Q. How do IRS audits affect low-income families?

A. The IRS audits a disproportionate (but still small) share of tax returns that include EITC claims. The agency has found that average discrepancies between taxes owed and taxes paid are smaller on EITC returns than on all returns.

IRS AUDITS OF EARNED INCOME TAX CREDIT RETURNS

In FY 2017, the IRS audited 1.1 million of the almost 196 million returns filed, less than 1 percent of the total. Returns claiming an earned income tax credit (EITC) were audited at a rate more than twice that of all individual income tax returns: 1.4 percent compared with 0.6 percent. Almost all these audits (95 percent) were correspondence audits, meaning the tax filer was notified and could respond by mail.

The IRS selects which returns to audit based in part on a statistical formula that identifies returns most likely to be at risk of having an error (Guyton et al. 2018). For all individual income tax returns audited in FY 2017, the IRS recommended no change on 10 percent of all returns and on 9 percent of returns with an EITC. The average amount of money the IRS attempted to collect on all audited individual income tax returns was $9,669. The average amount on audited returns with an EITC was $5,286.

Recent analysis demonstrates that correspondence audits decrease the likelihood that a person will claim an EITC the year following the audit by over 30 percentage points. That effect persists to some degree for multiple years (Guyton et al. 2018).

Data Source

Internal Revenue Service. 2018. *Internal Revenue Service Data Book, 2017*. Washington, DC: Internal Revenue Service.

Further Reading

Guyton, John, Kara Leibel, Dayanand S. Manoli, Ankur Patel, Mark Payne, and Brenda Schafer. 2018. "Tax Enforcement and Tax Policy: Evidence on Taxpayer Responses to EITC Correspondence Audits." NBER Working Paper No. 24465. Cambridge, MA: National Bureau of Economic Research.