases that we could use to ascertain whether EITC taxpayers met qualifying child residency requirements. We selected a study group of 25,011 taxpayers who claimed the EITC with at least one qualifying child in TY 2003 but for whom we could not establish, based on available data, whether those qualifying children met the residency requirements. This study group of 25,011 taxpayers consisted of a national random sample of 16,800 taxpayers and the 8,211 EITC claimants in Hartford County for whom we could not establish qualifying child residency.

For the national test group, we used a two-stage sample design. The sample frame for the first stage of the design was the population of taxpayers who filed TY 2003 returns in the first eight months of 2004 and claimed the EITC with at least one qualifying child. For the National Sample test group,

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<sup>7</sup> In the fall of 2003, Mathematica Research Policy, Inc., and GAO finalized their reports, *A Review of the Earned Income Tax Credit Residency Certification Pilot Study* and *Qualifying Child Certification Test Appears Justified, But Evaluation Plan is Incomplete*, respectively. In May 2004, TIGTA finalized its report, *The Statistical Sampling Method Used in the Earned Income Tax Credit Proof of Concept Test Appears Valid*.

we drew a 10 percent random sample from this population of approximately 17 million taxpayers. To these 1.7 million returns, we applied a computer algorithm that used information from various data sources and identified EITC claimants who filed a claim that was likely to have met the eligibility residency requirements for qualifying children.

The IRS computer algorithm used data from the following sources:

- **Federal Case Registry**—A Department of Health and Human Services (HHS) database that identifies presumed custodial relationships based on child support cases.
- **KidLink**—A Treasury database which uses Social Security Administration (SSA) data that identifies the relationship between birth parents and children born since 1998.
- **DM-1**—A database of taxpayer identification numbers (either Social Security Numbers or Individual Taxpayer Identification Numbers) and their associated name histories.
- **Numident**—SSA data that provides birth certificate information, including parent names.

We created the second stage sample frame by removing claimants from consideration for residency certification that the algorithm identified as likely meeting the residency requirement. In addition, we removed some claimants from consideration to ensure we did not contact a taxpayer twice about the same return (e.g., for regular audit processing). We excluded taxpayers who had been in the TY 2003 study from the TY 2004 test. Finally, we excluded taxpayers with Hartford County zip codes from the nationwide sample because they were part of a separate selection process for the Hartford County test group.

The subset of claimants whose qualifying children we could not substantiate through the computer algorithm, therefore, makes up the sample frame for the second stage of the design. Altogether, we excluded 77 percent of the EITC claimants in the 10 percent National Sample from the study based on the algorithm indicating it was likely we could prove residency based on data available from the above sources. That screening/filter left approximately 386,000 claimants in the second stage sample frame.

We used a systematic sampling process to draw two separate random samples of 16,800 taxpayers from the pool of 386,000 claimants. The first sample of 16,800 taxpayers served as the national test sample, and the second sample served as a control sample. We also selected a 1,000-taxpayer subsample from the national test sample to test a variant of the residency certification documentation (see Section V.B for a discussion of the certification forms and schedules). The desire to evaluate the operational and administrative issues that certification involves for both IRS and the taxpayer drove the overall size of the test<sup>8</sup>

We used a separate, but similar, process to select the Hartford County study group. As a first step, we applied the computer algorithm described above to all EITC claimants with a Hartford County

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<sup>8</sup> The size of the test groups, among other things, reflected IRS' estimate of its capacity to process certification documents and collect data from the sample at the Kansas City Compliance Campus where the data collection for the study was based. One element of the study is to determine the resources required by IRS to handle the certification procedures.

zip code on their TY 2003 tax return. Next, we removed from consideration for residency certification claimants the algorithm identified as having filed claims that likely met the residency requirement. Similar to the National Sample selection process, we also removed some claimants from consideration for residency certification to ensure we did not contact a taxpayer twice about the same return (e.g., for regular audit processing). Like the National Sample, we removed about 77 percent of the Hartford County claimants, leaving 8,211 claimants, all of whom we selected for the Hartford County test group.

## **V.B EITC Qualifying Child Residency Certification Process**

The certification process for 2005 was similar to that for 2004; however, the timing and the content of the certification letters we sent to taxpayers were different. For the 2004 test, we sent certification packages to test group taxpayers in December 2003 that consisted of:

- A letter (Notice 84-A) describing the new certification requirement
- Form 8836, Qualifying Children Residency Statement, which offers three options (letters, records and affidavits ) for certification (to be completed by the taxpayer and returned to the IRS)
- A Third Party Affidavit (Schedule A or Schedule B) form to be filed with Form 8836, attesting to the validity of the taxpayer's child residency certification on Form 8836
- Publication 3211M, Earned Income Tax Credit Questions and Answers
- Publication 4134, Free/Nominal Cost Assistance Available for Low Income Taxpayers

We mailed the 2005 package, consisting of the same documents, slightly earlier than the prior year—at the end of November. For this test, we followed up the initial mailing with two reminder notices in two-week intervals. The first reminder looked significantly different from a standard IRS letter, and the second reminder used a normal IRS format.

The letters, forms, and publications were in English, like the tax packages that we mail to individual taxpayers each December (see **Appendix C** for copies of Notice 84-A, Form 8836, and Schedules A and B in both English and Spanish). The letter, Form 8836, and affidavit contained a note in Spanish referring Spanish-speaking persons to a telephone customer-service center for Spanish versions of these documents.

Form 8836 requires proof of qualifying child residency in the form of records, a letter on official letterhead, or a signed affidavit (Schedule A) from any of the following: attorney, child-care provider, clergy, community-based organization, court or placement agency official, employer, health-care provider, Indian tribe official, landlord or property manager, law enforcement officer, school official, or social service agency or other government official.

Taxpayers could submit any combination of documents described in Form 8836 or in the Third Party Affidavit. The taxpayers would fulfill the residency requirement if they showed, when taken in combination, that they lived with the child for more than half of calendar year 2004. The documents had to show the child's or taxpayer's name, the address, and the dates at the address. However, the taxpayer's and child's names did not have to be on the same piece of documentation.

Tax examiners reviewed individual documents to ensure they included the required information (name, address, dates of residence), that the information was legible, that it was on official letterhead (for statements or letters), and that the documents were signed. Tax examiners did not contact the document provider to verify the authenticity of the document or personal knowledge of the residency of the taxpayer and child; rather they focused on identifying acceptable documents on which to base the decision of whether the taxpayer met the EITC residency requirement.

A subsample of 1,000 taxpayers from the national test sample received an alternate Third Party Affidavit (Schedule B) that broadened the definition of those allowed to certify the taxpayer's residency. The alternate Third Party Affidavit allowed anyone (except a spouse, dependent, qualifying child, or a parent of the qualifying child) to complete the form providing that they had personal knowledge or records showing that the taxpayer and qualifying child lived together during the tax year. Therefore, this list of acceptable signatories included most relatives, friends, and neighbors. We tested this alternative affidavit for the first time in the 2004 study as a response to concerns that taxpayers may have difficulty certifying using the other approved sources, and may most easily prove they meet the residency requirement using this form of certification.

Our evaluation of the alternative affidavit focuses on the effect of allowing third party reporting on the proportion of taxpayers who return Form 8836 and the type of third parties providing certification documents. A possible effect of the alternate affidavit is that taxpayers may shift away from preferred, official sources to more informal and potentially less reliable (or less verifiable) sources. As part of the study, we explored the validity and reliability of third-party affidavits for certification. We also studied the validity of other document types, such as records and letters.

The separate process of verifying (or validating) documents that tax examiners previously deemed acceptable during document review is called mandatory validation. The goal of this process is to verify that the third parties listed as certifying residency on the certification forms did provide the requested information and were in a position to substantiate that the child met residency requirements. For records, mandatory validation involved verifying that the organization existed. Mandatory validation of letters or affidavits involved contacting the letter writer or affiant by telephone to verify that the individual had provided the documentation and had the personal knowledge or records to support the residency determination.

Mandatory validation covered a subset of test group cases. We included ten percent of the Schedule A subsample taxpayers (both National and Hartford County) and 100 percent of the Schedule B subsample taxpayers in mandatory validation. For these taxpayers, a core group of lead tax examiners in the certification unit conducted additional validation of the documents that we initially accepted during document review.

In last year's (TY 2003) test, certification generally occurred at the time of filing. We instructed taxpayers to submit their certification materials when they filed their tax returns.<sup>9</sup> However, some 700 taxpayers disregarded the instructions to send documents with their returns and sent the

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<sup>9</sup> Paper return filers were instructed to attach Form 8836 and supporting documentation (records, letters, and/or affidavits) to their return and send the return to Field Compliance Services, Kansas City Campus. Electronic filers were instructed to file their return as they normally would and then send Form 8836 and supporting documentation to Field Compliance Services, Kansas City Campus.

materials in December. For these taxpayers, we attempted to review their submission and certify them before the filing season so as not to delay their EITC claims. Based on these experiences from the 2004 test, we changed the wording of the notices to encourage taxpayers to send their documents to us at any time from the receipt of the notice until the time they filed their returns. We also told them we would try to review their taxpayer information as soon as possible to avoid any delay in paying the EITC to qualified taxpayers. We received certification documents from approximately 9 percent (2,176 taxpayers) of the original test group by late January 2005. In return, we certified 85 percent (1,858) of these taxpayers before February 2005 (which we consider the beginning of the filing season).

We designed the process to give taxpayers sufficient time to respond to requests for additional information or notifications of decisions. Our tax examiners reviewed the documents a taxpayer submitted and determined whether they satisfied the residency requirement. When we determined the documentation the taxpayers originally submitted was incomplete or insufficient to establish the residency requirement, we gave taxpayers repeated opportunities to provide additional documentation. Once the taxpayer established residency, we allowed the EITC.

The certification procedures included both an additional letter and extra time to respond that are not part of our standard procedure for EITC-related examinations. Our standard procedures allow taxpayers 30 days to respond to the report of proposed changes. We extended this timeframe to 45 days for certification. We also sent a second letter and report of proposed changes—which is not part of standard procedures—to taxpayers who did not respond to the first letter. This additional letter could add up to 45 days to the process.

When taxpayers did not substantiate the residency of a child claimed for EITC, we disallowed the credit through our deficiency procedures. A statutory Notice of Deficiency, issued if the taxpayer did not respond to the first or either of the two prior letters of proposed changes, gives the taxpayer 90 days to respond to the proposed assessment. If the taxpayer does not respond within 90-days, we make an assessment. The completion of the certification process took several months for taxpayers who did not respond immediately to us.

As explained earlier, we selected 16,800 taxpayers as a control group for the national test group. The control group taxpayers were *not* subject to the additional certification requirement. Instead, they were subject only to standard IRS procedures and programs. These standard procedures involve return processing that incorporates error checks for mathematical, clerical, and taxpayer identification number (TIN) errors, possible selection of returns for EITC-specific pre-refund and post-refund examinations, possible selection of returns for other examination programs, and matching of information documents to tax return line item data through the AUR program which identifies misreported income. Under these standard procedures, fewer control group returns had to document the residence of the qualifying child than returns in the test group because everyone in the test groups who claimed EITC with children was subject to the certification review process. However, we did not select every return in the control group for review. For those that we selected, the scope of the audit was typically broader, generally including more than just one EITC-related issue. The scope of the certification review generally was limited to one issue—residency of the child.

## V.C EITC Qualifying Child Residency Certification Study, Overview

The certification test requirement has elements of an educational/outreach program, a “soft-notice” program<sup>10</sup>, and an examination (audit) program. Within the context of the certification test, the objective of the first two elements are to increase voluntary compliance by increasing taxpayers’ awareness and understanding of the EITC qualifying child residency requirement. We intend the materials we sent to the taxpayers and the requirement to certify residency to help taxpayers make the correct decision about claiming EITC.

The examination element, which included holding taxpayers’ EITC claim until we reviewed the documentation for qualifying child residency and established residency, has several effects. First, it deters against erroneous claims because it increases the chances we will uncover an incorrect claim. Second, it provides a process whereby we can detect erroneous claims due to qualifying child residency errors. Thus, the certification requirement should deter taxpayers who would have intentionally made incorrect claims although they understood they did not meet the qualifying child residency requirement. It also allows us to identify erroneous EITC claims taxpayers made because they still do not understand the qualifying child residency rules despite the pre-filing mailing.

We evaluated the certification program to determine if the certification process achieved its objectives and to assess the impact of the certification process on compliance and participation. Examples of the types of administrative data we collected for the study include tax return information, certification process information including data on certification-related contacts and documentation, and information collected during mandatory validation.

In addition to the administrative data, the Westat Corporation conducted a survey of taxpayers and focus groups of third party document providers. We include a copy of the final report of the survey in Appendix C. It covers the survey background, development, and implementation in detail, along with the results. The taxpayer survey results provide us with insights about claimants’ experiences with the certification process and the effect of certification on filing behavior and EITC participation. We used the information self-reported in this survey to determine whether taxpayers in the study who did not claim EITC were nonetheless eligible for the EITC. We used these estimates to determine the extent to which the certification requirement unintentionally deterred eligible taxpayers from claiming the credit. We also used the survey data to understand the burden that certification imposed in general, and to probe the details of taxpayers’ certification experience.<sup>11</sup> We include a copy of the focus group report in Appendix D. We used the focus groups to gather information about the certification experience on third party document and information providers. As mentioned earlier, we conducted these groups only in Hartford County.

The next section of this report, Section V.D, contains the results of the evaluation. Section V.D.1 presents information about TY 2004 EITC claims and certification outcomes. Section V.D.2 contains information on the characteristics of the study returns and the outcome of certification by

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<sup>10</sup> A soft notice is a letter sent to taxpayers generally advising them of a possible issue/error with their return. It generally does not require a response from the taxpayer but encourages them to review what they are doing for mistakes and to avoid repeating them on future returns.

<sup>11</sup> While survey data may have limitations, this was believed to be the most effective way to gain information about taxpayer’s experiences with the certification program.

these characteristics. The section includes a discussion about the mobility of the study population and the interest for Spanish language forms and assistance. Section V.D.3 looks at test group taxpayers responses to the certification requirement and the documentation submitted to prove residency. Section V.D.4 discusses the mandatory validation process and examines its affect on certification outcomes. Section V.D.5 presents survey results on the reported costs of certification for taxpayers and their opinions about the process. Section V.D.6 discusses the burden experienced by the third-party document providers in the Hartford County test. Section V.D.7 highlights some differences observed in the TY 2003 and TY 2004 studies for the national test groups. Section V.D.8 presents information on IRS costs and lays out a framework for developing a return-on-investment estimate for a fully implemented certification requirement. We discuss the effects of the study on participation in Section V.D.8.a.

## **V.D Qualifying Child Residency Certification Study, Study Groups**

We collected and analyzed certification data (Forms 8836 and the Schedule A and B) from taxpayers included in the Qualifying Child Study group and other administrative information compiled for the study. We also analyzed the data from the survey of EITC taxpayers and the focus groups that Westat conducted.

We based the results in this report on taxpayer return filings through the end of December 2005 and certification processing activities through late May 2006. We use a calendar year return processing cycle and typically use a calendar year period for studies and analyses. This analysis follows that methodology. This report used calendar year 2005 as the period for tracking the TY 2004 tax return filing and EITC claims of study taxpayers. Most taxpayers filed their tax returns by the April 15 deadline. However, to obtain more complete and unbiased information, we had to include returns that taxpayers filed later in the calendar year. This inclusion is especially important for an EITC-related study because some EITC claimants have no requirement to file a tax return other than to claim EITC and, therefore, have no requirement to file a return by April 15. The analysis covers certification-related activity through late May 2006 in order to see as many cases through resolution as possible. At the time of the analysis, however, 324 cases were still in processing. We estimated the results for these returns and included them in the overall results.

The analysis that follows compares the Hartford County, National Sample, and control test group results—as well as comparing the results of various subsamples and subgroups—to determine whether statistically significant differences exist between the groups. All the statistical tests in this report were conducted using a 95 percent confidence level. This 95 percent confidence level will be implied in statements made later in the report such as “there is a significant difference” or the results are “not significantly different.”

**Table 2** presents the disposition of the original study groups for the Qualifying Child Study. We selected 8,211 taxpayers in Hartford County and 16,800 taxpayers nationally for inclusion in the study based on returns filed for TY 2003. The adjusted National Sample test group final sample of 16,822 taxpayers includes 22 taxpayers who filed as married filing jointly in TY 2003 but did not file joint returns in TY 2004. While the Hartford County test group had 11 such taxpayers, there were also 11 cases where two taxpayers who had filed as single or head-of-household in TY 2003 filed joint returns in TY 2004. We excluded about 2 percent of the original test groups after we had selected



them because of a change in the taxpayers' circumstances. These taxpayers resided in a disaster area, were in combat, or had returns already under examination. Because we did not subject the control group to the certification requirement, we did not need to exclude any of them.

**Table 2: EITC Qualifying Child Residency Certification Study: Number of Study Returns Tax Year 2004**

	Test Groups				Control Group
	Hartford County	National Sample			
	Schedule A*	Schedule A	Schedule B	Total	
Original Study Group	8,211	15,800	1,000	16,800	16,800
Net change in number of returns due to changes in filing status	0	21	1	22	29
<b>Adjusted Study Group</b>	<b>8,211</b>	<b>15,821</b>	<b>1,001</b>	<b>16,822</b>	<b>16,829</b>
Excluded	170	399	23	422	0
<b>Final Study Group</b>	<b>8,041</b>	<b>15,422</b>	<b>978</b>	<b>16,400</b>	<b>16,829</b>

*\*Schedule Bs were not part of the Hartford County test.*

### V.D.1 Qualifying Child Residency Certification Study, EITC Claims and Certification Outcomes

This section of the report presents information on the test and control groups' tax return filing and EITC claim patterns for tax year 2004. It also presents the results of certification for the test groups and compares these results to the control group. We subjected the control group to standard IRS processes and activities, including selection for examination under existing examination programs that focus on EITC. In the absence of the certification test, we would expect the experiences of the test groups to be the same as those we observed in the control group.

**Table 3** presents the status of returns in the study groups. As of the end of December 2005, the control group filed 15,177 returns, or about 90 percent of the total returns expected from the control group. This rate compares to 88 percent (7,047 returns) for the Hartford County test group and 89 percent (14,535 returns) for the National Sample test group. About 27 percent (2,140) of the Hartford County test group filed returns but did not claim EITC compared to about 22 percent (3,683) of the National Sample test group. The proportion of the National Sample test group that filed a return but not an EITC claim was about eight percentage points higher than the control group. Approximately three percent of both test groups claimed the EITC without qualifying children compared to two percent for the control group. All these differences are significant.

About 35 percent of the control group claimed EITC with one qualifying child and about 38 percent claimed EITC with two qualifying children. Thus, about 74 percent of the control group claimed EITC with qualifying children. About 2 percent of the control group claimed EITC without qualifying children. The remaining return filers, about 14 percent of the control group, did not claim EITC.

**Table 3: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Filing Status for Test and Control Groups**

	Test Groups				Control Group
	Hartford County	National Sample		Total	
	Schedule A*	Schedule A	Schedule B		
<b>I. Number of Returns</b>					
<b>Final Study Group</b>	<b>8,041</b>	<b>15,422</b>	<b>978</b>	<b>16,400</b>	<b>16,829</b>
Did Not File Tax Return for TY 2004	994	1,757	108	1,865	1,652
<b>Filed Tax Return for TY 2004</b>	<b>7,047</b>	<b>13,665</b>	<b>870</b>	<b>14,535</b>	<b>15,177</b>
Did Not Claim EITC	2,140	3,468	215	3,683	2,433
<b>Claimed EITC</b>	<b>4,907</b>	<b>10,197</b>	<b>655</b>	<b>10,852</b>	<b>12,744</b>
With Children	4,629	9,706	638	10,344	12,419
<i>Claimed one child</i>	2,455	5,069	334	5,403	5,965
<i>Claimed two children</i>	2,174	4,637	304	4,941	6,454
Without Children	278	491	17	508	325
<b>II. Number of Returns as Percent of Final Study Group</b>					
<b>Final Study Group</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Did Not File Tax Return for TY 2004	12%	11%	11%	11%	10%
<b>Filed Tax Return for TY 2004</b>	<b>88%</b>	<b>89%</b>	<b>89%</b>	<b>89%</b>	<b>90%</b>
Did Not Claim EITC	27%	22%	22%	22%	14%
<b>Claimed EITC</b>	<b>61%</b>	<b>66%</b>	<b>67%</b>	<b>66%</b>	<b>76%</b>
With Children	58%	63%	65%	63%	74%
<i>Claimed one child</i>	31%	33%	34%	33%	35%
<i>Claimed two children</i>	27%	30%	31%	30%	38%
Without Children	3%	3%	2%	3%	2%

Note: Detail may not add to total due to rounding.

\*Schedule Bs were not part of the Hartford County test.

Compared with the control group, statistically significantly fewer National Sample test group returns claimed EITC with children. About 33 percent of this test group claimed EITC with one qualifying child and 30 percent claimed EITC with two qualifying children. Therefore, about 63 percent of the National Sample test group claimed EITC with qualifying children – about eleven percentage points lower than for the control group. We attribute most of the difference between the two groups to a decline in claims of more than one qualifying child.

The Hartford County test group had a statistically significantly lower percentage of claims for EITC with children than the National Sample test group. About 31 percent of the Hartford County test group claimed EITC with one qualifying child and 27 percent claimed EITC with two qualifying children for a total of approximately 58 percent. This is about 5 percentage points lower than the National Sample test group and 16 percentage points lower than the control group. Like the National Sample test group, we attribute most of the difference to a decline in claims of more than one child.

We reviewed administrative information for TY 2004 to learn about claims involving all EITC children that test and control group taxpayers had claimed in TY 2003 for EITC purposes. Because the groups are of different sizes, the numbers of children are not comparable but the percentages are. In TY 2004, the control group taxpayers claimed about 60 percent of the children that they had claimed in TY 2003. The National Sample test group claimed about 51 percent of the children they had claimed

in TY 2003 and the Hartford County test group claimed about 47 percent of the children they had claimed in TY 2003.

For the control group taxpayers, about 19 percent of the children they had claimed in TY 2003 were claimed by another taxpayer in TY 2004 (and not claimed by taxpayers in the study). For the National Sample test group, about 23 percent of the children they had claimed in TY 2003 were claimed by another taxpayer. For Hartford County, the percentage was 19 percent.

For the subsamples in the National Sample test group, 11 percent of both the Schedule A and Schedule B subsamples did not file a return and 22 percent of filers in both subsamples did not claim EITC. However, 65 percent of the Schedule B subsample claimed EITC with children compared to 63 percent of the Schedule A subsample. This difference is statistically significant.

The data suggest that the certification requirement led to reduced EITC claims. As reported in **Table 4**, the National Sample test group claimed about \$28.3 million on EITC claims on their returns. This amount is about \$4.9 million, or approximately 17 percent, less than the \$28.7 million the control group claimed. However, we can attribute some of this difference to unclaimed EITC by eligible taxpayers deterred by the certification process (see section V.D.6.a for more detailed discussion). The data also indicate that the certification process prevented the payment of erroneous claims for cases where taxpayers made a claim but did not meet the residency requirement. We denied about \$6.0 million in EITC claims during the certification process. In comparison, for the control group, which was subject to ordinary IRS examination processes, we denied approximately \$1.1 million in EITC claims.<sup>12</sup> The Hartford County test group claimed approximately \$10 million in EITC, of which we denied approximately \$2 million during the examination process.

**Table 4: EITC Qualifying Child Residency Certification Study: Amount Claimed and Adjustments for Tax Year 2004 (money amounts are in thousands of dollars)**

	Test Groups				Control Group
	Hartford County	National Sample			
	Schedule A*	Schedule A	Schedule B	Total	
<b>Adjusted Study Group Amount EITC Claimed by Taxpayer</b>	\$9,955	\$22,347	\$1,445	\$23,792	\$28,680
Amount EITC Claimed Disallowed in Processing (math error)	\$71	\$121	\$4	\$125	\$125
<b>Adjusted Amount</b>	<b>\$9,884</b>	<b>\$22,226</b>	<b>\$1,441</b>	<b>\$23,667</b>	<b>\$28,555</b>
EITC Claimed on Excluded Cases	\$273	\$586	\$30	\$616	\$0
<b>Final Study Group Claims</b>	<b>\$9,612</b>	<b>\$21,639</b>	<b>\$1,411</b>	<b>\$23,051</b>	<b>\$28,555</b>
Amount EITC Claimed Disallowed in Exam Process (adjustments)	\$1,989	\$5,627	\$410	\$6,037	\$1,121
<b>Total EITC Claimed Allowed</b>	<b>\$7,622</b>	<b>\$16,012</b>	<b>\$1,002</b>	<b>\$17,014</b>	<b>\$27,434</b>
<b>Total EITC Allowed Including Excluded Returns</b>	<b>\$7,895</b>	<b>\$16,599</b>	<b>\$1,032</b>	<b>\$17,630</b>	<b>\$27,434</b>

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

<sup>12</sup> It is possible that some of the claims that we denied in the certification process (for the test group) or the examination process (for the control group) were made by taxpayers who were actually eligible for the EITC but chose not to substantiate their claims. This taxpayer response also is believed to occur in other situations and, therefore, is not unique either to certification or to EITC.

**Table 5a** presents the outcome of the certification process for the test groups compared to the outcome for the control group. Returns with adjustments are cases in which we disallowed claims for one or more children. We subjected the control group to normal IRS procedures, including examination under existing programs that focus on EITC. While the entire test group was subject to certification, we selected 415 taxpayers in the control group for examination. All but two percent of these exams were for EITC-related issues.

**Table 5a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Outcome of Certification Process for Test Groups Compared to Examination Process for Control Group**

	Test Groups						Control Group		
	Hartford County			National Sample			Number of Returns	Number with Adjustments	Number without Adjustments
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments			
<b>I. Number of Returns</b>									
<b>Claimed EITC</b>	<b>4,907</b>	<b>1,125</b>	<b>3,782</b>	<b>10,852</b>	<b>3,006</b>	<b>7,846</b>	<b>12,744</b>	<b>358</b>	<b>12,386</b>
With Children	4,629	1,125	3,504	10,344	3,004	7,340	12,419	357	12,062
<i>Claimed one child</i>	2,455	638	1,817	5,403	1,605	3,798	5,965	85	5,880
<i>Claimed two children</i>	2,174	487	1,687	4,941	1,399	3,542	6,454	272	6,182
<b>II. Percents</b>									
	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>
<b>Claimed EITC</b>	<b>100%</b>	<b>23%</b>	<b>77%</b>	<b>100%</b>	<b>28%</b>	<b>72%</b>	<b>100%</b>	<b>3%</b>	<b>97%</b>
With Children	94%	24%	76%	95%	29%	71%	97%	3%	97%
<i>Claimed one child</i>	50%	26%	74%	50%	30%	70%	47%	1%	99%
<i>Claimed two children</i>	44%	22%	78%	46%	28%	72%	51%	4%	96%

*Note: Detail may not add to total due to rounding.*

In the Hartford County test group, 24 percent of the claims with qualifying children had adjustments. In contrast, 29 percent of the National Sample test group claims for qualifying children had adjustments. Therefore, while the Hartford County group made fewer claims than the National Sample group, we more often allowed the claims they made. In the control group, we adjusted the amount of EITC on three percent of the claims with qualifying children.

**Table 5b** presents the amount of adjustments we made based on the certification process for the test groups compared to adjustments we made through the standard examination process for the control group. An adjustment can mean either that we disallowed the entire claim or that we reduced the amount of the claim. Through the certification process, we disallowed 21 percent of the Hartford County test group and 26 percent of the National Sample test group claimed amounts, compared to 4 percent that we disallowed through the ordinary examination process in the control group.

**Table 5b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Test and Control Groups (money amounts are in thousands of dollars)**

	Test Groups						Control Group		
	Hartford County			National Sample			Amount Claimed	Amount Adjusted	Amount Allowed
	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed			
<b>I. Amount of Claims</b>									
<b>Claimed EITC</b>	<b>\$9,612</b>	<b>\$1,989</b>	<b>\$7,622</b>	<b>\$23,051</b>	<b>\$6,037</b>	<b>\$17,014</b>	<b>\$28,555</b>	<b>\$1,121</b>	<b>\$27,434</b>
With Children	\$9,552	\$1,989	\$7,564	\$22,941	\$6,034	\$16,907	\$28,476	\$1,121	\$27,355
<i>Claimed one child</i>	\$3,996	\$963	\$3,033	\$9,411	\$2,666	\$6,745	\$10,371	\$197	\$10,174
<i>Claimed two children</i>	\$5,556	\$1,026	\$4,530	\$13,530	\$3,368	\$10,162	\$18,105	\$923	\$17,182
<b>II. Percents</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>
<b>Claimed EITC</b>	<b>100%</b>	<b>21%</b>	<b>79%</b>	<b>100%</b>	<b>26%</b>	<b>74%</b>	<b>100%</b>	<b>4%</b>	<b>96%</b>
With Children	99%	21%	79%	100%	26%	74%	100%	4%	96%
<i>Claimed one child</i>	42%	24%	76%	41%	28%	72%	36%	2%	98%
<i>Claimed two children</i>	58%	18%	82%	59%	25%	75%	63%	5%	95%

Note: Detail may not add to total due to rounding.

**Table 6a**, on the following page, presents the outcome of the certification process for the test group subsamples. The 33 percent of the Schedule B subsample with adjustments is significantly different from the 29 percent of the Schedule A portion in the National Sample, which in turn is significantly different from the 24 percent with adjustments in the Hartford County test group (all provided with Schedule A).

**Table 6b** presents the adjustment amounts (in dollars) for the test group subsamples. The Hartford County test group (all provided with Schedule A) had the lowest percent of adjusted amounts (21 percent), which is significantly lower than the 26 percent adjusted for the Schedule A subsample in the National Sample. The schedule B subsample in the National Sample test group had 29 percent of the amount claimed adjusted, which is significantly higher than the Schedule A subsample.

**Table 6a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Test Groups by Subsample**

	Test Groups								
	Hartford County			National Sample					
	Schedule A*			Schedule A			Schedule B		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>									
Claimed EITC With Children	4,629	1,125	3,504	9,706	2,794	6,912	638	210	428
<i>Claimed one child</i>	2,455	638	1,817	5,069	1,485	3,584	334	120	214
<i>Claimed two children</i>	2,174	487	1,687	4,637	1,309	3,328	304	90	214
<b>II. Percents</b>									
	Column Percent	Row Percent	Row Percent	Column Percent	Row Percent	Row Percent	Column Percent	Row Percent	Row Percent
Claimed EITC With Children	100%	24%	76%	100%	29%	71%	100%	33%	67%
<i>Claimed one child</i>	53%	26%	74%	52%	29%	71%	52%	36%	64%
<i>Claimed two children</i>	47%	22%	78%	48%	28%	72%	48%	30%	70%

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

**Table 6b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Test Groups' Amount of Claims by Subsample (money amounts are in thousands of dollars)**

	Test Groups								
	Hartford County			National Sample					
	Schedule A*			Schedule A			Schedule B		
	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed
<b>I. Amount of Claims</b>									
Claimed EITC With Children	\$9,552	\$1,989	\$7,564	\$21,533	\$5,624	\$15,909	\$1,408	\$410	\$998
<i>Claimed one child</i>	\$3,996	\$963	\$3,033	\$8,849	\$2,476	\$6,373	\$562	\$190	\$372
<i>Claimed two children</i>	\$5,556	\$1,026	\$4,530	\$12,684	\$3,148	\$9,536	\$846	\$219	\$626
<b>II. Percents</b>									
	Column Percent	Row Percent	Row Percent	Column Percent	Row Percent	Row Percent	Column Percent	Row Percent	Row Percent
Claimed EITC With Children	100%	21%	79%	100%	26%	74%	100%	29%	71%
<i>Claimed one child</i>	42%	24%	76%	41%	28%	72%	40%	34%	66%
<i>Claimed two children</i>	58%	18%	82%	59%	25%	75%	60%	26%	74%

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

The differences between the National Sample subsamples shown in **Tables 6a and 6b** may be due in part to the differences in the certification materials we provided to each group. They also may be due in part to the fact that we subjected all taxpayers in the Schedule B subsample to mandatory validation, and only 10 percent of the Schedule A subsamples (both National Sample and Hartford County) to this process. We provide a more detailed discussion of the effects of the mandatory validation process in Section V.D.4. Table 20 in that section shows the effect of mandatory validation on the outcome of the certification process.

## V.D.2 Qualifying Child Residency Certification Study, Characteristics

This section of the report looks at the characteristics of the study taxpayers and their returns. This includes the method of tax return filing (i.e., whether the taxpayer filed electronically or on paper), the type of preparer used (if any), filing status, age, gender, and demand for Spanish language materials and assistance. It also presents information on the outcome of certification for selected characteristics.

**Table 7a** presents information on the filing medium. Over three-quarters of taxpayers in both test groups and the control group filed electronically. Moreover, of those taxpayers who filed EITC claims with qualifying children, about 83 percent of both test groups and 86 percent of the control group filed electronically. These percentages are significantly higher than the corresponding percentages for the EITC population in general. For TY 2004 about 75 percent of all EITC claimants filed electronically as did about 80 percent of EITC claimants with qualifying children.

**Table 7a. EITC Qualifying Child Residency Certification Study: Tax Year 2004 Filers' Filing Medium**

	Test Groups				Control Group	
	Hartford County		National Sample		All Tax Return Filers	Claimed EITC with Qualifying Child
	All Tax Return Filers	Claimed EITC with Qualifying Child	All Tax Return Filers	Claimed EITC with Qualifying Child		
<b>I. Number of Returns</b>						
Filed Electronically	5,520	3,819	11,405	8,628	12,618	10,713
Filed on Paper	1,527	810	3,130	1,716	2,559	1,706
<b>Total</b>	<b>7,047</b>	<b>4,629</b>	<b>14,535</b>	<b>10,344</b>	<b>15,177</b>	<b>12,419</b>
<b>II. Number of Returns as Percent of Total</b>						
Filed Electronically	78%	83%	78%	83%	83%	86%
Filed on Paper	22%	17%	22%	17%	17%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

The percentage of tax return filers in both test groups who filed on paper was higher than the corresponding percentage for the control group (22 percent versus 17 percent). Taxpayers who claimed EITC with qualifying children also showed this pattern. About 17 percent of taxpayers who claimed EITC with qualifying children in the test groups filed on paper compared with 14 percent in the control group. Because we made the certification

forms available only for paper filing and the documentation was paper, we expected that some taxpayers would chose to file their return on paper along with the certification material rather than filing the return electronically and the certification material on paper.

**Table 7b** presents, by filing medium, the outcome of the certification process for the test groups compared to the outcome of standard processing including the ordinary examination process for the control group. The average amount of EITC that taxpayers claimed who filed electronically is higher than the average amount for paper filers for both test groups and the control group. The difference in the averages for electronic filers versus paper filers is \$176 in the Hartford County test group, \$193 for the National Sample group and \$265 for the control group. In the Hartford County test group, electronically-filed returns have slightly larger amounts of their claim denied compared to paper filers (\$439 versus \$385). This difference is more pronounced in the National Sample group with \$600 in claims denied for electronic filers compared to \$502 for paper filers.

**Table 7b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for Taxpayers Claiming EITC with Qualifying Child (ren) by Filing Medium**

	Test Groups						Control Group		
	Hartford County			National Sample			Number of Returns	Average Amount Claimed	Average Amount Allowed
	Number of Returns	Average Amount Claimed	Average Amount Allowed	Number of Returns	Average Amount Claimed	Average Amount Allowed			
Filed Electronically	3,819	\$2,094	\$1,655	8,628	\$2,250	\$1,650	10,713	\$2,329	\$2,232
Filed on Paper	810	\$1,918	\$1,533	1,716	\$2,057	\$1,555	1,706	\$2,064	\$2,019
<b>Total</b>	<b>4,629</b>	<b>\$2,064</b>	<b>\$1,634</b>	<b>10,344</b>	<b>\$2,218</b>	<b>\$1,635</b>	<b>12,419</b>	<b>\$2,293</b>	<b>\$2,203</b>

**Table 8a** presents information on the types of preparers used. Taxpayers in the Hartford County test group used paid preparers less often than the National Sample test group (67 percent and 72 percent, respectively). In addition, the Hartford County test group used volunteer preparers more than the National Sample test group (3 percent and 1 percent, respectively). Conversely, the National Sample test group and the control group experienced no difference in the use of volunteer preparers (both at one percent). For TY 2004 about 66 percent of all EITC claimants used paid preparers and 2 percent used volunteer preparers. The general population claiming EITC with qualifying children used paid preparers 70 percent of the time and volunteer preparers one percent of the time.

**Table 8b** presents the outcome of the certification process by preparation method for test group taxpayers who claimed EITC with qualifying child(ren). In the Hartford County test group, 72 percent used a paid preparer, while paid preparers prepared 76 percent of the returns with adjustments. The National Sample test group had a similar pattern, with 76 percent using paid preparers, while paid preparers prepared 80 percent of the returns with adjustments. The share of paid preparer returns with adjustments was disproportionate to their share of total returns in both test groups. Overall, 23 percent of returns prepared by paid preparers had adjustments compared to 15 percent for volunteer prepared returns and 19 percent for self-prepared returns.

**Table 8a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Returns by Type of Preparer**



	Test Groups				Control Group	
	Hartford County		National Sample		All Tax Return Filers	Claimed EITC with Qualifying Child
	All Tax Return Filers	Claimed EITC with Qualifying Child	All Tax Return Filers	Claimed EITC with Qualifying Child		
<b>I. Number of Returns</b>						
Paid Preparer	4,719	3,317	10,423	7,860	11,036	9,288
Volunteer Preparer	190	105	174	106	152	101
Self Prepared	2,138	1,207	3,938	2,378	3,989	3,030
<b>Total</b>	<b>7,047</b>	<b>4,629</b>	<b>14,535</b>	<b>10,344</b>	<b>15,177</b>	<b>12,419</b>
<b>II. Number of Returns as Percent of Total</b>						
Paid Preparer	67%	72%	72%	76%	73%	75%
Volunteer Preparer	3%	2%	1%	1%	1%	1%
Self Prepared	30%	26%	27%	23%	26%	24%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 8b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for Taxpayers Claiming EITC with Qualifying Child (ren) by Type of Preparer**

	Test Groups					
	Hartford County			National Sample		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>						
Paid Preparer	3,317	852	2,465	7,860	2,400	5,460
Volunteer Preparer	105	18	87	106	19	87
Self Prepared	1,207	255	952	2,378	585	1,793
<b>Total</b>	<b>4,629</b>	<b>1,125</b>	<b>3,504</b>	<b>10,344</b>	<b>3,004</b>	<b>7,340</b>
<b>II. Percent of Total</b>						
Paid Preparer	72%	76%	70%	76%	80%	74%
Volunteer Preparer	2%	2%	2%	1%	1%	1%
Self Prepared	26%	23%	27%	23%	19%	24%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 8c** presents the dollar amount of adjustments made during the certification process by preparation method for test group taxpayers who claimed EITC with qualifying child(ren). While 74 percent of the amounts claimed for the Hartford County test group were on returns prepared by paid preparer, these returns accounted for 78 percent of the dollar adjustments. The National Sample group had similarly disproportionate adjustments on returns prepared by paid preparers with 77 percent of the amounts claimed and 80 percent of the dollar adjustments. Overall, we adjusted dollars claimed on 26 percent of the returns prepared by paid preparers compared to 14 percent on returns prepared by volunteers and 21 percent on self-prepared returns.

**Table 8c: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for Taxpayers Claiming EITC with Qualifying Child (ren) by Type of Preparer (money amounts are in thousands of dollars)**

	Test Groups					
	Hartford County			National Sample		
	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed
<b>I. Amount of Claim</b>						
Paid Preparer	\$7,063	\$1,559	\$5,503	\$17,751	\$4,850	\$12,900
Volunteer Preparer	\$193	\$26	\$168	\$208	\$31	\$178
Self Prepared	\$2,296	\$404	\$1,893	\$4,982	\$1,153	\$3,829
<b>Total</b>	<b>\$9,552</b>	<b>\$1,989</b>	<b>\$7,564</b>	<b>\$22,941</b>	<b>\$6,034</b>	<b>\$16,907</b>
<b>II. Percent of Total</b>						
Paid Preparer	74%	78%	73%	77%	80%	76%
Volunteer Preparer	2%	1%	2%	1%	1%	1%
Self Prepared	24%	20%	25%	22%	19%	23%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

**Tables 9a** and **9b** present information on the TY 2004 filing status of taxpayers who filed returns for TY 2004. **Table 9a** shows that, for both the control and two test groups, the majority of those who claimed the EITC with qualifying children filed as head of household. In large part, this high percentage reflects the effect of removing from the sampling population (or test population in the case of Hartford County) taxpayers who we could systemically determine that the qualifying child the taxpayer claimed likely met the residency requirement.

**Table 9a: EITC Qualifying Child Residency Certification Study: Number of Returns by Filing Status for Tax Year 2004**

	Test Groups				Control Group	
	Hartford County		National Sample		All Tax Return Filers	Claimed EITC with Qualifying Child
	All Tax Return Filers	Claimed EITC with Qualifying Child	All Tax Return Filers	Claimed EITC with Qualifying Child		
Single	1,972	673	3,011	847	2,156	1,027
Married Filing Jointly	561	304	1,628	1,015	1,497	1,016
Married Filing Separately	48	N/A	86	N/A	48	N/A
Head of Household	4,466	3,652	9,810	8,482	11,476	10,376
<b>Total</b>	<b>7,047</b>	<b>4,629</b>	<b>14,535</b>	<b>10,344</b>	<b>15,177</b>	<b>12,419</b>

*Note: Detail may not add to total due to rounding.*

We drew the study population from TY 2003 EITC claimants with qualifying children whose residency we could not systemically certify. **Table 9b** compares the TY 2004 filing status of the two test and control group returns to the TY 2003 information. As reported in the table, all three groups had a higher percentage of taxpayers who filed as married filing jointly and claimed the EITC with qualifying children (7 percent for Hartford County, 10 percent for the National Sample and 8 percent for the control group) in TY 2004 than did the TY 2003 study population (5 percent).

**Table 9b: EITC Qualifying Child Residency Certification Study: Percent of Returns by Filing Status for Tax Year 2004**

	Test Groups				Control Group		Study Population: TY 2003
	Hartford County		National Sample		All Tax Return Filers	Claimed EITC with Qualifying Child	
	All Tax Return Filers	Claimed EITC with Qualifying Child	All Tax Return Filers	Claimed EITC with Qualifying Child			
Single	28%	15%	21%	8%	14%	8%	10%
Married Filing Jointly	8%	7%	11%	10%	10%	8%	5%
Married Filing Separately	1%	N/A**	1%	N/A**	*	N/A**	0%
Head of Household	63%	79%	67%	82%	76%	84%	85%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Less than 0.5 percent.

\*\*Taxpayers claiming "married filing separately" are not eligible for EITC.

Tables 10a and 10b present the filing status distributions for TYs 2003 and 2004. Table 10a presents the information for all return filers and Table 10b for return filers claiming EITC with qualifying children.

As shown in Table 10a, about 72 percent of all filers in the Hartford County test group, 76 percent of all filers in the National Sample test group and 83 percent of all filers in the control group maintained the same filing status from the previous year. For the test group taxpayers who filed in both years, 18 percent in the Hartford County group and 15 percent in the National Sample group filed as head of household for TY 2003 and filed as single for TY 2004. For the control group, however, only about 8 percent changed their filing status from head of household to single.

**Table 10a: EITC Qualifying Child Residency Certification Study: Filing Status Distribution for Tax Years 2003 and 2004, All Tax Return Filers for the Tax Year 2004 Study**

Tax Year 2003 Filing Status	Test Groups								Control Group			
	Hartford County				National Sample				Tax Year 2004 Filing Status			
	Tax Year 2004 Filing Status				Tax Year 2004 Filing Status				Tax Year 2004 Filing Status			
	Single	Married Filing Jointly	Head of Household	Total	Single	Married Filing Jointly	Head of Household	Total	Single	Married Filing Jointly	Head of Household	Total
Single	10%	1%	5%	16%	6%	1%	3%	9%	6%	1%	4%	10%
Married Filing Jointly	*	4%	*	4%	*	6%	*	7%	*	5%	*	6%
Head of Household	18%	4%	58%	80%	15%	4%	64%	84%	8%	4%	72%	84%
<b>Total</b>	<b>28%</b>	<b>8%</b>	<b>63%</b>	<b>99%</b>	<b>21%</b>	<b>11%</b>	<b>67%</b>	<b>99%</b>	<b>14%</b>	<b>10%</b>	<b>76%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Less than 0.5%.

As shown in **Table 10b**, about 84 percent of those taxpayers who claimed the EITC with qualifying children in the Hartford County group and 89 percent in both the National Sample and control groups maintained the same filing status from the previous year.

These tables highlight that the filing status distributions appear to have changed between TY 2003 and TY 2004 for both the test and control groups. Results from **Tables 10a** and **10b** indicate that some taxpayers in the test groups did not claim that they maintained a household for children, opting instead to file their tax return as single in TY 2004. These taxpayers also appear not to have claimed EITC with children.

**Table 10b: EITC Qualifying Child Residency Certification Study: Filing Status Distribution for Tax Years 2003 and 2004, Filers Claiming EITC with Qualifying Child (ren) for the Tax Year 2004 Study**

Tax Year 2003 Filing Status	Test Groups								Control Group			
	Hartford County				National Sample				Tax Year 2004 Filing Status			
	Tax Year 2004 Filing Status				Tax Year 2004 Filing Status				Tax Year 2004 Filing Status			
	Single	Married Filing Jointly	Head of Household	Total	Single	Married Filing Jointly	Head of Household	Total	Single	Married Filing Jointly	Head of Household	Total
Single	9%	*	7%	<b>16%</b>	5%	*	4%	<b>9%</b>	5%	*	4%	<b>9%</b>
Married Filing Jointly	*	3%	*	<b>4%</b>	*	6%	*	<b>6%</b>	*	5%	1%	<b>5%</b>
Head of Household	6%	3%	72%	<b>80%</b>	3%	4%	78%	<b>85%</b>	3%	3%	79%	<b>85%</b>
<b>Total</b>	<b>15%</b>	<b>7%</b>	<b>79%</b>	<b>100%</b>	<b>8%</b>	<b>10%</b>	<b>82%</b>	<b>100%</b>	<b>8%</b>	<b>8%</b>	<b>84%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.  
\*Less than 0.5%.

**Table 11** presents the outcome of the certification process by characteristics of the taxpayer. Taxpayers filing as Head of Household had a disproportionate number of adjustments for both the Hartford County and National Sample test groups. Head of Household filers accounted for 75 percent of returns with EITC claims but 80 percent of the returns with adjustments in Hartford County. In the National Sample, they accounted for 79 percent of returns with EITC claims but 84 percent of the returns with adjustments. Likewise, 59 percent of EITC claims in the Hartford County test group were on returns in which the primary taxpayer was male (for joint filers the first taxpayer listed is considered “primary”), while 71 percent of the returns with adjustments were for male taxpayers. Similarly, in the National Sample group, 64 percent of primary taxpayers with EITC claims were male accounting for 70 percent of the returns with adjustments. We found no large disparities in the number of returns with adjustments by age category.

**Table 11: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Outcome of Certification Process by Characteristics of Taxpayers for Test Groups**

	Test Groups					
	Hartford County			National Sample		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>						
<b>Filing Status</b>						
Single	923	182	741	1,272	312	960
Married Filing Jointly	316	42	274	1,044	156	888
Head of Household	3,668	901	2,767	8,536	2,538	5,998
<b>Total</b>	<b>4,907</b>	<b>1,125</b>	<b>3,782</b>	<b>10,852</b>	<b>3,006</b>	<b>7,846</b>
<b>Gender</b>						
Male	2,884	796	2,088	6,932	2,105	4,827
Female	2,023	329	1,694	3,920	901	3,019
<b>Total</b>	<b>4,907</b>	<b>1,125</b>	<b>3,782</b>	<b>10,852</b>	<b>3,006</b>	<b>7,846</b>
<b>Age</b>						
Under 31	1,823	465	1,358	3,515	1,053	2,462
31-40	1,423	306	1,117	3,095	804	2,291
41-50	1,117	248	869	2,778	762	2,016
Over 50	544	106	438	1,464	387	1,077
<b>Total</b>	<b>4,907</b>	<b>1,125</b>	<b>3,782</b>	<b>10,852</b>	<b>3,006</b>	<b>7,846</b>
<b>II. Percents</b>						
<b>Filing Status</b>						
Single	19%	16%	20%	12%	10%	12%
Married Filing Jointly	6%	4%	7%	10%	5%	11%
Head of Household	75%	80%	73%	79%	84%	76%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Gender</b>						
Male	59%	71%	55%	64%	70%	62%
Female	41%	29%	45%	36%	30%	38%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Age</b>						
Under 31	37%	41%	36%	32%	35%	31%
31-40	29%	27%	30%	29%	27%	29%
41-50	23%	22%	23%	26%	25%	26%
Over 50	11%	9%	12%	13%	13%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

## Spanish Language Interest

**Table 12** presents the interest taxpayers expressed for Spanish language forms and assistance. For the Hartford County test group, about seven percent requested forms or communication in Spanish compared to approximately five percent for the National Sample test group. In both groups, over 85 percent of the requests were that all communication be in Spanish.

**Table 12: EITC Qualifying Child Residency Certification Study: Interest in Spanish Language Forms and Assistance for Test Groups in Tax Year 2004 Study**

	Test Groups			
	Hartford County		National Sample	
	Number	Percent	Number	Percent
No request for Spanish forms or assistance	7,636	93%	16,037	95%
Request for Spanish forms or assistance	575	7%	785	5%
Request for Spanish version of Notice or Form 8836	18	*	17	*
Taxpayer responds in Spanish	18	*	28	*
Taxpayer requests Spanish-speaking assistor	43	1%	54	*
Taxpayer requests all communication in Spanish	496	6%	686	4%
<b>Total</b>	<b>8,211</b>	<b>100%</b>	<b>16,822</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Less than 0.5 percent.

## Population Mobility

We were interested in understanding the importance of transience or mobility of the population that we selected for the qualifying child study. Although no data exactly portrays the extent of mobility in this population of EITC claimants, several items are suggestive. For instance, the Postal Service returned as undeliverable about 5 percent of the letters IRS sent to taxpayers in December 2004 even though addresses were current as of the spring of 2004 when the taxpayers filed their TY 2003 returns. More dramatically, we could not reach almost one-third (29 percent) of the taxpayers we selected for the follow-up survey by either phone or mail. Furthermore, the taxpayers who we surveyed, about 7 percent in the test groups, responded that they lived at their current address for less than six months. These observations suggest these EITC claimants are highly mobile.

### V.D.3 Qualifying Child Residency Certification Study, Response from Taxpayers in the Test Groups

This section of the report presents the test groups' responses to certification, the type of documents submitted to substantiate residency, and the acceptance rate of particular document types and sources. As described earlier, the certification procedure required taxpayers to submit Form 8836 and documents substantiating that the taxpayer and child met the EITC qualifying child residency requirement. Each time we received forms and/or documents from a taxpayer, we recorded this receipt in the certification database. We also recorded summary information about each document. In addition, the certification materials we mailed to the test taxpayers included the special certification toll-free phone number to call for assistance. We noted in the database each telephone call received from a taxpayer if

the taxpayer identified himself or herself during the call. In addition, for the Hartford County test, we recorded information on the number of taxpayers who went to the Hartford Taxpayer Assistance Center with questions specific to the certification process.

Taxpayers could submit any combination of documents described in Form 8836 or in the Third Party Affidavit. To fulfill the residency requirement, taxpayers had to show that they lived with the child designated to support the EITC claim for more than half of 2004. All documents submitted to prove residency had to show the child's or taxpayer's name, the address, and the dates at that address. The taxpayer's and child's names did not have to be on the same piece of documentation.

Tax examiners reviewed individual documents for acceptability. As we explained earlier in the report, documents had to include the required information, statements or letters needed to be on official letterhead, Third Party Affidavits had to be filled out completely and signed, and all information had to be legible. In reviewing documents, tax examiners did not contact document providers to verify the authenticity of the document or to determine whether they had personal knowledge of the residency of the taxpayer and child. Rather, the examiners focused on identifying acceptable documents on which to base the decision of whether the taxpayer met the EITC residency requirement. Thus, this review involved weeding out documents that did not contain the required information, were not from allowable sources, or were clearly of suspicious origin.

Lead tax examiners conducted mandatory validation on a subset of test group cases. For records, validation involved verifying that the organization existed. For letters or affidavits, examiners contacted the document provider, letter writer or affiant by telephone to verify the individual had provided the documentation and to determine whether they had personal knowledge or records to support the residency determination.

We included ten percent of the Schedule A subsample taxpayers (both National and Hartford County) and 100 percent of the Schedule B subsample taxpayers in mandatory validation. A core group of lead tax examiners in the certification unit validated documents that we initially accepted.

We validated sufficient number of documents to ensure the accuracy of the EITC claim. Due to workload constraints, we did not validate all documents. When taxpayers sent multiple documents covering the same or overlapping periods, mandatory validation only covered those documents the tax examiners accepted during the initial review as sufficient to establish residency. For Schedule B subsample taxpayers, examiners verified at least one affidavit from a friend, neighbor, or family member if the taxpayer submitted this type of documentation. When we could not verify a document in mandatory validation, we changed that document's acceptability indicator on the certification database from "accept" to "reject."

If the combination of documents originally submitted by taxpayers did not support the residency requirement (for example, if they did not cover more than half the year) we corresponded with taxpayers and requested additional documentation. Also, if we did not

accept a document either in the initial review or in mandatory validation, and the remaining accepted and/or validated documents submitted by the taxpayer did not support the residency requirement, we also corresponded with the taxpayer to request additional documentation. Tax examiners used the documents found to be acceptable after the initial review and after mandatory validation to decide whether the taxpayer satisfied the residency requirement. We certified taxpayers for residency when they provided accepted documents that showed that they lived with the child for more than half the year.

As noted earlier in the report, mandatory validation appears to affect the certification process and outcome. Therefore, part of the differences shown in the tables in this section may be because we subjected all taxpayers in the Schedule B subsample and only 10 percent of the Schedule A subsamples (both National and Hartford County) to mandatory validation. We provide a more detailed discussion and analysis of the effects of mandatory validation in Section V.D.4.

### ***Results***

**Table 13** presents, by test group and subsample, the number and percent of responses and whether the response was a phone call, letter (including faxes), or both. Overall, about 63 percent of test taxpayers responded to us about certification. This result is due, in part, to the fact that we only required taxpayers claiming EITC with qualifying children to certify. Among those who responded were some taxpayers who ultimately did not file a tax return. About 9 percent of taxpayers who did not file a return for TY 2004 responded.

For taxpayers who claimed EITC with children, 92 percent responded, with 88 percent responding in writing. Thus, only 8 percent of taxpayers who claimed EITC with children had no known contact with us about certification. About 20 percent of taxpayers who filed a return but did not claim EITC or claimed EITC without qualifying children made some contact with us. Over half of these taxpayers sent written materials.

We also tracked, only for the Hartford County test group (not shown in this table), the number of taxpayers who visited the Taxpayer Assistance Centers (TACs) in Hartford County and bordering counties and asked questions specifically related to the certification requirement. Although we expected the Hartford site to receive most of these types of questions, taxpayers from Hartford County could also visit Taxpayer Assistance Centers in nearby Waterbury, Connecticut or Springfield, Massachusetts. The Hartford site received 306 queries about certification while the Springfield site received only nine and the Waterbury site recorded none.



**Table 13: EITC Qualifying Child Residency Certification Study: Test Group Responses to IRS for the Tax Year 2004 Study**

Response	Test Groups			Total
	Hartford County	National Sample		
	Schedule A*	Schedule A	Schedule B	
<b>I. Number of Taxpayers</b>				
Any Response	4,891	9,854	645	15,390
<i>Called and Sent Written Material</i>	3,029	6,005	457	9,491
<i>Sent Written Materials Only</i>	1,529	3,224	146	4,899
<i>Called Only</i>	333	625	42	1,000
No Response	3,150	5,568	333	9,051
<b>Grand Total</b>	<b>8,041</b>	<b>15,422</b>	<b>978</b>	<b>24,441</b>
<b>Did Not File Tax Return for TY 2004</b>				
Any Response**	77	163	12	252
No Response	917	1,594	96	2,607
<b>Total</b>	<b>994</b>	<b>1,757</b>	<b>108</b>	<b>2,859</b>
<b>Filed Tax Return for TY 2004</b>				
Any Response	4,814	9,691	633	15,138
<i>Called and Sent Written Material</i>	3,015	5,961	453	9,429
<i>Sent Written Materials Only</i>	1,501	3,166	140	4,807
<i>Called Only</i>	298	564	40	902
No Response	2,233	3,974	237	6,444
<b>Total</b>	<b>7,047</b>	<b>13,665</b>	<b>870</b>	<b>21,582</b>
<b>Claimed EITC with Children</b>				
Any Response	4,316	8,924	588	13,828
<i>Called and Sent Written Material</i>	2,873	5,743	437	9,053
<i>Sent Written Materials Only</i>	1,275	2,834	123	4,232
<i>Called Only</i>	168	347	28	543
No Response	313	782	50	1,145
<b>Total</b>	<b>4,629</b>	<b>9,706</b>	<b>638</b>	<b>14,973</b>
<b>Claimed One Child</b>				
Any Response	2,258	4,575	296	7,129
<i>Called and Sent Written Material</i>	1,412	2,799	213	4,424
<i>Sent Written Materials Only</i>	744	1,569	66	2,379
<i>Called Only</i>	102	207	17	326
No Response	197	494	38	729
<b>Total</b>	<b>2,455</b>	<b>5,069</b>	<b>334</b>	<b>7,858</b>
<b>Claimed Two Children</b>				
Any Response	2,058	4,349	292	6,699
<i>Called and Sent Written Material</i>	1,461	2,944	224	4,629
<i>Sent Written Materials Only</i>	531	1,265	57	1,853
<i>Called Only</i>	66	140	11	217
No Response	116	288	12	416
<b>Total</b>	<b>2,174</b>	<b>4,637</b>	<b>304</b>	<b>7,115</b>
<b>Claimed EITC without Children or Did Not Claim EITC**</b>				
Any Response	498	767	45	1,310
<i>Called and Sent Written Material</i>	142	218	16	376
<i>Sent Written Materials Only</i>	226	332	17	575
<i>Called Only</i>	130	217	12	359
No Response	1,920	3,192	187	5,299
<b>Total</b>	<b>2,418</b>	<b>3,959</b>	<b>232</b>	<b>6,609</b>

Response	Test Groups			Total
	Hartford County	National Sample		
	Schedule A*	Schedule A	Schedule B	
<b>II. Percent of Total Responses</b>				
Any Response	61%	64%	66%	63%
<i>Called and Sent Written Material</i>	38%	39%	47%	39%
<i>Sent Written Materials Only</i>	19%	21%	15%	20%
<i>Called Only</i>	4%	4%	4%	4%
No Response	39%	36%	34%	37%
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Did Not File Tax Return for TY 2004</b>				
Any Response**	8%	9%	11%	9%
No Response	92%	91%	89%	91%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Filed Tax Return for TY 2004</b>				
Any Response	68%	71%	73%	70%
<i>Called and Sent Written Material</i>	43%	44%	52%	44%
<i>Sent Written Materials Only</i>	21%	23%	16%	22%
<i>Called Only</i>	4%	4%	5%	4%
No Response	32%	29%	27%	30%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Claimed EITC with Children</b>				
Any Response	93%	92%	92%	92%
<i>Called and Sent Written Material</i>	62%	59%	68%	60%
<i>Sent Written Materials Only</i>	28%	29%	19%	28%
<i>Called Only</i>	4%	4%	4%	4%
No Response	7%	8%	8%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Claimed One Child</b>				
Any Response	92%	90%	89%	91%
<i>Called and Sent Written Material</i>	58%	55%	64%	56%
<i>Sent Written Materials Only</i>	30%	31%	20%	30%
<i>Called Only</i>	4%	4%	5%	4%
No Response	8%	10%	11%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Claimed Two Children</b>				
Any Response	95%	94%	96%	94%
<i>Called and Sent Written Material</i>	67%	63%	74%	65%
<i>Sent Written Materials Only</i>	24%	27%	19%	26%
<i>Called Only</i>	3%	3%	4%	3%
No Response	5%	6%	4%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Claimed EITC without Children or Did not Claim EITC**</b>				
Any Response	21%	19%	19%	20%
<i>Called and Sent Written Material</i>	6%	6%	7%	6%
<i>Sent Written Materials Only</i>	9%	8%	7%	9%
<i>Called Only</i>	5%	5%	5%	5%
No Response	79%	81%	81%	80%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

\*\*Data combined to avoid disclosure of information for specific taxpayers.

**Table 14** presents the distribution of the number of telephone calls to the IRS by taxpayers who made at least one call and who identified themselves. While we monitored the number of telephone calls received from taxpayers, we could identify only half of the callers because taxpayers do not have to provide their names when asking general questions about processes. For those calls that we could attribute to specific taxpayers, those in the National Sample who received Schedule B tended to call more often than those who received Schedule A in either the National Sample or Hartford County. As we will show later, the higher call volume among Schedule B filers was due in part to mandatory validation.

**Table 14: EITC Qualifying Child Residency Certification Study: Distribution of Number of Telephone Calls Made to IRS per Taxpayer as Percent of Taxpayers Who Made Calls for the Tax Year 2004 Study**

Number of Calls per Taxpayer	Test Groups			Total
	Hartford County	National Sample		
	Schedule A*	Schedule A	Schedule B	
1	35%	34%	28%	34%
2-3	32%	30%	25%	31%
4-6	18%	19%	22%	19%
7-10	10%	9%	13%	10%
11 or more	6%	7%	11%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

*\*Schedules B were not part of the Hartford County test.*

**Table 15** presents the distribution of document types that each subgroup of taxpayers sent to the IRS. The table shows that, overall, 37 percent of documents submitted were records, 20 percent were official letters, and 43 percent were affidavits from third parties.

The top three sources of all documents (records, letters, and affidavits) submitted were schools (about 22 percent), landlords and property managers (about 14 percent), and social service or government agencies (about 13 percent).

The distribution of types of documents varied across the three subgroups. The Hartford County subgroup was more likely to use affidavits than the National Sample Schedule A or Schedule B subgroups (45 percent, 41 percent, and 42 percent, respectively). In part, this result may be due to the volunteer preparer community in Hartford County encouraging taxpayers to use affidavits instead of records or official letters. The National Sample Schedule A subgroup relied on records more than the other two subgroups (39 percent and 34 percent each, respectively). Finally, 24 percent of the documents submitted by the Schedule B subgroup were statements or letters compared to 21 percent for the Hartford County subgroup and 19 percent for the National Sample Schedule A subgroup.

The sources of documents also varied across the three subgroups. Landlords and property managers were the source of 20 percent of the Hartford County subgroup documents compared to 13 percent for the National Sample Schedule A subgroup and 8 percent for the National Sample Schedule B subgroup. The National Sample Schedule B

subgroup relied on schools less often than either the Hartford County or National Sample Schedule A subgroups (19 percent, 21 percent, and 23 percent respectively). The mayor's office initially instructed the public schools in the city of Hartford not to provide documents. Although the 2 percent difference in schools as the source between the Hartford County subgroup and the National Sample Schedule A subgroup is not very large, a considerable difference existed within the Hartford County test group between the city of Hartford and the rest of Hartford County. The rest of Hartford County mirrored the National Sample with 23 percent of the documents provided by schools, compared to 18 percent for the city of Hartford (data not shown in table).

The primary source for documentation for the Hartford County subgroup was landlords and property manager affidavits, which accounted for 13 percent of the documents. In contrast, affidavits from landlords and property managers accounted for only 8 percent of the National Sample Schedule A documents and only 3 percent of the Schedule B subgroup documents.

Eighteen percent of the Schedule B subsample chose affidavits from neighbors, family members, or friends as their sources while virtually no one in the Schedule A subsamples used neighbors, family members or friends as a source. This difference reflects the fact that only a limited set of individuals could complete Schedule A; these individuals did not include neighbor, family member, or friend. Conversely, the instructions for the Schedule B said anyone with personal knowledge of the taxpayer's situation could furnish an affidavit except for the taxpayer, the taxpayer's spouse, the taxpayer's dependent or EITC qualifying child, and the parent of the EITC qualifying child.

**Table 16** presents the distribution of the number of documents taxpayers submitted. We required taxpayers to submit documentation that showed they met the EITC qualifying child residency requirement. Each taxpayer decided which documents to submit to meet this requirement. Because taxpayers had to show they lived with their children for more than half the year and, in some cases, were certifying more than one child, we expected taxpayers to submit multiple documents. In some cases, taxpayers submitted multiple documents indicating residency for the same child for the same or overlapping time periods.

As shown in the table, nearly two-thirds of taxpayers submitting documents provided more than one. About 36 percent of taxpayers submitted only one document, while 6 percent submitted seven or more documents.

As the distributions in **Table 16** show, 78 percent of the Hartford County subgroup submitted three or fewer documents compared to 73 percent for the National Sample Schedule A subgroup. This difference may be the result of the additional education and outreach in Hartford County, which helped taxpayers understand more precisely what types of information they needed to submit.

**Table 16** also shows that taxpayers in the Schedule B subgroup tended to submit more documents than those in either of the Schedule A subgroups. This difference may be

because we subjected all taxpayers in the Schedule B subsample to mandatory validation and only 10 percent of taxpayers in the Schedule A subgroups.

**Table 15: EITC Qualifying Child Residency Certification Study: Distribution of Documents Submitted by Type of Document—Document Type as Percent of Total—for the Tax Year 2004 Study**

Document Type and Source	Test Groups			Total
	Hartford County	National Sample		
	Schedule A*	Schedule A	Schedule B	
<b>Records</b>				
<i>School</i>	7%	10%	9%	9%
<i>Health Care Provider</i>	5%	6%	4%	6%
<i>Landlord or Property Manager</i>	4%	3%	3%	3%
<i>Social Service or Government Agencies</i>	9%	9%	7%	9%
<i>Court Official or Attorney</i>	2%	2%	2%	2%
<i>Utility Bills</i>	2%	3%	2%	3%
<i>Other</i>	5%	5%	6%	5%
<b>Total</b>	<b>34%</b>	<b>39%</b>	<b>34%</b>	<b>37%</b>
<b>Statement/Letter</b>				
<i>School</i>	7%	6%	6%	6%
<i>Health Care Provider</i>	2%	2%	3%	2%
<i>Child Care Provider</i>	1%	1%	**	1%
<i>Landlord or Property Manager</i>	3%	2%	2%	2%
<i>Social Service or Government Agencies</i>	2%	2%	2%	2%
<i>Utility Bills</i>	1%	1%	2%	1%
<i>Employer</i>	1%	1%	1%	1%
<i>Other</i>	4%	5%	8%	5%
<b>Total</b>	<b>21%</b>	<b>19%</b>	<b>24%</b>	<b>20%</b>
<b>Affidavit</b>				
<i>School</i>	7%	7%	4%	7%
<i>Health Care Provider</i>	4%	3%	2%	3%
<i>Child Care Provider</i>	5%	6%	5%	6%
<i>Landlord or Property Manager</i>	13%	8%	3%	9%
<i>Social Service or Government Agencies</i>	2%	2%	1%	2%
<i>Court Official or Attorney</i>	1%	1%	1%	1%
<i>Employer</i>	7%	8%	3%	7%
<i>Neighbor, Family Member, Friend</i>	***	**	18%	1%
<i>Other</i>	6%	7%	6%	7%
<b>Total</b>	<b>45%</b>	<b>41%</b>	<b>42%</b>	<b>43%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

\*\*Data suppressed to avoid disclosure of information for specific taxpayers.

\*\*\*Less than 0.5%.

**Table 16: EITC Qualifying Child Residency Certification Study: Distribution of Number of Documents Submitted per Taxpayer as Percent of Taxpayers Who Submitted Documents for the Tax Year 2004 Study**

Number of Documents per Taxpayer	Test Groups			Total
	Hartford County	National Sample		
	Schedule A*	Schedule A	Schedule B	
1	38%	35%	27%	36%
2-3	40%	38%	41%	39%
4-6	18%	20%	25%	20%
7 or more	4%	7%	8%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

*\*Schedules B were not part of the Hartford County test.*

The result that Schedule B subgroup tended to submit more documents than those in either of the Schedule A subgroups could also reflect the different styles of the two Third Party Affidavits. As mentioned previously, only a limited set of individuals could complete Schedule A and the Schedule included checkboxes for each type of affiant and a list of the eligible parties in the instructions. Because a broader range of individuals could submit Schedule B, the Schedule did not include checkboxes. Instead, the instructions for Schedule B included a list of the individuals who could *not* provide the affidavit (i.e., the taxpayer, the taxpayer’s spouse, the taxpayer’s dependent or EITC qualifying child, and the parent of the EITC qualifying child). This restriction could have led taxpayers to seek out multiple parties to provide affidavits.

As noted earlier, specially trained tax examiners in the EITC test certification unit reviewed the documentation taxpayers submitted to substantiate the residency of the taxpayer and child. They checked documents for completeness and acceptability to ensure they validated the joint residency requirement (of taxpayer and qualifying child). We subjected a subset of taxpayers to mandatory validation of their documents.

We verified a total of 1,757 documents for 1,448 taxpayers in the mandatory validation process. This total represents about 47 percent of the documents available for mandatory validation, i.e., documents that we accepted during the initial tax examiner review. The validated documents included 247 records, 139 letters, and 1,371 affidavits. These represent 23 percent, 16 percent, and 75 percent, respectively, of the records, letters, and affidavits available for mandatory validation.

Because we included only 10 percent of the Schedule A subsample taxpayers, both National and Hartford, in mandatory validation, we verified only about 6 percent and 5 percent, respectively, of the documents submitted by this subsample and accepted during the initial tax examiner review. For Schedule B subsample taxpayers—all of whom were part of mandatory validation—we validated about 44 percent of all initially accepted documents, including all affidavits from friends, neighbors, or family members.

**Table 17** presents data on the mandatory validation process by document type. We accepted about 99 percent of records with this second level of review, and validated about

88 percent of letters and about 80 percent of affidavits. Further analysis of the validation rate for the sources of the affidavits shows that the rate for these documents from friends, neighbors, or family members was 80 percent. This rate is the same as affidavits from other sources. The most common reason that we did not accept letters and affidavits of all types during mandatory validation was that we could not contact the letter writer or affiant. The second most common reason was that the letter writer or affiant did not have personal knowledge of the residency of the taxpayer and child.

**Table 18** presents document acceptance rates by type of document. These rates are shown both pre-mandatory validation, based on the initial tax examiner review of documents, and post-mandatory validation, based on the initial tax examiner review and mandatory validation for the subset of documents that were part of the mandatory validation process. The table shows that mandatory validation had a small effect on the acceptance rates for both the National Schedule A and Hartford County due to the relatively small percentage of taxpayers and documents validated for these subsamples.

Some of the results for the National Schedule B subsample, however, are quite different from those for the National and Hartford Schedule A subsamples. Like the other groups, the National Sample Schedule B subsample pre-mandatory validation and post-mandatory validation acceptance rates for records, rounded to the nearest percent for presentation in **Table 18**, are identical because we validated almost all the records selected for mandatory validation. Also like the other groups, the rate for letters for the National Schedule B subsample is somewhat lower post-mandatory validation because a relatively small percentage of their letters went through mandatory validation. The results for affidavits, however, are different. A relatively high share of affidavits for the National Schedule B subsample went through mandatory validation, for which the average acceptance rate was about 80 percent. As a result, the post-mandatory validation acceptance rate is about 12 percentage points lower than the pre-mandatory validation rate.

The results from the mandatory validation process and the effect of this process on document acceptance rates suggest that mandatory validation may have had different effects on each of the subsamples. Therefore, we cannot calculate the outcome of certification for the subsamples by simply comparing the test and control groups. The mandatory validation process, in effect, added a new step to the certification process—one that affected all taxpayers who were subject to it. We address this issue more fully in Section V.D.4.

**Table 19** on the following page presents the total number of documents submitted by type and source of document. It does this by subgroup and by whether we accepted the documents based on the tax examiner's initial review and mandatory validation for those included in mandatory validation. For the aggregates, the acceptance rates across the three subgroups are virtually the same, 65 percent. However, significant differences occur in the acceptance rates by type of document. The Schedule B subgroup had a rejection rate of 31 percent for affidavits compared to the 24 percent and 23 percent of the Hartford County and National Sample Schedule A groups, respectively.

Affidavits had the highest acceptance rate of 77 percent, followed by letters with an acceptance rate of 56 percent, and records with a rate of 55 percent. It seems reasonable for affidavits to have a higher acceptance rate than either letters or records because the affidavits were special forms with dedicated lines for all the required information. Therefore, as long as the taxpayer filled out the affidavit completely, we would accept it. For the letters and records, taxpayers may not have understood or disregarded the instructions indicating that the documentation needed to include names, addresses, and dates.

The Qualifying Child Study pioneered the use of affidavits to support the determination of the residency of the qualifying children in the EITC claim. The affidavits seemed to provide a reliable way to substantiate claims in this context. However, because we designed the affidavit forms specifically for this study, we cannot generalize these results.



**Table 17: EITC Qualifying Child Residency Certification Study: Mandatory Validation Document Verification Rates by Document Type for the Tax Year 2004 Study**

Document Type	Test Groups											
	Hartford County			National Sample								
	Schedule A*			Schedule A			Schedule B			Total		
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
Records	0%	100%	100%	2%	98%	100%	1%	99%	100%	1%	99%	100%
Statement/Letter	14%	86%	100%	6%	94%	100%	18%	82%	100%	12%	88%	100%
Affidavit	20%	80%	100%	20%	80%	100%	20%	80%	100%	20%	80%	100%

*Note: Detail may not add to total due to rounding.  
 \*Schedules B were not part of the Hartford County test.*

**Table 18: EITC Qualifying Child Residency Certification Study: Document Acceptance Rates Pre- and Post-Mandatory Validation, by Document Type for the Tax Year 2004 Study**

Document Type	Test Groups											
	Hartford County			National Sample								
	Schedule A*			Schedule A			Schedule B			Total		
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
<b>I. Document Acceptance Rates Pre-Mandatory Validation</b>												
Records	43%	57%	100%	46%	54%	100%	38%	62%	100%	44%	56%	100%
Statement/Letter	41%	59%	100%	45%	55%	100%	34%	66%	100%	44%	56%	100%
Affidavit	22%	78%	100%	21%	79%	100%	19%	81%	100%	22%	78%	100%
<b>II. Final Document Acceptance Rates Post-Mandatory Validation</b>												
Records	43%	57%	100%	46%	54%	100%	38%	62%	100%	45%	55%	100%
Statement/Letter	42%	58%	100%	46%	54%	100%	36%	64%	100%	44%	56%	100%
Affidavit	24%	76%	100%	23%	77%	100%	31%	69%	100%	23%	77%	100%

*Note: Detail may not add to total due to rounding.  
 \*Schedules B were not part of the Hartford County test.*

**Table 19: EITC Qualifying Child Residency Certification Study: Documents Submitted by Type and Source by Test Groups for the Tax Year 2004 Study**

Document Type and Source	Test Groups											
	Hartford County			National Sample						Total		
	Schedule A*			Schedule A			Schedule B					
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
<b>I. Number of Documents Submitted</b>												
<b>Records</b>												
<i>School</i>	291	438	729	987	1,477	2,464	48	100	148	1,326	2,015	3,341
<i>Health Care Provider</i>	246	297	543	796	722	1,518	34	39	73	1,076	1,058	2,134
<i>Landlord or Property Manager</i>	137	312	449	233	515	748	17	38	55	387	865	1,252
<i>Social Service or Government Agencies</i>	374	546	920	964	1,209	2,173	43	74	117	1,381	1,829	3,210
<i>Court Official or Attorney</i>	63	122	185	139	216	355	9	30	39	211	368	579
<i>Utility Bills</i>	115	144	259	352	376	728	20	18	38	487	538	1,025
<i>Other</i>	312	195	507	741	519	1,260	48	51	99	1,101	765	1,866
<b>Total</b>	<b>1,538</b>	<b>2,054</b>	<b>3,592</b>	<b>4,212</b>	<b>5,034</b>	<b>9,246</b>	<b>219</b>	<b>350</b>	<b>569</b>	<b>5,969</b>	<b>7,438</b>	<b>13,407</b>
<b>Statement/Letter</b>												
<i>School</i>	282	457	739	532	796	1,328	31	70	101	845	1,323	2,168
<i>Health Care Provider</i>	112	137	249	257	326	583	20	27	47	389	490	879
<i>Child Care Provider</i>	38	80	118	85	148	233	**	**	**	123	228	351
<i>Landlord or Property Manager</i>	69	247	316	125	335	460	15	23	38	209	605	814
<i>Social Service or Government Agencies</i>	88	122	210	169	219	388	9	27	36	266	368	634
<i>Utility Bills</i>	57	44	101	112	37	149	6	28	34	175	109	284
<i>Employer</i>	37	67	104	92	198	290	5	14	19	134	279	413
<i>Other</i>	259	168	427	712	437	1,149	63	78	141	1,034	683	1,717
<b>Total</b>	<b>942</b>	<b>1,322</b>	<b>2,264</b>	<b>2,084</b>	<b>2,496</b>	<b>4,580</b>	<b>149</b>	<b>267</b>	<b>416</b>	<b>3,175</b>	<b>4,085</b>	<b>7,260</b>

Document Type and Source	Test Groups											
	Hartford County			National Sample						Total		
	Schedule A*			Schedule A			Schedule B					
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
<b>Affidavit</b>												
<i>School</i>	149	591	740	279	1,325	1,604	17	47	64	445	1,963	2,408
<i>Health Care Provider</i>	74	402	476	117	525	642	12	15	27	203	942	1,145
<i>Child Care Provider</i>	99	415	514	351	1,168	1,519	24	59	83	474	1,642	2,116
<i>Landlord or Property Manager</i>	312	1,050	1,362	419	1,564	1,983	9	43	52	740	2,657	3,397
<i>Social Service or Government Agencies</i>	37	154	191	81	313	394	3	6	9	121	473	594
<i>Court Official or Attorney</i>	19	86	105	23	138	161	3	6	9	45	230	275
<i>Employer</i>	161	639	800	274	1,515	1,789	11	40	51	446	2,194	2,640
<i>Neighbor, Family Member, Friend</i>	30	0	30	**	**	**	94	219	313	124	219	343
<i>Other</i>	262	358	620	687	1,010	1,697	50	55	105	999	1,423	2,422
<b>Total</b>	<b>1,143</b>	<b>3,695</b>	<b>4,838</b>	<b>2,231</b>	<b>7,558</b>	<b>9,789</b>	<b>223</b>	<b>490</b>	<b>713</b>	<b>3,597</b>	<b>11,743</b>	<b>15,340</b>
<b>Grand Total</b>	<b>3,623</b>	<b>7,071</b>	<b>10,694</b>	<b>8,527</b>	<b>15,088</b>	<b>23,615</b>	<b>591</b>	<b>1,107</b>	<b>1,698</b>	<b>12,741</b>	<b>23,266</b>	<b>36,007</b>

**II. Percents (Row Percent)**

**Records**

<i>School</i>	40%	60%	100%	40%	60%	100%	32%	68%	100%	40%	60%	100%
<i>Health Care Provider</i>	45%	55%	100%	52%	48%	100%	47%	53%	100%	50%	50%	100%
<i>Landlord or Property Manager</i>	31%	69%	100%	31%	69%	100%	31%	69%	100%	31%	69%	100%
<i>Social Service or Government Agencies</i>	41%	59%	100%	44%	56%	100%	37%	63%	100%	43%	57%	100%
<i>Court Official or Attorney</i>	34%	66%	100%	39%	61%	100%	23%	77%	100%	36%	64%	100%
<i>Utility Bills</i>	44%	56%	100%	48%	52%	100%	53%	47%	100%	48%	52%	100%
<i>Other</i>	62%	38%	100%	59%	41%	100%	48%	52%	100%	59%	41%	100%
<b>Total</b>	<b>43%</b>	<b>57%</b>	<b>100%</b>	<b>46%</b>	<b>54%</b>	<b>100%</b>	<b>38%</b>	<b>62%</b>	<b>100%</b>	<b>45%</b>	<b>55%</b>	<b>100%</b>

**Statement/Letter**

<i>School</i>	38%	62%	100%	40%	60%	100%	31%	69%	100%	39%	61%	100%
<i>Health Care Provider</i>	45%	55%	100%	44%	56%	100%	43%	57%	100%	44%	56%	100%

Document Type and Source	Test Groups											
	Hartford County			National Sample						Total		
	Schedule A*			Schedule A			Schedule B			Total		
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
<i>Child Care Provider</i>	32%	68%	100%	36%	64%	100%	**	**	**	35%	65%	100%
<i>Landlord or Property Manager</i>	22%	78%	100%	27%	73%	100%	39%	61%	100%	26%	74%	100%
<i>Social Service or Government Agencies</i>	42%	58%	100%	44%	56%	100%	25%	75%	100%	42%	58%	100%
<i>Utility Bills</i>	56%	44%	100%	75%	25%	100%	18%	82%	100%	62%	38%	100%
<i>Employer</i>	36%	64%	100%	32%	68%	100%	26%	74%	100%	32%	68%	100%
<i>Other</i>	61%	39%	100%	62%	38%	100%	45%	55%	100%	60%	40%	100%
<b>Total</b>	<b>42%</b>	<b>58%</b>	<b>100%</b>	<b>46%</b>	<b>54%</b>	<b>100%</b>	<b>36%</b>	<b>64%</b>	<b>100%</b>	<b>44%</b>	<b>56%</b>	<b>100%</b>
<b>Affidavit</b>												
<i>School</i>	20%	80%	100%	17%	83%	100%	27%	73%	100%	18%	82%	100%
<i>Health Care Provider</i>	16%	84%	100%	18%	82%	100%	44%	56%	100%	18%	82%	100%
<i>Child Care Provider</i>	19%	81%	100%	23%	77%	100%	29%	71%	100%	22%	78%	100%
<i>Landlord or Property Manager</i>	23%	77%	100%	21%	79%	100%	17%	83%	100%	22%	78%	100%
<i>Social Service or Government Agencies</i>	19%	81%	100%	21%	79%	100%	33%	67%	100%	20%	80%	100%
<i>Court Official or Attorney</i>	18%	82%	100%	14%	86%	100%	33%	67%	100%	16%	84%	100%
<i>Employer</i>	20%	80%	100%	15%	85%	100%	22%	78%	100%	17%	83%	100%
<i>Neighbor, Family Member, Friend</i>	100%	0%	100%	**	**	**	30%	70%	100%	36%	64%	100%
<i>Other</i>	42%	58%	100%	40%	60%	100%	48%	52%	100%	41%	59%	100%
<b>Total</b>	<b>24%</b>	<b>76%</b>	<b>100%</b>	<b>23%</b>	<b>77%</b>	<b>100%</b>	<b>31%</b>	<b>69%</b>	<b>100%</b>	<b>23%</b>	<b>77%</b>	<b>100%</b>
<b>Grand Total</b>	<b>34%</b>	<b>66%</b>	<b>100%</b>	<b>36%</b>	<b>64%</b>	<b>100%</b>	<b>35%</b>	<b>65%</b>	<b>100%</b>	<b>35%</b>	<b>65%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

\*\*Data suppressed to avoid disclosure of information for specific taxpayers. In these cases, the subcategory amounts are not included in the totals.

#### **V.D.4 Qualifying Child Residency Certification Study, the Effect of Mandatory Validation on Certification Outcomes**

As discussed in earlier sections of the report, we subjected documents for a subset of the study taxpayers to mandatory validation. We selected ten percent of the Schedule A subgroup taxpayers (both Hartford County and National Sample) and 100 percent of the Schedule B subgroup taxpayers for this process. The focus of mandatory validation differed from that of the initial document review. The initial document review concentrated primarily on identifying documents on which to base the decision about whether the taxpayer met the EITC residency requirement. We rejected documents if they did not contain the required information, were not from allowable sources, or were clearly of suspicious origin. Mandatory validation, however, focused on verifying that the organization or individual listed on the document actually issued it and—for letters and affidavits—that the document author had records or personal knowledge of the residency of the taxpayer and child.

Because we subjected the documents from taxpayers included in mandatory review to greater scrutiny than those of the other taxpayers in the study, mandatory validation may have affected the outcome of certification for the two groups. Furthermore, we included 100 percent of the Schedule B subgroup taxpayers but only 10 percent of the Schedule A (both Hartford County and National Sample) subgroup taxpayers in mandatory validation. Consequently, the results for Schedule B subgroup taxpayers may not be directly comparable to those for the Schedule A subgroups because the mandatory validation process itself may affect the results of the certification process.

To demonstrate that mandatory validation had an effect on certification, this section of the report presents the study results using a different breakout of study cases than we used in prior sections. In this section, we grouped taxpayers by whether or not they were part of mandatory validation.

**Table 20a** on the following page presents the outcome of the certification process broken out by those taxpayers not subject to mandatory validation, Schedule A (both Hartford County and National Sample) taxpayers subject to mandatory validation and Schedule B taxpayers (all of whom were subject to mandatory validation). The percent of mandatory validation cases with adjustments for Hartford County is the same as those not subject to mandatory validation. For the National Sample, however, the percent of returns with adjustments for those subject to mandatory validation (both Schedule A with 36 percent and Schedule B with 33 percent) is significantly higher than the 27 percent for returns that were not subject to this process. The difference in the proportion of returns with adjustments between the Schedule A mandatory validation taxpayers and Schedule B taxpayers is not significant. The mandatory validation process appears to increase significantly the number of returns with adjustments for the National Sample.

**Table 20a: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Mandatory Validation Subgroups within the Test Groups**

	Test Groups											
	Non-Mandatory Validation Cases			Mandatory Validation Cases								
	Schedule A			Hartford County			National Sample					
	Number of Returns	Number with Adjustments	Number without Adjustments	Schedule A*			Schedule A			Schedule B		
Number of Returns				Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	
<b>I. Number of Returns</b>												
<b>Claimed EITC With Children</b>	12,926	3,453	9,473	463	126	337	948	341	607	636	209	427
<i>Claimed one child</i>	6,795	1,888	4,907	247	65	182	483	170	313	333	120	213
<i>Claimed two children</i>	6,131	1,565	4,566	216	61	155	465	171	294	303	89	214
<b>II. Percents</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>
<b>Claimed EITC With Children</b>	100%	27%	73%	100%	27%	73%	100%	36%	64%	100%	33%	67%
<i>Claimed one child</i>	53%	28%	72%	53%	26%	74%	51%	35%	65%	52%	36%	64%
<i>Claimed two children</i>	47%	26%	74%	47%	28%	72%	49%	37%	63%	48%	29%	71%

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

**Table 20b** presents the dollar amount of adjustments broken out by the mandatory validation groups. For EITC claims with qualifying children, the ratio of dollar adjustments to dollar EITC claims for returns not subject to mandatory validation is 24 percent compared to 33 percent for the Schedule A mandatory subgroup. These two ratios are significantly different. The corresponding ratio for the Schedule B subgroup is 29 percent, which is significantly lower than the Schedule A mandatory validation subgroup, but

higher than the non-mandatory validation group. The 22 percent of dollar claims that we adjusted for Hartford County mandatory validation returns is not significantly different from the non-mandatory group, suggesting the mandatory validation process had a significant effect on the outcome of the certification process for the National Sample, but not for the Hartford County group.

The mandatory validation component of the certification process appears to have uncovered some problems with documents that we could not identify by the initial review. However, since the most common reason that we rejected letters or affidavits was because we could not contact the letter writer or affiant, it could also have led us to deny some claims by eligible taxpayers who did not follow-up to provide replacement documents for the ones the tax examiner rejected under the mandatory validation process.

**Table 20b: EITC Qualifying Child Residency Certification Study: Tax Year 2004 Return Status for the Mandatory Validation Subgroups within the Test Groups (money amounts are in thousands of dollars)**

	Test Groups											
	Non-Mandatory Validation Cases			Mandatory Validation Cases								
	Schedule A			Hartford County			National Sample					
				Schedule A*			Schedule A			Schedule B		
Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	
<b>I. Amount of Claims</b>												
<b>Claimed EITC With Children</b>	\$27,974	\$6,693	\$21,281	\$938	\$210	\$728	\$2,177	\$713	\$1,464	\$1,405	\$407	\$998
<i>Claimed one child</i>	\$11,620	\$3,065	\$8,555	\$384	\$92	\$291	\$842	\$281	\$561	\$562	\$190	\$371
<i>Claimed two children</i>	\$16,354	\$3,627	\$12,727	\$554	\$118	\$436	\$1,335	\$432	\$903	\$843	\$217	\$626
<b>II. Percents</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>	<b>Column Percent</b>	<b>Row Percent</b>	<b>Row Percent</b>
<b>Claimed EITC With Children</b>	100%	24%	76%	100%	22%	78%	100%	33%	67%	100%	29%	71%
<i>Claimed one child</i>	42%	26%	74%	41%	24%	76%	39%	33%	67%	40%	34%	66%
<i>Claimed two children</i>	58%	22%	78%	59%	21%	79%	61%	32%	68%	60%	26%	74%

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

**Table 21** presents, by mandatory validation subgroup, the distribution of the number of telephone calls taxpayers made to the IRS and who identified themselves. As a part of the Qualifying Child Study, we tracked the number of calls received from taxpayers. While we obtained information on the number of telephone calls, we can only associate about half the callers, because taxpayers do not have to identify themselves to ask general questions about IRS processes.

**Table 21: EITC Qualifying Child Residency Certification Study: Distribution of Number of Telephone Calls Made to IRS per Taxpayer as Percent of Taxpayers Who Made Calls, by Mandatory Validation Subgroups, for the Tax Year 2004 Study**

Number of Calls per Taxpayer	Test Groups					Total
	Non-Mandatory Validation Cases	Mandatory Validation Cases				
		Schedule A	Hartford County	National Sample		
			Schedule A*	Schedule A	Schedule B	
1	35%	25%	28%	28%	34%	
2-3	31%	26%	27%	25%	31%	
4-6	18%	22%	20%	22%	19%	
7-10	9%	14%	13%	13%	10%	
11 or more	6%	13%	12%	11%	7%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

*Note: Detail may not add to total due to rounding.*

*\*Schedules B were not part of the Hartford County test.*

For those calls that we could attribute to specific taxpayers, those who were in the mandatory validation process tended to call more often than those who were not regardless of whether they were in the Hartford County or National Sample test group or if they received Schedule A or Schedule B. About 49 percent of the Hartford County mandatory validation subgroup, 45 percent of the National Sample Schedule A mandatory validation subgroup taxpayers, and 46 percent of the National Sample Schedule B subsample taxpayers made four or more telephone calls to the IRS. This rate compares to 33 percent of the Schedule A non-mandatory validation subgroup taxpayers. This result indicates the mandatory validation process drove the difference in call numbers.

**Table 22** presents, by mandatory validation subgroup, the distribution of documents by type of document sent to the IRS for each mandatory validation subgroup. The table shows no significant differences in the distributions of documents submitted between the National Sample subgroups, but the Hartford County mandatory validation subgroup relied on affidavits more than the National Sample mandatory validation subgroups (46 percent compared to 42 percent each, respectively). Also, all three mandatory validation subgroups relied more heavily on statements and letters (about 25 percent) than those not subject to mandatory validation (about 19 percent) and less on records (about 33 percent for the mandatory validation groups compared to 38 percent for the non-mandatory validation group).



**Table 22: EITC Qualifying Child Residency Certification Study: Distribution of Documents Submitted by Mandatory Validation Subgroup and Type of Document—Document Type as Percent of Total—for the Tax Year 2004 Study**

Document Type	Test Groups				Total	
	Non-Mandatory Validation Cases	Mandatory Validation Cases				
		Schedule A	Hartford County	National Sample		
			Schedule A*	Schedule A		Schedule B
Records	38%	31%	33%	33%	37%	
Statement/Letter	19%	24%	25%	25%	20%	
Affidavit	43%	46%	42%	42%	43%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

*Note: Detail may not add to total due to rounding.*

*\*Schedules B were not part of the Hartford County test.*

**Table 23** presents, by mandatory validation subgroups, the distribution of the number of documents taxpayers submitted. For returns not in mandatory validation, 25 percent submitted four or more documents, compared to 30 percent of the Hartford County Schedule A, 31 percent of the National Sample Schedule A, and 33 percent of the National Sample Schedule B subgroup taxpayers in mandatory validation. Those who received Schedule B, all of whom were subject to mandatory validation, tended to submit more documents than those in either Schedule A subgroups who were part of mandatory validation. However, being part of the mandatory validation process tended to result in taxpayers submitting more documents and appears to be a more important factor in the distribution of the number of documents they submitted than in the affidavit subsample. Mandatory validation would likely increase the number of documents taxpayers submitted because it increases the chance that we would not accept a particular document, resulting in the taxpayer having to submit additional documentation to replace the rejected document(s).

**Table 24** presents the percent of documents we accepted (including those the examiner accepted and those accepted in mandatory validation). We rejected affidavits for taxpayers in mandatory validation more often than for those who were not part of mandatory validation. However, we accepted records, letters and statements at a higher rate than for those not subject to the mandatory validation procedures. Combining the three types of documents, the acceptance rate was virtually the same for all subgroups.

**Table 23: EITC Qualifying Child Residency Certification Study: Distribution of Number of Documents Submitted per Taxpayer as Percent of Taxpayers Who Submitted Documents, by Mandatory Validation Subgroups, for the Tax Year 2004 Study**

Number of Documents per Taxpayer	Test Groups					Total
	Non-Mandatory Validation Cases	Mandatory Validation Cases				
		Schedule A	Hartford County Schedule A*	National Sample		
				Schedule A	Schedule B	
1	37%	29%	27%	27%	36%	
2-3	38%	41%	41%	41%	39%	
4-6	19%	26%	24%	25%	20%	
7 or more	6%	4%	7%	8%	6%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

**Table 24: EITC Qualifying Child Residency Certification Study: Distribution of Documents Accepted as Percent of Total Submitted by Type for the Tax Year 2004 Study**

Document Type	Test Groups											
	Non-Mandatory Validation Cases			Mandatory Validation Cases								
	Schedule A			Hartford County Schedule A*			National Sample					
	Rejected	Accepted	Total	Rejected	Accepted	Total	Schedule A			Schedule B		
Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total	
Records	45%	55%	100%	40%	60%	100%	39%	61%	100%	38%	62%	100%
Statement/Letter	45%	55%	100%	30%	70%	100%	39%	61%	100%	36%	64%	100%
Affidavit	22%	78%	100%	33%	67%	100%	34%	66%	100%	31%	69%	100%
<b>Total</b>	<b>35%</b>	<b>65%</b>	<b>100%</b>	<b>35%</b>	<b>65%</b>	<b>100%</b>	<b>37%</b>	<b>63%</b>	<b>100%</b>	<b>35%</b>	<b>65%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Schedules B were not part of the Hartford County test.

#### **V.D.5 Qualifying Child Residency Certification Study, Taxpayer Costs and Experience**

Another focus of this test was to learn how certification affected the time and out-of-pocket costs associated with making an EITC claim. The taxpayer survey included questions about time spent on the return and related activities, the cost of a paid tax preparer, and the amount of other out-of-pocket expenses. Because it would be difficult for taxpayers to separate certification time and costs from time and costs associated with preparing and filing their returns, we used the test/control group design of the study to address this issue. Rather than asking specific questions about burden associated with certification, we used the difference between the test and control group response to estimate the time and money cost of certification-related activities. In looking at these comparisons however, the majority of the control group returns were not subject to examination. Thus, the comparison primarily is between the certification process versus no treatment, as opposed to certification process versus examination.

**Table 25** presents some highlights from the survey results. The percentages of taxpayers who said they filed a tax return and of those who said they claimed the EITC with qualifying children are broadly consistent with the administrative data reported in Table 3.

**Table 25: EITC Qualifying Child Residency Certification Study: Highlights from Survey Results for the Tax Year 2004 Study**

Survey Question	Response	Percent of		
		Hartford County	National Sample	Control Group
<i>Did you file a 2004 income tax return this year?</i>	Yes	91%	91%	91%
<i>Do you think taxpayers should be required to prove they meet the EITC requirements before they receive the Earned Income Tax Credit?</i>	Yes	73%	71%	63%
<i>For 2004, did you claim EITC with children?</i>	Yes	65%	68%	74%
<b>For taxpayers who reported claiming EITC with children for 2004</b>				
<i>Did you take any time off from work to obtain information you needed for your income tax return, including claiming the EITC?</i>	Yes	23%	26%	10%
<i>How many of the places you contacted for official letters, signed affidavits, or other documents refused to give them to you?</i>	1 or more	23%	18%	N/A*
		Mean Response		
		Hartford County	National Sample	Control Group
<i>Roughly how much time did you spend on your return? Please include time for gathering your papers, talking with a tax preparer, getting copies of documents and talking with the IRS.</i>		7.9 hours	9.8 hours	2.7 hours
<i>You said you used a paid tax preparer to help you complete your income tax return. Roughly how much did that cost?</i>		\$164	\$157	\$163
<i>[Excluding your paid tax preparer,] Roughly how much money did you spend on your return? Please include transportation costs and money spent gathering papers or getting copies of documents.</i>		\$56	\$61	\$74
		Mean Rating**		
		Hartford County	National Sample	Control Group
<b>Ease or Difficulty of Certification Paperwork**</b>				
<i>How difficult or easy was it to understand the new EITC forms and instructions? Would you say it was...</i>		2.99	2.99	N.A.*
<i>How difficult or easy was it to decide which documents to use? Would you say it was...</i>		3.16	3.07	N.A.*
<i>How difficult or easy was it to get the documents you needed to respond to the EITC requirements?</i>		3.40	3.32	N.A.*
<i>How difficult or easy was it to get assistance from the IRS?</i>		3.08	3.17	N.A.*
<i>How difficult or easy was it to respond to IRS requests for additional information?</i>		3.47	3.35	N.A.*

\*The control group was not subject to the certification process and therefore was not asked these questions.

\*\*Difficulty rating scale: 1=very difficult and 5=very easy

### **V.D.5.a Taxpayer Costs**

Being subject to certification appears to increase the amount of time taxpayers expend to make an EITC claim. As reported in Table 25, test group taxpayers in Hartford County who said they claimed EITC with qualifying children reported spending an average of 7.9 hours on their return and those in the National Sample reported an average of 9.8 hours. In contrast, control group taxpayers who said they claimed EITC with qualifying children reported spending about only 2.7 hours. Being subject to certification also appears to increase the likelihood that taxpayers will have to take time off from work to prepare their tax return or to complete the certification process. About 23 percent of Hartford County respondents and 26 percent of the National Sample respondents who reported claiming EITC with qualifying children said they had to take time off from work to obtain information to prepare their returns. For the control group, only 10 percent of those who said they claimed EITC with qualifying children reported taking time off from work to obtain needed information.

Based on the survey data it appears that both test groups and the control group taxpayers who reported they claimed EITC with qualifying children and used paid tax preparers paid roughly the same amount for those services. On average, the Hartford County test group reported paying \$164, the National Sample group reported paying \$157, and the control group reported paying \$163 for tax return preparation. Because we tested the certification requirement on a small number of taxpayers, it is not surprising that professional tax preparers would not have changed their fee schedules to include an additional charge for certification-related work.

For costs other than for preparers, test group taxpayers who said they claimed EITC with qualifying children reported on average about \$56 for the Hartford County group and \$61 for the National Sample compared with \$74 for control group taxpayers. There is no significant difference among these figures.

### **V.D.5.b Taxpayer Opinions about Certification**

The taxpayer survey included several questions designed to capture taxpayers' opinions about the certification process. Taxpayers seemed evenly split in their assessment of the difficulty or ease of completing several of the activities associated with certification. While it appears that the Hartford County group had a higher instance of places refusing to provide documentation, this difference is not significant.

Taxpayers also appear not to object to the concept of proving eligibility before receiving the EITC. About 73 percent of the Hartford County test group, 71 percent of the National Sample test group, and 63 percent of the control group taxpayers thought that taxpayers should prove they meet the EITC requirements before they receive the EITC.

## **V.D.6 Qualifying Child Residency Certification Study, Community Test in Hartford County**

As discussed previously, part of the 2005 Qualifying Child Study was to understand better the likely effects of a full-scale program on individuals required to certify and on the third parties providing EITC claimants with documents and assistance. This section presents findings from focus groups of third party document providers in Hartford County (see appendix D for the Focus Group Report). It also presents information on the burden placed on document providers and summarizes the results of the community test conducted in Hartford County.

### **V.D.6.a Qualifying Child Residency Certification Study, Focus Groups of Third Party Document Providers in Hartford County**

To better understand the experiences and burden of certification on third party document providers in the Hartford County test, we contracted with Westat Corporation to conduct two focus groups. The first group of six participants was from within the city limits of Hartford. The second group of ten participants was from outside the city of Hartford limits but within Hartford County. The rationale for this division was that providers in the city and county might have different perspectives in light of the publicity the certification program had received within the city of Hartford because of a lawsuit filed against the IRS over the certification program.

The focus group participants learned of the certification process in a variety of ways. Most in the county group first learned of the certification process when a taxpayer requested documentation. Some in the city group knew of the certification process before receiving requests from taxpayers because of their work and the advance publicity about the certification test. However, most in the groups had not done any advance preparation for certification because they were unaware of the test. Among those who had heard of the requirements ahead of time, a few had prepared form letters on official letterhead. Most focus group participants found the process of providing verification relatively simple once they had the first documentation request and figured out what was needed. No one in any of the focus groups indicated that they had contacted the IRS or other outside source with questions about the process.

Most focus group participants indicated that they consulted their existing records to fulfill the documentation requests. In some cases in which the records were outdated, they asked taxpayers to obtain the information they needed to update their records. A few participants said they had turned down some taxpayers' requests because they did not have records that verified where the child lived or the records they did have were out of date.

Most focus group participants thought the amount of effort required to fulfill the documentation requests was about the same or easier than what is required for other government programs. One participant, however, thought it took more work. Moreover, the focus group participants working for school systems indicated that the requests were burdensome. They indicated that they were understaffed and recalled numerous requests for documentation. Nearly all

focus group participants thought the process was more burdensome for taxpayers than for document providers.

Nearly everyone who participated in the focus groups indicated they thought the affidavit was a simple and straightforward option for a certification document. Some participants, however, preferred a letter on official letterhead because authorized staff that was not able to sign an affidavit could fulfill the documentation request by providing an official letter. Participants indicated that we could clarify the purpose of the affidavit by adding something about the EITC on the form. Focus group participants also indicated that they would prefer advance notification of the certification process so that they could prepare for requests.

#### **V.D.6.b Qualifying Child Residency Certification Study, Analysis of Burden on Third Party Document Providers**

In addition to the focus groups, we also examined how many documents each source in the Hartford County test group provided. **Table 26** presents the distribution of the number of documents by source and type of supplier. We did not include documents supplied by the state and federal government in this data. As the focus groups suggest, schools received many requests for documentation. Among those who supplied documents, about 57 percent of the schools provided more than one letter or affidavit compared to 12 percent of childcare providers. The same pattern holds true for records. For records, however, taxpayers may have already had the records in their possession and did not need to ask the supplier for it. We have no way to distinguish this feature so we included all records in the table distribution. The table also demonstrates that several schools and health care providers experienced very heavy burdens and provided more than 21 affidavits or letters and possibly additional numbers of records.

**Table 26: EITC Qualifying Child Residency Certification Study: Distribution of Number of Documents Provided by Each Supplier by Type of Supplier for the Tax Year 2004 Study**

Number of Documents Provided	Hartford County						Total
	School	Health Care Provider	Landlord or Property Manager	Social Service or Government Agencies	Child Care Provider	Other	
<b>Letters and Affidavits</b>							
1	43%	49%	82%	76%	88%	75%	74%
2-5	40%	37%	16%	18%	11%	20%	21%
6-10	12%	8%	2%	1%	0%	4%	4%
11-20	5%	4%	*	4%	*	1%	1%
21 or more	1%	2%	0%	1%	0%	*	*
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Records</b>							
1	55%	62%	82%	79%	90%	60%	68%
2-5	32%	25%	15%	12%	5%	28%	23%
6-10	7%	6%	1%	2%	0%	6%	4%
11-20	2%	4%	1%	5%	0%	2%	2%
21 or more	3%	3%	1%	2%	5%	4%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Total</b>							
1	47%	55%	82%	77%	88%	72%	72%
2-5	37%	31%	16%	16%	11%	22%	22%
6-10	10%	7%	1%	1%	0%	4%	4%
11-20	4%	4%	*	4%	*	1%	1%
21 or more	2%	3%	*	1%	*	1%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Less than 0.5 percent.

### V.D.7 Qualifying Child Residency Certification Study, IRS Costs and Return on Investment

One of the key factors that will ultimately determine whether we proceed with a broad certification requirement for EITC claimants is the program's Return on Investment (ROI). In other words, we must weigh the costs of administering certification with the benefits certification generates and then compare these results with other potential investment options.

Conducting such an analysis requires that we determine an operating model for a fully implemented program and then estimate the costs and benefits associated with this model. However, the test on which we focused this report sought to evaluate how a certification requirement might affect EITC error and participation rates. We did not design the test to develop an operating model for certification implementation. Thus, this report will not attempt to develop a comprehensive ROI calculation from which we could make decisions about full implementation of a certification program. Instead, it will look at the ROI associated with the narrower TY 2004 Certification Test and discuss the factors needed to develop ROI calculations for a full-scale certification process.



## **V.D.7.a TY 2004 Certification Test Return on Investment**

In its simplest form, return on investment is the return in dollars generated from each dollar invested. We generally followed this approach in determining ROI for certification. However, because of the nature of tax administration, we have modified the benefits portion of the calculation to incorporate some forms of taxpayer behavior – essentially capturing the deterrent effects of certification. Moreover, the methodology also adjusts for payments that we should have made to taxpayers who we inappropriately deterred by the certification requirement.

This approach is in keeping with the EITC mission to reduce erroneous payments but also to consider the effect on eligible taxpayers when evaluating new policies or processes.

### ***Cost of the Test***

The total cost to administer the Qualifying Child Certification Test for TY2004 is \$5.2 million. This figure includes expenditures for technology maintenance and enhancements, contractor support (including survey and focus group expenses), labor to conduct the certification reviews through the deficiency procedures, and administrative overhead. It reflects the cost to maintain a special, stand-alone unit in Kansas City with dedicated staff and a dedicated information system to administer the test. It also includes staff training and the maintenance and storage costs associated with test data and paperwork. The largest cost component is the labor cost of \$4.2 million, which is about 81 percent of the total cost.

Many of the costs drivers associated with the test would be significantly different in a full-scale implementation. For example, a separate unit or a dedicated staff to administer a full-scale program would be unlikely. Instead, the certification program would be part of a larger tax administration unit. Furthermore, the test does not allow for the economies of scale that would result from having a larger number of taxpayers subject to certification (e.g., spreading the fixed costs of a data system over a larger group of taxpayers). For these reasons, we cannot extrapolate the cost of the test to a larger population.

### ***Benefits from the Test***

As noted above, calculating the test's benefits involves estimating several different components. The most straightforward component of the benefit calculation is the amount of revenue protected during the certification process itself. In other words, the dollar amount of refunds that we denied to individuals who claimed the credit and who tried to certify but were unsuccessful. This figure is \$8.0 million.

The second component is the amount of erroneous EITC claims that we would have paid but that the certification requirement deterred. We estimate this amount by offsetting the total amount of EITC claims that the certification requirement deterred by the amount that eligible taxpayers should have claimed. Specifically, this is

1. The dollar amount of EITC claims that individuals who did not claim EITC because of certification would have otherwise made—in other words, all taxpayers who the certification

process deterred from claiming the credit regardless of whether they were eligible or ineligible for the credit.

Minus

2. The dollar amount of EITC that eligible individuals would have claimed but the certification process deterred from claiming.

As noted earlier (see Section V.C.), one goal of the certification process was to increase taxpayers' awareness and understanding of the EITC qualifying child residency requirement. We intended this feature to help taxpayers make the correct decision about claiming the EITC at the time of filing. However, an unintentional consequence of the certification program could be to deter eligible taxpayers from claiming the credit. This deterrence could happen for several reasons. A taxpayer may feel that the certification process is too complicated and therefore decide not to claim the EITC. Alternatively, the information may confuse taxpayers who then conclude that they are ineligible for EITC when, in fact, they actually are eligible. In both instances, the certification process may inadvertently deter taxpayers from claiming the EITC.

**Table 27** presents the disposition of taxpayers in the study subject to the certification process. As we previously showed (see Table 3), 58 percent of the Hartford County test group claimed the EITC with qualifying children in TY 2004 and 42 percent did not. For the National Sample test group, 63 percent claimed the EITC with qualifying children in TY 2004 and 37 percent did not.

The 58 percent of the Hartford County test group who claimed EITC with qualifying children consists of taxpayers who documented the residency of their qualifying children and those who did not. About 44 percent of this test group was taxpayers who claimed EITC with qualifying children in TY 2004 and certified that their children met the qualifying child residency requirement. About 14 percent of the Hartford County test group was taxpayers who claimed EITC with qualifying children on their income tax returns but did not adequately document that the children met the residency requirement.

For the National Sample test group, 63 percent claimed EITC with qualifying children, consisting of taxpayers who documented the residency of their qualifying children and those who did not. About 45 percent of this test group was taxpayers who claimed EITC with qualifying children in TY 2004 and certified that their children met the qualifying child residency requirement. About 18 percent of the National Sample test group was taxpayers who claimed EITC with qualifying children on their income tax returns but did not adequately document that the children met the residency requirement.

Thus, while the Hartford County test group claimed EITC with qualifying children less often than the National Sample test group, they were able to adequately document that the children met the residency requirement relatively more often.

**Table 27: EITC Qualifying Child Residency Certification Study: Test Groups' Tax Year 2004 Return Filing Status and Eligibility**

Status	Percent of Hartford County	Percent of National Test Groups
<b>Non-Claimants*</b>	<b>42%</b>	<b>37%</b>
For Reasons Unrelated to Certification	26%	26%
Deterred by Certification, Eligible for EITC	3.0%-4.0%	0.5%-3.0%
Deterred by Certification, Ineligible for EITC	13.0%-12.0%	10.5%-8.0%
<b>Claimants with Qualifying Children</b>	<b>58%</b>	<b>63%</b>
Eligible	44%	45%
Ineligible	14%	18%
<b>Total</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

*\*Includes taxpayers who claimed EITC without qualifying children.*

Based on the behavior of the control group, an estimated 26 percent of the test groups were taxpayers who would not have claimed the EITC with qualifying children in TY 2004 even without a certification requirement. We observed a similar degree of annual turnover among EITC claimants in the general EITC population, so this rate is not unique to this study.

We can estimate the portion of taxpayers deterred from claiming EITC because of the certification requirement by comparing the difference in the percentages of non-claimants in the control and test groups. Based on this calculation (42 percent minus 26 percent for Hartford County and 37 percent minus 26 percent for the National Sample), we can infer that the certification process deterred about 16 percent of the Hartford County test group and 11 percent from the National Sample group from claiming EITC with qualifying children. Using the survey data for the test group and control group taxpayers, we estimate that about 3 to 4 percent of the Hartford County test population was eligible for EITC but deterred by the certification process. Likewise, the National Sample had an estimated 0.5 to 3 percent of the study eligible for EITC but deterred by the process. We derived these estimates by comparing responses to survey questions designed to give a rough estimate of eligibility. We compared the National Sample group to the control group and the Hartford County test group to the National Sample. Thus, the certification requirements appropriately deterred around 12 to 13 percent of the Hartford County test population and 8 to 10.5 percent of the National Sample test from claiming the EITC.

We used administrative and survey data from the certification test to estimate we deterred \$.7 million to \$1.8 million in EITC claims that would have been claimed by eligible taxpayers in both test groups. We estimate the certification requirements deterred \$7.5 million of EITC claims all taxpayers in the test groups, both eligible and ineligible. The total amount of EITC claims deterred from ineligible taxpayers in the test groups was between \$5.8 and \$6.8 million.

To determine the net benefit of the TY 2004 Certification Test, we added the revenue protected through the certification process to the EITC that ineligible taxpayers would have claimed had the certification requirement not deterred them from doing so, a total of \$13.8 to \$14.8 million. From here, estimating the ROI for the test is relatively straightforward. Estimated costs are \$5.2

million and estimated benefits are \$13.8 to \$14.8 million—yielding an ROI of about \$2.65 to \$2.85 for every one dollar invested.

We cannot extrapolate this figure to a larger population without significant modification. Moreover, the ROI calculation leaves out other important factors, such as taxpayer burden, which we would need to consider under a broad implementation. Finally, we should not look at the ROI on a single project in isolation; rather we should compare it to the ROI of other potential uses of the same resources.

#### **V.D.7.b Estimating ROI for a Fully-Implemented Certification Requirement**

We have not yet defined how we might structure a broad implementation of certification. Before we can do this, we would have to make numerous decisions about the process. Without a better sense of how we would run a certification program, we cannot estimate a robust ROI.

We are working to identify key decision and their effects on the ROI calculation. Some of the questions that we must resolve before making a decision on whether to implement certification include:

- How many taxpayers would we ask to certify?
- How often would we ask them to certify?
- How would we embed or link certification to existing exam processes? Would it be a stand-alone program or would it become intertwined with other exam activities?
- Are there alternatives to an examination-type process for dealing with taxpayers who do not provide adequate documentation to certify residency?
- What options do we have to streamline the process? Can we automate certification? Can we accomplish certification electronically, or at least some portion of it, electronically?
- What communications tools and outreach work can we use to reduce the number of eligible but deterred taxpayers?
- What can we do to address issues associated with the mobility of EITC claimants?
- What role can or should tax professionals play in this process?
- Could we allow third parties to collect certification information for submittal to the IRS?
- How might we streamline certification document review to improve efficiency?
- What other steps can we take to reduce burden on taxpayers who we ask to certify?

To determine the best approach from an ROI standpoint, we intend to develop scenarios of possible models for certification. We will evaluate these scenarios not only on their ability to maximize ROI, but also on their effect on participation and overall EITC error. The objective is to produce an option or set of options that would best help us accomplish the EITC mission of maximizing participation and minimizing error and fraud.

We have begun a separate project to develop options for implementation. The community-based component of this year's study provided information for this project that was not available from the first year study. In addition, the IRS has begun a third test of a certification requirement on TY 2005 returns. The focus of the study on TY 2005 returns is to test a modified selection

algorithm that we developed using information from the first year test. The intent of the modified selection algorithm is to focus the certification program better on taxpayers who claim, but are not eligible for the EITC with qualifying children. The IRS will need to weigh the results of this test, the implementation scenarios, and any additional or research before making an ultimate determination about the future role of certification.

### **V.D.8 Qualifying Child Residency Certification Study, Summary of Community Test in Hartford County**

The community test in Hartford County provided an opportunity for outreach and education that would be cost prohibitive for a test with a relatively small sample dispersed across the entire country. The intent of the study was to gain a better understanding of how certification would affect taxpayers and third party document providers if we fully implemented it by focusing on comprehensive implementation over a limited geographic area. The City of Hartford's lawsuit against the IRS over the test may have affected the test results. The resulting publicity and possible effect on the process of obtaining certification documentation from city agencies may have led to results for Hartford that would have been different had the lawsuit not occurred. We do not know whether the existence of lawsuit would help or harm taxpayers in better understanding and navigating the certification process. On the one hand, the lawsuit could raise awareness of the test and the steps necessary to comply. Then again, the lawsuit could have dissuaded some taxpayers from trying to comply or raised obstacles for complying for others.

Nonetheless, the results suggest that taxpayers in the community test (Hartford County) understood the requirements for qualifying children better than those taxpayers in the National Sample test did. As shown in Tables 3 and 6, taxpayers in the Hartford County group made fewer claims than the National Sample group, and we allowed the claims they made more often. Thus, the certification requirements deterred more ineligible taxpayers in the Hartford County test group than in the National Sample. One drawback, however, is the higher rate of eligible taxpayers deterred from claiming the EITC in the Hartford County test than in the National Sample (discussed further in section V.D.8.a).

To understand the impact of the lawsuit, we compared taxpayers residing in the city of Hartford to those living outside the city, but within Hartford County. Within the Hartford County test group, 87 percent of the test group residing in the city of Hartford filed a return and 25 percent did not claim EITC compared to 89 percent in the rest of Hartford County who filed a return and 28 percent who did not claim EITC. These differences are significant. However, the difference in the percent who claimed EITC with qualifying children (58 percent and 59 percent respectively) was not significant. It does not appear that the lawsuit substantially changed the behavior of the city residents relative to the residents of the surrounding county. Since the entire area is a single media market, this result should not be surprising.

While the percent of taxpayers in the city of Hartford and the rest of Hartford County who claimed EITC with children was the same, a significant difference in the percent of returns with adjustments occurred. In the city of Hartford, we adjusted 26 percent of the returns with claims

compared to 23 percent in the rest of Hartford County. We also adjusted 23 percent of the amount of the claims in the city of Hartford compared to 18 percent in the rest of the country.

This difference may be attributable to unobservable differences between taxpayers in the city of Hartford and those in the rest of Hartford County that are unrelated to certification. However, another possible explanation for this difference is the difficulty taxpayers in the city of Hartford had obtaining documents from the schools. As mentioned in the discussion regarding Table 15, the Mayor's office initially instructed the public schools in the city of Hartford not to provide documents that taxpayers could use to certify residency. Since schools were the primary source of documents taxpayers used to substantiate EITC claims made in the study, the inability to get these documents may have led to some eligible taxpayers being unable to provide adequate documentation and subsequently having their claim disallowed.

The Hartford County community test also provided an opportunity to examine the burden of providing documents when many claimants need to obtain documentation. The data suggest that among all types of document providers, schools are most likely to receive a large number of requests, and the focus group participants working for school systems indicated that the requests were burdensome. However, several participants from schools in the focus groups stated that while it was burdensome, it also helped them update their emergency contact information records. While taxpayers asked several healthcare providers for large numbers of documents, it does not appear, from either the focus groups or the data that the document requests unduly burdened the remaining document providers.

#### **V.D.9 Qualifying Child Residency Certification Study, National Test Groups: Experience of First and Second Year Tests**

As discussed earlier, we used an identical selection process for the TY 2004 National Sample as that we used for TY 2003 test group. We made very few changes in correspondence and procedures and none of the changes were substantial enough to affect the outcome for the TY 2004 study. Therefore, we expected the outcome for the TY 2004 National Sample to be similar to the outcome for the TY 2003 test group. For the most part the results are similar; however, some unexpected differences occurred, which we are still trying to understand.

One difference is that the percent of taxpayers in the TY 2004 National Sample test group who claimed EITC with children was lower than the test group in the previous study (63 percent and 67 percent, respectively), while the percent who claimed EITC with children in the control groups was the same for both years (74 percent). The larger difference between the test and control groups for TY 2004 is also reflected in credits claimed for the two years. For TY 2003, the test group claims were about ten percent lower than the control group claims. For TY 2004, the difference was about 17 percent.

Several factors could possibly contribute to this. First, with the pilot in its second year, more professional tax preparers may have been aware of the certification requirements. The publicity surrounding the Hartford lawsuit might also have increased overall awareness. Since nearly three-quarters of the taxpayers in the study used a paid preparer, this change in awareness could have led to a heightened sensitivity toward unsupported claims, potentially influencing the number of

claims. Another possibility is that the observed change in EITC claims is associated with changes in the underlying databases used in the selection process. For example, the KidLink database had one more year of information available, which would enable us to systemically certify more children and therefore remove more EITC eligible taxpayers from the study population. A third possibility is that changes to the certification letter (Notice 84A) that we thought were minor were actually significant enough to affect taxpayer behavior. Future research may support these explanations or indicate that another is more promising.

We also observed other differences that may be a consequence of the larger reduction in claims made by the test group for TY 2004. For example, a smaller percentage of the taxpayers we required to certify had adjustments in TY 2004 than in TY 2003. This outcome may be the result of fewer ineligible taxpayers claiming the credit as reflected in the greater difference in claims between the test and control groups in TY 2004 than in TY 2003. There is a slight shift in the filing status distribution away from head of household and toward single for the test group returns that filed in the study years. For TY 2004 about 21 percent used single filing status and 67 percent used head of household. The corresponding numbers for TY 2003 study are 18 percent and 70 percent. The percentage of returns filed using a paid preparer was also down slightly. For the TY 2003 study, it was 77 percent for all return filers and 80 percent for filers claiming EITC with qualifying children. For the TY 2004 study, the corresponding percentages are 72 percent and 76 percent.

Some slight differences in taxpayers' responses to the certification notification may reflect the implementation of an automated system for checking the status of the certification review. For TY 2004, fewer taxpayers both called and sent written material than in the prior year's study. For TY 2003 about 42 percent called and sent written material and 16 percent sent written materials only. For TY 2004, the corresponding percentages are 39 percent and 20 percent. There also seems to be a substantial increase between the two years in the response of taxpayers who filed a return but did not claim EITC or claimed EITC without children. About 10 percent of these taxpayers responded by calling or sending written materials in TY 2003. The response rate for TY 2004 is 20 percent—double the TY 2003 rate. Again, minor differences in the correspondence we sent may have led to significant changes in taxpayer perceptions.

The final difference highlighted in this section involved the mandatory validation process. Some of the results related to mandatory validation are counterintuitive and to date we have not identified a compelling explanation for the outcome. Although the overall percentages of documents accepted for the Affidavit A subsamples and non-mandatory validation groups are similar in both study years, the detail by type of document differs. In both years, we accepted a slightly lower percentage of documents from the mandatory validation groups than from the non-mandatory validation groups—63 percent versus 64 or 65 percent. However, in TY 2004 the mandatory validation subgroup has higher acceptance rates for records and letters than the non-mandatory validation subgroup. This result is contrary to expectation that the mandatory validation subgroup underwent an additional level of review for a portion of the submitted documents. We used similar procedures for accepting documents in both years so we cannot attribute the change to a shift in processes. We will need more research to understand fully the causes of these differences.

## **VI. EITC Filing Status Study**

The TY 1999 EITC compliance study identified filing status errors as a major contributor to EITC overclaims. Many EITC claimants improperly filed as single or head of household, when they should have filed as either married filing jointly or married filing separately. In numerous cases, using the proper filing status would have substantially reduced the amount of EITC received or made those taxpayers ineligible for the credit altogether.

The Filing Status Study examined EITC claimants who had a high likelihood of filing returns with EITC overclaims because they incorrectly used the single or head of household filing status instead of married filing separately or married filing jointly. These taxpayers filed as married filing jointly in TY 2002 claiming EITC and then filed as head of household for TY 2003 claiming EITC. The Filing Status Study investigated the impact of requiring these taxpayers to document marital status in order to validate the filing status on their tax return. The focus of the Filing Status study for TY 2004 was to improve upon the methods used in prior studies for identifying taxpayers with a high likelihood of filing returns with filing status and related EITC errors.

We did not contact taxpayers we selected for the Filing Status Study before they filed their TY 2004 returns (accordingly, we had no need for a control group to compare filing behavior). When these taxpayers filed their returns, if they claimed EITC and filed as single or head of household, we held the EITC portions of their refunds and asked them to provide additional information about marital status. We removed taxpayers who met certain exclusion criteria from the study. These exclusions were the same ones that we used in the Qualifying Child Study—for example, we removed returns for taxpayers in combat or disaster zones. We asked taxpayers to provide documentation of their marital status, such as a divorce decree or legal separation papers. Our examiners used this information to determine whether the claimant's actual marital status was consistent with the filing status on the tax return.

### **VI.A EITC Filing Status Study Sample Development**

For the TY 2004 study, we first identified taxpayers with possible filing status errors on their TY 2003 returns using an existing rules-based process. Based on data from the TY 2002 Filing Status Study, we developed two selection algorithms. We based one algorithm on administrative data available internally to the IRS. The other algorithm used commercially available third-party information. We applied these two algorithms to the population of approximately 24,000 taxpayers identified by the existing rule-based process to determine the population of test taxpayers for each of the alternative algorithms. We also selected a random sample from the same population as a comparison group. Once we identified these three groups, we added the related taxpayer on the TY 2002 married filing jointly return to the test groups. The test included 2,204 taxpayers in the IRS group, 1,912 taxpayers in the third party data group, and 2,644 taxpayers in the random group.



## **VI.B EITC Filing Status Study Evaluation**

The Filing Status Study involved notifying taxpayers in the study, after they filed their return, they needed to provide additional information about their marital status if they filed as single or head of household and claimed EITC with qualifying children. Our tax examiners reviewed the documents submitted and decided whether the taxpayer's actual marital status was consistent with the filing status claimed on the tax return. We gave taxpayers several repeated opportunities to provide additional documentation if we decided the original documentation sent to us incomplete or insufficient to confirm their filing status. Once we confirmed the filing status, we allowed the correct amount of EITC and paid the amount to the taxpayers. In these instances, we also allowed the related taxpayer's EITC claim (if they had one). If the taxpayer could not substantiate the filing status claimed, we deemed the taxpayer to be married filing separately and denied the EITC claim.

We evaluated the Filing Status Study to determine if it achieved its objectives and to assess the impact on compliance. Examples of administrative data collected for the study include tax return information, data on contacts and documentation related to the study, and data on whether the filing status was confirmed or not. The data reflect taxpayer filings through the end of December 2005 and processing through May 2006. Section VI.C contains results. At the time of the analysis, 31 cases were still in processing. We estimated the results for these cases and included them in the results.

## **VI.C EITC Filing Status Study, Status, and Results**

We selected three test groups for this study. The selected taxpayers had claimed the EITC and filed as married filing joint in TY 2002 but had filed as head of household and claimed EITC in TY 2003. We developed two different selection algorithms to select workload from this pool of taxpayers. One used data already available to the IRS. The other used data that a third party locator service provided. To serve as a comparison, we randomly selected a third group from the pool. The three groups were selected independently, therefore there is overlap between them. In other words, a taxpayer could be represented in more than one group. Once we selected a taxpayer, we also included the taxpayer who they had previously filed a joint return with in the study.

The disposition of the Filing Status Study Groups is presented in **Table 28**. As part of the Filing Status Study, we required those taxpayers who filed as single or head of household and claimed EITC in TY 2004 to document marital status. For the test group selected using IRS data, we required 1,539 of the original 2,204 (70 percent) to document their marital status. For the group selected using third party data, we required 1,285 taxpayers, or 67 percent, of the original 1,912 selected taxpayers to provide this documentation. Finally, we required 65 percent of the original 2,644 taxpayers (1,726 taxpayers) in the randomly selected group to document their marital status. We excluded about one percent of taxpayers from the study after we had selected them because these taxpayers were in combat or disaster areas, or we had selected their returns for examination on other issues.

**Table 28: EITC Filing Status Study: Study Group's Tax Year 2004 Return Status for the Tax Year 2004 Study**

	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
<b>I. Number of Returns</b>			
<b>Final Test Group</b>	<b>1,539</b>	<b>1,285</b>	<b>1,726</b>
<b>Did Not Yet File Tax Return for TY 2004</b>	<b>296</b>	<b>245</b>	<b>387</b>
<b>Filed Tax Return for TY 2004</b>	<b>1,908</b>	<b>1,667</b>	<b>2,257</b>
<i>Single or Head of Household Filing Status and claimed EITC</i>	1,539	1,285	1,726
<i>Single or Head of Household Filing Status and did not claim EITC</i>	150	181	250
<i>Married Filing Status (jointly or separately)</i>	190	178	243
<i>Excluded – Other (combat, audit)</i>	29	23	38
<b>Total</b>	<b>2,204</b>	<b>1,912</b>	<b>2,644</b>
<b>II. Percent of Total</b>			
<b>Final Test Group</b>	<b>70%</b>	<b>67%</b>	<b>65%</b>
<b>Did Not Yet File Tax Return for TY 2004</b>	<b>13%</b>	<b>13%</b>	<b>15%</b>
<b>Filed Tax Return for TY 2004</b>	<b>87%</b>	<b>87%</b>	<b>85%</b>
<i>Single or Head of Household Filing Status and claimed EITC</i>	70%	67%	65%
<i>Single or Head of Household Filing Status and did not claim EITC</i>	7%	9%	9%
<i>Married Filing Status (jointly or separately)</i>	9%	9%	9%
<i>Excluded – Other (combat, audit)</i>	1%	1%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 29** presents the amount of claims and adjustments taxpayers made in the study groups who we asked to document of their marital status. We treated taxpayers who could not substantiate their marital status as married filing separately and disallowed their EITC claims. Taxpayers in the study group selected using IRS data who filed as single or head of household and claimed EITC had \$3.6 million in claims after math error processing. Of this, we disallowed \$1.9 million, or 54 percent of the amount of claims filed, because the taxpayers could not document their filing status of single or head of household. The test group selected using third party data had \$2.9 million in claims after math error processing, of which we disallowed 37 percent (\$1.1 million). For the random sample of taxpayers, we disallowed 31 percent (\$1.2 million) of the \$3.9 million in claims after math error processing.

**Table 29: EITC Filing Status Study: Amount Claimed and Adjustments for Study Group for the Tax Year 2004 Study (money amounts are in thousands of dollars)**

	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
<b>Adjusted Test Group Amount EITC Claimed per Taxpayer</b>	<b>\$3,594</b>	<b>\$2,937</b>	<b>\$3,953</b>
Amount EITC Claimed Disallowed in Processing (math error)	\$15	\$11	\$16
<b>Final Test Group Claims</b>	<b>\$3,579</b>	<b>\$2,926</b>	<b>\$3,937</b>
Amount EITC Claimed Disallowed in Exam Process (adjustments)	\$1,931	\$1,069	\$1,211
<b>Total EITC Claimed Allowed</b>	<b>\$1,648</b>	<b>\$1,857</b>	<b>\$2,726</b>

Note: Detail may not add to total due to rounding.

**Table 30a** presents the number of returns with adjustments by filing status. For the test group selected using IRS data, head of household filers experienced a slightly larger number of adjustments than single filers did. The percent of returns with adjustments in the group selected using third party data was proportionate to the filing status. The group randomly selected had more single filers than the IRS or third party test groups (13 percent, 8 percent, and 7 percent, respectively) and the single filers in the randomly selected group had a disproportionately higher percentage of returns with adjustments.

**Table 30a: EITC Filing Status Study: Tax Year 2004 Return Status for the Selection Test Groups for the Tax Year 2004 Study**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>									
<b>Final Test Group</b>	<b>1,539</b>	<b>925</b>	<b>614</b>	<b>1,285</b>	<b>497</b>	<b>788</b>	<b>1,726</b>	<b>584</b>	<b>1,142</b>
Single Filer	116	67	49	94	35	59	233	85	148
Head of Household Filer	1,423	858	565	1,191	462	729	1,493	499	994
<b>II. Percents</b>									
<b>Final Test Group</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Single Filer	8%	7%	8%	7%	7%	7%	13%	15%	13%
Head of Household Filer	92%	93%	92%	93%	93%	93%	87%	85%	87%

*Note: Detail may not add to total due to rounding.*

**Table 30b** presents the dollar amount of adjustments by filing status. The distribution of the amount of adjustments between single filers and head of household filers follows the same pattern as the number of returns with adjustments described above.

**Table 30b: EITC Filing Status Study: Tax Year 2004 Return Status for the Selection Test Groups Amount of Claims for the Tax Year 2004 Study (money amounts are in thousands of dollars)**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed
<b>I. Amount of Claims</b>									
<b>Final Test Group</b>	<b>\$3,579</b>	<b>\$1,931</b>	<b>\$1,648</b>	<b>\$2,926</b>	<b>\$1,069</b>	<b>\$1,857</b>	<b>\$3,937</b>	<b>\$1,211</b>	<b>\$2,726</b>
Single Filer	\$248	\$115	\$133	\$181	\$69	\$112	\$478	\$158	\$320
Head of Household Filer	\$3,331	\$1,816	\$1,515	\$2,745	\$1,000	\$1,745	\$3,459	\$1,054	\$2,406
<b>II. Percents</b>									
<b>Final Test Group</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Single Filer	7%	6%	8%	6%	6%	6%	12%	13%	12%
Head of Household Filer	93%	94%	92%	94%	94%	94%	88%	87%	88%

Note: Detail may not add to total due to rounding.

**Table 31a** presents information on the filing medium for taxpayers who filed as single or head of household for TY 2004 and claimed the EITC. The IRS test group had significantly fewer returns filed electronically (69 percent) than either the group selected using third party data (82 percent) or the randomly selected group (85 percent). The numbers of returns with adjustments was consistently disproportionately lower for electronically filed returns for all three study groups.

**Table 31a: EITC Filing Status Study: Tax Year 2004 Filing Medium for Study Group**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>									
Filed Electronically	1,067	626	441	1,049	399	650	1,460	483	977
Filed on Paper	472	299	173	236	98	138	266	101	165
<b>Total</b>	<b>1,539</b>	<b>925</b>	<b>614</b>	<b>1,285</b>	<b>497</b>	<b>788</b>	<b>1,726</b>	<b>584</b>	<b>1,142</b>
<b>II. Percents</b>									
Filed Electronically	69%	68%	72%	82%	80%	82%	85%	83%	86%
Filed on Paper	31%	32%	28%	18%	20%	18%	15%	17%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 31b: EITC Filing Status Study: Tax Year 2004 Filing Medium for Study Group (money amounts are in thousands of dollars)**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed
<b>I. Amount of Claims</b>									
Filed Electronically	\$2,599	\$1,386	\$1,213	\$2,463	\$907	\$1,556	\$3,431	\$1,043	\$2,388
Filed on Paper	\$980	\$545	\$435	\$463	\$162	\$302	\$506	\$168	\$338
<b>Total</b>	<b>\$3,579</b>	<b>\$1,931</b>	<b>\$1,648</b>	<b>\$2,926</b>	<b>\$1,069</b>	<b>\$1,857</b>	<b>\$3,937</b>	<b>\$1,211</b>	<b>\$2,726</b>
<b>II. Percents</b>									
Filed Electronically	73%	72%	74%	84%	85%	84%	87%	86%	88%
Filed on Paper	27%	28%	26%	16%	15%	16%	13%	14%	12%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

**Table 31b** presents information on the dollar amount of claims and adjustments by filing medium for taxpayers in the three study groups. The amounts of adjustments were relatively proportionate to the amount of claims by filing medium across all three study groups. While the IRS test group filed 69 percent of the returns electronically, they accounted for 73 percent of the claims. The third party data group and randomly selected group have similar patterns, though less pronounced. The third party data group filed 82 percent of returns filed electronically making up 84 percent of the claims, while the randomly selected group filed 85 percent of returns electronically, accounting for 87 percent of the claims.

**Table 32a** presents information on the use of paid preparers. Of the study group selected using IRS data, 70 percent used paid preparers while 30 percent used a volunteer preparer or prepared the return themselves. The group selected based on third party data used paid preparers slightly more frequently with 71 percent of the returns prepared by paid preparers. Seventy-five percent of the randomly selected group used paid preparers. While the number of returns with adjustments is distributed proportionately across the two methods of preparation for the IRS and third party test groups, the randomly selected group saw a disproportionately higher number of returns with adjustments amongst those using paid preparers.

**Table 32a: EITC Filing Status Study: Study Group's Use of Paid Preparer for Tax Year 2004 Filers**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>									
Paid Preparer	1,081	647	434	916	356	560	1,294	472	822
Volunteer Preparer or Self Prepared	458	278	180	369	141	228	432	112	320
<b>Total</b>	<b>1,539</b>	<b>925</b>	<b>614</b>	<b>1,285</b>	<b>497</b>	<b>788</b>	<b>1,726</b>	<b>584</b>	<b>1,142</b>
<b>II. Percents</b>									
Paid Preparer	70%	70%	71%	71%	72%	71%	75%	81%	72%
Volunteer Preparer or Self Prepared	30%	30%	29%	29%	28%	29%	25%	19%	28%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 32b: EITC Filing Status Study: Study Group's Use of Paid Preparer for Tax Year 2004 Filers (money amounts are in thousands of dollars)**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed	Amount Claimed	Amount Adjusted	Amount Allowed
<b>I. Amount of Claims</b>									
Paid Preparer	\$2,576	\$1,383	\$1,193	\$2,135	\$790	\$1,345	\$3,042	\$1,003	\$2,039
Volunteer Preparer or Self Prepared	\$1,003	\$548	\$455	\$791	\$279	\$513	\$895	\$209	\$687
<b>Total</b>	<b>\$3,579</b>	<b>\$1,931</b>	<b>\$1,648</b>	<b>\$2,926</b>	<b>\$1,069</b>	<b>\$1,857</b>	<b>\$3,937</b>	<b>\$1,211</b>	<b>\$2,726</b>
<b>II. Percents</b>									
Paid Preparer	72%	72%	72%	73%	74%	72%	77%	83%	75%
Volunteer Preparer or Self Prepared	28%	28%	28%	27%	26%	28%	23%	17%	25%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 32a** presents information on the dollar amount of claims and adjustments by use of paid preparers. Again, the randomly selected group saw a disproportionately higher amount of adjustments in the returns prepared by paid preparers.

**Table 33** presents the characteristics of taxpayers in the study group along with their associated adjustments. For the group selected using IRS data and the randomly selected group, returns females filed tended to have adjustments more often than the ones males filed. Age did not appear to be a factor in any of the three groups when looking at the number of claims compared to the number with adjustments. However, the age distributions in the three study groups were quite different with 21 percent under 31 years old for the IRS group compared to 28 percent of the third party test group and 33 percent for the randomly selected group.

**Table 33: EITC Filing Status Study: Outcome of Certification Process by Characteristics of Study Group Taxpayers for the Tax Year 2004 Study**

	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments	Number of Returns	Number with Adjustments	Number without Adjustments
<b>I. Number of Returns</b>									
<b>Gender</b>									
Male	825	485	340	707	271	436	961	287	674
Female	714	440	274	578	226	352	765	297	468
<b>Total</b>	<b>1,539</b>	<b>925</b>	<b>614</b>	<b>1,285</b>	<b>497</b>	<b>788</b>	<b>1,726</b>	<b>584</b>	<b>1,142</b>
<b>Age</b>									
Under 31	326	186	140	363	142	221	577	194	383
31-40	629	375	254	540	199	341	739	238	501
41-50	479	297	182	300	112	188	326	116	210
Over 50	105	67	38	82	44	38	84	36	48
<b>Total</b>	<b>1,539</b>	<b>925</b>	<b>614</b>	<b>1,285</b>	<b>497</b>	<b>788</b>	<b>1,726</b>	<b>584</b>	<b>1,142</b>
<b>II. Percents</b>									
<b>Gender</b>									
Male	54%	52%	55%	55%	55%	55%	56%	49%	59%
Female	46%	48%	45%	45%	45%	45%	44%	51%	41%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Age</b>									
Under 31	21%	20%	23%	28%	29%	28%	33%	33%	34%
31-40	41%	41%	41%	42%	40%	43%	43%	41%	44%
41-50	31%	32%	30%	23%	23%	24%	19%	20%	18%
Over 50	7%	7%	6%	6%	9%	5%	5%	6%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

**Table 34** presents the interest taxpayers expressed in the Filing Status Study for Spanish language forms and assistance. Seventeen percent of the study group selected using IRS data requested all communication in Spanish compared to 8 percent for the third party test group and 5 percent for the randomly selected group. We do not have information about a taxpayer's ethnicity and therefore we could not use this as a selection criterion. However, it does appear that the group selected using IRS data included more Spanish-speaking taxpayers than either of the other two groups.

**Table 34: EITC Filing Status Study: Study Group’s Interest in Spanish Language Forms and Assistance for the Tax Year 2004 Study**

	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
<b>I. Number</b>			
No request for Spanish forms or assistance	1,254	1,167	1,621
Request for Spanish forms or assistance	285	118	105
<i>Request for Spanish version of Notice</i>	3	0	0
<i>Taxpayer responds in Spanish</i>	0	5	8
<i>Taxpayer requests Spanish-speaking assistor</i>	22	8	10
<i>Taxpayer requests all communication in Spanish</i>	260	105	87
<b>Total</b>	<b>1,539</b>	<b>1,285</b>	<b>1,726</b>
<b>II. Percents</b>			
No request for Spanish forms or assistance	81%	91%	94%
Request for Spanish forms or assistance	19%	9%	6%
<i>Request for Spanish version of Notice</i>	*	0%	0%
<i>Taxpayer responds in Spanish</i>	0%	*	*
<i>Taxpayer requests Spanish-speaking assistor</i>	1%	1%	1%
<i>Taxpayer requests all communication in Spanish</i>	17%	8%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

*\*Less than 0.5%.*

**Table 35** presents the number of taxpayer responses and whether they responded by phone call, letter (including faxes), or both for each of the study groups. The group selected using IRS data responded significantly less often than the other two groups. Eighty percent of the IRS group responded compared to 84 percent for the third party test group and 85 percent for the randomly selected group. Reasons for not responding include not understanding what we are requesting or not being able to document the filing status used.

**Table 36** presents the distribution of the number of calls to the IRS from taxpayers who identified themselves. As part of the Filing Status Study, we tracked the number of calls received from taxpayers. However, we can only associate about half of those calls with a specific taxpayer because taxpayers do not have to identify themselves to ask general questions about the notice they received. For those calls that we could attribute to specific taxpayers, 73 percent of taxpayers in the group selected using IRS data made three or fewer calls compared to 71 percent for the third party test group and 66 percent for the randomly selected group. For the randomly selected group, 16 percent of taxpayers made seven or more calls, which is significantly higher than the 12 percent for the third party group and 10 percent of the group selected using IRS data who made seven or more calls.



**Table 35: EITC Filing Status Study: Study Group Claimant Responses to IRS for the Tax Year 2004 Study**

	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
<b>I. Number</b>			
<b>Any Response</b>	<b>1,226</b>	<b>1,080</b>	<b>1,460</b>
<i>Called and Sent Written Material</i>	607	593	845
<i>Sent Written Materials Only</i>	495	392	500
<i>Called Only</i>	124	95	115
<b>No Response</b>	<b>313</b>	<b>205</b>	<b>266</b>
<b>Total</b>	<b>1,539</b>	<b>1,285</b>	<b>1,726</b>
<b>II. Percents</b>			
<b>Any Response</b>	<b>80%</b>	<b>84%</b>	<b>85%</b>
<i>Called and Sent Written Material</i>	39%	46%	49%
<i>Sent Written Materials Only</i>	32%	31%	29%
<i>Called Only</i>	8%	7%	7%
<b>No Response</b>	<b>20%</b>	<b>16%</b>	<b>15%</b>
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

**Table 36: EITC Filing Status Study: Study Group Distribution of Number of Telephone Calls Made to IRS per Taxpayer as Percent of Taxpayers Who Made Calls for the Tax Year 2004 Study**

Number of Calls per Taxpayer	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
1	43%	42%	32%
2-3	30%	29%	34%
4-6	17%	18%	19%
7-10	7%	7%	9%
11 or more	3%	5%	7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

**Table 37** depicts, for each study group, the distribution of documents by type of document and the source. Records accounted for the majority in each of the three groups with 65 percent of the IRS group using them, 68 percent of the third party group and 73 percent of the randomly selected groups. The most frequently submitted documents for the random and third party group were divorce decrees (19 percent and 13 percent respectively). However, the IRS group used them significantly less, accounting for only 5 percent of documents submitted for this group.

**Table 37: EITC Filing Status Study: Study Group Distribution of Documents Submitted by Type and Source of Document for the Tax Year 2004 Study**

Document Type and Source	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
<b>Records</b>			
<i>School</i>	2%	1%	2%
<i>Health Care Provider</i>	3%	3%	3%
<i>Landlord or Property Manager</i>	10%	10%	9%
<i>Social Service or Government Agencies</i>	8%	6%	6%
<i>Court Official or Attorney</i>	4%	4%	5%
<i>Divorce Decree</i>	5%	13%	19%
<i>Insurance Policy</i>	3%	3%	3%
<i>Utility Bills</i>	16%	15%	14%
<i>Other</i>	13%	13%	11%
<b>Total</b>	<b>65%</b>	<b>68%</b>	<b>73%</b>
<b>Statement/Letter</b>			
<i>School</i>	1%	1%	1%
<i>Health Care Provider</i>	1%	1%	*
<i>Landlord or Property Manager</i>	6%	7%	5%
<i>Social Service or Government Agencies</i>	2%	2%	2%
<i>Court Official or Attorney</i>	1%	1%	1%
<i>Insurance Policy</i>	2%	**	1%
<i>Utility Bills</i>	4%	4%	3%
<i>Employer</i>	3%	3%	3%
<i>Other</i>	13%	13%	10%
<b>Total</b>	<b>35%</b>	<b>32%</b>	<b>27%</b>
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Less than 0.5%.

\*\*Data suppressed to avoid disclosure of information for specific taxpayers.

**Table 38** presents the distribution of the number of documents taxpayers submitted in the Filing Status Study groups. (This table covers taxpayers who sent in at least one document.) The majority (56 percent) in the random group sent in only one document, compared to 48 percent for the third party group and 39 percent for the group selected using IRS data. As explained earlier, we asked taxpayers in this study to provide documentation to support their filing status claim. A larger number of taxpayers in the randomly selected group provided a divorce decree. These taxpayers provided only one document more frequently than the other groups. Taxpayers may have sent multiple documents for various reasons. We may have not accepted the initial documentation, it may have taken a combination of documents to substantiate their marital status, or the taxpayer may simply have sent more documents than were necessary.

**Table 38: EITC Filing Status Study: Study Group Distribution of Number of Documents Submitted per Taxpayer as Percent of Taxpayers Who Submitted Documents for the Tax Year 2004 Study**

Number of Documents per Taxpayer	Selection based on:		
	IRS Data	3 <sup>rd</sup> Party Data	Random
1	39%	48%	56%
2-3	32%	32%	27%
4-6	19%	14%	13%
7 or more	10%	6%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Note: Detail may not add to total due to rounding.*

**Table 39** presents, by study group, the document type and source and whether we accepted or rejected it. Acceptable documentation must have shown that the taxpayer was divorced, legally separated, or lived apart from his/her spouse for the last six months of 2004. Not surprisingly, divorce decrees were the document we were most likely to accept. We accepted them 83 percent of the time for the IRS group, 92 percent for the third party data group and 95 percent for the randomly selected group. Likewise, we accepted nearly three-quarters of all records from court officials or attorneys for all three study groups.

**Table 39: EITC Filing Status Study: Total Number of Documents Submitted by Type for Study Group Taxpayers for the Tax Year 2004 Study**

Document Type and Source	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
<b>I. Number of Documents Submitted</b>									
<b>Records</b>									
<i>School</i>	21	12	33	9	10	19	17	26	43
<i>Health Care Provider</i>	27	35	62	28	35	63	27	50	77
<i>Landlord or Property Manager</i>	67	131	198	46	143	189	48	175	223
<i>Social Service or Government Agencies</i>	96	70	166	43	69	112	72	84	156
<i>Court Official or Attorney</i>	19	55	74	19	48	67	32	98	130
<i>Divorce Decree</i>	17	85	102	19	233	252	24	431	455
<i>Insurance Policy</i>	23	40	63	16	36	52	23	47	70
<i>Utility Bills</i>	130	186	316	79	200	279	85	247	332
<i>Other</i>	144	117	261	119	127	246	132	130	262
<b>Total</b>	<b>544</b>	<b>731</b>	<b>1,275</b>	<b>378</b>	<b>901</b>	<b>1,279</b>	<b>460</b>	<b>1,288</b>	<b>1,748</b>
<b>Statement/Letter</b>									
<i>School</i>	9	10	19	10	8	18	17	12	29
<i>Health Care Provider</i>	14	15	29	8	12	20	3	8	11
<i>Landlord or Property Manager</i>	46	81	127	29	95	124	30	101	131
<i>Social Service or Government Agencies</i>	23	25	48	8	21	29	13	30	43
<i>Court Official or Attorney</i>	6	12	18	4	19	23	10	23	33
<i>Insurance Policy</i>	15	19	34	*	*	*	6	9	15
<i>Utility Bills</i>	42	42	84	32	40	72	31	33	64
<i>Employer</i>	18	45	63	12	50	62	23	53	76
<i>Other</i>	187	74	261	149	98	247	138	114	252
<b>Total</b>	<b>360</b>	<b>323</b>	<b>683</b>	<b>252</b>	<b>343</b>	<b>595</b>	<b>271</b>	<b>383</b>	<b>654</b>
<b>Grand Total</b>	<b>904</b>	<b>1,054</b>	<b>1,958</b>	<b>630</b>	<b>1,244</b>	<b>1,874</b>	<b>731</b>	<b>1,671</b>	<b>2,402</b>

Document Type and Source	Selection based on:								
	IRS Data			3 <sup>rd</sup> Party Data			Random		
	Rejected	Accepted	Total	Rejected	Accepted	Total	Rejected	Accepted	Total
<b>II. Percents</b>									
<b>Records</b>									
School	64%	36%	100%	47%	53%	100%	40%	60%	100%
Health Care Provider	44%	56%	100%	44%	56%	100%	35%	65%	100%
Landlord or Property Manager	34%	66%	100%	24%	76%	100%	22%	78%	100%
Social Service or Government Agencies	58%	42%	100%	38%	62%	100%	46%	54%	100%
Court Official or Attorney	26%	74%	100%	28%	72%	100%	25%	75%	100%
Divorce Decree	17%	83%	100%	8%	92%	100%	5%	95%	100%
Insurance Policy	37%	63%	100%	31%	69%	100%	33%	67%	100%
Utility Bills	41%	59%	100%	28%	72%	100%	26%	74%	100%
Other	55%	45%	100%	48%	52%	100%	50%	50%	100%
<b>Total</b>	<b>43%</b>	<b>57%</b>	<b>100%</b>	<b>30%</b>	<b>70%</b>	<b>100%</b>	<b>26%</b>	<b>74%</b>	<b>100%</b>
<b>Statement/Letter</b>									
School	47%	53%	100%	56%	44%	100%	59%	41%	100%
Health Care Provider	48%	52%	100%	40%	60%	100%	27%	73%	100%
Landlord or Property Manager	36%	64%	100%	23%	77%	100%	23%	77%	100%
Social Service or Government Agencies	48%	52%	100%	28%	72%	100%	30%	70%	100%
Court Official or Attorney	33%	67%	100%	17%	83%	100%	30%	70%	100%
Insurance Policy	44%	56%	100%	*	*	*	40%	60%	100%
Utility Bills	50%	50%	100%	44%	56%	100%	48%	52%	100%
Employer	29%	71%	100%	19%	81%	100%	30%	70%	100%
Other	72%	28%	100%	60%	40%	100%	55%	45%	100%
<b>Total</b>	<b>53%</b>	<b>47%</b>	<b>100%</b>	<b>42%</b>	<b>58%</b>	<b>100%</b>	<b>41%</b>	<b>59%</b>	<b>100%</b>
<b>Grand Total</b>	<b>46%</b>	<b>54%</b>	<b>100%</b>	<b>34%</b>	<b>66%</b>	<b>100%</b>	<b>30%</b>	<b>70%</b>	<b>100%</b>

Note: Detail may not add to total due to rounding.

\*Data suppressed to avoid disclosure of information for specific taxpayers.

## VI.D Return on Investment of Filing Status Test

Administration of the filing status test cost approximately \$1.5 million. About 70 percent of the cost was labor costs and the remaining covered general management and information technology. Revenue protected through the process totaled approximately \$3.9 million – most of which resulted from adjustments to returns of taxpayers who could not verify their claimed filing status or who did not respond to our request for documentation. Thus, the return on investment for the test was approximately \$2.80 for each \$1 invested. In looking at each study group

independently, the return on investment for the IRS data group was the largest -- \$4.30 for each \$1 invested compared to the third party data group return of \$2.00 (includes cost of third party data) and the randomly selected group return of \$2.30 for each \$1 invested.

However, we cannot use these figures to project a potential ROI should we implement one of the selection algorithms. As with the qualifying child certification test, we did not structure the filing status test to identify the most efficient business process. This test was designed to evaluate alternative methods of identifying returns with possible filing status errors that result in incorrect EITC claims. The results will be used to determine if existing methods currently used to identify these returns can be improved upon. We used the same business process for this study as we used for the prior year filing status test.

## **VII. EITC Automated Underreporter Study**

The 2005 Automated Underreporter Study continues the initiative we began in 2004 that focuses compliance efforts on EITC claimants who are either ineligible because their true income is too high or eligible but overclaim the EITC because of misreported income. This initiative focused on potential income misreporting that we can identify through the Automated Underreporter (AUR) Program. Our AUR Program matches data reported by taxpayer on their tax returns to data reported by third parties on information documents such as the Form W-2 (for wages or salaries). We included 300,270 cases in the study—similar to the number of cases included in the 2004 study. The 2005 study focuses on TY 2003 returns.<sup>13</sup>

Based in part on information from the 2004 study, we enhanced our procedures for identifying and selecting for review EITC returns with apparent income discrepancies. We refined our measure of the potential outcome of a case to reflect better both the net change to tax and credits associated with the apparent income discrepancy and the likelihood that such discrepancy is due to misreported income. We also compiled additional information for each case that we identified as containing possible discrepancies and developed enhanced business rules for selecting the cases we would work from all cases with identified discrepancies.

The new TY 2003 processes identified about 1.8 million EITC cases with apparent discrepancies. From these 1.8 million cases, we selected 300,270 cases for the 2005 study. We did not hold (“freeze”) tax refunds or EITC claims for this study because we processed the returns several months before we had the information documents to match.

### **EITC Automated Underreporter Study, Status and Results**

The AUR Study for 2005 (TY 2003) is complete. We report the disposition and outcome of the cases in **Table 40**. As noted earlier, we selected 300,270 cases for the study. Each case in the study was “screened.” Although we automated the identification of the inventory of discrepant cases and the selection of the workload, a tax examiner manually reviewed each selected case to determine whether we could solve the discrepancy with information about the case that was not

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<sup>13</sup> Because of the timing of the AUR work cycle, the FY 2005 AUR study covered TY 2003 returns. The Filing Status and Qualifying Child study cases are selected based on TY 2003 data but the studies themselves focus on TY 2004 returns.

available to the automated programs. We close (or ‘screen-out’) cases that we resolve by this review, and we do not send a letter (“notice”) to the taxpayer. Of the 300,270 cases we selected for the study, we screened out 20,677 and sent 279,593 notices.

**Table 40. Automated Underreporter Study: TY 2002 and TY 2003 Test Results**

Case Status	TY 2002*		TY 2003**	
	Number of Cases	Percent of Cases	Number of Cases	Percent of Cases
Total Number of Cases in AUR EITC Test	300,000	100%	300,270	100%
Number of Cases Screened	300,000	100%	300,270	100%
Number of Cases Screened-Out	38,811	13%	20,677	7%
Number of Notices Sent	261,189	87%	279,593	93%
Total Number of Notice Cases Closed	260,273	87%	278,010	93%
<i>Number of Cases Closed With No Change</i>	<i>42,727</i>	<i>16%</i>	<i>30,773</i>	<i>11%</i>
<i>Number of Cases Closed With Assessment</i>	<i>216,118</i>	<i>83%</i>	<i>246,261</i>	<i>89%</i>
<i>Number of Cases Transferred to Another Operation</i>	<i>1,428</i>	<i>1%</i>	<i>1,066</i>	<i>***</i>

\*Results through the end of May 2005.

\*\*Results through the end of May 2006.

\*\*\*Less than 0.5%.

Through the end of May 2006, AUR had closed 278,010 of the notice cases. The remaining notice cases that we have not yet closed are in the statutory notice phase and most of these cases are either in bankruptcy or disaster status, which prevents us from completing work on these cases. We closed about 89 percent, or 246,261, of the closed notice cases with an assessment. We closed about 11 percent, or 30,773 cases without a change to the taxpayer’s return or EITC. We transferred the remaining closed notice cases to another IRS operation—such as Examination.

The adjustments AUR made resulted in a reduction of approximately \$256 million in EITC and an increase in tax—net of other adjustments—of approximately \$262 million for a total change of about \$518 million.<sup>14</sup> This aggregate amount translates into approximately \$1,862 per closed notice case or \$1,733 per closed case (which includes the closed notice cases plus the cases screened-out). IRS expects eventually to collect approximately 80 percent of the amounts assessed. The overall study screen-out percentage was about 7 percent and the no-change percentage was about 11 percent.

The aggregate change to EITC and tax net of other adjustments was about \$134 million larger for TY 2003 than for TY 2002. The EITC changes were slightly larger for TY 2003 than for TY 2002—about \$256 million compared with \$250 million. The TY 2003 change to tax net of other adjustments, however, was nearly double the TY 2002 amount. For TY 2003 it was about \$262 million compared to about \$134 million for TY 2002. The TY 2003 screen-out percentage of about 7 percent is nearly half the TY 2002 rate of 13 percent. The TY 2003 no-change percentage also was lower than the TY 2002 rate. The percentage was about 11 percent for TY 2003 compared with about 16 percent for TY 2002.

Although we cannot know with certainty the causes of the differences between the two years, we believe that the differences primarily are the result of the enhancements made for TY

<sup>14</sup> These other adjustments include withholding, interest, abatements, and penalties and accounted for about \$12 million.

2003 to the inventory generation and case selection processes. One primary change to the TY 2003 processes involved accounting for the expected changes to both EITC and tax whereas the TY 2002 processes had focused on the expected change to EITC only. This change appears to have improved the results related to tax while not affecting the EITC results. The IRS does not have information about possible differences in compliance between the two years and therefore differences in the errors actually present on returns, but believe these differences likely would be small and would not account for much of the differences in the study outcomes. Likewise, although differences in employee training or experience and changes in procedures for working cases might contribute to differences in case outcome, no significant changes occurred between the two years.

For TY 2004, we added the EITC AUR program to the already existing base EITC compliance programs that include examinations and math error processing. The AUR program will use information from this study to enhance its inventory identification and case selection procedures. It also continues to enhance the case selection process by identifying additional business rules and increasing the number of variables considered during case selection. We will expand the inventory identification and case selection procedures that we have used to select the AUR EITC cases during the last two years to select all the AUR TY 2005 inventory for individual income tax AUR cases starting in August 2006.

### **VII.C Return on Investment for Automated Underreporter Study**

Unlike the qualifying child certification and filing status tests, the AUR Study did not involve a test of a new business process. Instead, the study focused on a change in the way we selected EITC cases for AUR review. Before TY 2002, approximately 300,000 cases with EITC claims were part of the AUR program. However, we did not select the cases with any special emphasis on EITC. Rather, we applied an internally developed algorithm to all tax returns. This algorithm placed no special emphasis on EITC claims. For TY 2002, we essentially reversed this approach – first by culling out all returns with EITC claims and then by applying a special, EITC-focused algorithm to select 300,000 cases for the AUR program. As described earlier, we enhanced the process for TY 2003 to reflect better both the net change to tax and credits, which better characterizes the overall impact of the underreported income on revenue.

The AUR test cost approximately \$5.5 million to administer with most of the costs being labor costs. The AUR assessed about \$518 million on the cases. About \$256 million of this total were reductions to EITC and about \$262 million were net additions to tax. IRS expects eventually to collect approximately 80 percent of the amounts assessed. Some of these cases will require the effort of IRS's Collection function to obtain payment of the additional liabilities and we estimate this will cost an additional \$13.5 million. The ROI accounting for both AUR and Collection activity is \$22 for every \$1 invested. Based on the experiences of the two years of AUR tests, we added the EITC AUR program to the existing base EITC compliance programs for TY 2004. The AUR is continuing to improve the efficiency of its operation through ongoing review and enhancement to its case selection process, which should further reduce the number of unproductive cases selected.

### **VIII. Conclusion**

This report provides an overview of the three EITC initiatives we tested—Qualifying Child Certification, Filing Status, and Automated Underreporter—and reports the results of these studies.



Analysis of the data from these studies indicate that these efforts prevented payment of approximately \$19 million in erroneous EITC claims and resulted the abatement of approximately \$256 million in EITC that had been previously credited to taxpayers. We ended the AUR test after two years and added the program to the existing base EITC compliance programs that include examinations and math error processing. We have also completed the test of the filing status program and will examine the results from this year's test to determine if existing methods of identifying returns with possible filing status errors that result in incorrect EITC claims can be improved upon. We will continue testing the certification approach through TY 2006. We have not reached a conclusion about whether to impose a certification requirement.