Pilot Project to Assess Validation of EITC Eligibility with State Data

Final Report

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ACKNOWLEDGEMENTS

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Introduction

The Office of Management and Budget (OMB) has identified the Earned Income Tax Credit (EITC) as having the highest improper payment rate and second highest improper payment amount among 13 "high error" programs. The Internal Revenue Service (IRS) continues to seek ways to identify erroneous EITC claims to reduce these improper payments. In consultation with a collaborative forum of states and other stakeholders, OMB approved a pilot study under the Partnership Fund for Program Integrity Innovation to assess the availability, quality, completeness, and overall usefulness of data from state-administered benefit programs to help validate EITC eligibility and identify eligible individuals who are not claiming the EITC.

A complex set of characteristics determine eligibility for and size of the EITC including income (both earned and unearned), demographic characteristics (citizenship status, marital status, age, relationship), and residency. A challenge for the IRS is that third-party data to validate information reported on tax returns, and thus the EITC claim, is not always available. Because the EITC is intended for low- and moderate-income tax filers, state-administered means-tested benefit programs, including the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), Temporary Assistance for Needy Families (TANF), Medicaid, and the Children's Health Insurance Program (CHIP), are appropriate sources of information to consider.

The Pilot Study

The U. S. Department of the Treasury worked to engage states in the pilot and contracted with the Urban Institute to conduct the analysis. Treasury found participation by states difficult to obtain. Two states signed agreements with the Treasury Department and provided benefit program data to Urban Institute staff. Wisconsin provided TANF data while Florida provided TANF and SNAP data. The Urban Institute created analytical datasets from the state benefits data and provided them to the IRS to match with tax return data. Urban Institute and IRS staff worked together to produce the analytical findings. In addition, the Urban Institute reviewed SNAP, TANF, and Medicaid/CHIP application forms for five states—Florida, Michigan, New York, Washington, and Wisconsin—to identify what data elements agencies collect, and held discussions with state agency staff to obtain further understanding of what data states maintain and how useful the data might be for the purposes of the pilot.

The analysis was designed to answer four fundamental questions about the feasibility of using state-level TANF or SNAP administrative data to verify EITC claims or identify families for outreach.

    1. To what extent do SNAP assistance units, TANF assistance units, and EITC claimants overlap?

2. Are state-level benefit data consistent with data reported to the IRS?
3. Do state-level SNAP or TANF administrative data provide information that the IRS can use to verify EITC claims? Under what circumstances is this information accurate and useful?
4. Can state-level SNAP or TANF administrative data aid the IRS in identifying EITC eligible non-claimants?

IRS Tax Processing

IRS processes tax returns in several stages, two of which could benefit from state benefit data to aid in the administration of the EITC: (1) validation of the tax credit during return submission processing and (2) pre-refund audit of returns. During up-front payment validation, tax returns are checked using "math error" authority. Math error authority allows the IRS to adjust tax returns during the processing of returns to ensure that returns are accurate and to protect revenue by preventing the payment of refunds where erroneous credit claims have been made. Data for validation must be of very high quality and well suited to the task in order for the IRS to consider using them in this phase of processing. If questions about the integrity of an EITC claim arise during the initial phases of processing, a return may be selected for an audit. Of returns selected for audit with an EITC claim, over 90 percent were identified as having an erroneous claim (IRS Data Book 2012). In terms of one type of error—subjecting too many people to examination or audit—the IRS appears to have excellent audit selection criteria.

State-Administered Benefit Programs

The four benefit programs considered—SNAP, TANF, Medicaid, and CHIP—provide assistance to low-income households, particularly those with children, through in-kind benefits or cash transfers. These programs rely on funding from the federal government but operate out of state agencies. The agencies charged with managing these four programs vary across states. Different agencies may operate various state benefit programs, but they often develop a multi-program application that can be used to apply to one or more programs. Each program typically only maintains the data it needs.

The primary determinant of benefit program eligibility and benefit levels is income. The definition of income for state benefit determination does not mimic the EITC's calculation of earnings or adjusted gross income. The accounting periods for benefit programs differ from the tax year. Benefit programs use net and/or gross income tests that usually allow for certain exclusions and deductions of income. Income cut-offs for benefit eligibility are usually specified as a percentage of the federal poverty level (FPL) for a given family size (which is not the same as the tax unit the EITC is based on). Because states differ in how far, if at all, they expand income eligibility beyond minimum requirements, cut-offs can vary considerably by state.

Generally, TANF and Medicaid are the more financially restrictive transfer programs.[1] Among the benefit programs examined, TANF serves the smallest population. SNAP is often more generous than TANF and Medicaid, and CHIP is generally the least restrictive. With the exception of CHIP, the income limits for these benefit programs often fall below the level of earnings allowed for claiming the EITC. As a result, these programs cover only part of the EITC-eligible population—those tax filing units with the lowest earnings.

Benefit recipients must have their eligibility recertified at certain intervals by self-reporting information similar to that supplied on their applications and submitting any required verifications. The frequency of required recertifications impacts how often a family might be observed in state data. The intervals vary by program and by state. Medicaid and CHIP tend to have longer recertification periods, typically one year, while SNAP and TANF recipients usually must recertify their eligibility more frequently. Furthermore, between recertifications, households may not always have to report certain types of changes in their household composition, income, or other circumstances.

Analytical Findings

Based on our review of five states' benefit program applications and procedures, we find the relationship and residency tests are the most promising use for state benefit program data. These two elements are the crux of determining whether a claimed child is a qualifying child for EITC purposes. Incorrectly claiming qualifying children is the largest source of error leading to overpayments of the EITC. As a result, this report focuses on the usefulness of the relationship and residency information contained in the state benefit program data.

Using state benefit data matched with tax return data, we demonstrate that the TANF program is small and covers a correspondingly small portion of EITC claims. SNAP serves a larger population than TANF, covering roughly ten times as many households. Half of all tax filing units in Florida that claimed the EITC have at least one member in them that appears in the SNAP data. Given the limitations of TANF data, we confine our discussion of the results from the match with state data to tax units with individuals in the Florida SNAP data.

Some data elements in SNAP data may be useful to the IRS to identify improper EITC claims. However, to use these elements requires assumptions that cannot be verified; as a result the data are unlikely suitable for use under math error authority. Despite this, the data may still have value for improving IRS' ability during the audit selection process to identify returns with high probability of being erroneous claims. From our analyses, we identified three ways in which SNAP data may be helpful to the IRS:

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[1] Under the Affordable Care Act, Medicaid can be expanded to serve families at higher income levels than was previously typical. This expansion is optional; roughly half of the states adopted it as of March 2014.

(1) *Validating residency and relationship for qualifying children.* Applying the relationship and residency tests, we find some cases in which adults claim children they do not appear to live with, typically because either the adult is in the state data without the child they claim or the child is in the state data without the adult that claims them. With modest assumptions, these data identify 11.7 percent of all EITC claims in Florida in 2010 as potentially improper due to at least one child failing the residency test (15.7 percent of all EITC claims including children). Notably, a majority of these cases had been flagged by IRS exam filters and, of those selected for audit, the rate disallowed was similar to disallowed rates for the broader set of EITC cases selected for audit. Given how well current IRS exam filters perform, the addition of state benefit data could only marginally improve the identification of improper claims at the current level of auditing.

(2) *Determining whether someone claiming the childless EITC has a qualifying child.* We find evidence that some people claiming the childless EITC have a qualifying child, a fact that makes them ineligible for the childless EITC. Our analysis of the SNAP data identifies an additional one percent of all Florida EITC claims as potentially improper due to incorrectly claiming the childless EITC (although the erroneous payment would be relatively small, given the size of the childless EITC).

(3) *Targeting outreach efforts to eligible non-claimants.* Two groups of people may be eligible for the EITC but fail to claim it: those who filed a tax return, but did not claim the EITC and those who did not file a tax return. Our analyses indicate that a match would not help identify those eligible for the EITC but failing to claim it on their tax return beyond current IRS practices. For nearly all tax filers who appear eligible for the EITC based on state data, but who did not claim it on their tax return, the IRS had either determined they were ineligible or had sent letters to the tax filer informing them of their potential eligibility. Among those who did not file a tax return, our analysis of potentially eligible non-claimants was inconclusive. The analysis suggests that between 2 percent and 50 percent of those found in state data who did not file a tax return may have been eligible for the EITC. If these non-filers had claimed the EITC, it would have increased EITC claims for families in Florida by less than 5 percent.

Validation Feasibility

The IRS would face several challenges to develop a data matching program with states beginning with states' willingness to collaborate on EITC validation, dealing with the varying organizational structure of states' social services and revenue departments, and issues around confidentiality and sharing data with the IRS.

In addition, it will be important for the federal government to work with states to achieve comparability and consistency of data elements across states, as well as standardized procedures for data collection, storage, and delivery.

Timeliness will also be a concern. The IRS must receive the state benefit data file in early January in order for it to be used during return processing under their current processing structure, regardless of whether the data are being used to identify erroneous claims or to apply exam filters. Using state-level benefit data through the end of the calendar year allows less than one month for the state to process their benefit data, transport the data to the IRS, and for the IRS to be ready to incorporate the information into their return processing (tax filing season typically begins in late January).

Conclusions

Our analysis indicates that state SNAP data could help identify improper EITC claims of qualifying children, particularly by identifying those failing the residency requirement. Past IRS compliance studies indicate improper claims of qualifying children account for the largest share of improper claims and that such claims most commonly fail the residency test. SNAP data may reduce improper EITC payments. However, the biggest payoff to the IRS would be improvements in math error processing, and the reliability of the state data is not likely sufficient for the IRS to use in the math error stage of processing. Any benefits would be derived during the audit stage by improving exam filters for selecting cases to audit and the IRS's current exam filters are already very good at identifying appropriate tax returns for auditing. If the current level of auditing of EITC claims were maintained, the additional use of SNAP data could improve the exam filters by only a marginal amount. For these data to provide more than a marginal benefit, the level of auditing of EITC claims would need to be expanded substantially. Given fixed resources for auditing tax returns and the already high rate of audits of EITC claims, the IRS would have to weigh expanding audits of EITC claims with other competing uses of resources.

In order to gain cooperation from all 50 states and the District of Columbia, Congress would have to pass legislation requiring states to supply the data elements from their benefit program(s). The IRS would need to enter into agreements with each state, possibly multiple agreements if dealing with multiple state agencies. The pilot study does not provide enough information to estimate the level of effort that would be required to initiate or maintain a data matching program. However, the effort to fully implement a data matching program with all 50 states and the District of Columbia would be substantial and likely take many years to complete.

I. INTRODUCTION

The Earned Income Tax Credit (EITC) is among the largest cash or near-cash transfer programs targeted at low-income families. The credit, available only to people who work, provided $65.7 billion to 28.7 million tax units in tax year 2013 (Tax Policy Center 2013). The lion's share of EITC payments went to families with children (97 percent); the remainder went to individuals without a qualifying child.

The IRS faces two main challenges to the efficient administration of the EITC. First, individuals and families who are ineligible for the EITC claim the credit either mistakenly or fraudulently. Second, some families and individuals who are eligible for the EITC fail to claim the credit.

Using data from the IRS's National Research Program from tax year 2009, IRS estimates that for fiscal year 2013, between 22.1 percent and 25.9 percent of total EITC program payments were overclaims (U.S. Department of the Treasury 2013). OMB has identified the EITC as having the highest improper payment rate and second highest improper payment amount among 13 "high error" programs.[2] Estimates of EITC participation rates vary, but are fairly high. The IRS estimates the participation rate at 79 percent in tax year 2010 based on matching IRS records with the Census Bureau's American Community Survey data.[3]

In consultation with a collaborative forum of states and other stakeholders, the Office of Management and Budget (OMB) approved a pilot study under the Partnership Fund for Program Integrity Innovation to assess the availability, quality, completeness, and overall usefulness of state-administered benefits data and screening processes to help validate EITC eligibility and identify eligible individuals who are not claiming the EITC. The EITC is intended for low- and moderate-income tax filers making state data for programs serving a similar group most germane to this pilot study. State-administered means-tested benefit programs including the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), Temporary Assistance for Needy Families (TANF), Medicaid, and the Children's Health Insurance Program (CHIP) provide various forms of assistance to low- and moderate-income families, particularly those with children. State agencies administering these programs work directly with the individuals they serve and collect extensive data in support of program eligibility. This pilot study seeks to understand whether state administrative benefit data provide information that can aid the IRS in

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[2]See http://www.paymentaccuracy.gov/high-priority-programs. OMB defines high-error programs as, "… those programs that reported roughly $750 million or more in improper payments in a given year, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or have not yet established a program error rate and have measured components that were above the threshold."

[3] http://www.eitc.irs.gov/EITC-Central/Participation-Rate

its efforts to reduce improper payments or increase EITC participation by identifying eligible individuals and families that are not benefiting from the EITC.

Preview of Findings

From our analysis, we draw several conclusions:

- The information we analyzed from state benefit data is not well-suited to be used to reduce or disallow the EITC under IRS's math error authority. It provides some information that could be used to improve exam filters.

- SNAP data from Florida may help identify improper EITC claims. These data can be used to show possible failures of the residency test, a significant factor in erroneous claims of qualifying children. With reasonable assumptions, 11.7 percent of all 2010 EITC claims in Florida were identified as potentially improper due to at least one child failing the residency test (15.7 percent of all EITC claims including children). Of these cases, 58 percent were flagged by IRS exam filters and 17 percent of those were audited. About 88 percent of the audited cases had the EITC disallowed as a result of the audit, similar to outcomes for the broader set of EITC cases selected for audit. Given how well current IRS exam filters perform, the addition of state benefit data could have only marginal improvement on identifying improper claims at the current level of auditing of EITC claims.

- Some tax filers claim the childless EITC improperly due to living with a qualifying child. The matched 2010 Florida SNAP and tax return data identified approximately one percent of EITC claims in Florida as someone appearing to live with a qualifying child and claiming the childless EITC.

- Together, these two types of improper claims, those in which a child fails the residency test and childless claims with a qualifying child in the household, account for over one in eight (12.7 percent) of all tax returns in Florida that claimed the EITC in 2010.

- The matched 2010 Florida SNAP and tax return data identify relatively few eligible non-claimants among tax filers, and IRS is already reaching most of these non-claimants. Eligible non-claimants may comprise up to 50 percent of those who did not file a tax return. If these non-filers had claimed the EITC, it would have increased EITC claims for families in Florida by less than 5 percent.

- The TANF program is too small to provide sufficient overlap with the EITC population to validate EITC claims effectively. Furthermore, TANF assistance units may not include all members of a household that form a tax filing unit, making it less useful for validating EITC claims than more comprehensive data.

Structure of the Report

This report is organized as follows. Section II describes the pilot study. Section III provides background on the EITC followed by background on the relevant state-administered benefit programs in Section IV. Section V provides details on data elements collected by states in the benefit applications and identifies which data elements appear promising for the IRS to use for enforcement and outreach. Section VI reports on the match of state benefit data with IRS tax return data including coverage, data quality, and whether the data answer key research questions. Based on these results, Section VII discusses which data elements remain promising and provides additional key information about them. Section VIII discusses feasibility issues for developing a program using benefit data from all 50 states, and Section IX provides conclusions.

II. THE PILOT STUDY

The pilot included eight steps undertaken by several organizations, described in the Concept of Operations (Appendix A). The pilot linked IRS data on EITC receipt with state means-tested benefit data to identify people who improperly receive EITC payments and people who are eligible for the EITC but do not claim it. The pilot served as a feasibility study of the process and was not designed to test a new compliance process.

The Department of Treasury worked to engage states in the pilot and found participation by states difficult to obtain. Initially, the Collaborative Forum posted the approved pilot concept on their website and invited interested states to contact Treasury; less than a handful of states responded. Using contacts provided by OMB, IRS, and others, Treasury contacted several other states. Of states with which Treasury had contact, several had concerns about sharing confidential data; in particular, whether they could share data from federally funded transfer programs without explicit permission from the funding agency. In addition, some were concerned with possible adverse impacts on their clients resulting from IRS enforcement actions. Some state agency staff felt their data systems would not support providing the required data. Furthermore, the request came at a time when state budgets were tight and agencies felt pressed to complete their existing work with fewer resources. Adding to states' various concerns, participation in the pilot offered little to no benefit for the states, particularly if they did not have a state EITC. Ultimately Wisconsin and Florida signed agreements to participate in the study. To conduct and evaluate the pilot, the Department of Treasury contracted with the Urban Institute.

Databases from SNAP, TANF, Medicaid, and CHIP were considered for investigation. Several features of these programs guided the decision to investigate them: (1) they serve large numbers of low-income families; (2) the federal nature of these programs provides some commonality, although states can vary their eligibility rules; (3) the programs are means-tested, meaning eligibility is based on an applicant's income and other resources (eligibility for each program can thus be related to income requirements of the EITC); and (4) each program collects information about household members, particularly children, offering the possibility of identifying the number of EITC qualifying children in a family.

As part of the pilot study, the Urban Institute reviewed SNAP, TANF, and Medicaid/CHIP application forms for five states—Florida, Michigan, New York, Washington, and Wisconsin—to identify what data agencies collect. Discussions with state agency staff provided further understanding of what data states maintain and how useful it might be for the purposes of the pilot. Two states signed agreements with the Department of Treasury and provided benefit program data to Urban Institute staff. Wisconsin provided TANF data, while Florida provided TANF and SNAP data.[4] The Urban Institute transformed the state benefit data into analytical

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[4] In Wisconsin, TANF and SNAP are managed in different agencies.

datasets which were provided to the IRS to match with tax return data. Urban Institute and IRS staff worked together to produce the analytical findings.[5]

The analysis was designed to answer four fundamental questions about the feasibility of using state-level TANF or SNAP administrative data to verify EITC claims or identify families for outreach.

1. To what extent do SNAP assistance units, TANF assistance units, and EITC claimants overlap?
2. Are state-level SNAP or TANF administrative data consistent with data reported to the IRS?
3. Do state-level SNAP or TANF administrative data provide information that the IRS can use to verify EITC claims? Under what circumstances is this information accurate and useful?
4. Can state-level SNAP or TANF administrative data aid the IRS in identifying EITC eligible non-claimants?

State agencies often maintain individual case files for each applicant or beneficiary of a state program. As part of the analysis, we conducted a review of these case files held by Florida and Wisconsin to determine if information in the case file supported, contradicted, or clarified information in the data files. The case file validation had three goals: (1) to determine if there was additional valuable information in the case files that could be used by the IRS if states were to record it in their data systems, (2) to verify that the information in the state data was correct, and (3) to provide validation for assumptions made by Urban Institute staff to construct the residency and relationship tests used in the analysis. We selected approximately 70 cases each in Wisconsin and Florida for which analysts made assumptions about residency or relationship when conducting analysis or in which state data appeared contradictory to information reported to the IRS. In Wisconsin, state case workers conducted the case file validation; Urban Institute staff reviewed case files in Florida. In each site, staff read through case files looking for information on residency, relationship, or earnings.

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[5] A set of table shells supporting an analytical plan were provided to the IRS. The IRS provided the Urban Institute the tabulations for these tables after matching state and IRS data.

III.   EITC ELIGIBILITY AND PROCESSING

The EITC subsidizes the earnings of individuals and families with sufficiently low income. The maximum EITC varies by tax filing status and number of children, with the maximum credit in tax year 2013 ranging from a low of $487 for tax filers with no children to $6,143 for a family with three or more children (figure III-1). The credit also varies with annual earnings. The credit phases in over an initial earnings range, provides a constant subsidy over a second earnings range, and then phases out as earnings (or income) continue to rise, until eventually no subsidy exists. For tax year 2013, the credit phases out at $19,680 for married couples with no children and $51,567 for married couples with at least three children.

Figure III-1. Earned Income Tax Credit by Number of Children and Filing Status, Tax Year 2013
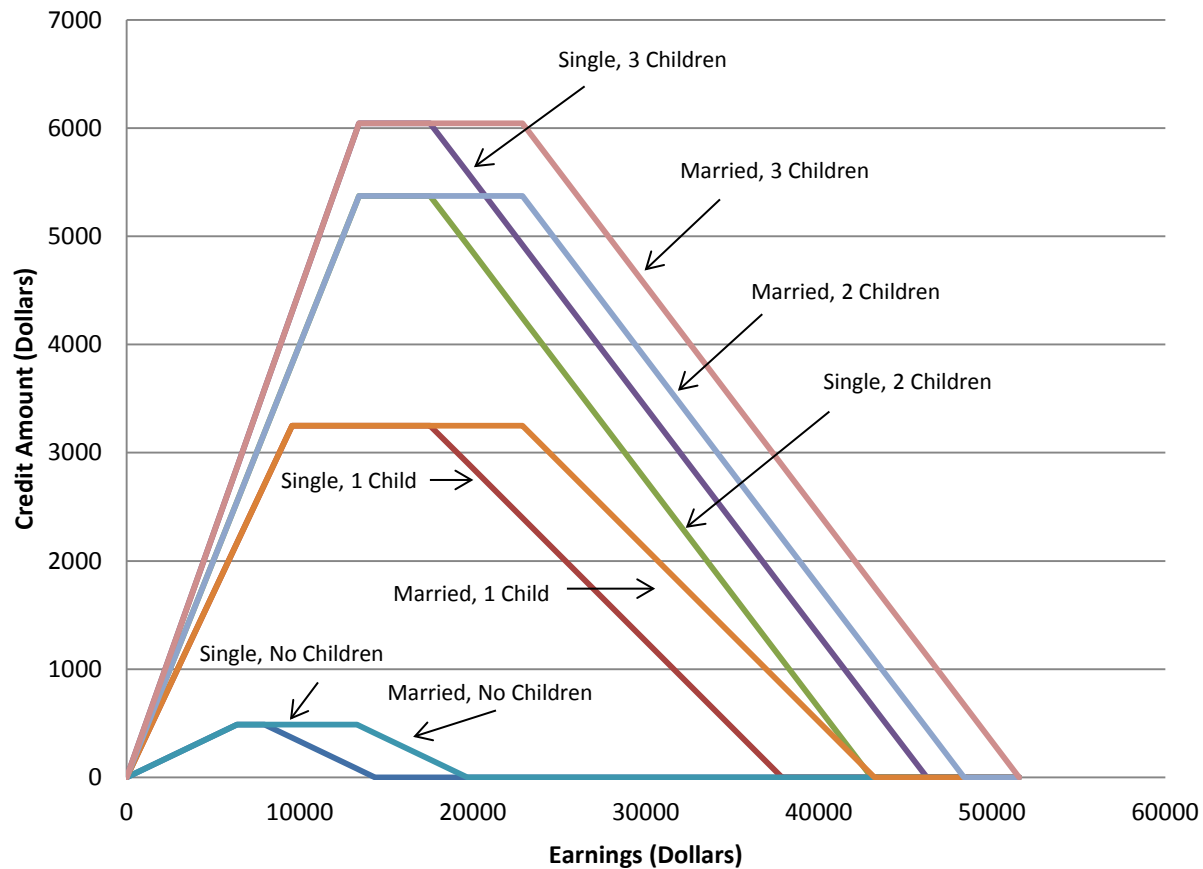
Source: 2013 EITC parameters taken from http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=36;
Note: Assumes all income comes from earnings and all children are qualifying children for the EITC.

A complex set of characteristics determine eligibility for, and size of, the EITC including income (both earned and unearned), demographic characteristics (citizenship status, marital status, age, relationship), and residency. Third-party data to validate information reported on tax returns is not always available. As a result, some ineligible EITC claimants receive the tax credit (U.S.

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Department of the Treasury 2011). On the other hand, some people eligible for the credit fail to claim it. In particular, EITC-eligible individuals with income below the tax filing threshold do not need to file tax returns, yet by not filing they miss the opportunity to receive the EITC.[6] Consider a married couple with two children. If all of their gross income came from earnings, they could have earnings of up to $19,000 and not be required to file a tax return. However, failing to do so would mean they would forego an EITC of over $5,000. Analysts estimate that between 70 and 89 percent of people eligible for the EITC actually receive it (Blumenthal, Erard, and Ho 2005; Olson 2014; Plueger 2009; Scholz 1994; White 2002).

Determining EITC Eligibility and Amount

Most information required for determination of EITC eligibility and the credit amount applies to all people claiming the EITC. This includes citizenship, filing status, and income and earnings (table III-1). Families with children must also establish whether the tax filer(s) is eligible to claim a child(ren) for the credit; that is, whether the child is a "qualifying child." Key elements for determining whether a particular child is a qualifying child include: (a) relationship of the tax filer to the child (relationship test), (b) length of time the tax filer and child lived together (residency test), (c) age of the child and special exemptions such as being in school (age test), and (d) whether the child is married and filed a joint tax return (joint return test). Tax filers claiming the childless EITC must also meet age and certain other restrictions.

In some cases, the IRS validates information reported on tax returns using data from third parties (e.g., income, citizenship). In other cases, the IRS does not receive data from third parties to verify information on tax returns (e.g., length of time child and adult co-reside).

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[6] Appendix table B-1 provides information on who must file a tax return.

Table III-1. Key EITC Data Requirements

Data Element	All EITC claimants	Claimants with child < 19	Claimants with child 19 - 23	Claimants with no qualifying child	How/when is data element measured?
Valid Social Security Number					
Social security number	x				Any point in tax year
Citizenship					
Citizenship status	x				Annual measure
Filing Status					
Marital status	x				December 31
Married couples lived together for 2nd half of the calendar year	x - Married couples only				July - December
Income					
Earned and unearned income[a]	x				Annual measure
Qualifying Child(ren)					
Relationship test					
Relationship of tax filer and child[b]		x	x		December 31
Age test					
Date of birth of child		x	x		December 31
Full-time student status of child			x		Confirmation of full-time attendance in 5 months
Disability status of child 19 or older			x		Permanently or totally disabled at any time during year
Residency test					
Shared residency of tax filer and child		x	x		Must co-reside at least half year
Joint return test					
Marital status of potential qualifying child		x	x		December 31
Whether child filed a federal tax return jointly for the year for a purpose other than claiming a refund.		x	x		Time of filing return

Notes: A complete list of EITC data requirements is available in appendix table B-2.

[a] See appendix table B-2 for detailed income list.

[b] For foster children, information is needed on whether the child was placed by an authorized placement agency and the placement date.

Criteria that apply to all EITC recipients. All tax filing units that receive the EITC must meet certain broad criteria. Only people with a valid social security number (SSN) who are U.S. citizens or resident aliens for the entire tax filing year are eligible for the EITC[7] and married

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[7] Typically, both members of a married couple must be U.S. citizens or resident aliens all year long. Some nonresident aliens married to a US citizen or resident alien can opt to be treated as a resident alien for tax purposes and still be eligible for the EITC.

couples may not file as "married filing separately".[8] Tax filers must have earned income (wages or self-employment earnings) and investment income cannot exceed a specified threshold ($3,300 for 2013; IRS 2013). Appendix B provides a more detailed accounting of these broadly applicable EITC eligibility criteria.[9]

The IRS receives third-party verification on some but not all of these elements. For example, the Social Security Administration provides the IRS with SSN, citizenship, and age. The Social Security Administration also processes wage information submitted by employers and transmits this information to the IRS. Certain types of self-employment income are reported directly to the IRS by businesses, but the IRS cannot verify all forms of self-employment income.

Additional criteria for families with a qualifying child. Beyond the criteria described above, tax filers claiming the EITC for families with children are subject to rules that determine whether the child is a "qualifying child." A qualifying child must have a specific relationship to the tax filer—child, step-child, foster child, sibling, half-sibling, step-sibling, or descendant of any of these—and live with them at least half of the year. These two requirements are referred to as the "relationship test" and "residency test," respectively. There are also age restrictions, or an "age test." The child must be younger than the taxpayer (or spouse) and be either (a) under age 19, (b) between the ages of 19 and 23 and attending school full-time in at least five months of the year, or (c) totally disabled. Beyond this, the child cannot file a joint return unless it was only filed in order to claim a refund; this is the "joint return test." In addition, a child may serve as a qualifying child for only one tax filer, even if they meet the requirements for multiple tax filers.[10]

Currently, the IRS does not receive third-party information that allows it to determine a child and adult's co-residency for at least half the year, whether a 19 – 23 year old is in school full-time in at least five months of the year, a child's relationship to an adult who is not the child's parent, a person's disability status, and in some cases an individual's self-employment earnings.

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[8] Some married couples that have lived apart for the last 6 months of the year may be able to file as head of household rather than married filing separately in order to still qualify for the EITC (IRS 2013).

[9] All taxpayers must calculate their Adjusted Gross Income (AGI), based on the types of income and expenses listed in appendix B. Filing a form that excludes foreign earned income or housing amounts from gross income (form 2555 or 2555-EZ) disqualifies people from EITC eligibility.

[10] The IRS invokes a tiebreaker rule when a child meets the requirements to serve as a qualifying child for more than one tax filer. The tiebreaker rules are complicated and have changed frequently. In general, a parent's claim takes precedence. If a child is the qualifying child of two unmarried parents, the parents may choose who may claim the child; however, if both claim, then the parent with whom the child lived the longest, or if equal the parent with the higher adjusted gross income (AGI) may claim the child. If no parent claims the child, the person with the highest AGI among those for whom the child is a qualifying child may claim the child instead. In cases where a parent could claim the child but does not do so, the person claiming the child must have AGI higher than the parent's AGI.

Additional criteria for adults without a qualifying child. Eligibility for the childless EITC requires that the tax filer be between the ages of 25 and 64 at the end of the tax year.[11] Additionally, the tax filer cannot (1) be eligible to be claimed as a dependent on another tax return or (2) qualify as an EITC qualifying child for anyone else, regardless of whether someone claims them as a dependent or qualifying child. Further, they cannot have a qualifying child (regardless of whether they claim that qualifying child). Because the qualifying child criteria factor in among these tax filers, the qualifying child elements discussed above are also important for determining the EITC eligibility for this population.

IRS Tax Return Processing and Incorporating State Data into the Process

The IRS has until 45 days after the end of the tax filing season (typically April 15th) to send refunds to taxpayers before it must pay interest to them on any refund amounts owed (26 USC S. 2611). However, the IRS's goal is to send refunds to people within three weeks of acknowledging receipt of an electronic return, and from six to eight weeks of receiving a paper return (IRS 2011d).

There are four stages of IRS processing where third-party data could be incorporated to aid in the administration of the EITC: (1) validation of the tax credit during return submission processing (including electronic submission), (2) pre-refund audit of returns, (3) post-refund audit of returns, and (4) other post-refund enforcement activity, including post-filing notices. For the information provided by states to be useful, it must be received before the start of the stage for which it will be used—or at least before the stage is completed. For example, information that arrives to the IRS after the EITC has been refunded to the taxpayer can only be useful in a post-refund audit or other post-refund enforcement (stages 3 and 4) —not during return processing or a pre-refund audit (stages 1 and 2). The quality of the data used to validate EITC claims also affects when it is used in processing.

Validation of the credit during return processing. During up-front payment validation, the IRS checks tax returns using "math error" authority. Math error authority, granted under Internal Revenue Code 6213(b) and (g), allows the IRS to adjust tax returns during the processing of returns. The goal behind math error authority is to ensure that returns are accurate and to protect revenue by preventing the payment of refunds where erroneous credit claims have been made.[12]

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[11] On a joint return, only one person must meet the age requirement (IRS 2013).

[12] When the IRS adjusts amounts claimed through math error authority, the taxpayer can appeal the adjustment through a letter explaining the discrepancy. Corrections made under math error authority include mathematical errors, incorrect selections from IRS tax tables and schedules, inconsistent entries between the return and attached forms or statements, missing documentation, credit or deduction claims that exceed an allowable amount, missing or incorrect Taxpayer Identification Numbers (TINs), EITC claim entries when the claim was disallowed in a previous year and form 8862 (Information to Claim the Earned Income Credit After Disallowance) was not included, EITC

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High-quality data made available to the IRS early in the filing season could be used by the IRS to resolve issues with tax returns using math error authority. However, the Internal Revenue Code defines precisely the cases when the IRS can use math error, so any expansion of this list to include denials or adjustments based on information received from the states would require legislation.

With the filing season starting as early as mid-January, states would need to provide the IRS with their benefit data within two weeks (roughly) of the tax year's end in order for the data to be used in stage one. This timing is particularly important for EITC returns, since they tend to come in early in the filing season, as they typically have an associated refund (Barrow and McGranahan 2001).

Data for validation must be of very high quality and well suited to the task in order for the IRS to consider using them in this phase of processing. The IRS has rejected other administrative data for this stage. For example, the IRS has access to the Federal Case Registry (FCR), which provides information about custody arrangements in state Child Support Enforcement cases and therefore provides insight into whether children are being claimed for the EITC by a non-custodial parent.[13] Because custody arrangements can change, the IRS does not consider this information reliable enough to disallow claims during return submission processing. The IRS does use information from the FCR, along with other exam filters, to determine whether an audit will take place.[14]

Audit of returns. If questions about the integrity of an EITC claim arise during the initial phases of processing, a return may be selected for an audit.[15] Information from state benefit data could be used to improve exam filters that select cases for audit. For example, information suggesting that a child does not live with an EITC claimant may prompt the IRS to verify whether a child claimed for EITC purposes meets the EITC residency test. State data could also be used during any of these audits to verify information provided by the taxpayer. In 2012, 27.2 million returns claimed the EITC; just over 558,000 of these returns were selected for audit. Of these returns, over 90 percent were identified as having an erroneous claim (IRS Data Book 2012). In terms of one type of error—subjecting too many people to examination or audit—the IRS appears to have

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claim entries based on self-employment income when no self-employment taxes were paid, and EITC claim entries when the taxpayers do not meet the age requirements (IRS 2011b).

[13] The FCR includes information on child support cases handled by state IV-D child support agencies and private child support orders established or modified on or after October 1, 1998.

[14] Based on discussions with IRS staff.

[15] When the IRS conducts a correspondence audit (the simplest type of audit), they mail a letter to a taxpayer requesting either additional information to verify a claim or request additional taxes be paid. The next level of audit is an office audit, where a taxpayer is asked to bring information into an IRS office for review. Finally, the IRS may choose to complete a more intensive field audit. In this case, they will come to the person's residence to collect information (Olson 2012).

excellent audit selection criteria. With the high success rate of current exam filters, room for improvement appears marginal without significant expansion of the number of audit cases.

Post-payment enforcement activity. Following the audit of returns, the IRS must follow up on erroneous or fraudulent returns and recover EITC payments that should not have been made; it is possible that state benefit data could inform this process. Although some potential errors (overpayments) may be identified too late to retrieve payment already made, the IRS could use the error to designate taxpayers for additional examination in a future year.

This overview of the EITC program and processing of tax returns identifies challenges for validating EITC claims. While the IRS receives third-party information that can be used to validate some requirements for EITC eligibility (e.g., citizenship, age, earnings from an employer), the IRS does not receive data to validate other elements (e.g., length of time tax filer(s) and child co-reside, relationship between tax filer(s) and child). These knowledge gaps can impact improper EITC payments. State benefit data used to fill the knowledge gap must be very high quality in order for the IRS to consider using them during return processing. Data that do not meet this high bar are better suited for audit selection or post-payment recovery activities.

IV. BACKGROUND ON STATE-ADMINISTERED BENEFIT PROGRAMS

This section describes four state-administered benefit programs that gather data that may be useful for matching with tax returns. The four benefit programs—SNAP, TANF, Medicaid, and CHIP—provide assistance to low-income households, particularly those with children, through in-kind benefits or cash transfers. Broadly, SNAP provides resources for food purchases, TANF provides cash assistance, and Medicaid and CHIP provide health care coverage.[16] SNAP and Medicaid are entitlement programs—all eligible individuals are guaranteed benefits—while TANF and CHIP are not.

For the five states that expressed early interest in participating in the pilot study —Florida, Michigan, New York, Washington, and Wisconsin—we provide additional information on each state's program structure and rules for each benefit program. This information demonstrates how states may be similar or different in their benefit program operations.

Management of Benefit Programs and Applications

The programs investigated here rely on funding from the federal government but operate out of state agencies. The agencies charged with managing these four programs vary across states. Often, the same state agency manages SNAP and TANF programs, with Medicaid and CHIP generally housed together in a separate agency. In some states a separate agency administers Medicaid but the agency managing SNAP and TANF manages Medicaid enrollment.

The five study states we investigated in detail organize the oversight of their benefit programs in different ways, generally in combinations of different agencies (table IV-1). For example, in Florida, the ACCESS Florida Program in the Department of Children and Families manages TANF, Medicaid and SNAP. Two other entities manage the children's health insurance programs based on the age of the child. Michigan, New York, and Washington house their TANF and SNAP programs in one agency while their Medicaid and CHIP programs are housed in a separate agency. Wisconsin differs from the other states in that its food and health insurance programs share an agency while its TANF program is separate. The IRS would likely need to enter into separate agreements not only with each state, but with multiple agencies within each state, in order to acquire data from multiple programs.

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[16] Details on each program are available in Appendix C.

Table IV-1. Administrative Bodies for Benefit Programs in the Five Study States

	SNAP	*TANF*	*Medicaid*	*CHIP*
Florida	Department of Children and Families	Department of Children and Families	Department of Children and Families	Agency for Health Care Administration/Florida Healthy Kids Corporation
Michigan	Department of Human Services	Department of Human Services	Department of Community Health	Department of Community Health
New York	Office of Temporary and Disability Assistance	Office of Temporary and Disability Assistance	Department of Health	Department of Health
Washington[a]	Department of Social and Health Services	Department of Social and Health Services	Washington State Health Care Authority	Washington State Health Care Authority
Wisconsin	Department of Health Services	Department of Children and Families	Department of Health Services	Department of Health Services

[a] In Washington, applications for health programs are submitted to the Department of Social and Health Services, but the Health Care Authority administers the program.

Though states may house their benefit programs in different agencies, they often develop a multi-program application that can be used to apply to one or more programs. Multi-program applications lead to greater efficiency for the agencies and make it easier to ensure that families access all programs for which they are eligible. As of 2010, forty states used a single application and intake interview for TANF, Medicaid, and SNAP (U.S. Department of Agriculture 2010). Many states have both paper applications and online application portals, which usually serve multiple programs. As of early 2013, 41 states had an online application for at least one of the four programs discussed here, and 24 states offered the option of renewing benefits online (Center on Budget and Policy Priorities 2013). One implication of a single application form is that individuals applying for any one program might provide the information required for application to all programs. This could be advantageous for the IRS as more information may exist than would be available from any one program. Unfortunately, individual programs may opt to only maintain the data needed for the particular program and other information may never be updated.

Four of the five study states use a common application for all four programs; Wisconsin has one application for Medicaid and CHIP and a separate application for TANF and SNAP. The five study states each have an online system which can be used to apply, renew benefits, or update information for any of the four programs.

Financial Eligibility Criteria

In order to receive federal funds for these programs, states must follow general federal guidelines on eligibility, benefit rules, and other programmatic aspects. States often have the opportunity to extend eligibility to a broader population or provide more generous benefits, and can receive additional federal funds for such spending. The primary determinant of benefit program eligibility and benefit levels is income. Income for state benefit determination does not mimic

the EITC's measure of earned or adjusted gross income. Benefit programs employ a monthly accounting period for determining eligibility (versus calendar year) and net and/or gross income tests usually allow for certain exclusions (e.g., child support payments, earnings of household members who are students, loans) and deductions (e.g., work expenses, child care expenses). Most programs also disregard a percentage of earnings (i.e., earnings disregard). Income cut-offs for benefit eligibility are usually specified as a percentage of the federal poverty level (FPL) for a given family's size.[17] Because states differ in how much, if at all, they expand income eligibility beyond minimum requirements, income cut-offs can vary considerably by state.

Generally, TANF and Medicaid are the more financially restrictive programs. The TANF income limits range between 21 and 180 percent of the FPL across the 50 states and DC (table IV-2, column 1), although the majority of states have income limits below the FPL.[18] Among the benefit programs examined, TANF serves the smallest population—4.6 million individuals (U.S. DHHS 2011a), compared with 7.7 million served by CHIP (U.S. DHHS 2011b) (table IV-2, column 4). For adults, Medicaid income limits are commonly at or below the poverty level, and for children ages one and up, they are somewhat higher although below 150 percent of the FPL in 42 states and D.C. (Herberlein et al. 2012).[19] SNAP is often more generous, with children and adults in many states eligible if household income does not exceed 200 percent of the FPL.[20] CHIP is generally the least restrictive and in some states serves children as high as three or four hundred percent of the FPL.[21]

With the exception of CHIP, the income limits for these benefit programs often fall below the level of earnings allowed for claiming the EITC. As a result, these programs cover only part of the EITC-eligible population—those tax filing units with the lowest earnings—and so may have limited potential for verifying EITC eligibility for a substantial portion of EITC claimants. Table IV-3 shows the maximum amount of earnings in 2013 for eligibility for the EITC and its equivalence to the federal poverty level (FPL)—an approximation only, due to the FPL's broader income measure. The table shows that for many families, particularly those with one or two children, the maximum earnings for claiming some amount of EITC exceeds common benefit program income limits as described above. For example, families with one or two children with

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[17] These levels are issued each year by the U.S. Department of Health and Human Services.

[18] These income limits are usually based on net income. The examples discussed here are for a family consisting of one adult and two children.

[19] Under the Affordable Care Act, Medicaid can be expanded to serve families at higher income levels than was previously typical. This expansion is optional; roughly half of the states adopted it as of March 2014.

[20] Though the federal gross income limit for SNAP is 130 percent of the FPL, the majority of states have implemented broad-based categorical eligibility (BBCE), which allows states to set a higher limit. Twenty-nine states have a gross income limit that is higher than 130 percent of the poverty level (Falk and Aussenberg 2013), with 14 choosing a limit of 200 percent of the FPL.

[21] For a detailed look at the five study states, see appendix table D-2.

incomes above 200 percent of the federal poverty level are not eligible for SNAP, but may be eligible for the EITC.

Table IV-2. Federal EITC Earnings Limits in Dollars and as a Percentage of the Federal Poverty Level (FPL), by Family Type for Tax Year 2013

Family Type	Earnings Limit Dollars	Earnings Limit Percent of FPL
Single, no children	$14,340	125%
Single, one child	$37,870	244%
Single, two children	$43,038	220%
Single, three children	$46,227	196%
Married, no children	$19,680	127%
Married, one child	$43,210	221%
Married, two children	$48,378	205%
Married, three children	$51,567	187%

Notes: Limits shown here are for earnings and have been translated into a percentage of the FPL. Percent of the FPL as determined by benefit programs is based on income, which may include certain forms of unearned income and/or may exclude portions of earned income. In families with more than three children, EITC earnings limits comprise a lower percentage of the federal poverty level.

A household's assets may be used to determine eligibility for program benefits, though many state programs have eliminated asset restrictions for certain populations or for entire programs. Thirty-five states have eliminated SNAP asset tests and 48 states do not restrict asset levels for CHIP, although TANF asset limits remain restrictive (table IV-2, column 2). The EITC asset restriction is based on *income* earned from assets and stood at $3,300 in tax year 2013. This level is quite high relative to the wealth holdings of people who have earnings that would qualify them for the EITC since significant asset holdings are often needed to generate interest income above $3,300. The bottom quartile of the EITC-eligible population has negative wealth on average, and the second quartile averages less than $4,000 in wealth (Athreya, Reilly, and Simpson 2010). In cases where states have not eliminated asset restrictions on benefit programs, they tend to be more restrictive than the EITC restrictions, lessening the overlap between the program benefit and EITC populations.[22]

In sum, the programs that hold the most promise for serving populations that overlap with the EITC-eligible population are those with less strict financial eligibility criteria, such as SNAP, Medicaid for children, and CHIP. Note that most TANF recipients would be included as they are automatically eligible to receive SNAP and Medicaid; of TANF families in 2009, about 81 percent also received SNAP and 98 percent also received Medicaid (Zedlewski 2012).

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[22] Three of the five study states impose asset tests in their TANF programs and in their Medicaid program for parents (only) and two study states only impose asset tests in their TANF programs (appendix table D-2).

Benefit Recertification and Change Reporting

In addition to submitting initial applications, benefit recipients must have their eligibility recertified at certain intervals, by self-reporting information similar to that supplied on their applications and submitting any required verifications. The intervals vary by program and by state. Medicaid and CHIP tend to have longer recertification periods, typically one year, while SNAP and TANF recipients usually must recertify their eligibility more frequently (table IV-2, column 3).[23]

Between recertifications, some households may be required to report changes in their household composition, income, or other circumstances. Some states allow recipients to forgo reporting small income changes. The frequency of required recertifications impacts how often a family might be observed in state data. For example, if no change reporting is required and recertification is required every six months, we can expect to have updated information on a family twice in a calendar year, while an annual recertification would only yield one observation in a calendar year. More detail on time frames for recertifications and reporting changes can be found in Appendix D.

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[23] Among the five study states, recertification is required every 12 months for most programs, with some exceptions (appendix table D-3).

Table IV-3. State Benefit Programs and the Federal EITC: Financial Eligibility, Recertification, and Population Served

		Income Limit (% of the FPL)[a]	Asset Limit	Certification Period	# Served (2010)
SNAP	*Federal rules* [b]	130% (gross) / 100% (net)	$2,000	12 months maximum	18.6 million households
	State policies	130% - 200% (gross)	None in 35 states; $2,000 - $25,000	12 months commonly	
TANF	*Federal rules*	None[c]	None	12 months or less (recommended)	1.9 million families/ 4.6 million individuals
	State policies	21% - 180% (usually net)[d]	None in 6 states ; $1,000 - $10,000	6 or 12 months commonly	
MEDICAID	*Federal rules*	Children ages 1-5: 133% Children ages 6-18: 100% Pregnant or under age 1: 133% (185% optional) Parents/caretakers: 1996 limit	None	12 months maximum	22.2 million households
	State policies	Children ages 1-5: 133% - 275% Children ages 6-18: 100% - 275% Pregnant or under age 1: 133% - 300% Parents/caretakers: 24% - 300%	Children: None in 47 states Pregnant women: None in 43 states Parents/caretakers: None in 24 states; $1,000 – $30,000	Children, in 49 states: 12 months Parents, in 46 states: 12 months (6 months in other states)	
CHIP	*Federal rules*	Enhanced CHIP match rate: <=300% Medicaid match rate: >300%[e]	None	Up to 12 months	7.7 million recipients
	State policies	Children: 140% - 400% Pregnant women: 200% - 350%	None in 48 states	All states: 12 months	
EITC	*Federal rules*	One parent, one child: $37,870/year (244%) One parent, two children: $43,038/year (220%)	None (investment income limited to $3,300)	N/A: eligibility newly determined each calendar year	26.8 million tax filing units

Sources: The range of state income and asset limits are found in USDA 2012 (SNAP); Kassabian Whitesell, and Huber 2012 (TANF); and Heberlein et al. 2012 (Medicaid and CHIP). Certification periods found in Eslami, Filion, and Strayer 2012 (SNAP; based on state means across households); Kassabian Whitesell, and Huber 2012 (TANF); and Herberlein et al. 2012 (Medicaid/CHIP). Populations served found in Eslami, Filion, and Strayer 2012 (SNAP); U.S. DHHS 2011a (TANF); U.S. Census Bureau 2012 (Medicaid); U.S. DHHS 2011b (CHIP), and IRS.gov (EITC). State limits are for 2011 or 2012 while the EITC limits are for 2013. "States" includes the District of Columbia.

[a] Income limits are as a percentage of the federal poverty level (FPL); the EITC limit is for earnings only. States vary in what forms of unearned income are included in net and gross income. Federally, some groups are categorically eligible for programs and face no income/asset tests—for SNAP, this includes households with all members receiving SSI, TANF, or General Assistance. Further, most states set SNAP income limits above 130% through broad-based categorical eligibility policies. Low-income elderly and disabled adults and parents/caretakers with income below the state's 1996 limit may be eligible for Medicaid, and some states set higher limits for parents through federal waivers or separate state programs. Some have Medically Needy programs in which medical costs are subtracted from income. Most Medicaid limits are for net income. For a family of one parent and one child, the percentages shown here correspond to the following dollar amounts in 2012: 100% = $15,130; 130% = $17,097; and 200% = $30,260. For a family of one parent and two children, the amounts are: 100% = $19,090; 130% = $21,572; and 200% = $38,180.

[b] Federal rules limit assets to $3,250 if an elderly or disabled person is present in the household. If all members all elderly/disabled, the certification period is 24 months.

[c] Federal TANF law does not establish an income limit or specify what types of income should count toward it.

[d] Commonly, states exclude 20% or $90 of earned income, varying forms of unearned income, and all or some child support payments, among other exclusions (Kassabian, Whitesell, and Huber 2012). The range of state limits presented here accounts for the earned income disregard, assuming all income is earned. Additionally, most states do not distribute benefits less than $10, so in practice the limit would be lower.

[e] States receive a higher match rate from the federal government for CHIP spending on participants up to 300 percent of the poverty level, but beyond that the Medicaid match rate is used. Six states cover pregnant women through CHIP, allowable as long as their income limit is less than or equal to the limit for children.

V. REVIEW OF STUDY STATES' PROGRAM APPLICATIONS AND IDENTIFICATION OF PROMISING DATA ELEMENTS

We conducted a detailed examination of the data collected on applications for benefits in Florida, Michigan, New York, Washington, and Wisconsin. Florida and Wisconsin also provided administrative data for use in this study. For each of the five states we reviewed the four program applications—TANF, SNAP, Medicaid, and CHIP—and identified fields that were relevant for determining EITC eligibility from the applications individuals fill out when applying for benefits, recertifying eligibility for continued benefit receipt, and reporting changes in their households or incomes between recertifications.

We also assessed the states' processes for collecting, updating, verifying, and storing application and benefit receipt data. Where possible, we held discussions with staff from each state to address how the data are stored, which items are verified and by what means, and how current are the data.[24]

States require different types of documentation to verify applicants' information. States request earnings statements at application, redetermination, and when households report changes in circumstances. Although caseworkers are directed to use the best verification source they can obtain, statements from relevant persons outside the household—referred to as "collateral contacts"—or even from the applicants themselves are often acceptable. Program manuals seem to allow caseworkers the discretion to decide when personal statements or collateral contacts will be accepted in lieu of documentation. Presumably the strictness of the verification process could vary within a state, region, or even an office. In addition to official documents or personal or collateral statements, data from other systems, such as the state's wage records database, may be used; however, verification is first sought from the clients themselves.

Our review of the applications provides information about potentially available information for EITC validation.[25] In doing so, we identify state benefit data elements that are most promising. Not all items are equally important, as many criteria used to determine eligibility for the EITC are already provided to the IRS via another third party (such as wage earnings, U.S. citizenship, residency status, and age). In these cases, the IRS likely receives better data than states receive.

Our examination of applications and procedures in the five study states indicates that states collect information on income (including self-employment earnings), demographic characteristics (specifically marital status and relationship), and residency to determine eligibility for benefits. As a group, these items form the basis for most EITC overclaims (IRS 2002). Other

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[24] For detail on what was reviewed in each of the five study states, see Appendix D.
[25] A summary of each state's relevant data elements is presented in table D-1 in Appendix D.

items related to EITC eligibility that are difficult for the IRS to verify, such as student status of children ages 19-24 and disability status of dependents, are not collected by states in a way that provides useful information for the IRS.

Below we review information from state data that coincide with EITC eligibility rule requirements, and also discuss limitations of the state data. We do this for income, marital status, and information that relates to qualifying children (e.g., relationship, residency). We identify the relationship and residency tests as the most promising use for state benefit program data. Although limited compared with the many data elements associated with EITC eligibility rules, these two elements are key for determining whether a child is an EITC qualifying child. Incorrectly claiming qualifying children is the largest source of error leading to EITC overpayments.

Income

Determining EITC eligibility involves both annual earned and unearned income. All five study states provide some information on wage income, self-employment income, and unearned income. Using information on amount of income, pay frequency, type of income, and employment dates for a given tax year, we can estimate earned income, adjusted gross income, and investment income, though only through the last recertification in the year. Limitations in the income data, present in varying degrees across the states, make this task difficult and the results unreliable. Although all applications ask for income amount, with different degrees of detail, some request monthly income but do not request the start and end dates of the income receipt, making it difficult to accurately construct income variables for a given tax year. Also, only changes that raise income over a set threshold (e.g., 130 percent of the FPL for SNAP) need to be reported before a recertification, so changes over time are not necessarily available. This may be particularly problematic for self-employment income, which can vary substantially from month to month.

Earnings verification requirements vary across the five states. In Florida, wages can be verified through written or verbal contact with the employer, while Wisconsin requires documents or a statement from employers. In Michigan, applicants must present an earnings statement or work schedule to verify earnings. States accept a variety of documents to verify self-employment earnings. Florida, for example, allows informal letters from people who receive the applicant's services and forms filled out by the clients themselves. New York permits applicants to submit a form or make a statement if outside verification is not available. Michigan has more rigorous verification requirements for self-employment; if receipts are not provided along with a self-employment statement, then a front-end eligibility program investigation must be conducted.[26]

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[26] These stipulations do not apply to CHIP (i.e., Healthy Kids), which allows a client statement for verification of income.

The IRS already collects reliable information on wage earnings paid by employers through receipt of W-2s, so state data are not needed. In many cases, the IRS cannot verify self-employment income. We explored the possibility of using reports of any self-employment income (i.e., any versus none) in the state benefit data to verify reports of self-employment income to the IRS. In analyses with IRS tax return data (described in Section VI), we found a very low correlation between reporting self-employment income in the state benefit data and the tax return data. Further, wage earnings reports also correlated poorly between state data and IRS data, indicating that the minimal collection of income data by state benefit programs makes it of little to no value for determining EITC eligibility.

The reporting of unearned income suffers from the same issues as earned income, but tends to be small enough among benefit program recipients to be well below the EITC thresholds, presenting less of an issue for validation.

Marital Status

A significant percentage of EITC overclaims stem from tax filers misreporting their filing status (U.S. Department of the Treasury 2002), generally choosing single or head of household when they should report as married filing separately. For the most part, married persons must file jointly to claim the EITC, so a method of verifying filing status would be useful to the IRS. However, the timing of marital status as reported in the state benefit data does not match what is needed to determine tax-filing status from the IRS perspective. Tax filing status is determined by a person's marital status on December 31st of the tax year. In contrast, state benefit data only indicate marital status at the time of an application or recertification, which would rarely be on December 31st.

Using marital status from the state benefit data under the assumption that marital status did not change from when it was last reported through December 31st would likely fail to meet IRS's strict data standards for math error. Possibly, the information could be used for examination. Further investigation would be required to consider under what conditions such an assumption is valid. Beyond the timing of the marital status information, our analyses indicate that marital status data suffer from inconsistencies. For example, in our data we observe some cases where an unmarried adult (based on a marital status question) is identified as having a spouse in the household (from the relationship question). In some programs (e.g., SNAP), marital status does not affect benefit levels, so states have little to no incentive to improve the quality of this information. Overall, the quality and timing of the marital status data would have to be improved in order to be used to validate EITC eligibility.

Qualifying Children

To determine whether or not a tax filer(s) has an EITC qualifying child, and how many, the child must pass four tests—relationship test, residency test, age test, and joint return test.[27] For each test, we discuss the state data items that are available for validating the test and their usefulness.

Relationship Test. A qualifying child must have a specific relationship to the claimant—child, step-child, foster child, sibling, half-sibling, step-sibling, or descendant of any of these. This requires that the state benefit data include information on the relationship of people in the household to one another.

States do not necessarily store all of the information they collect. For example, the applications in Florida and Washington request information on all adults and children in the household, but conversations with state staff indicate that data are only retained for members of the assistance unit. In these cases, there may be additional individuals who could claim a qualifying child for whom there is no information.

All states we examined collect information that can be used to validate the relationship test, although to varying degrees. New York, Washington, and Wisconsin only collect information on the relationship of each person to the primary applicant listed; this information can be used to validate the relationship test in cases where the applicant is the adult claiming the child on the EITC. Michigan collects this information as well as the relationship of each child in the household to their parent or parents in the household. Florida collects the most detailed relationship information: the relationship of each household member to every other household member.[28]

States that only collect information on how each household member relates to the applicant make it impossible to determine the relationship between household members who are not applicants. For example, an unmarried partner of an applicant may or may not be the biological parent of the applicant's child.

States may also not collect relationship information with enough specificity to determine whether two people pass the relationship test. States often categorize the more common relationships (e.g., parent, child, sibling) separately, but less common relationships (e.g., niece's child, second cousin, etc.) may be placed in a catch-all "other" category. For relationships defined by the

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[27] See Section III for a discussion of these four tests.

[28] Four of the five states collect information on absent parents that can be used to determine if there is someone outside the household who meets the relationship tests for claiming a qualifying child; this information includes the absent parent's name, date of birth and relationship to the child. However, information about absent parents is frequently missing. In the Wisconsin TANF data, only 19 percent of children under 18 years old with only one parent or no parents listed in their TANF case have at least one absent parent attached with a reported SSN.

catch-all category, it is generally not possible to determine whether a potential tax filer and child pass the relationship test. While scenarios arise that make the relationship between two household members undeterminable, our analyses suggest this happens in a small percentage of cases (see Section VI). Thus, information in the state benefit data generally allows identification of whether a child meets one of the allowable relationships for an EITC claim.

Residency. A qualifying child must live with the claimant at least half the year (or through the end of the year, if born in the second half of the year). In order to accurately determine residency, the IRS needs to know who lives in the household over the year. All of the states ask for information on all adults and all children in the household, but this only presents a snapshot of who is living in the household. In order to determine residency, a household has to appear in the data multiple times and over at least six months of the year.[29]

By applying for benefits a second time or through the process of recertifying program eligibility, household membership may be captured at multiple points during the calendar year. The more frequently information is collected, the more reliable the constructed residency indicator will be. Using multiple observations over time, a residency history can be created, allowing for some identification of whom the child lived with during the year and for how long. Constructing a residency history, however, requires assumptions about household composition between the observed points. For example, even if a household's composition is the same at two points in time, filling in who is in the household in the interim period requires assumptions (e.g., no changes between the two points). Also, if household composition changes between recertifications, the month of the change is not known. Although it is necessary to make assumptions, the state benefit data hold promise for identifying whether a qualifying child meets the residency requirement (see Section VI for discussion of assumptions).

The residency test is important not only for verifying whether a child lives with an adult claiming them for the EITC, but can also be useful to understand whether an adult claiming the childless EITC has a qualifying child. In order to qualify for the childless EITC, an adult that meets the other eligibility criteria must not be living with someone who could be their qualifying child. Because the IRS does not collect information on all household members, this test is difficult for the IRS to validate. The household relationship and residency data may allow us to detect someone who has a qualifying child and claims the childless EITC, indicating an improper claim. For example, in the case of an unmarried cohabiting couple with their biological child, the father and child may form one tax unit claiming the EITC. The mother and child could do the same, although only one of the parents can claim the EITC for that child. Furthermore, neither the mother nor the father can claim the childless EITC (because they live with the qualifying child).

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[29] Observing a household in only January and March, for example, does not provide a long enough window for determining residency since the claimant and child must live together for at least six months.

If one of these parents claimed the childless EITC, state data could be used to show that the claim was improper.

Age. Another key test for qualifying children is the age test, establishing that a child is younger than the taxpayer (or spouse) and either under age 19, between ages 19 and 23 and attending school full-time in at least five months of the year, or is any age and totally disabled. In all five study states, date of birth is included for all children in the household and therefore age of the child can be determined for any tax year. Also, applications in all five study states include pregnancy due dates for all members of the household. In cases where a child was born during the tax year but an application or recertification was not filed after the birth, pregnancy information could aid in determining whether an additional qualifying child could have been born during that time.

Information on whether household members are enrolled in school is included in all applications (SNAP, TANF, Medicaid, and CHIP) in four of the study states; in Wisconsin it is only included in the SNAP application. However, only some states ask about full- or part-time status or number of hours attending. Whether a 19-23 year old child was a full-time student in at least 5 months of the year may be inferred in some cases if a household is seen multiple times but is typically not known.

Florida, Michigan, New York, and Wisconsin Badger Care (Medicaid) ask about disability for all members of the household, or at least members applying for benefits; however, the definition of disability likely does not match the definition required for EITC eligibility. Alternatively, all states ask about receipt of SSI or other disability payments that may serve as a proxy for disability.

Based on this assessment, we conclude that student status and disability status are not collected by states in a way that provides useful information for the IRS.

Joint Return Test. The final test needed for a person to pass as a qualifying child is the joint return test, establishing that a qualifying child cannot have a joint return filing requirement. They may, however, file in order to claim a refund. Even if the child is not required to file a joint return, the child cannot be married unless specific circumstances hold.[30] Whether or not the child files a joint return can be determined by the IRS. The IRS may not have information about the marital status of claimed children or the income of the potential qualifying child and the child's spouse. Marital status is only included for all adults in three of the five states and for all children in two of the states. Furthermore marital status would not be known on December 31, the

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[30] The child cannot be married unless the taxpayer may claim an exemption for the child, or the reason the taxpayer cannot claim an exemption is because the child's other parent claims the exemption for the child under special rules for divorced or separated parents (or parents who live apart).

relevant date for tax filing purposes. In addition, income information is not always collected on all children in the household and no states include income information for absent spouses. This will make it impossible to construct an accurate joint return test in most states. This likely affects only a small set of families.

Promising Data Elements for Further Analysis

Based on the discussion above, relationship and residency tests are the most promising use for state benefit program data. Although we have eliminated as promising the majority of data elements associated with EITC eligibility rules, these two elements are the crux of determining whether a claimed child is a qualifying child for EITC purposes. As noted earlier, incorrectly claiming qualifying children is the largest source of error leading to overpayments of the EITC. As a result, our discussion of the analysis of matching state benefit program data and tax return data in the remainder of this report focuses on the usefulness of the relationship and residency information contained in the state benefit program data.

VI. MATCHING STATE BENEFIT DATA TO IRS TAX RETURN DATA

The next stage of the pilot involved matching state benefit program data with IRS tax return data. Two states, Wisconsin and Florida, supplied data for the pilot study. Wisconsin supplied data on applications and recertifications (hereinafter "recertification" data) from their TANF program while Florida provided monthly benefit data from their TANF and SNAP programs. Neither state supplied Medicaid or CHIP data. As outlined in Section V, the most promising direction for this pilot study is to identify qualifying children based on relationships and residency. The key to this identification requires information on household composition, relationships, and the length of time individuals are observed in the state data. Information on other variables is not discussed based on our conclusion that the variables cannot provide accurate or valuable information to the IRS. This section is divided into two main parts. We first describe the methodology we used to create the analytical files from the state benefit data and then present the results of matching the state data files with IRS tax return data.

Methodology Used to Create Analytical Files

To understand the data match, we first describe the Wisconsin TANF recertification data and the Florida TANF and SNAP monthly benefit data. Next, we describe how we created the analytical files, including how the state data files were matched to the IRS data files and how we construct relationship and residency tests in the state files. A case file validation conducted to provide insights into our analysis findings is described in Appendix E.

Description of the Data Received

We received benefit program data from Wisconsin and Florida, but comparisons across the two states are difficult. Wisconsin's data include information on all families that applied or recertified to the TANF program from 2009 through 2011. The Florida TANF and SNAP benefit data include information on all assistance units receiving TANF and/or SNAP benefits from 2009 through 2011. Our analysis focuses on tax year 2010, but we requested data from 2009 and 2011 to help us understand what would be missed if we only had data from 2010.

Recertification data are collected for the purpose of determining benefit eligibility while benefit data are maintained to provide monthly benefits to eligible people. Detail on the strengths and weaknesses of recertification and benefit data is presented in Appendix F.

Table VI-1 describes the type of data we received from each state and sample sizes. More people participate in SNAP than TANF. In Florida, the SNAP data contain more than 14 times as many individuals than the TANF data and almost 20 times as many cases. In addition, more than 88 percent of individuals in the TANF data in 2010 also appeared in the SNAP data in 2010.

Table VI-1. Description of Data Received from Wisconsin and Florida

	Wisconsin	Florida	
	TANF	TANF	SNAP
Program	TANF	TANF	SNAP
Data Type	Recertification	Benefit	Benefit
Sample	People who Apply and Recertify for Benefits	Recipients	Recipients
Time Period	2009-2011	2009-2011	2009-2011
Frequency of Updated Information	Applications and Recertifications	Not Available	Not Available
Months of Benefit Receipt	Not Available	Months Received Benefits	Months Received Benefits
Case	Applicant & anyone living in their household	Recipients in the household	Anyone living together & purchasing & preparing meals together
Identifying Information for Individuals	SSN, Name, Date of Birth, State ID	SSN, Name, Date of Birth, State ID	SSN, Name, Date of Birth, State ID
Relationship	Relationship to Applicant, Mother & Father ID	Relationship to All Individuals in the Household	Relationship to All Individuals in the Household
Number of Individuals in 2010	94,171	301,808	4,358,954
Number of Cases in 2010	29,555	112,415	2,189,985

Composition of Cases

States provided program data on individuals, which we used to construct cases. A case approximates a household. We describe case construction in Appendix F.

Table VI-2 summarizes the composition of cases across the two states and the two programs. More than 74 percent of cases in the Wisconsin TANF data and 82 percent of cases in the Florida TANF data are comprised of a single adult with one or more children. Similarly, the majority of tax units claiming the EITC consist of a single tax filer with at least one child. In contrast, the majority of cases (55 percent) in the Florida SNAP data are comprised of single adults with no children. [31] Even though Florida SNAP cases are less likely to be comprised of families with children, the Florida SNAP data include a relatively large population. The number of cases with children in the Florida SNAP data is almost eight times larger than the number of cases with children in the Florida TANF data. In all three data sets, cases often contain multiple adults (who are not married) and therefore multiple tax units. In the Wisconsin TANF data and in the Florida

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[31] This may be the result of the more generous income limits for single adults seeking SNAP benefits.

SNAP data, more than 24 percent of all cases include more than one adult. In the Florida TANF data, only 17 percent of cases include more than one adult.

Table VI-2. Composition of Cases in Wisconsin Application Data and Florida Benefit Data

	Wisconsin	Florida	
	TANF	*TANF*	*SNAP*
Total Number of Cases	**29,555**	**112,415**	**2,189,985**
Single Adult & No Children	1.6%	0.1%	54.7%
Multiple Adults & No Children	1.1%	2.5%	7.4%
Single Adult & Children			
Pregnant	1.3%	0.3%	0.6%
1 Child	34.1%	50.8%	9.8%
2 Children	21.0%	17.2%	6.3%
3+ Children	17.9%	14.0%	4.4%
Multiple Adults & Children			
Pregnant	0.4%	0.2%	0.2%
1 Child	9.4%	6.2%	6.3%
2 Children	6.8%	4.4%	5.5%
3+ Children	6.4%	4.2%	4.6%
No Adults, Only Children	0.0%	0.2%	0.1%

Notes: Adult is defined as an individual 18 years or older. Child is defined as an individual less than 18 years old. The composition of a case is measured at the last observation of the case in 2010.

Some families receive both SNAP and TANF. Among all of the TANF cases containing people that also receive SNAP, we find that more than 11 percent include one more adult or child in the SNAP case than in the TANF case. In most cases, the individuals excluded from the TANF case are adults. This implies that the definition of assistance unit in the TANF program is not an appropriate representation of a household.

Frequency of Reporting

State data often contain multiple observations of benefit applicants and recipients. How frequently an individual is observed and how much time has lapsed between observations can affect the reliability of the measures of residency we construct. In the recertification data, each recertification represents a new report of information about the case. In the benefits data, there is no indication of whether a person reported information to the benefits office—only an indicator that the person received benefits.

TANF recipients in Wisconsin must recertify eligibility for benefits every six to twelve months. As a result, more than half of all individuals receiving benefits are only observed for one month in 2010 (table VI-3). If a person recertifies in December 2009, June 2010 and January of 2011,

they will only be observed once in 2010. About 14 percent of individuals in the recertification data are only observed once in 2010 but are also observed in 2009; another 15 percent are observed once in 2010, but also observed in 2011 (not shown in table). This demonstrates the limitation of acquiring data from only the focal tax year.

Table VI-3. **Number of Recertification Months for Individuals in the Wisconsin TANF data**

Number of Months Observed in 2010	Percent of Individuals in Wisconsin TANF data
1	52.33%
2	31.93%
3	12.03%
4	3.08%
5	0.50%
6	0.12%
7	0.02%
Total	87,858

The sample includes individuals observed at least once in 2010 on an application or recertification, and excludes infants born in 2010.

Months Observed in State Data

In order to determine residency, we must observe an adult with a child for at least six months. In cases where we observe individuals for a shorter period of time, we cannot tell whether the residency test has been met. In the recertification data, we define months observed as the number of months in 2010 in which an individual is either observed or the months between observations. To illustrate, suppose an individual is observed in recertifications in March 2010 and August 2010. Using this definition of months observed, we would say she was observed for March and August and the four months between for a total of six months. In the Florida benefits data, we do not know when a person was directly observed; instead we present the length of time receiving benefits.

Benefit recertification in Wisconsin TANF occurs every six months. Using only 2010 data will make it appear that we observed an individual in fewer months than if we supplement 2010 data with data from 2009 and 2011. We describe months observed using only 2010 data, using 2010 data supplemented with 2009 data, and using 2010 data supplemented with 2009 and 2011 data (table VI-4). For the IRS, 2011 data would not have been available when needed. For illustrative purposes, we show the effect of including 2011 data to help understand what is lost by not having data past the last recertification in 2010.

When using only 2010 data, we observe people in very few months; more than half of all individuals are observed in only one month, less than a third of individuals observed in at least

six months, and only one percent are observed over the course of a full year. When supplemented with 2009 data, the percentage of individuals observed at least six months increases to more than 40 percent. More than 50 percent of individuals are observed for at least six months when we add data from 2011.

Table VI-4. **Number of Months Observed across Recertifications for Individuals in the Wisconsin TANF Data**

Months observed	2010	2009-2010	2009-2011
Total cases	87,858	87,858	87,858
1	52.3%	39.1%	26.7%
2	5.2%	5.0%	5.3%
3	3.3%	3.8%	4.6%
4	3.1%	3.7%	4.7%
5	3.8%	4.2%	4.9%
6	10.1%	8.3%	5.6%
7	9.2%	5.9%	4.6%
8	5.2%	6.4%	4.2%
9	3.2%	6.1%	4.3%
10	2.1%	5.8%	3.8%
11	1.4%	6.1%	3.0%
12	1.1%	5.5%	28.2%

Notes: The sample includes only individuals who were observed at least once in 2010 on an application or recertification, and excludes children born in 2010. In Wisconsin, observed months include months with a recertification and all months between recertifications.

Using Florida benefit data, we present the number of months individuals received benefits in 2010. Benefit data are only updated if a person recertifies their eligiblity or stops receiving benefits. Otherwise, all months look identical. In this way months receiving benefits is a similar measure to the months observed in the Wisconsin recertification data, with three key differences. The first is the sample; the Wisconsin recertification data include all individuals who apply regardless of whether they received benefits, whereas the Florida data only include individuals receiving benefits. The second is churning; individuals may enter, exit and re-enter the benefit program over the course of a year. The Wisconsin recertification data do not include information on benefit receipt and cannot detect churning, therefore the measure of coverage cannot distinguish between long recertification periods and churning. Finally, the Wisconsin recertification data cannot detect if someone continued to receive benefits unless they subsequently recertify; therefore the coverage will not include any months of benefit receipt if there are no subsequent recertifications. With these caveats in mind, months individuals received benefits in 2010 are presented in table VI-5. Because benefit data are created to cover each month of the year receiving benefits, adding data from 2009 or 2011 does not change what is known about 2010.

In Florida, individuals receive SNAP benefits for much longer periods of time than TANF benefits. Only 46 percent of individuals in the Florida data received TANF benefits for at least six months, and less than 19 percent received benefits for all twelve months of 2010. In contrast, more than 72 percent of individuals receiving SNAP benefits received those benefits for at least six months, and over one-third of SNAP recipients received benefits every month in 2010. As a result, it is clear that SNAP data have a higher potential for providing information over the course of the full year than TANF data.

Table VI-5. Months Receiving Benefits for Individuals in Florida TANF and SNAP Data

Months receiving benefits in 2010	TANF	SNAP
Total cases	**291,487**	**4,262,087**
1	15.4%	5.3%
2	12.9%	5.1%
3	9.9%	5.0%
4	8.0%	5.1%
5	6.6%	7.0%
6	5.3%	6.4%
7	4.7%	4.3%
8	4.1%	4.5%
9	4.0%	5.0%
10	4.3%	6.0%
11	5.7%	9.1%
12	19.1%	37.3%

Notes: The sample includes only people who received benefits for at least one month in 2010. The sample excludes children born in 2010.

Relationship

In Wisconsin TANF data, we received information on the relationship of each household member to the applicant and information on parental relationships. More than 89 percent of the individuals in the state data that are not applicants are biological or adopted children of an applicant. Five percent of individuals are clearly defined relatives, including grandparents. One percent of relationships are ambiguous, defined as "Other Qualified Relative" or "Non-Qualified Relative." The remaining five percent of relationships are "Friend/Non-Relative," or "Not Related."

The variable on relationship to the applicant does not provide information on the relationship between non-applicants in the household. This can be problematic for determining whether some children pass the relationship test with multiple members of the household. For instance, suppose a case contains a female applicant, her children, and an adult male who is coded as not related to

the applicant. Based on the relationship to the applicant, it is impossible to determine the relationship of the adult male to the children. He could be unrelated to the children or he could be the father of the children. The parental relationship data can be used to identify the parents of each person in the state data where that information is known. Only 3 percent of children in the state data have a missing state ID for their biological mother, but more than 70 percent are missing a state ID for their biological father. Although the identifier of the parent aids in these situations, other relationships will always be unclear; for example, the niece of an applicant and the nephew of an applicant could be siblings or they could be cousins. These situations can only be resolved if each child's parents are in the case record.

The Florida TANF and SNAP data include a relationship matrix which maps out the relationship of every person in the case to every other person in the case. This helps eliminate some of the ambiguous relationships that exist when the only relationship variable is relative to the applicant. Most relationships are parent-child (41 percent) or sibling (25 percent). Most of the remaining relationships are straightforward, e.g. "grandparent-grandchild." Eight percent of relationships are coded as "not related." The remaining five percent of relationships are ambiguous or missing.

In both the Wisconsin data and the Florida data, there are inconsistencies in the relationship variable over time for a given individual, across individuals, or in light of individuals' ages. In both data sets, these inconsistencies comprise less than five percent of relationships. In the Wisconsin data, three percent of individuals in the state data have a relationship with the applicant that changes over time. Less than one percent of the relationships are inconsistent with the demographic information, e.g. they are coded as daughter of the applicant but they are older than the applicant. In Florida, relationships are coded between every pair, however the wording of the question is confusing and the relationships often are switched. An example is a case containing a mother and son, in which the former is coded as the son and the latter is coded as the mother. These mistakes can often be resolved by using a more general form of relationship, e.g. "parent-child." Even when this is accounted for there are still inconsistencies which account for about two percent of relationships. The remaining inconsistencies result when the type of relationship of person one to person two is different from the type of relationship of person two to person one. For instance, person one is coded as having a parent-child relationship with person two, but person two is coded as having a spousal relationship with person one. Finally, there can also be age inconsistencies in the Florida data. For instance, a pair is coded as having a "grandparent-grandchild" relationship but they are the same age.

Qualifying Children: Residency and Relationship Tests

The remainder of this section discusses how the state data are used to construct the EITC residency and relationship tests for purposes of this study. Construction of the analytical files that generate these tests and the information used for matching to IRS tax data are discussed in Appendix F.

Residency Test. In order to pass the residency test, a claimant and their qualifying child must live together for at least six months of the year. Ideally, we would verify residency by observing an EITC claimant and their qualifying child together in six months. Conversely, if we observed an EITC claimant and the child they claim in different households for at least 6 months, we could consider the pair to have failed the residency test.

Neither the Wisconsin TANF recertification data nor the Florida TANF or SNAP benefit data provide enough information to determine whether a claimant fails or passes the residency test. Less than one percent of individuals appear in a recertification in six different months and more than half only appear in a recertification once in 2010 (table VI-3). In the Florida data, we do not know the frequency of reporting residency to the state. Although many families received benefits for the full 12 months of 2010, we learned during our case file validation that most only appeared in a recertification once or twice in 2010. We construct residency tests based on the observations we have in order to determine whether a person likely passed or failed the residency test.

In the Wisconsin file, we use the 2009 to 2010 recertification data to develop a residency test. Including 2009 data increases the likelihood an individual will be observed over a full six month period. Although using 2011 data would have the same affect, we exclude these data because if the IRS were to have implemented a system to verify EITC claims in 2010, they would not have had access to data from 2011.

Only 42 percent of individuals in the Wisconsin data are observed in a period covering more than six months of 2010 when using 2009 and 2010 data. We assume that if an adult and child appeared in the same case in one month and later appeared in the same case in another month, then the pair remained together in the months between observations. For example, if the adult and child are observed together in January 2010 and July 2010, we assume that they were together for the five months in between for a total of seven months.

The level of certainty about whether the adult and child were together in the months between observations depends on the number of months over which we have to make assumptions; that is, assuming co-residency for observations two months apart is likely more reliable than if the observations are nine months apart. We created several versions of this residency test which differ in the length of time over which the assumption would hold. The strongest assumption we employed only assumes that an adult and child remained together between monthly observations if there are no more than four months in between observations. For instance, if the child and the adult are observed together in April of 2010 and September of 2010, then we would assume they were together for the four months in-between. Alternatively, if the pair is observed together in April of 2010 and November of 2010, then according to our rule we would not assume they were together in the months between April and November since there are six months between monthly

observations. In addition to this "4-month" rule, we constructed 5-month, 6-month and 10-month versions of the residency test.

In order to pass the residency test under any of these assumptions, an adult and a child must have observations that cover at least six months. If an adult and child are only observed in April of 2010 and August of 2010, even under our 4-month residency assumption, we would only assume they were together for five months of the year. We would be unable to confirm six months of residency. In these cases where observations of an adult and child cover less than six months, we have insufficient information to infer whether the residency test is passed.

In Florida, we do not know the frequency of actual recertifications, so we use months receiving benefits as the indicator to assess length of residency. Each case presumably recertifies one or two times per year based on the six month recertification period; most families will not recertify more than twice per year. Once an application has been submitted, the household structure is assumed to remain unchanged until the next recertification, when it is updated based on the new information. In this way the observations of benefits received in the Florida data set are much like the residency test developed for Wisconsin. The primary difference is that we do not know anything in the Wisconsin recertification data until a new recertification occurs, whereas the Florida benefit data include monthly information as long as benefits are received. This implies that an adult-child pair will be more likely to pass the residency test in the benefit data.

In addition to revealing if an adult-child pair passes the residency test, the data can show if an adult-child pair fails the residency test. This happens if we observe an adult-child pair together at one point and apart during a period covering at least six months, or if we never see them together over a period exceeding six months.

Most adult-child pairs in Wisconsin have insufficient evidence to determine residency (table VI-6). This occurs because we observe the pair for too few months or because observations of an adult and child are more than 10 months apart. The percentage of adult-child pairs with insufficient information is lower in the Florida TANF benefit data, but still comprises more than 40 percent of all adult-child pairs. In the Florida SNAP benefit data, 20 percent of adult-child pairs have insufficient information for the residency test. In both data sets and programs, the remainder appears to pass the residency test. In all three data sets, less than six percent of adult-child pairs fail the residency test.

Table VI-6. Residency Test for Adult-Child Pairs

	Wisconsin	Florida	
	TANF	TANF	SNAP
Number of Adult-Child Pairs	**93,644**	**264,680**	**3,436,790**
Residency Test			
Fails	0.0%	2.8%	6.0%
Insufficient Information	64.2%	45.3%	20.1%
Passes (<= 4 Months Between Observations)[a]	18.9%	48.4%	71.9%
Passes (<= 5 Months Between Observations)[b]	8.2%	0.6%	0.2%
Passes (<= 6 Months Between Observations)[c]	3.4%	0.5%	0.2%
Passes (<=10 Months Between Observations)[d]	5.3%	2.4%	1.6%

Notes: An adult-child pair is defined as an adult and child that are in the same case, where the adult must be older than the child and the child must be younger than 23 years old or disabled. An observation is defined as an application or recertification in Wisconsin. An observation is defined as a month receiving benefits in Florida.

[a]The observations for an adult-child pair cover at least 6 months, but there is never more than 4 months between observations.

[b]The observations for an adult-child pair cover at least 6 months, but there is never more than 5 months between observations.

[c]The observations for an adult-child pair cover at least 6 months, but there is never more than 6 months between observations.

[d]The observations for an adult-child pair cover at least 6 months, but there is never more than 10 months between observations.

Other residency failures may be detectable when one member of the adult-child pair is found in the state data while the other member of the pair is not. Two situations result in this type of failure: a child found in the state data may be claimed by a tax filer not found in the state data or a tax filer found in the state data may claim a child not found in the state data. Although information will not be available on both the tax filer and the child claimed for EITC purposes, information on the individual in the state data may be used to flag potential instances where the tax filer and qualifying child fail the residency test. To illustrate, if a child is in the state data in January 2010, June 2010 and December 2010 and is claimed by a tax filer that never appears in the state data, this may indicate that the tax filer and the child fail the residency test. We construct a residency test for each individual to be used in these types of non-matches. This residency test is developed in much the same way as the residency test for adult-child pairs. A person is considered to fail the residency test with anyone not found in the state data as long as the person's observations in the state data cover at least six months. As with the residency tests where both adult and child are seen in the state data, we construct different levels of certainty based on the number of months between observations.

One important caveat to all residency tests is that they are dependent on the definition of the case. An adult and child are only considered to have lived together if they are in the same case and a person is only included in the state data if they are in a case. If a case represents a household, then this will accurately determine residency. Unfortunately, as discussed earlier, cases in Florida are assistance units and do not necessarily represent the household, especially TANF assistance units. This may lead to false indications that a tax filer and their qualifying

child fail the residency test, if either is outside the assistance unit but remains in the household. This is a problem primarily for TANF, much less so than for SNAP, and only applies when using benefit receipt data rather than application and recertification data.

Relationship Test. In the majority of cases in both Florida and Wisconsin, the relationship between the adult and child in a case is straightforward. For those cases, a pair is assigned either a pass or a fail depending on the relationship. For cases with serious inconsistencies or where the relationship is ambiguous, the relationship test is coded as having insufficient information. As seen in table VI-7, more than 90 percent of all adult-child pairs in the state data pass the relationship test. Only a very small percentage of adult-child pairs are ambiguous or fail.

Table VI-7. Relationship Test for Adult-Child Pairs

	Wisconsin	Florida	
	TANF	TANF	SNAP
Number of Adult-Child Pairs	**93,644**	**264,680**	**3,436,790**
Relationship Test			
Passes	94.9%	94.4%	91.0%
Insufficient Information	4.8%	4.0%	7.4%
Fails	0.3%	1.6%	1.6%

Notes: An adult-child pair is defined as an adult and child that are in the same case, where the adult must be older than the child and the child must be younger than 23 years old or disabled.

Analysis Results

The Urban Institute delivered to the IRS analytical files derived from the state data we received. The IRS pulled all tax records from 2010 in which at least one social security number from the state data appears anywhere on the tax return, and matched those records to the state files. The IRS then tabulated data to fill in cells of a set of analysis tables the Urban Institute provided. Below we show the results of the matching, beginning with the degree to which EITC claimants appear in the benefit program data. We then analyze the extent to which the state data allow verification of a qualifying child, with emphasis on the residency test (including whether a person filing the childless EITC lives with an unclaimed qualifying child). We follow this with analysis of the extent to which the matched data allow us to identify eligible non-claimants. After the initial description of the match results, we focus primarily on matches with SNAP data. A subset of analyses for the match with TANF data can be found in Appendix G.

Match Results for Individuals and SNAP and TANF Data

In 2010, nearly five million people in Florida were in a tax unit claiming the EITC. In Wisconsin, a less populous state, nearly one million people were in tax units claiming the EITC. Both SNAP and TANF provided benefits to some people who claimed the EITC. More than half

of Florida's EITC claimants also received SNAP.[32] In contrast, 4.3 percent of EITC claimants in Florida appear in the TANF recipient data and 6.6 percent of EITC claimants in Wisconsin applied or recertified for TANF (Table VI-8).

Table VI-8. EITC Claimants Found in Wisconsin Recertification Data or Florida Benefit Data (2010)

| | Wisconsin Recertification** | | Florida Benefit* | | | |
| | TANF | | TANF | | SNAP | |
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Individuals In Tax Units Claiming EITC	982,548		4,890,219		4,890,219	
State Benefit Data	64,993	6.6	207,999	4.3	2,444,276	50.0
Not in State Benefit Data	917,555	93.4	4,682,220	95.7	2,445,943	50.0
Tax Units	388,441		2,168,369		2,168,369	
Matched Tax Units	30,517	7.9	105,544	4.9	1,087,308	50.1
Claiming children for EITC purposes						
All members found in state data	12,821	3.3	38,775	1.8	528,257	24.4
All tax filer(s) and at least one child found in state data, but not all children	3,236	0.8	6,866	0.3	42,499	2.0
All tax filer(s), but none of the children found in state data	2,553	0.7	3,133	0.1	100,527	4.6
No tax filer(s), but all of the children found in the state data	10,802	2.8	50,509	2.3	208,449	9.6
At least one tax filer but not all tax filer(s) found in state data	476	0.1	3,754	0.2	25,277	1.2
Claiming childless EITC						
At least one tax filer found in state data	629	0.2	2,507	0.1	182,299	8.4
Unmatched Tax Units	357,924	92.1	2,062,825	95.1	1,081,061	49.9

Source: IRS data matched to Florida SNAP and TANF benefit receipt data and Wisconsin TANF recertification data.
*Benefit data refers to individuals receiving benefits.
**Recertification data includes anyone applying for TANF, regardless of whether they receive TANF.

Not all EITC recipients will be eligible for, or receive, SNAP or TANF—and not all SNAP or TANF recipients will be eligible for the EITC. EITC eligibility is based on an annual measure of earnings while SNAP and TANF benefits are based on monthly earnings. Assuming earnings are spread out evenly across months, the EITC is available to individuals at higher income levels than SNAP or TANF. It is also possible to have low earnings in some months and qualify for SNAP or TANF and move to a higher paying job later on and lose eligibility for TANF or

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[32] A very small percentage (less than one percent) of people observed in the Florida SNAP data did not actually receive SNAP benefits. These individuals lived with the SNAP beneficiary but were not part of the assistance unit. For purposes of this report, we include in our analysis everyone for whom we have information, even if they did not actually receive benefits.

SNAP. Some of these people will have annual earnings low enough to qualify for the EITC; others will earn too much. Although an individual (or spouse, if married) must work and have a valid SSN in order to be eligible for the EITC, transfer benefits can be available to people without earnings (particularly people with disabilities or others exempt from work requirements). Some states allow individuals without valid SSNs to receive transfer benefits, and at other times, there will be transcription errors in state data that produce an invalid or missing SSN which prevents matching between the datasets. Missing and invalid SSNs are a problem for a small number of individuals in the state data. In Wisconsin, seven percent of individuals had missing or invalid SSNs; in Florida, four percent of all people in the TANF and SNAP data had missing or invalid SSNs. We exclude these individuals from our analysis.

Match Results for Tax Units and SNAP and TANF Data

Percentages similar to those for individuals are found for tax units in the state data, e.g. roughly half of all tax units claiming the EITC in Florida are represented in the Florida SNAP data. Table VI-1 shows the number and percentage of tax units filing EITC claims and the degree to which they can be matched to the state data files. For some tax units we find all members of the tax unit in the state data; for others we find only some of the members of the tax unit. The rate at which we fully match all members of a tax unit varies by program. SNAP provides more cases in which this occurs, with 32.6 percent of all tax units with EITC claims in Florida fully matched.

The analyses we perform differ depending on how much of a tax unit is found in the state data; some analyses require a fully matched tax unit while others do not. Some analyses specifically take advantage of situations where not all members of the tax unit are matched in the state data, such as when a claimed qualifying child is not found living with the adult who claimed the child. Below we outline each type of analysis group, followed by a description of the percentages of each group from table VI-1.

We observe three types of matches between benefit program data and data from the IRS:
1. tax units where all people in the tax unit are also in the benefit data (childless EITC claimed, all adults match; unit has children, all adults and children match)
2. tax units where adults are found in the state data, but not all children (unit has children, all adults are matched and at least one child not matched; unit has children, all adults are matched and no children are matched)
3. tax units where at least one child is found in the state data, but no adults are found (unit has children, no adults are in state data and at least one child is in state data).

Each of the above groups is mutually exclusive. We perform analysis on two other groups, which are made up of people in the above groups:

- childless EITC claims (childless EITC claimed, all adults matched; childless EITC claimed, some adults matched)
- tax units where we observe all of the adults in the tax unit claiming the EITC (childless EITC claimed, all adults matched; unit has children, all adults are matched and at least one child is matched; unit has children, all adults are matched and no children are matched)

Our final analysis group is composed of individuals who appear in the state data but not the IRS data. We analyze these cases to see if outreach efforts aimed at this population would be well-targeted.

Tax units where all people in the tax unit are also in the state data
Roughly one-third of all tax units claiming the EITC in Florida have all members of the tax unit represented in the state data (childless EITC claimed, all adults match – 8.2 percent; unit has children, all adults and children matched – 24.4 percent). Less than two percent of tax units claiming the EITC received TANF in Florida. In Wisconsin, 3.5 percent of EITC claimants also applied for TANF (Table VI-1).

Tax units with adults found in the state data, but not all children found in the state data
We find adults in the state data without at least some of the children they claim for purposes of the EITC missing from the Florida SNAP benefit data in 6.6 percent of all EITC claims in Florida (unit has children, all adults matched, at least one child claimed for the EITC is matched, and at least one child claimed for the EITC is not matched – 2.0 percent; unit has children, all adults are matched, and no children claimed for the EITC are found in state data – 4.6 percent). We test these cases to see if an adult may be claiming children who do not meet the six month residency test that applies to most qualifying EITC children.

Tax units with children found in the state data, but not all adults found in the state data
In 9.6 percent of all tax units claiming the EITC in Florida, we observe the children in the state data, but do not observe any of the adults claiming those children for the EITC (unit has children; no adults matched in state data; some children found in state data). If we observe the child long enough without the adult, then the child being claimed may not meet the residency test with the adult they are being claimed by, though they may meet it for someone else.

Tax units claiming childless EITC
Childless EITC claimants found in Florida SNAP data make up 8.4 percent of all EITC claims in Florida. If any of the EITC claimants have qualifying children, they are ineligible to claim the childless EITC.

Tax units with all adults found in the state data
Almost 40 percent of tax units claiming the EITC in Florida are represented in the SNAP data in a unit where all adults are found in the state data (childless EITC claimed, all adults matched in state data – 8.2 percent; unit has children, all adults and qualifying children matched in state data – 24.4 percent; unit has children, all adults are matched, at least one child claimed for the EITC is matched, and at least one child claimed for the EITC is not matched – 2.0 percent; unit has children, all adults are matched, no children claimed for the EITC are found in the state data – 4.6 percent). We analyze whether these adults appear to be a qualifying child, a fact that would make them ineligible to claim the EITC.

For all analysis groups, we observe much smaller proportions of the total number of tax units claiming the EITC in the Florida and Wisconsin TANF data (shown in table VI-1). We apply the same tests for TANF data that are described above for SNAP data. However, given the very small representation, we focus our analysis on SNAP data in Florida. Comparable analyses using both Wisconsin and Florida TANF data can be found in Appendix G.

Using SNAP Benefit Data to Verify Qualifying Children in EITC Claims: Relationship and Residency

We now turn to analyzing whether SNAP benefit data can identify a qualifying child in terms of the relationship and residency tests. First we examine fully matched tax units (Table VI-9) followed by analysis of tax units in which the adults are found in the state data, but not all children are matched (Table VI-10), and finally units in which children are found in the state data, but the adults claiming them are not (Table VI-11). Table VI-12 then summarizes the findings of these three tables in terms of numbers and percentages of Florida EITC claims in which a child appears to fail the residency test.

Fully matched tax units. As seen in table VI-9, all children in almost all fully matched tax units claiming the EITC for families with children appear to pass the relationship test (99.1 percent). The residency test is less straightforward than the relationship test, largely because we must make assumptions about where a child lives in months that are not directly reported to the SNAP office. Based on the "10-month" assumption described earlier, we find that 76.9 percent of fully matched tax units appear to pass the residency test for all children being claimed for the EITC (which represents 19 percent of all tax units claiming the EITC). In 2.1 percent of these tax units, some children pass the residency test and in the remaining 21 percent of these tax units, no children claimed for the EITC appear to pass the residency test (Table VI-9). In cases where some or no children appear to pass the residency test, some are designated this way because all children appear to fail and some because some children appear to fail and insufficient evidence to evaluate the test exists for other children. Having insufficient evidence is, by far, the larger contributor to this group of non-passing children.

Table VI-9. Analysis of the Qualifying Child Tests for Tax Units with All Members in the Florida SNAP Data

Tax Units	528,257
Relationship Test[a]	
Full Tax Unit Passes	99.1%
At Least One Child Passes:	
At Least One Child Fails	0.4%
At Least One Child Has Insufficient Information	0.2%
No Children Pass:	
At Least One Child Fails	0.0%
All Children Have Insufficient Information	0.1%
All Children Fail	0.2%
Residency Test[b]	
Full Tax Unit Passes	76.9%
At Least One Child Passes:	
At Least One Child Fails	0.2%
At Least One Child Has Insufficient Information	1.9%
No Children Pass:	
At Least One Child Fails	0.1%
All Children Have Insufficient Information	20.5%
All Children Fail	0.5%

Sample: Tax Units claiming the EITC in the IRS data where the primary tax filer, secondary tax filer (if applicable), and children claimed for the EITC are matched to individuals in the Florida SNAP data.

[a]Relationship Test:

   Fail if the tax filer(s) and the child are not qualifying relatives.

   Have insufficient information if the tax filer(s) and the child have an ambiguous or missing relationship.

   Pass if the tax filer(s) and the child are qualifying relatives.

[b]Residency Test:

   Fail if either the tax filer(s) or the child receive benefits in a case without the other covering a six month period with fewer than 10 months between benefit receipt.

   Have insufficient information if the tax filer(s) and the child receive benefits in the same case but the benefit receipt does not cover a six month period or there are more than 10 months between benefit receipt

   Pass if the tax filer(s) and the child receive benefits in the same case over a six month period with no more than 10 months between benefit receipt.

Tax units with adults found in the state data, but not all children found in the state data. There are 143,026 tax returns in which not all children claimed for the EITC are found in the state data. In 42,499 we observe at least one child claimed on the return in the state data and in the remaining 100,527, we observe no children that were claimed for the EITC in the state data. We apply the same residency tests to these returns in order to see if state data can verify either the existence of at least one child for the requisite period, or supply evidence that it is unlikely the children claimed on the tax return but not found in state data are actually in the tax unit. We find some evidence that in 54.8 percent of tax units in which we observe an adult for at least six

months with at least one child in the state data claiming the EITC, they did not live with the child they claimed. Up to 16 percent more tax units in this group may have had a child that failed the residency test.

Table VI-10. Analysis of the Relationship and Residency Tests for Tax Units with the Tax Filer(s) in the Florida SNAP Data, but at least One Child not in the Florida SNAP Data

	At Least One Child Found in the State Data, but Not All	No Children Found in the State Data
Tax Units	42,499	100,527
Relationship Test[a]		
At Least One Child Passes:		
At Least One Child Fails	0.2%	
At Least One Child Has Insufficient Information	98.9%	
No Children Pass:	0.0%	
At Least One Child Fails	0.5%	
All Children Have Insufficient Information	0.3%	
All Children Fail	0.0%	
Residency Test[b]		
At Least One Child Passes:		
At Least One Child Fails	54.8%	
At Least One Child Has Insufficient Information	16.0%	
No Children Pass:		
At Least One Child Fails	2.4%	1.9%
All Children Have Insufficient Information	26.6%	40.2%
All Children Fail	0.2%	57.9%

Sample: Tax Units claiming the EITC in the IRS data wherein the primary and secondary (if applicable) tax filers are matched to individuals in the Florida SNAP data, but at least one of the qualifying children is NOT matched to an individual in the Florida SNAP data.
[a]Relationship Test:
  Fail if the tax filer(s) and child are not qualifying relatives.
  Have insufficient information if the tax filer(s) and child have an ambiguous or missing relationship.
  Pass if the tax filer(s) and child are qualifying relatives.
[b]Residency Test:
  Fail if either the tax filer(s) or the child receives benefits in a case without the other covering a six month period with fewer than 10 months between benefit receipts.
  Have insufficient information if the tax filer(s) and child receive benefits in the same case but the benefit receipt does not cover a six month period or there are more than 10 months between benefit receipts. For a child not in the state data, the child is considered to have insufficient information if the child has a missing SSN or was born in 2010 regardless of the length of benefit receipt.
  Pass if the tax filer(s) and child receive benefits in the same case over a six month period with no more than 10 months between benefit receipts.

Tax units in which children are found in the state data, but adults are not found in the state data.
The final group of tax units on which we conduct the residency test are the 208,499 units that
claim the EITC in which none of the adults claiming the children are found in the Florida SNAP
data but some or all of the children on these returns are found in the data (representing 9.6
percent of all tax returns claiming the EITC). In 60.8 percent of these tax units, for at least six
months we observe at least one of the children claimed as a qualifying child in the Florida SNAP
data with an adult other than the one (or two, if married) claiming them for EITC purposes. In
another 21.1 percent of these cases, we observe the children living with an adult other than the
one claiming them for fewer than six months (insufficient evidence).

**Table VI-11. Analysis of the Residency Tests for Tax Units with Primary Tax Filers Not in
the Florida SNAP Data Claiming Children in the Florida SNAP Data**

Tax Units	208,449
Residency Test[a]	
No Children Pass:	
At Least One Child Fails	18.2%
All Children Have Insufficient Information	21.1%
All Children Fail	60.8%

Sample: Tax Units claiming the EITC in the IRS data where the primary (and secondary if applicable) are NOT
matched to any individual in the Florida SNAP data and at least one of the children they claimed for the EITC is
matched to an individual in the SNAP data.
[a]Residency Test:
  Fail if the child receives benefits in a case without the tax filer(s) covering a six month period with fewer than 10
  months between benefit receipt.
  Have insufficient information if the child receives benefits in a case without the tax filer(s) but the benefit receipt
  does not cover a six month period or there are more than 10 months between benefit receipts.

Each of the previous three tables presented the results of the residency test for subgroups of tax
units defined by which persons on the tax return can be matched in the state data. Table VI-12
below summarizes the results for the group as a whole. In total, over a quarter million Florida tax
returns appear to have a child fail the residency test. This represents 11.7 percent of all Florida
tax returns with an EITC claim and 15.7 percent of all Florida tax returns claiming the EITC with
children.

Table VI-12. Summary of Tax Units in Florida Claiming EITC where a Child Appears to Fail the Residency Test in 2010

Tax Units in Florida claiming the EITC 2010	2,168,369
Tax Units in Florida claiming the EITC 2010 claiming children	1,607,347
At least one child fails the residency test[a]	
Fully matched tax units[b]	3,719
Adults match, at least one child not matched[c]	84,466
Adults not matched, at least one child matched	164,514
Total tax units at least one child fails residency test	252,699
Percent all EITC tax units	11.70%
Percent EITC tax units claiming children	15.70%

[a] The primary tax filer(s) and the child they claim for the EITC fail the residency test if one or both receive benefits in a cases without the other covering a six month period with fewer than 10 months between benefit receipt.
[b] Tax units where the tax filer(s) and all the children they claim for EITC purposes are matched to the state data.
[b] Tax units where the tax filer(s) are matched in the state data, but at least one of the children they claim for the EITC is NOT matched to the state data.
[c] Tax units where the tax filer(s) are NOT matched in the state data, but at least one of the children they claim for the EITC is matched to the state data.

Using SNAP Benefit Data to Detect Qualifying Children among Tax Units Claiming the Childless EITC

A tax filer with a qualifying child is not permitted to file a childless EITC claim. This can happen in multigenerational households in which a grandmother claims a grandchild for the EITC and a parent claims the childless EITC, if both are eligible to claim the child. It can also happen in the case of unmarried parents living together with their child. One parent may not claim the EITC for families with children while the other claims the childless EITC.

Of the 2.2 million tax returns claiming the EITC in Florida in 2010, we observe 182,299 claiming the childless EITC, representing 8.4 percent of all tax units in Florida claiming the EITC. We test these tax units to see whether the claimant appears to have a qualifying child. On the majority of these returns, 77 percent, we find no evidence that the EITC claimant has a qualifying child. However, on 12 percent of the returns in this group that we were able to match, we find evidence that the childless EITC claimant appears to have a qualifying child, which would make them ineligible to receive the childless EITC (table VI-13). This represents approximately one percent of all tax units that claimed the EITC in 2010. Note that in 74 percent of the cases wherein we believe the childless EITC claimant has a qualifying child, that qualifying child is claimed on another return (not shown).

Table VI-13. Analysis of Childless EITC Claims where the Primary Tax Filer is Matched in the Florida SNAP Data

Tax Units	182,299
Has Qualifying Child[a]	
Some Evidence	12.4%
Insufficient Information	10.3%
No Evidence	77.3%

Sample: Tax Units claiming the EITC in the IRS data where the primary tax filer (and secondary if applicable) are matched to individuals in the Florida SNAP data and claim EITC without any children.
[a]Qualifying Child:
    Some Evidence if the primary tax filer is in a case with at least one child who was under 23 years or disabled, younger than the primary tax filer, was a qualifying relative of the primary tax filer and was with the primary tax filer over at least a 6 month period with less than 10 months between sightings in the state data.
    Insufficient information if the primary tax filer is in a case with at least one child but the child does not meet at least one of the above conditions listed under Some Evidence
    No Evidence if the primary tax filer was NOT in a case with any children.

Combining possible improper childless EITC claims with the tax units that appear to have a child that fails the residency test (Table VI-12), our analyses of Florida SNAP data indicate approximately one in eight (12.7 percent) of all tax units in Florida that claimed the EITC in 2010 may have had an improper claim.

Non-claimants and Nonfilers: Outreach

In some cases, we will observe individuals in the state data that do not appear in the IRS data. To the extent that these individuals are eligible for the EITC and do not receive it, they may be candidates for IRS outreach efforts. Evidence of this in the Florida SNAP data appears rare.

We observe 731,426 individuals in the SNAP data who do not claim the EITC – most of whom do not file or appear on a tax return. Most of these adults have no earnings reported in the state data. Among this group, we observe only 11,565 people that have earnings, a valid SSN, are a citizen, and had a child in the assistance unit that passes the EITC relationship tests and was not claimed in another tax unit. Because the childless EITC covers such a small earnings range and few people claim it, we do not attempt to find people who are potentially eligible for the childless EITC.

Table VI-14. Analysis of Potential EITC Claimants in the Florida SNAP Data

	Filed a Tax Return	Did Not File a Tax Return
Potential Claimants	121,976	156,518
Fails	88%	98%
Fails Based on Earnings, Citizenship, or Qualifying Child of Another Person[a]		96%
Fails Based on Qualifying Child Tests[b]	88%	50%
Passes[c]	12%	2%

Sample: Either primary tax filers matched in the SNAP data that do not claim the EITC and have earnings and are citizens or adults in the SNAP data that do not file a tax return.

Notes: These results do not filter out tax units that are already receiving letters, have a recertification indicator, who would not have positive EIC or those with a return processing code indicating ineligibility. Of those who file a tax return the percentage who pass falls to 4 percent if you exclude these individuals.

[a] If the potential claimant is either not a citizen, has no earnings, and is the qualifying child of another person according to the state data.

[b] If the potential claimant is either alone in a case or in a case with a child that does not meet all of the following criteria: is younger than the potential claimant, is younger than 18, is a qualifying relative, received benefits in the same case for a period covering at least 6 months with less than 6 months between benefit receipt and the child is not already claimed for the EITC.

[c] If the potential claimant meets all of the following conditions: is a citizen, has earnings, is not the qualifying child of another person and is in a case with at least one child that is younger than the potential claimant, is younger than 18, is a qualifying relative, is not already claimed for the EITC and received benefits in the same case for a period covering at least 6 months with less than 6 months between benefit receipt.

VII. ANALYTICAL FINDINGS

In this section we assess the usefulness of state data for identifying possible improper EITC claims and eligible non-claimants. We begin with an assessment of the coverage of TANF and SNAP data followed by a summary of the implications of the analysis. We then provide a more detailed assessment of the issues that underlie our overall assessment.

Assessment of How Well Matching State Benefit Data with IRS Tax Return Data Identified Eligible EITC Claimants and Non-Claimants

Coverage

Using state benefit data matched with tax return data, our analysis examines two programs: SNAP (Florida) and TANF (Florida and Wisconsin). The TANF program has few participants and includes few EITC claimants. Furthermore, the TANF assistance unit can exclude family members who live in the same household as the TANF recipients, potentially leading to inaccurate assumptions about improper EITC claims.[33] For example, in a household with an unmarried couple who are both parents of a resident child, the mother and child may be the only household members receiving TANF. The father may claim the child for the EITC on his tax return; not being part of the TANF assistance unit, the father would not appear in the data and it would give the incorrect appearance that the father and child were not co-resident.[34]

SNAP covers a larger population than TANF, serving roughly ten times as many households.[35] In half of all tax filing units in Florida that claimed the EITC, some or all of the individuals on the tax return can be matched to individuals in the Florida SNAP data. In addition, the broad definition of a SNAP assistance unit covers most household members. The vast majority of TANF participants also participate in SNAP. Although SNAP participants can have higher levels of income than TANF participants (one reason the program is so much larger), SNAP income limits in many states are substantially lower than the EITC income and earnings limits. For example, for a single parent with two children, the EITC earnings eligibility cutoff in 2013 was $43,038, while SNAP in many states can only be received for (adjusted) incomes below $25,389.[36] The overlap between the EITC population and SNAP population is better in states

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[33] This is a problem when using benefit data which only includes the assistance unit; it is not necessarily a problem with recertification data.

[34] There is also the possibility that the father correctly claims the EITC but that the unit incorrectly reports its household composition or marital status to qualify for TANF.

[35] SNAP participation is roughly at a peak and should decline as the economic recovery continues. The recently passed Farm Bill is also expected to reduce eligibility. Despite the expected decline, SNAP will likely continue to serve a large segment of the EITC-eligible population.

[36] Note that the EITC number refers to earnings while the SNAP number refers to income, which may include some forms of unearned income and may exclude certain earned income.

that use broad-based categorical eligibility for SNAP, but still fails to include all potential EITC recipients.[37]

Implications of Match Results

Given the limitations of TANF data, we confine our discussion of the results from the match with state data to tax units with individuals in the Florida SNAP data. Florida SNAP data suggest that the use of state data will not provide a method for the IRS to successfully validate all elements of EITC eligibility. The quality of state benefit data is not as good as the data already reported to the IRS and state benefit data may not be collected at the right time (e.g., marital status may be known at some point in the year, but not as of December 31). Finally, state data may not be collected over a long enough period to meet EITC tests of eligibility (e.g., residency requirements).

However, some data elements in state benefit program data may be useful to the IRS to identify improper EITC claims. To use these elements requires assumptions that cannot be verified; as a result the data are likely unsuitable for use under math error authority. Despite this, the data may still have some value for improving IRS' ability during the audit selection process to identify returns with high probability of being erroneous claims.

After various analyses eliminated most state data items from consideration, we have identified three ways in which SNAP data may be helpful to the IRS:

(1) *Validating residency and relationship.* Applying the relationship and residency tests, we find indications of some cases in which adults claim children they do not appear to live with, typically because either the adult is in the state data without the child they claim or the child is in the state data without the adult that claims them. With modest assumptions, these data identify 11.7 percent of all EITC claims in Florida in 2010 as potentially improper due to at least one child failing the residency test (15.7 percent of all EITC claims including children). However, of the cases in Florida SNAP data in which it appears at least one child failed the residency test, 58 percent were flagged by IRS exam filters and 17 percent of those were audited. About 88 percent of the audited cases had the EITC disallowed as a result of the audit, a rate similar to outcomes for the broader set of EITC cases selected for audit. Given how well current IRS exam filters perform, the addition of state benefit data could only marginally improve the identification of improper claims at the current level of EITC audits.

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[37] Although Medicaid and CHIP have higher income limits that would cover more of the EITC-eligible population, these programs would not prove useful for determining residency as they only require recertification at 12-month intervals.

(2) *Determining whether someone claiming the childless EITC has a qualifying child.* We find evidence that some people claiming the childless EITC have qualifying children, a fact that makes them ineligible for the childless EITC, although the erroneous payment would be relatively small, given the size of the childless EITC. Our analysis of the SNAP data identifies an additional one percent of all Florida EITC claims as potentially improper due to incorrectly claiming the childless EITC.

(3) *Targeting outreach efforts to eligible non-claimants.* Two groups of people may be eligible for the EITC but fail to claim it: those who filed a tax return but did not claim the EITC, and those who did not file a tax return. State data do not indicate that a match would help identify those eligible for the EITC but failing to claim it on their tax return beyond current IRS practices. For nearly all tax filers who appear eligible for the EITC based on state data, but who did not claim it on their tax return, the IRS had either determined they were ineligible or had sent letters to the tax filer informing them of their potential eligibility. Among those who did not file a tax return, our analysis of potentially eligible non-claimants was inconclusive. The analysis suggests that between 2 percent and 50 percent of those found in state data who did not file a tax return may have been eligible for the EITC. Additional analysis by the IRS could narrow this range; however, if these non-filers had claimed the EITC, it would have increased EITC claims for families in Florida by less than 5 percent.

Detailed Assessment of Matching State Benefit Data with IRS Tax Return Data to Identify Eligible EITC Claimants and Non-Claimants

Potentially Useful Data Items

Only a few data items from state benefit programs prove useful for validating EITC claims, primarily for determining which returns need to be examined or audited. States do not collect all the information needed to verify eligibility for the EITC. In addition, some of the data elements collected, such as disability, are inadequate for IRS purposes.

Despite the limited set of data items of use in state benefit data, certain data elements in SNAP data may prove useful in reducing improper EITC payments, primarily in identifying children who fail the residency requirement to be a qualified child for EITC purposes. Another way in which the data on residency might be helpful is in identifying improper childless EITC claims for individuals living with a qualified child.

State benefit agencies collect eligibility information primarily at the initial program application and at recertifications. States vary in what changes they require households to report prior to a recertification and the trend has moved toward reduced reporting requirements. For example, in Florida, SNAP participants are not required to report household composition changes prior to a recertification. As a result, household composition is only known at recertification points and is

not up-to-date at the end of the tax year. With respect to income, in the Florida SNAP program, only income changes that put a household above 130 percent of the poverty level need be reported prior to a recertification.

For the past decade, state benefit programs have moved toward allowing longer periods between recertifications, especially for certain subpopulations such as disabled individuals. Generally recertifications in SNAP occur every six months. Because household composition changes may only be known at a recertification, assumptions are required about household composition between reports. This implies the information could not be used for processing under math error authority, but would be most useful as a filter for selecting cases during the auditing phase.

The infrequency of earnings reports in benefit data limits the ability to assess whether an individual even has any earnings. In many cases, the IRS cannot verify self-employment earnings and we considered whether the state data could provide at least some verification that the tax filer received any self-employment income during the year.[38] However, of all EITC claims in Florida with self-employment earnings reported on the tax return, only 8-16 percent show self-employment earnings in the Florida SNAP data (the rate was even lower for TANF in both Florida and Wisconsin).[39] Some of the discrepancy may result from an incentive to report more self-employment earnings to the IRS to raise the EITC amount and less self-employment earnings for the purposes of obtaining SNAP benefits to raise the SNAP benefit amount. However, the rate of disagreement on self-employment earnings receipt between the two data sources is so large as to be unreliable for either source to verify the other. The conclusion is reinforced by the finding that reports of receipt of wage earnings also have a high discrepancy rate.[40]

Residency and Relationship Tests for Families with Children

It may be productive for the IRS to explore using SNAP administrative data to verify that EITC claimants pass the relationship and residency tests for claiming qualifying children. In order to claim a child for the EITC, the claimant must have a valid relationship with the child and must have lived with the child for at least six months of the tax year. When both the adult and child are in the state data, we mostly find valid relationships, with a modest percentage where we cannot determine whether a valid relationship exists; rarely do we identify an inappropriate relationship. Of course, in cases where either the adult or child is not present in the SNAP data, we do not have any information on their relationship.

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[38] Over thirty percent of all EITC claims in Florida include self-employment earnings.

[39] Because we received data in 2013, some historical earnings data are missing. The range is based on assuming either all missing earnings are zero to assuming all missing earnings are positive.

[40] Of all EITC claims in Florida reporting wage earnings in the tax data where the tax filer is matched in the SNAP data, only 35-42 percent report wage earnings in the SNAP data.

The infrequency with which families report information to caseworkers means that assumptions about family structure in unobserved months are necessary. The Florida data automatically assume household structure remains unchanged between recertifications. Furthermore, we are unable to tell when a person comes in for a recertification interview, which means in some cases the data make it appear as if a residency test is being passed (because a child is kept in the data with an adult) or failed (because an adult appears without a child) when this may not actually be the case.

A child born in 2010 may not appear in the state data for 2010 if the first recertification after the birth occurs in 2011. A family may report the birth of the child to the appropriate benefits office, but the SSN for that child may not have been recorded at the state level. This will cause a child to appear to be unmatched to IRS data. This is an issue the IRS would need to be aware of if state data were used for flagging potentially erroneous claims, which the IRS could do with Social Security data it already receives. In 12 percent of tax units observed without a child, the child in the state data was born in 2010, with no SSN attached that could be matched to IRS data.

With these caveats in mind, we find some evidence that tax filers may claim children they have not lived with for six full months during the tax year. We observe cases in which (1) an adult is seen in the benefit data for at least six months without a child they claimed as a qualifying child and (2) a child is seen in the benefit data for at least six months without the adult that claimed them as a qualifying child. In the former group, we find that 59 percent of tax units in which we observe the tax filer but not all of their claimed children are observed over a period of at least six months without the child being claimed for the EITC (table VI-10), representing four percent of all EITC claims in Florida. In the latter group, 79 percent of tax units in which we observe claimed children without the tax filer that claimed them appear to have a child who lives with an adult other than the one claiming them for at least six months of the year (table VI-11), representing 7.6 percent of all tax units in Florida claiming the EITC.

Childless EITC Claims

The IRS collects information on each tax unit's home address but does not collect information on relationships of all household members at the same address. Within a tax unit, adults report whether children are dependents and qualifying children for the EITC, but the IRS knows nothing about how children living in a household relate to other household members in different tax units. This makes it impossible for the IRS to effectively administer one of the tests of eligibility for the childless EITC. That is, an individual is ineligible for the childless EITC if they have a qualifying child (IRS publication 596, 2013, p. 12).

This rule can be difficult to interpret. In the instructions for claiming the EITC, individuals follow the eligibility path for people with and without EITC-qualifying children. A potential error may occur if people assume that if they are not claiming a qualifying child, they should follow the eligibility guidelines for families without qualifying children.

We find nearly 183,000 cases in which a tax unit claims the childless EITC and is found in the Florida SNAP data. Of these cases, 12 percent appear to have a qualifying child, based on our assessment of the residency and relationship tests. In 75 percent of these cases, the child that we identify as being a qualifying child for the childless EITC claimant is actually claimed as a qualifying child by another person in the IRS data.

It is possible, of course, that we identified someone as a qualifying child of a childless EITC claimant who does not actually meet the tests of eligibility. This could happen if periods of residency that we assume to be stable are actually periods during which the person claiming the childless EITC is moving in and out of the household; those changes are not reflected in the SNAP data since household composition is carried forward from past months, rather than updated to reflect any changes that might have occurred.

We do not know to what extent these potentially erroneous childless EITC claims in the SNAP data would be reflected in the larger group of people claiming the childless EITC. If SNAP households tend to be more complex than other households containing people claiming the childless EITC, then the rate of error may be higher in SNAP households than the more broadly eligible populations.

Finally, although we find a significant number of childless EITC claimants in the SNAP data may have qualifying children, the dollars associated with a childless EITC claim are small, relative to those available to families with children. The returns for pursuing errant childless EITC claims would be small.

Eligible Non-claimants

In addition to identifying possible improper EITC claims, we have examined whether a match of tax return data might identify individuals (or married couples) who are eligible for the EITC but either did not claim the EITC or did not file a tax return. Our analysis indicates that the state data do not provide additional information that would aid the IRS in its efforts to conduct outreach to eligible non-claimants who file a tax return. For the most part, tax filers who do not claim the EITC but appear in the state data do not appear to be eligible (Table VI-14); for those who appear eligible based on state information, IRS records either have additional information indicating ineligibility or the IRS contacted these tax filers and informed them about potential EITC eligibility through post-filing notices.[41]

Eligible non-claimants may exist among individuals who did not file a tax return. A large percentage of those who did not file a return do not appear to have wages according to the state

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[41] Information provided by the IRS indicates that the IRS had determined the eligibility status of two-thirds of the 12 percent that appear eligible and either denied the claim or sent notices of potential eligibility to the tax filer.

data, leaving only 2 percent of non-filers appearing to be eligible (table VI-14). However, we have noted our concerns about the quality of earnings in the state data sets. If we only apply the qualifying child tests, half of all the non-tax filers appear to have a qualifying child. Among that group, some may not be eligible for the EITC for other reasons. Further analysis could narrow the range of possible eligible non-claimants.

VIII. VALIDATION FEASIBILITY

Although we find potential value in using state benefit program data to detect improper EITC claims, developing a data matching program with states would entail several challenges. This section examines the feasibility of EITC validation using state benefit program data and provides suggestions for improving validation feasibility. First, we examine challenges to obtaining states' administrative benefit data. Next, we discuss the comparability of data elements across states, with a focus on selected elements that are most promising for EITC validation, followed by a discussion of data timing.

Challenges to Obtaining States' Administrative Benefit Data

Obtaining states' administrative benefit data presents many challenges. These include: states' willingness to collaborate on EITC validation, organizational structure of states' social services and revenue departments, and issues around confidentiality and sharing data with the IRS.

Willingness to collaborate. It is unlikely that all 50 states and the District of Columbia would voluntarily collaborate with the IRS in a data matching program to validate EITC claims. The pilot revealed several concerns by states including concerns about sharing confidential client data, especially with the IRS, and beliefs that they cannot share data from a federally funded program without authorization from the funding federal agency. Some states may benefit from stronger IRS enforcement of the federal EITC if it results in better enforcement of their own EITCs. In these cases, states may be more willing to participate. Legislation would be needed to require states to supply IRS with the relevant data.

Burden on states. Even if states were compelled through legislation to supply benefit program data to the IRS, the burden placed on them could be significant. Some states' data systems are old and would make extracting the required information difficult; in some cases, the state may not be maintaining the necessary information. Requiring states to add items to their systems that they do not currently maintain or add items to their applications or recertifications that they do not currently collect might be problematic within existing data systems. Upgrading systems to accommodate the matching program could be costly. States have been working to reduce the burden on their clients by reducing data collection. Adding new data collection goes against this trend.

Organizational structure of state agencies. If only one benefit program is of interest to the IRS, then only one agency in each state would need to collaborate. However, if multiple programs are considered, then federal collaboration with a state for EITC validation will likely require collaboration across multiple state agencies. As described in Section IV, means-tested benefit programs are often located in different agencies and the organizational structure differs by state. Coordinating data collection across multiple agencies with different goals can be difficult.

State revenue departments have the most at stake when it comes to improved EITC verification. However, they typically do not control the benefit data that may be useful in verification. If good working relationships exist between revenue departments and benefit agencies, state revenue departments may be good allies to the IRS in trying to coordinate multiple agencies.

Confidentiality and sharing data with IRS. Protection of client data is a key concern for state agencies. Legal issues and the legal authority of states to share benefit data are also critical. In our discussions with states, some states had concerns about their authority to share with the IRS benefit data from federally-funded benefit programs. Several states, including Wisconsin, felt they needed authorization from the appropriate federal agency. And, as mentioned above, states may be uneasy about how the data will be used (e.g., enforcement action). However, the fact that states participate in the PARIS system indicates that data sharing arrangements are possible.

For states that want to move forward with a data sharing agreement, individually tailored cooperative agreements with each state are necessary, since each state has its own confidentiality requirements. There may be actions that the federal government can undertake to ease the state-federal data sharing burden. Other federal-state data sharing arrangements should be investigated such as PARIS, the Federal Case Registry, and the National Directory of New Hires in the Office of Child Support Enforcement in HHS to understand how to best make agreements with states as well as what legislative changes would facilitate the data sharing program. Legislative action would be required if IRS were to share individual-level data with the states.

Comparability of Key Data Elements across States

To achieve equal treatment of tax filers across states, it will be important for the federal government to work with states to achieve comparability and consistency of data elements across states. Also, it is important that once the data are collected, they are stored and only revised if a factual error is identified in the original data. We have identified improvements states could make in the two areas of data collection that could help with EITC validation—the relationship and residency tests.

Relationship test. Two steps by states would allow the IRS to better validate the EITC relationship test. First, at application and recertification, programs could collect information on everyone in the household (not only those in the benefit assistance unit).[42] Second, and at the same time, states could collect information on the relationships between all people in the household with one another (not only the relationship to the applicant). These two steps would allow for a better accounting of household members that could claim each child in a household as a "qualifying child."

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[42] Many low-income households have individuals moving in and out, making the composition of the household unclear except at a point in time. A good definition would need to be constructed on whom to include.

Residency test. To better identify whether children pass the residency test, states could collect additional information on household composition at recertification. For example, if there is a change in household composition from the prior application/recertification, the state could request information on the month the person moved in or out of the household. This would allow for more accurate calculations of the number of months adults and children live in the same household, although the information would not likely be verifiable. Further, there have been shifts over time to reduce reporting burdens for program recipients, particularly as many program recipients are employed; increasing the frequency of reporting would go against this relatively recent effort.

Data Timeliness

The IRS must receive the state benefit data file in early January in order for it to be used during return processing under the current processing structure, regardless of whether the data are being used to identify erroneous claims or to apply exam filters. Using state-level benefit data through the end of the calendar year allows less than one month for the state to process its benefit data, transport the data to the IRS, and for the IRS to be ready to incorporate the information into its return processing (tax filing season typically begins in late January).[43] Setting up an automated process at the state level so that data are automatically processed at the close of the calendar year would be important for meeting this objective.

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[43] Low-income EITC tax filers tend to file their taxes early in the tax filing season.

IX. CONCLUSIONS

This report presents the results of a pilot study to assess the availability, quality, completeness, and overall usefulness of state-administered benefits data and screening processes to help validate EITC eligibility as well as identify potential EITC-eligible non-claimants. In this section we address the overall value of pursuing a federal-state data matching program and the effort required to do so. Should the IRS choose to pursue such a program, we include a discussion in Appendix H of how the federal government can work with states to make a future matching program viable. With that discussion, we consider what further evaluation is needed if a matching program were to be pursued.

What would be gained from a Federal-State Data Matching Program?

Our analysis indicates that states' SNAP data could help identify improper EITC claims of qualifying children, particularly through identifying failures to meet the residency requirement. Past compliance studies by the IRS indicate improper claims of qualifying children account for the largest share of improper claims, and the residency test accounts for the largest factor within this category. Thus, SNAP data has the potential to reduce improper EITC payments. However, the greatest benefit to the IRS would be improvement to its math error processing, and the reliability of state data is not likely sufficient for the IRS to use in the math error stage of processing. Benefits would only be derived during the audit stage, through improvements to exam filters that select cases to audit. Importantly, the IRS's current exam filters are very good at identifying appropriate tax returns for auditing. If the current level of auditing of EITC claims were maintained, the additional use of SNAP data could improve the exam filters by only a marginal amount. For these data to provide more than a marginal benefit, the level of auditing of EITC claims would need to be expanded substantially. Given fixed resources for auditing tax returns and the already high rate of audits of EITC claims, the IRS should weigh such an expansion against competing priorities.[44]

One final consideration bears mentioning. Although the residency information derived from the state data on its own would only be of use as an exam filter for selecting cases to audit, another possibility is to use it in conjunction with the Federal Case Registry (FCR). The FCR is a national database that includes all child support cases handled by state IV-D child support agencies and all support orders established or modified on or after October 1, 1998 (non IV-D orders). Hotz and Scholz (2008) demonstrate the potential value in using the FCR to identify improper EITC claims, but there is concern that the FCR identifies as invalid too many EITC claims that are in fact valid. The IRS had legislative authority to use the FCR for correcting math

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[44] For tax year 2011, although EITC claims represent only 14.6 percent of all tax returns, the returns claiming the EITC selected for audit represent 33.7 percent of all audited returns. When restricting the denominator to individual returns, the shares increase to 19 percent of all individual returns and 37.7 percent of all audited individual returns (derived from Table 9a in IRS Data Book, 2012).

error, but determined that the data are not of sufficient accuracy for this purpose (Taxpayer Advocate Service 2012) and the legislation expired in 2012. However, the IRS continues to use the FCR as an exam filter in the auditing stage. It is possible that the residency information derived from state benefit data could supplement the FCR to improve its reliability so that IRS would be able to use it for correcting math error. However, the feasibility and reliability of combining these two data sources would need to be explored. Furthermore, the legislation authorizing use of the FCR for math error would probably need to be reauthorized and include authority to allow the state data to be used in conjunction with the FCR for math error authority.

What effort would be required to develop and implement a Federal-State Data Matching Program?

In order to gain cooperation from all 50 states and the District of Columbia, Congress would have to pass legislation requiring states to supply the data elements from their benefit program(s). The IRS would need to enter into agreements with each state, possibly multiple agreements if dealing with multiple state agencies. These agreements would need to be tailored to comply with each state's laws regarding sharing confidential data.

The pilot study does not provide enough information to estimate the level of effort that would be required to initiate or maintain a data matching program. To initiate a program, all states would have to be engaged and agreements signed. Each state's data would need to be reviewed so that protocols could be devised regarding items to be collected and extracted, formatting, and method of delivery to IRS. Some states may need to improve their data systems and some may need to alter their data collection. The state data would have to be reconfigured to meet the requirements of the match and, finally, the actual match with tax return data would need to be executed.

Considerable staff time went into developing the analytical data sets used in this study; in the future less time would be needed, as we have recommended that some of the data elements be disregarded. To create solid level of effort estimates, Treasury would need to work with states to define more precisely what would be supplied for an actual matching program, based on the most recent tax year. The specific data elements would be requested in the form that is needed for matching with tax return data. The specific comparisons with tax data would be identified so that only relevant tax return items would be accessed, and the match performed as it would be performed in a fully developed matching program. The output from the match would be specified so that only the data items that would be used to identify an improper claim would be created. By tracking staff time through all stages of a "dry run," level of effort estimates can be developed for the work done by the states, the IRS, and, if necessary, any outside contractor.

Even with legislation compelling states to share benefit data with the IRS and with specific data requests and procedures devised, the effort to fully implement a data matching program with all

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50 states and the District of Columbia would be substantial and likely take many years to complete.

Summary

The nature of state benefit data makes it only helpful in improving exam filters for EITC audit selection; it is not sufficiently reliable to use under math error authority. Given that the IRS's exam filters already do a good job of selecting appropriate tax units for audit, additional data can provide only a marginal improvement and the level of effort required would not be worth incurring. However, high rates of improper EITC payments persist. Improperly claiming qualifying children is the largest contributor to these improper payments, and failing the residency test is the largest component of these claims. Among the cases we identified as possibly failing the residency test, the IRS had already flagged the majority of them for potential audit. However, over 40 percent were not flagged (about 5 percent of all EITC claims in Florida). This suggests that existing IRS exam filters may miss a significant percentage of cases that would fail the residency test. State benefit data could thus help expand the set of returns that IRS identifies as potentially noncompliant. The ability to significantly reduce improper payments through this effort would be contingent on a significant expansion of the number of EITC exams.

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APPENDIX A: CONCEPT OF OPERATIONS

Pilot Project to Assess Validation of EITC Eligibility with State Data

PILOT CONCEPT: The pilot would address whether data maintained by states in the public assistance databases and other state databases could assist in identifying both ineligible individuals who receive improper Earned Income Tax Credit (EITC) payments and eligible individuals who are not claiming the EITC.

The initial pilot will be conducted in three states. If results from these initial states warrant it, the pilot may be expanded to an additional two states. The primary state databases to be queried will be the state-administered benefit program databases. Depending on the structure of state information, the state's revenue database may also be queried.

PARTICIPANTS:
EITC Pilot Steering Committee
Internal Revenue Service (IRS)
Office of the Fiscal Assistant Secretary (OFAS)
Designated Treasury Contractor (The Urban Institute)
Participating States (Benefit Agencies and other offices as the State deems appropriate)

OPERATIONAL PROCESS
Step 1 – Identify Required Data Elements
- Identify all data elements which are required to determine EITC eligibility.
- Define data elements in generic terms.
    - Currently, many of the elements (such as Adjusted Gross Income) are defined by the relationship to tax forms or specific IRS documents. This step will define them in terms that the states can use in identifying equivalent data.
- Interview IRS personnel to obtain understanding of the data requirements and to determine which areas are key problems for validating eligibility.

Responsible Entities – IRS's Office of Research, with support from OFAS, and the Treasury Contractor.

Step 2 – Identify State Data Equivalents of EITC Required Data Elements
- Treasury and its contractor will interview states to determine the following:

- o State databases to be queried;
- o Valid state equivalents for the required EITC data elements, including:
  - what each state data item measures;
  - the source of each state data item;
  - the period of time the data item covers; and
  - the procedure used to validate the information, especially if any of the data elements were verified against IRS data on the basis of section 6103(l)(7).
- o How current the information of the queried databases is, the cycle for obtaining updates to the information, and how soon after the verification cycle are the records available.

Responsible Entities – Treasury Contractor, States, OFAS

Step 3 – Review of State Data Equivalents
- Assess the state data items provided by the contractor (Step 2) in terms of the source of the information, the timing of the information, and the context for which the information was provided.

Responsible Entity– IRS, OFAS

Step 4 – Extract Required Data from State Databases
- Develop a program which extracts the required data from their databases. This effort includes:
  - o Testing the data mapping protocols
  - o Ensuring that the generated information is clean and accurate (quality assurance)
  - o Formatting the output files
- Generate extracts from the records of the state databases.
  - o For SNAP /TANF databases, extract required data for all beneficiaries.
  - o For other potential databases, the criteria for extraction will be determined case by case.
- The information will be pulled for at least one complete (past) tax year, such as 2009.

Responsible Entities – States, with support from Treasury Contractor, OFAS

Step 5 – Match and Analysis of Results

- Use the taxpayer SSNs in the contractor-provided database to search the IRS database to identify all matching individuals in the IRS database, and their dependents, in the relevant year.
- Report the following categories of matches:
    1. the number of taxpayers who claimed and received EITC for whom state data suggest some or all eligibility criteria were met;
    2. the number of taxpayers who claimed and received EITC where state data suggest at least one eligibility criteria was not met;
    3. the number of taxpayers (in a State) who claimed EITC for whom there was no state data for comparison.
    4. the number of taxpayers who did not claim or receive EITC where state data suggest some or all EITC eligibility criteria were met; and
    5. the number of taxpayers who did not claim or receive EITC where state data suggest at least one eligibility criteria was not met;
    6. the number of individuals in the state data for whom there was no IRS data.

- Identify whether any math error corrections, exams, or Automated Under Reporter actions exist for taxpayers in the data match, and whether the taxpayers ultimately received the EITC or not.
    o For groups (1) and (2) described above, IRS could further report findings based on whether or not the taxpayer's return was flagged by EITC examination filters.
    o Separating the matches in (1) and (2) by whether or not the returns were flagged by the exam filters will help determine whether the State data provide additional insight into probable noncompliance or whether they duplicate what IRS already knows.
- Identify how the combination of IRS and state data can assist the states in identifying benefit recipients that may qualify for EITC payments but have not claimed the credit.
- Conduct a general assessment on the usefulness of the state data to IRS.
    o Identify the data elements that the states have in their database that would assist the IRS in determining EITC eligibility.
        ▪ Determine if this data is timely for EITC validation
    o Identify the data elements that the states have that are not useful in determining EITC eligibility and the reason for this determination.
        ▪ Determine if the information is not sufficiently accurate, obtainable from other sources in a more timely fashion, or is redundant to information obtained directly by IRS.
- Identify changes to state eligibility questions or processes, or new questions or processes that would improve the usefulness of the state data for identifying both ineligible and eligible individuals.

Responsible Entities – IRS, OFAS, Treasury Contractor

Step 6 – Case File Validation - the purpose of the case file validations is to verify the conclusions drawn for the matching by actually seeing if the detailed case files support the determination made to assign a specific individual to one of the six categories reported in step 5.
- Select a random sample of state benefit recipients for whom there was no match in the EITC database.
  - o Working with the State benefit agencies, review the benefit recipient's case file to determine if available EITC eligibility criteria can be validated.
  - o Query to IRS master file to determine it the benefit recipient submitted a federal tax return.
- Select a random sample of state benefit recipients for whom there was a match in the EITC database, but the data in critical elements did not agree.
  - o Working with the State benefit agencies, review the benefit recipient's case file to determine if the state data can be validated from the case file.
  - o Determine if the cause of the differences between the two sets of data can be explained.
- Use of such information generated by IRS would depend on approval of that by IRS disclosure experts.

Responsible Entities – States working with the Treasury Contractor to investigate state case files.

Step 7– Determine if Pilot is to be Expanded to Other States
- Based on the analysis of the quality, accuracy and timeliness of the state data (Step 3), determine if the expansion of the pilot to two additional states would be beneficial.
- Obtain Steering Committee approval of pilot expansion
- Provided that the decision is made to expand the pilot,
  - o Obtain additional funding for inclusion of additional states in the pilot.
  - o Select additional two states.
  - o Conduct pilot in additional states beginning with Step 2, above.

Responsible Entities – OFAS, EITC Pilot Steering Committee

Step 8 - Evaluate and Report Results
- Within one year of funding (January 25, 2011) submit a final evaluation report to OMB on the results of the pilot. Key determinations to be made in this report are:

- o An assessment of the usefulness of state data in assisting IRS in validating EITC eligibility;
- o An assessment of the usefulness of state data in identifying non-claiming, EITC-eligible taxpayers;
- o An estimate of the potential reduction of improper payments with the implementation of a nation-wide program;
- o An estimate of the number of potential new EITC claimants with the implementation of a nation-wide program;
- o An analysis of administrative barriers and solutions to implementing a nation-wide program, if recommended; and,
- o A cost estimate of implementing a nation-wide program of information validation, if recommended;
- o An analysis is legislative amendments or changes needed to implement a nation-wide program, if recommended.

Responsible Entities –IRS, OFAS, Treasury contractor, EITC Pilot Steering Committee

APPENDIX B: BACKGROUND ON FILING FOR THE EITC

Table B-1. Who Must File a Return

IF your filing status is . . .	AND at the end of 2013 you were* . . .	THEN file a return if your gross income** was at least:
Single (see the instructions for line 1)	under 65 65 or older	$10,000 $11,500
Married filing jointly*** (see the instructions for line 2)	under 65 (both spouses) 65 or older (one spouse) 65 or older (both spouses)	$20,000 $21,200 $22,400
Married filing separately (see the instructions for line 3)	any age	$3,900
Head of household (see the instructions for line 4)	under 65 65 or older	$12,850 $14,350
Qualifying widow(er) with dependent child (see the instructions for line 5)	under 65 65 or older	$16,100 $17,300
*If you were born on January 1, 1949, you are considered to be age 65 at the end of 2013. **Gross income means all income you received in the form of money, goods, property, and services that is not exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Do not include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time in 2013 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than $25,000 ($32,000 if married filing jointly). If (a) or (b) applies, see the instructions for lines 20a and 20b to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But, in figuring gross income, do not reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9. ***If you did not live with your spouse at the end of 2013 (or on the date your spouse died) and your gross income was at least $3,900, you must file a return regardless of your age.		

Table B-2. EITC Data Requirements

| | | *Who Needs Each Data Element* | | |
| | | Claimants with child | Claimants with child | Claimants with no qualifying |
Data Element	All EITC claimants	< 19	19 - 23	child
Income Components				
Wages, salary, tips	x			
Interest (taxable and tax exempt)	x			
Unemployment compensation	x			
Taxable scholarships	x			
Ordinary dividends	x			
Taxable refunds, credits, or other offsets of state and local income taxes	x			
Alimony received	x			
Self-employed income (or loss)	x			
Capital gain (or loss)	x			
Other gains or losses	x			
Taxable IRA distributions	x			
Taxable pensions and annuities	x			
Rental real estate income	x			
Royalty income	x			
Income from partnerships	x			
Income from S-corporations	x			
Income from trusts	x			
Farm income (or loss)	x			
Taxable social security benefits	x			
Other taxable income	x			
Educator expenses	x			
Certain business expenses of reservists, performing artists, and fee-basis government officials	x			
Deduction for health savings account	x			
Moving expenses	x			
Self-employment tax (half)	x			
Self-employed SEP, SIMPLE, or qualified plans	x			
Self-employed health insurance deduction	x			
Penalty on early withdrawal of savings	x			
Alimony paid	x			
IRA deduction	x			
Student loan interest deduction	x			
Tuition and fees deduction	x			
Domestic production activities deduction	x			

(continued)

Table B-2 (continued). EITC Data Requirements

Data Element	Who Needs Each Data Element			
	All EITC claimants	Claimants with child < 19	Claimants with child 19 - 23	Claimants with no qualifying child
Valid Social Security Number				
Social security number	x			
Filing Status				
Marital status	x			
Whether married couples lived together or apart for the 2nd half of the calendar year	x - Married couples only			
Citizenship				
Citizenship status	x			
Foreign Earned Income				
Foreign earned income - form 2555	x			
Investment Income				
Any additional income from passive activities	x			
Earned Income				
Strike benefits paid by a union to its members	x			
Nontaxable combat pay, if the taxpayer chooses	x			
Any taxable benefits received under the employer's disability retirement plan until taxpayer reaches minimum retirement age	x			
Number of Qualifying Children				
Relationship test				
Relationship between taxpayer/individual and any potentially qualifying children		x	x	
For foster children, whether child was places by an authorized placement agency		x	x	
Age test				
Date of birth of taxpayer/individual				x
Date of birth of potentially qualifying children		x	x	
Full-time student status			x	
Disability status of children 19 or older			x	
Residency test	x			
Addresses of shared residency between taxpayer/individual and potential qualifying child		x	x	

(continued)

Table B-2 (continued). EITC Data Requirements

Data Element	All EITC claimants	Claimants with child < 19	Claimants with child 19 - 23	Claimants with no qualifying child
Who Needs Each Data Element				
Dates of shared residency between taxpayer/individual and potential qualifying child		x	x	
For military personnel stationed outside U.S., whether they were on extended active duty	x			
Joint return test		x	x	
Marital status of potential qualifying child		x	x	
Whether child filed a federal tax return jointly for the year for a purpose other than claiming a refund.		x	x	
Number of Qualifying Children After Consideration of Tiebreaker Rule				
Identifying compliance				
If child claimed by non-parent, establish if no other individuals who should have claimed the child instead		x, non-parent only	x, non-parent only	
Establishing eligibility				
If child is not the qualifying child of any parent, establish if other individual who is eligible to claim the child		x, non-parent only	x, non-parent only	
Qualifying Child of Another Person				
If taxpayer/individual between ages 19 and 23, student status (full or part-time)	x			
If taxpayer/individual between ages 19 and 23, dates of school attendance	x			
Any individuals who may have shared a residence with the taxpayer	x			
Any individuals who may have shared a residence with the taxpayer - SSN	x			
Any individuals who may have shared a residence with the taxpayer - DOB	x			
Any individuals who may have shared a residence with the taxpayer - relationship to taxpayer	x			
Any individuals who may have shared a residence with the taxpayer - Addresses of shared residency	x			
Any individuals who may have shared a residence with the taxpayer - dates of shared residency	x			

(continued)

Table B-2 (continued). EITC Data Requirements

| | Who Needs Each Data Element | | | |
Data Element	All EITC claimants	Claimants with child < 19	Claimants with child 19 - 23	Claimants with no qualifying child
Residency Requirement for Taxpayers without Qualifying Children				
Addresses where taxpayer/individual lived during the year	x			
Associated dates of residence	x			
Dependency Status for Taxpayers without Qualifying Children				
Qualifying child for dependency exemption				
Expenses on food, lodging, clothing, education, medical and dental care, recreation, transportation, and similar necessities				x
Qualifying relative				x
Any information on individuals who shared the taxpayer/individual's household for the full year				x
Information on individuals related to the taxpayer/individual in prescribed way				x
Dependent taxpayer test				
If someone else could claim taxpayer/individual as dependent, info on that person to see if third person could claim him/her as dependent				x

APPENDIX C: DETAILED DESCRIPTIONS OF BENEFIT PROGRAMS

This appendix presents a more detailed description of the state-administered benefit programs discussed in section IV.

Supplemental Nutrition Assistance Program (SNAP)
The Supplemental Nutrition Assistance Program (SNAP), formerly the Food Stamp Program, provides needy families with funds for food purchases, made via electronic cards. It is run by the Food and Nutrition Service (FNS) in the U.S. Department of Agriculture. The federal government pays for all of the costs of the benefits and splits the cost of program administration with the states. In order to receive SNAP benefits, a household must have gross income (income prior to deductions, which vary by state) less than or equal to 130 percent of the federal poverty level, and net income (gross income minus deductions) no more than 100 percent of poverty. Households with an elderly or disabled person need meet only the net income test, though these households are less likely to be part of the EITC population, as their likelihood of employment is lower.

Assets are limited to $2,000 for most households. Cash, bank accounts, and stocks or bonds are examples of counted assets; excluded are family homes, business property, retirement accounts, education accounts, and, in all but three states, the value of one or all vehicles. Families are able to hold more assets and still receive the EITC, as the EITC rules simply limit investment income. Households in which all members receive Supplemental Security Income (SSI), cash or in-kind Temporary Assistance to Needy Families (TANF) assistance, or General Assistance (GA)— programs which have far more restrictive eligibility rules—do not need to pass the income and asset tests, as they are automatically eligible for SNAP. As this constitutes a small portion of households, however—24 percent of the SNAP caseload in 2010 (USDA 2011)—the larger determinants of eligibility are income and assets.

Broad-based categorical eligibility (BBCE), a policy which 42 states and D.C. have chosen to implement as of 2013, further expands eligibility for SNAP, though usually not beyond the reach of the EITC. Under BBCE policies, households that are authorized to receive a TANF Maintenance-of-Effort-funded noncash benefit (which usually takes the form of a brochure targeted to virtually all SNAP applicants) are automatically eligible for SNAP. In determining noncash TANF eligibility, only 5 of these states limit assets and 29 set a gross income limit that is higher than 130 percent of the poverty level (Falk and Aussenberg 2013), thereby effectively raising the SNAP gross income limit and eliminating SNAP asset restrictions. Gross income limits under BBCE range from 130 percent to 200 percent of the poverty level; fourteen states use the latter limit. Some states retain the federal net income limit of 100 percent of the FPL, but most do not. However, because benefit calculations are still made based on net income, some

households that have broad-based categorical eligibility may not actually be eligible to receive a SNAP payment.

Federal guidelines require a SNAP recertification period of no more than 12 months, or 24 months if all household members are elderly or disabled. In 2010, 12 months was the average period for all households across states (Eslami, Filion, and Strayer 2011). This represents a trend away from extremely short recertification periods. In 2000, 19 percent of households recertified every three months or less, while in 2009 only 1 percent of households did so (Klerman and Danielson 2011).

In 2010, SNAP served 18.6 million households, and 49 percent of those households contained children. Of SNAP households with children, 48 percent have earned income (Eslami, Filion, and Strayer 2011). This is a larger program population than that for TANF, but smaller than that receiving Medicaid.

Under normal eligibility rules, SNAP's income limit is stricter than that for the EITC and its asset limit is much more restrictive than the EITC's investment income cap. However, through broad-based categorical eligibility, SNAP's reach has expanded and will expand further, as more states adopt the policy each year. It is not possible to determine exactly how many families are eligible due solely to BBCE, since the asset information on families in states with these policies often is not collected. In 2008, among the 8 states that had broad-based programs with gross income limits over 130 percent of the FPL, an estimated 6 percent of households eligible through BBCE policies would have been ineligible without them (Trippe and Gillooly 2010). Depending on the generosity of expanded SNAP gross income limits established through more newly implemented BBCE policies, this percentage may have grown.

Temporary Assistance for Needy Families (TANF)
Temporary Assistance for Needy Families (TANF), a program of the Administration for Children and Families in the Department of Health and Human Services, provides cash, services, and in-kind benefits such as child care and transportation assistance to families with children. Traditionally TANF has targeted unmarried mothers, but it is also available to married couple families. Prior to 1996, it was known as Aid to Families with Dependent Children (AFDC) and carried no work requirement; welfare reform legislation renamed the program TANF and stipulated that recipients must engage in work activities within two years of first receiving benefits, and cannot receive benefits for more than five years in their lifetimes. Most states require participants to engage in work activities—which may include job training and education—immediately upon enrollment.

The program is financed through federal block grants to states, capped at the same nominal amount each year since 1996, as well as states' own contributions. The amount of the block grant

for each state is based on previous welfare program expenditures. Additional funds beyond the grant are available for states experiencing economic difficulty, states with high population growth and low welfare spending, states demonstrating high performance, and states wishing to take out a loan to increase their TANF funding.

States have considerable discretion in setting eligibility criteria and benefit levels, so income and asset limits vary widely across states. Although federal guidelines prevent certain groups of people, such as immigrants, from receiving federally-funded TANF, they do not impose an income limit. Some states use a gross income test for eligibility, some a net income test, and some use both. Others use benefit calculation formulas instead of income tests. In 2011, the median monthly income limit for initial eligibility for a parent with two children was $763, which amounts to approximately 49 percent of the federal poverty level that year. Limits ranged from $3,189 for working families in Hawaii—180 percent of poverty— to $323 in Alabama—21 percent of poverty (calculations based on data found in Kassabian, Whitesell, and Huber 2012). These limits are far lower than EITC income limits.

Federal law also does not set a limit on assets for TANF participants, although it does stipulate that states cannot count as assets certain items, such as SSI payments, emergency benefit payments, and education grants or loans. In 2011, six states set no asset limit. For a family of three, nine states limited assets to $1,000, 30 states and D.C. limited assets to $2,000 - $3,000, and the remainder set higher limits (Kassabian, Whitesell, and Huber 2012). Vehicles are usually excluded from asset determinations. As is the case with SNAP, TANF asset limits are much more prohibitive than are the EITC limit on investment income. States can decide how often recipients must recertify after being deemed eligible, though HHS recommends a certification period no longer than 12 months. Often states set certification periods that are shorter than those for other benefit programs (Schott and Parrot 2005); still, many states use a 12-month period.

In 2010, 1.85 million families received TANF, and another 63,000 were served by separate state TANF programs (U.S. DHHS 2011). Cases in which only a child living with non-parent relatives, and no other family members, receives TANF, comprised about half of the caseload in 2009 (Golden and Hawkins 2012); these children are sometimes subject to less restrictive income limits. A smaller proportion of poor families receives TANF today than did in the past. In 1996, 44 percent of poor families received TANF, compared to only 30 percent in 2008 (Zedlewski and Golden 2010). Furthermore, from 2007 to 2010, the TANF caseload increased by only 14 percent while unemployment rose by 88 percent (Zedlewski et al. 2011).

Public Health Insurance (Medicaid/CHIP)
Medicaid and the Children's Health Insurance Program (CHIP) provide health care coverage for low-income children, parents, seniors, and people with disabilities. CHIP specifically targets

low-income children through age 18 whose families do not meet Medicaid eligibility standards; some states also cover parents on a more limited basis with CHIP funds. Both Medicaid and CHIP are managed by the Centers for Medicare & Medicaid Services (CMS) within the Department of Health and Human Services and are funded jointly by the federal government and the states. Though Medicaid is an entitlement program, CHIP operates through block grants to states. With their CHIP grants, states can expand their Medicaid coverage to more children, establish a separate CHIP-funded program, or use a combination of the two approaches. Thirty-nine states have separate CHIP programs (Heberlein et al. 2012). The federal government matches states' spending on CHIP at a higher rate than its spending on Medicaid, to incentivize the health care coverage of children.

Medicaid income eligibility rules for parents vary substantially across states, but are low for many adults. Currently, the threshold for working parents ranges from 24 to 300 percent of the federal poverty level. Twenty-five states have limits below the federal poverty level. Of those with higher limits, most have expanded parents' eligibility through Section 1115 demonstration waivers, which are time-limited—only four states and D.C. expand eligibility through their own state-funded programs (Heberlein et al. 2012). The Affordable Care Act will expand Medicaid eligibility to all individuals up to 133% of the poverty level in 2014 for states that choose to implement this provision of the Act.

Medicaid income thresholds do not apply to adults automatically eligible under federal guidelines, a group which includes certain aged, blind, disabled, or medically needy adults, parents (and children) that meet the state's income eligibility standards for financial and medical assistance as of 1996, and pregnant women below 133 percent of the poverty level. States may also cover pregnant women up to 185 percent of the poverty level and receive a match for their spending. Six states also cover pregnant women in their CHIP programs, with income limits ranging from 200% to 350% of the federal poverty level (Heberlein et al. 2012).

For children, income limits are much more generous than they are for adults who are not pregnant. Medicaid automatically covers children under six who are below 133 percent of the poverty level and children ages 6 to 18 below 100 percent. States may cover children less than one year old up to185 percent of the poverty level and receive a federal match—twenty states and D.C. do so, and seven set an even higher limit. Some states also set higher limits for older children. Coverage through CHIP is available to children at even higher income levels. Forty six states and D.C. cover children up to at least 200 percent of the poverty level; in 25 of these states, children up to 250 percent of the FPL or higher are covered. Seventeen states cover children up to 300 percent of the FPL (Heberlein et al. 2012). States receive the higher CHIP match rate for coverage up to 300 percent of the poverty level, but beyond that the Medicaid match rate is used. Only New York sets a CHIP income limit higher than 300 percent.

Assets limits may affect eligibility for parents' coverage, but usually they do not apply to children. Only three state Medicaid programs and two CHIP programs limit assets in determining children's eligibility for health coverage, while 26 states limit assets for parents (Heberlein et al. 2012). The limits are similar to common limits set for TANF, usually falling in the range of $2,000 - $3,500. In 48 states and DC children recertify for Medicaid every 12 months; in slightly fewer states, adults also have a 12 month period. All states with separate CHIP programs (39) use a 12-month period for children.

The Medicaid population is much larger than the CHIP population. On average, 22.2 million households received Medicaid each month in fiscal year 2010 (U.S. Census Bureau 2012), and in 2008, children comprised 49 percent of Medicaid participants (Klees, Wolfe, and Curtis 2011). As CHIP programs usually serve children only, it is more difficult to find estimates of CHIP households. However, less than eight million children or adults with children were enrolled in CHIP in 2010, compared to 34.4 million in Medicaid (U.S. DHHS 2011b).

APPENDIX D: DESCRIPTIONS OF STATES' BENEFIT PROGRAMS

This appendix provides detail on the research conducted on benefit programs in the five study states: Florida, Michigan, New York, Washington, and Wisconsin. It then details their program applications, eligibility criteria, and recertification rules.

Urban Institute Activities

Florida: Over several calls and an in-person visit, we spoke with program administrators and information technology staff from the Department of Children and Families to understand how the application and benefit receipt data were collected, verified, and stored. We reviewed the state's applications and policy manuals for SNAP, TANF, and Medicaid/CHIP (Medicaid and CHIP share an application). During our site visit, we reviewed SNAP and TANF applications in the electronic application system. We also analyzed SNAP and TANF monthly benefit data.

Wisconsin: We worked with staff from the Department of Children and Families to develop a deeper understanding of the state's data processes. We spoke with staff familiar with benefit administration as well as the underlying data systems to gather information about the application, verification, and data maintenance processes. We reviewed the state's applications and policy manuals for SNAP, TANF, Medicaid, and CHIP. We analyzed application/recertification data for TANF.

Washington: Staff from the Department of Social and Health Services participated in several calls and provided a great amount of detail on the application and database processes in the state. We reviewed applications and policy manuals for TANF, SNAP, and Medicaid/CHIP.

Michigan: During a call with staff from the Department of Technology, Management, and Budget, we discussed the structure of the benefit data systems, focusing primarily on TANF and SNAP. We reviewed applications and policy manuals for TANF, SNAP, and Medicaid/CHIP.

New York: We spoke with staff from the office of Temporary and Disability Assistance about the concepts of the analysis. We reviewed applications and policy manuals for SNAP, TANF, and Medicaid/CHIP.

Data Collected through State Benefit Program Applications

Table D-1 below summarizes the information states collect on benefit program applications in Florida, Michigan, New York, Washington, and Wisconsin.

Table D-1. Data Elements in Five State Benefit Program Applications

	Florida	Michigan	New York	Washington	Wisconsin
Programs Included	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/ CHIP (separate)
Identification Numbers					
Assistance Unit	x	x[a]	x	x	x
Person	x	x	x	x	X
Application		x			
Adult Information					
Adults included	*All in household*[b]	*All in household and temporarily absent*	*All in household*[c]	*All in household*[b]	*All in household*
Social security number	Applying members	x	Applying members	Applying members	X
Name	x	x	x	x	X
Gender	x	x	x	x	X
Date of birth	x	x	x	x	X
Relationship	To applicant	To applicant and children under 22	To applicant	To applicant	To applicant
Marital status	x	x	Applicant only	Applicant only	X
Applying for benefit(s)	x	x	x	x	x
US citizen/alien status	Applying members	x	Applying members	Applying members	x
Pregnancy due date	x	x	x	x	TANF/Medicaid only
Attends school	Hours of school	Full- or part-time	Applying members	x	Full/part-time (SNAP)
Child Information					
Children included	*All in household*[b]	*All in household and temporarily absent*	*All in household*	*All in household*[b]	*All in household*[d]
Social security number	x	x	x	Applying members	x
Name	x	x	x	x	x
Gender	x	x	x	x	x
Date of birth	x	x	x	x	x
Relationship	To applicant	To applicant and parent, if under 22	To applicant and own child if teen parent	To applicant	To applicant
Marital status		x			x
Applying for benefit(s)	x	x	x	x	x
US citizen/alien status	Applying members	x	x	Applying members	x
Pregnancy due date	x	x		x	TANF/Medicaid
Attends school	x	Full- or part-time	x	x	

(continued)

Table D-1 (continued). Data Elements in Five State Benefit Program Applications

	Florida	Michigan	New York	Washington	Wisconsin
Programs Included	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/ CHIP (separate)
Income Information					
Earnings Information					
Individuals included	*Applying members and their parents, spouses, dependents*	*All*	*All*	*Applicant, spouse, others applying*	*All adults*
Employment dates	End date (of earnings)	Start date (if new job) End date		Start date End in past 60 days Y/N	Start date and month End date and month[e]
Employer information	Name	Name	Name	Name	Name
Earnings per job	Monthly amount Pay frequency Hours per week	Amount Pay frequency Hours per week/period	Amount Pay frequency Hours per month	Amount Pay frequency Hours per week	Monthly, hourly amount Pay frequency Hours per pay period
Self-Employment Income Information					
Individuals included	*Applying members and their parents, spouses, dependents*	*All*	*All*	*Applicant, spouse, others applying*	*All adults*
Employment dates	End date (of income)	Start date		Start date End in past 60 days Y/N	Start date End date (TANF)
Income per business	Monthly amount	Monthly amount	Amount Pay frequency Hours per month	Amount Pay frequency Hours per week	*TANF:* Amount Number of months Hours per month *Medicaid/SNAP:* Net amount last tax year
Unearned Income Information					
Individuals included	*Applying members and their parents, spouses, dependents*	*All*	*All*	*All*	*All adults*
Income dates	End date				Start and end month (TANF)
Unearned income type	x	x	x	x	x
Income per source	Monthly amount	Amount Pay frequency	Amount Pay frequency	Monthly amount	Monthly amount (all) Pay frequency (TANF)

(continued)

Table D-1 (continued). Data Elements in Five State Benefit Program Applications

	Florida	Michigan	New York	Washington	Wisconsin
Programs Included	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/CHIP	TANF, SNAP, Medicaid/ CHIP (separate)
Absent Parent Information					
Social security number	x	x			TANF/SNAP only
Name of parent	x	x	x	x	x
Date of birth	x	x	x		TANF/SNAP only
Relationship to child	x	x	x		TANF/SNAP only
Date parent left household					TANF/SNAP only
Absent reason	x	x			TANF/SNAP only
Paternity established		x			TANF/SNAP only
Whether legal parent	x	x			
Employer name/address	x	Legal parents only			
Employment dates		Month last worked (legal parents only)			

[a] Michigan also asks for past assistance unit numbers of the applicant.

[b] In Florida and Washington, general information on all adults and children is requested on the application form, but conversations with state staff indicate that data is only retained for members of the assistance unit.

[c] In New York, citizenship/immigration status is not asked of pregnant women applying only for Medicaid, or immigrants applying only for medical assistance.

[d] In Wisconsin's BadgerCare (Medicaid and CHIP) application, child information is asked of children present in the home at least 40% of the time.

[e] In Wisconsin, month and date of employment are two separate variables. The month variable is more accurate.

[f] In New York, information on absent children (name of child, name of parent, child's date of birth, whether paternity was established) is also asked of adults with an absent child under age 18. Information on absent spouses (name, date of birth, date of death, and address) is asked as well.

Detailed State Benefit Program Financial Eligibility Criteria

Below we describe the income and asset eligibility for each of the programs examined in Florida, Michigan, New York, Washington, and Wisconsin. These criteria are summarized in table D-2 below.

Florida: Florida's food stamp program, called the Food Assistance Program (FAP), operates under broad-based categorical eligibility. This makes households with gross income up to 200 percent and net income up to 100 percent of the federal poverty level eligible for benefits, regardless of their assets. Its TANF program, Temporary Cash Assistance (TCA), is available to families with gross income under 185 percent of poverty and net income less than the benefit standard for the family's size. For example, for a working family of three that pays more than $50 in shelter costs, the net income limit would be 25 percent of the FPL. For TCA, assets must total no more than $2,000, with the value of one vehicle up to $8,500 excluded. For Relative Caregiver TCA, the income and asset limits are the same, but only the child's resources are counted.

In the Medicaid program, families can receive Low-Income Families Medicaid, which utilizes the same asset limit as TCA but usually allows for a higher income disregard, so that a working family of three could earn up to 51 percent of the poverty level. Children alone remain eligible through age 21 at these income/asset levels if there are no younger children present, and children under 19 living with non-relatives with personal income below the TCA level are also eligible. Florida covers pregnant women up to 185 percent of the FPL. Under Medically Needy Medicaid, which is available to pregnant women, children, and families with income/assets above Low-Income Families limits, the asset limit for a family of three is $6,000, and there is no income limit. However, applicants must be otherwise eligible for Medicaid, and families pay a share of the cost to make up the difference between their gross income and the TCA limit. This makes it uneconomical for mid- or high-income families.

Children in low income families, with any amount of assets, can receive free or inexpensive public health insurance coverage, known as KidCare in Florida. KidCare Medicaid covers children in families with net income under 200 percent of the poverty level if the child is under age 1, 133 percent if the child is age 1-5, and 100 percent if the child is age 6-18. Florida's CHIP-funded programs, MediKids for children ages 1-4 and Florida Healthy Kids for children ages 5-18, cover children under 200 percent of the poverty level who are not covered by Medicaid. A small monthly premium, usually amounting to $15 to $20, is required. Children above 200 percent can enroll if they pay the full premium.

Table D-2. Five State Benefit Programs and the Federal EITC: Limits on Income as a Percentage of the Federal Poverty Level and Assets (2012)

	SNAP	*TANF*	*MEDICAID*	*CHIP*	*EITC*
Florida	200% (gross) 100% (net)	185% (gross) 25% (net) *$2,000*	Families: 51%[a]/*$2,000* Pregnant: 185% Under age 1: 200% Ages 1-5: 133% Ages 6-18: 100%	$15-20 premium: 200% Full premium: None	One parent, one child: 244% ($37,870 per year)
Michigan	200% (gross) *$5,000*	50% (net) *$3,000[b]*	Families: 52%[c]/*$3,000* Pregnant/newborn: 185% Ages 1-18: 150%	$10 premium:[d] 200%	
New York	130% (gross)	185% (gross) 27% (net) *$2,000*	Families: 77%[e] Pregnant/newborn: 200% Ages 1-5: 133% Ages 6-18: 100% Ages 19-20: 86%	$9-30 premium: 300% $45/$60 premium: 400% Full premium: None	One parent, two children: 220% ($43,038 per year)
Washington	200% (gross)	62% (gross earned) 62% (net) *$4,000*	Families: 73% /*$1,000* Pregnant: 185% Children: 200%	$20 premium: 250% $30/$98 premium: 300%[f]	*$3,200 investment income limit*
Wisconsin	200% (gross)	115% (gross) *$1,000*	Parents:[g] 200% Pregnant/newborn: 300% Ages 1-5: 185% Ages 6-18: 100% (all gross)	No premium: 200% $10-23 premium: 250% $34-82 premium: 300% $98 premium: None (all gross)	

Notes: EITC limits are for earnings. Medicaid/CHIP limits are for net income unless otherwise noted. Some states set a "gross" income limit, but the allowable deductions resemble those of typical net income limits; we have labeled them as such. Generally, across programs, gross and net income limits allow certain deductions, such as in-kind benefits, loans, and some forms of unearned income. Family income limits are for working families. SNAP income limits are for households eligible under broad-based categorical eligibility (see Appendix C); other households face asset tests and lower limits. Asset limits appear in italics; programs with no asset limit shown lack one. Items excluded from assets and limits on home and vehicle values vary by state. A specified vehicle value (e.g., $8,500 in Florida) is often not counted toward the asset limit. One home is usually excluded; some states limit the home's value (e.g., $500,000 in Michigan). Items commonly excluded from asset tests include: federal tax refunds, one burial plot, loans, and education grants/scholarships. Limits may be higher for households with an elderly/disabled member.

[a] The Florida family income limit shown here uses the $200 + 50% of remaining earned income deduction. Families only eligible for a $90 earned income deduction would need to have lower levels of earned income. Pregnant women, children, and families with income or assets above Medicaid limits can receive Medically Needy Medicaid by paying a share of the difference between their income and the Medicaid limit. This program limits assets to $6,000.

[b] In Michigan, the TANF asset limit applies only to cash, investments, and retirement plans.

[c] In Michigan, parents, caretaker relatives and children ages 19-20 may be eligible for Medically Needy Medicaid if their income is below the limit after deducting medical expenses. The limits are similar to regular Medicaid limits.

[d] In Michigan, the premium of $10 for CHIP is per family, not per child.

[e] New York Medicaid also imposes gross income limits of 100% of the FPL, and 185% of the net income limit on families and children ages 19-20, which is 131% of the FPL for families and 160% for children 19-20. Family Health Plus serves adults and children ages 19-20 over Medicaid limits: children 19-20 living with parents and parents are eligible up to 150% of the FPL; childless adults and children 19-20 not living with parents are eligible up to 100%.

[f] The Washington CHIP premium for children 250-300% of the FPL is $30, or $98 if federal eligibility is not met.

[g] In Wisconsin, parents and caretakers up to 133% of the FPL do not pay a Medicaid premium, and those up to 150% pay less than $50 in premiums. Self-employed parents/caretakers can enroll at income levels even higher than 200%.

[h] In Wisconsin, pregnant women above 300% of the FPL can enroll if they pay a deductible.

Michigan: Like Florida, Michigan has adopted broad-based categorical eligibility for its Food Assistance Program (FAP). Households with gross income up to 200 percent of the FPL, and assets up to $5,000, with $15,000 of vehicle value excluded, are eligible for food assistance. Michigan's TANF program, the Family Independence Program (FIP), sets a net income limit for a working family of three that is 50 percent of the poverty level. Cash assets are limited to $3,000 and property to $500,000. Similarly, a family of three with net income up to 52 percent of the FPL and assets up to $3,000 is eligible for Low-Income Families Medicaid. Medically needy parents, caretaker relatives, and children ages 19-20 face similar income limits, but may deduct medical expenses from their income. Pregnant women can have net income up to 185 percent of poverty and any amount of assets and be eligible for Healthy Kids Medicaid, which serves children and pregnant women. Healthy Kids covers children ages 0-1 with net income up to 185 percent of poverty, and ages 1-18 up to 150 percent. Healthy Kids Expansion—that is, Healthy Kids funded with CHIP dollars—covers children ages 16-18 between 100 and 150 percent of poverty. The remaining children up to 200 percent of poverty are covered by MIChild, Michigan's separate CHIP program. Assets are not limited for children.

New York: New York's Food Stamp Program uses a broad-based categorical eligibility policy that is not quite as generous as other states. Applicants must meet a gross income test of 130 percent of the poverty line and there is no limit on assets. If an elderly or disabled member is present, the limit is 200 percent. Family Assistance (FA), New York's TANF program, limits net income to 27 percent of the poverty level for a working family of three, and assets to $2,000. Child-only cases have the same limits. Safety Net Assistance, an additional assistance program funded by the state, provides benefits for single and married adults with no children, children who do not live with any relatives, and FA recipients who have reached their 5-year time limit for benefits. The financial eligibility requirements are the same as for FA.

In New York, family-related Medicaid recipients are generally not subject to asset tests. Families with children through age 20 are eligible for Low-Income Families Medicaid with net income up to 77 percent of the poverty level (for a family of 3) and gross income up to 100 percent of the FPL and 185 percent of the benefit standard. Children ages 19 and 20 are also eligible with slightly higher net income (86 percent of the FPL), but the parents become ineligible. Parents, and children ages 19-20 living with parents, that have income above these limits but no more than 150 percent of poverty are eligible for Family Health Plus (FHP), which completely subsidizes enrollment in a managed care plan. Childless adults and 19-20-year-olds not living with parents can enroll up to 100 percent of the FPL. Unlike standard Medicaid plans, FHP does not limit co-pay totals per year for adults.

Pregnant women are eligible for perinatal Medicaid coverage with net income up to 200 percent of the poverty level, or full coverage with income up to 100 percent. For children, New York has the most generous cut-off for public health insurance. Medicaid covers infants in families with

net income up to 200 percent of poverty, children ages 1-5 up to 133 percent of poverty, and children 6-18 up to 100 percent of poverty and up to 133 percent through CHIP-funded Medicaid expansion. New York's separate CHIP program, known as Child Health Plus, covers children not eligible for Medicaid. It offers free coverage for children in families under 160 percent of the poverty level. Children in families with incomes up to 400 percent can enroll if they pay $9-$60 premiums, and those over 400 percent can enroll if they pay the full premium.

Washington: As in Florida and Michigan, broad-based eligibility for Washington's Basic Food Program establishes a gross income limit of 200 percent of the federal poverty level and no asset limit. In Washington's TANF program, WorkFirst, a family of three must have gross earned income under 62 percent of poverty and net total income under 62 percent of poverty. Its resources other than savings must be under $1,000, including any vehicle equity over $5,000, and savings accounts cannot exceed $3,000. Child-only cases, however, are eligible with net household income up to 300 percent of the FPL. In these cases, the household's income is compared to the federal poverty line, then the child's income is compared to a percentage of the payment standard to determine eligibility and benefit level. The individual income of children with household net income up to 200 percent of the FPL is compared to the full benefit standard, while that of children between 200 and 300 percent is compared to 20 to 80 percent of the standard.

In the family Medicaid program, there is no asset limit and a net income limit for working families similar to that for TANF (73 percent of poverty), except for pregnant women, who may have net income up to 185 percent of poverty. Washington has one umbrella health insurance program for children, Apple Health for Kids, which is funded with Medicaid and CHIP dollars. Children under 200 percent of the federal poverty level receive free coverage from Medicaid. Other children are covered by CHIP: those up to 300 percent who are eligible under federal rules can participate with small monthly premiums ($20 or $30), and those who are ineligible federally but still at 300 percent of poverty or less can enroll with a $98 premium. There is no asset limit for children in Apple Health for Kids.

Wisconsin: FoodShare, Wisconsin's SNAP, sets a monthly gross income limit of 200 percent of the federal poverty level through BBCE. There is no asset limit. For Wisconsin's TANF, Wisconsin Works, gross income cannot exceed 115 percent of the poverty level, and assets cannot exceed $1,000, including vehicle equity over $5,000. Children living with non-parental relatives can receive Kinship Care assistance, which does not require an income or asset test.

Both parents and children can secure public health coverage in Wisconsin, known as Medicaid for the elderly, blind, or disabled and BadgerCare Plus for all others. There is both a Standard BadgerCare Plus Plan and a Benchmark Plan, which has higher income limits but entails more limited coverage and higher premiums. Parents and caretakers with gross income up to 133

percent of the poverty level are covered by the Standard Plan at no cost, those up to 150 percent pay less than $50 in premiums, and those up to 200 percent can enroll with higher premiums. If over 200 percent of poverty and self-employed, parents and caretakers can enroll in the Benchmark Plan. Pregnant women receive the Standard Plan completely subsidized up to 200 percent of poverty, the Benchmark Plan completely subsidized up to 300 percent, and the Benchmark Plan with a deductible if they earn more than 300 percent of poverty.

Children in families with incomes up to 200 percent of poverty receive the Standard Plan at no cost. Between 200 and 300 percent they pay $10 - $82 for the Benchmark Plan, and over 300 percent of the FPL they pay $98. Assets are not limited. CHIP funds children ages 6 to 18 over 150 percent of the FPL, and children ages 1 to 5 over 185 percent of poverty. Children below these limits, and all infants up to 300 percent, are funded by Medicaid.

Recertifications

Below we describe the recertification periods for each program in the five states, summarized in table D-3 below.

Florida: In Florida, food stamp recipients must be recertified every 6 months, or every 12 months if an elderly or disabled household member is present. If the household is broad-based categorically eligible, it need not report any changes; other households must report if income exceeds the gross limit or work hours fall a certain amount. TANF assistance units are recertified every 6 months, or 12 months for a child-only assistance group without food stamps. Parents receiving Medicaid recertify every 12 months if they do not receive other benefits. Children renew coverage every 12 months for Medicaid and KidCare. Families receiving TANF or Medicaid must report changes in household composition, employment, income, assets, and other characteristics.

Michigan: Redetermination of benefits for all programs must occur at least every 12 months but shorter periods are assigned in some cases. Cases that are error-prone, transitional Medicaid cases, and Medicaid-only newborn cases with a child's first birthday sooner than 12 months away all must recertify more frequently. Furthermore, Food Assistance Program (FAP) cases with unstable circumstances are given a 3-month recertification period. Some FAP groups are assigned a 24-month benefit period and require only a mid-certification contact in the 12th month, however, and some individuals, such as SSI recipients, do not recertify at all. FAP groups with a 12-month period must complete a mid-certification contact report after 6 months. Michigan benefit recipients are required to report changes in employment, income, assets, and household composition, except for FAP groups with countable earnings, which need only report when the gross income limit has been exceeded.

New York: In New York, recipients of Family Assistance (TA) must recertify every six months through an application or telephone interview, and every 12 months with a face-to-face

interview—except if all members of a household are elderly or disabled. Families eligible for Food Stamps under BBCE, recertify once a year, and other cases every six months. Medicaid and Child Health Plus recipients generally recertify every 12 months. However, more frequent recertification is often required for adult recipients who are unemployed or receive variable or seasonal income. In between certifications, Food Stamp households with earned income only need to report when if gross income exceeds 130 percent of the federal poverty level. Family Assistance and Medicaid or CHIP families have stricter requirements.

Washington: The default certification period in Washington for TANF, SNAP, and Medicaid is 12 months, but mid-certification reviews must occur every six months. The automated eligibility system will align Medicaid, TANF and Basic Food (SNAP) certification periods whenever possible. For changes in between certifications, Basic Food households only report income that exceeds 200 percent of the federal poverty level, if they are categorically eligible. Other program participants must report changes in employment, income, and household composition to varying degrees depending on program and type of assistance group.

Wisconsin: Adults and children enrolled in BadgerCare Plus (Medicaid/CHIP) or FoodShare (SNAP) renew benefits every 12 months. Wisconsin Works (TANF) reviews eligibility at least every 6 months. Wisconsin Works recipients must report any income changes, while BadgerCare recipients only report when income crosses certain thresholds of the federal poverty level; both programs require changes in household composition to be reported. FoodShare only requires change reporting if income exceeds 130 percent of the federal poverty level.

Table D-3. Five State Benefit Programs: Certification Periods

	SNAP	*TANF*	*Medicaid*	*CHIP*
Florida	6 months	6 months [a]	12 months	12 months
Michigan	12 months	12 months	12 months	12 months
New York	12 months; 6 month report	6 months	12 months	12 months
Washington	12 months; 6 month review	12 months; 6 month review	12 months; 6 month review	12 months; 6 month review
Wisconsin	12 months	6 months	12 months	12 months

Notes: States usually require more frequent reporting of income changes. The periods listed here are the maximums for most households with children. Households in which all members are elderly or disabled may have 24-month certification periods. Households that are unemployed, have unstable circumstances, have variable/seasonal income, or are error-prone often have shorter certification periods.
[a] In Florida, child-only TANF cases not receiving SNAP benefits recertify every 12 months..

APPENDIX E: CASE FILE VALIDATION

Case file validation was conducted to see what additional information might be contained in the case file and if it supported, contradicted, or clarified information in the data files. The case file validation had three goals: (1) to determine if there was additional valuable information in the case files which could be used by the IRS if states were to record it in their data systems, (2) to verify that the information in the state data was correct, and (3) to provide validation for assumptions made for the residency and relationship tests. For each state, we selected approximately 70 cases in which the conclusion drawn about the case was based on an assumption or was contradictory to the information reported to the IRS. In Wisconsin, the case file validation was conducted by caseworkers who searched the case files for information on residency, relationship, and earnings, depending on the case pulled. The reason a case was pulled was not revealed to the caseworkers and they were each given two fields to complete to ensure the reason for pulling the case was not known to them. In Florida, Urban Institute staff used the case file database to determine if there was additional information in the case files not available in the state data sets.

In general, the results of the case file validation verified the information in the state data or did not add to the information in the state data. The case file validation in Wisconsin revealed that the case files, according to the case workers, contained little additional information beyond the information in the recertification data. In Florida, the cases we examined revealed that most of those receiving benefits, even for the whole year, do not actually report to the state benefit program more than a few times per year, when a recertification is required.

We conducted case file validation in both Wisconsin and Florida to ensure that there was not additional information in cases that could be used by the IRS and to verify assumptions made in the analytical file. This pilot study is exploring both the potential of the state data as it is currently collected and formatted but also the potential for states to collect information more systematically. To the extent that additional data exists, we evaluate how practical it would be for states to collect that data in a more systematic manner so that it could be included in a data extract for the IRS. In addition, we wish to verify the assumptions we used to generate the analytical file based on the information in the analytical file.

Methodology for Picking the Cases

We picked variables to investigate using case file validation based on the usefulness of the information to the IRS and whether the information was based on assumptions. As discussed in Section V, the information in the state data that may be useful to the IRS is information related to validating the claim of a qualifying child, based on residency and relationship. In order to generate the residency test variable, we made assumptions about household structure between

observations of a case. Reviewing case files could shed light on the validity of these assumptions. While strong assumptions were not made to generate the relationship test, it is an important variable for the IRS and there is some concern that some of the catch-all categories of "Not Related" or "Friend" would actually pass the qualifying relative test. Although, as discussed in Section V, we do not believe the state data will be useful for verifying self-employment data as it is, we looked for additional information on self-employment in the case files to see if it could be collected in a different manner.

After the state data was matched with the IRS data, a sample of cases was selected based on their residency, relationship, or self-employment results. The samples were pulled based on the sample definitions in Table E-1 and Table E-2. Only single tax filers were pulled for case file review. This simplified the process of case file validation so that the reviewer would only have to verify one person's information. For several categories of cases in both Wisconsin and Florida, we examined the extent to which residency was valid. We selected tax filers and qualifying children that were matched in the IRS and state data that passed the residency test or that failed the residency test, to verify that the residency test was accurate. In addition, we selected cases in which either the tax filer or the qualifying child did not appear in the state data. In Florida, we selected an extra group of cases in which tax filers and qualifying children both appeared in the state data but never in the same case. These instances could be the result of improper claims or they could result from a misspecification of the case. Additionally, we selected cases with tax filers and qualifying children that failed the relationship test or for which it was unclear whether the relationship test was passed. Another group of tax filers was selected that had self-employment in the IRS data but not in the state data. Finally, cases were selected based on their potential for outreach. Individuals in these cases either filed a return but did not claim the EITC, or did not file a return at all. These cases were used to determine whether the state data could be appropriately used to identify outreach cases.

Methodology for Reviewing the Cases

In Wisconsin, caseworkers conducted the case file validation. In order to facilitate this, the Urban Institute created forms to be filled out for each of the categories, residency, relationship, and earnings. For residency, the caseworkers were asked to indicate for each month whether the person or pair was in the household and if unknown indicate why. In addition, other questions were asked to gather information about individuals who might be in the household but not listed in the case. For some cases, caseworkers were asked to explain the relationship of two individuals in more detail; for example, they might be asked to clarify whether someone who was coded as "Not Related" to a child was actually the child's mother's boyfriend. For other cases, we asked the caseworkers to indicate whether individuals had wage or self-employment earnings, and over what period they had an open case and had verifiable earnings. Caseworkers were asked to look through applications/recertifications and case notes for the information to fill out this form.

In order to prevent caseworkers from identifying the tax filing information of the clients, caseworkers were not informed about the goal of each individual case file validation. Case workers were informed ahead of time that these cases could have information that contradicted the IRS data, agreed with the IRS data or was not in the IRS data at all. On the form they filled out, there was no indication of the category of mismatch. While caseworkers were not required to fill out all parts of the form, they were required to fill out two sections per case, so the true goal of the case file validation was not revealed. Finally, individuals who were not the focal individuals were included in the case file validation.

In Florida, Urban Institute staff completed the case file validation. Similar forms were also created for the reviewers to ensure that all questions were answered. However, because it was not blind, the reviewers only filled out the categories of interest for the focal individuals. The reviewers looked through cases files, including applications/recertifications and case notes to fill in information.

Results

In general the case file validation supported the assumptions that were made in generating the analytical file. Although the case files sometimes contained additional information of interest, the case file validation revealed no information that is currently systematically collected in another file or that could start to be systematically be collected and used to increase the accuracy of the variables. The case file validation also revealed that the assumptions made and the information included in the state data is not always accurate, as determinations made based on the state data were refuted in a few cases.

In Wisconsin, the caseworkers may have used information in the benefit file to conduct the case file review. As discussed in Section VI, the benefit data is not a good source for verifying residency. While caseworkers were instructed to only use evidence in case notes, based on the results it appears that many filled in the residency section of the form with information from benefit data. In the form generated by the Urban Institute, the caseworkers were asked to identify the sources of their information, but never filled in this section of the form. The case validation can still provide useful information, but it is important to understand that some of the verification is based on benefit data and therefore may not accurately reflect residency in the household.

In Wisconsin, the case file validation generally supported the assumptions made in generating the analytical file. In the majority of cases pulled, the information recorded by the case workers supported the assumptions made for residency and relationship. For the 40 cases verifying residency, caseworkers only found evidence in four to suggest that the residency determination from the state data was incorrect. For the cases verifying relationship, the majority of the cases

reviewed supported the data, but one case refuted it. In that case the person was coded as "Not Related" to the applicant and claimed the applicant's child. The child did not have the person listed as his parent, but the case file validation revealed that he was in fact the child's father. For cases that were reviewed for self-employment information, not enough information was found to confirm that there was no self-employment, primarily because individuals are not observed for the full year.

In Florida as in Wisconsin, the case file validation generally supported the assumptions made to create the analytical file. In Florida, the case file review was completed by Urban Institute staff. The reviewers only used observations that included applications, recertifications and case notes. The Florida case file validation revealed that while many individuals receive benefits for twelve months, most individuals do not report information to the state more than a few times a year, on applications, recertifications or for other reasons. Using these data, the majority of the 40 cases selected for verifying residency supported the determination of residency pass or fail. There was only evidence to refute the determination of residency in two cases. For relationship, there were no cases that passed when the state data implied that they failed. The majority of these cases were comprised of a child being claimed by the mother's boyfriend. The case file validation did reveal that relationships coded as "other" often pass the relationship test; grandmother and foster parent are common "other" relationships that pass the test. Finally, for self-employment, three cases out of nine contradicted the state data, showing evidence of self-employment though the state data had not. The self-employment was mentioned in the case notes but was not collected in the state data.

The case file validation did not reveal additional information that could be used to more accurately conduct the relationship test, residency test or indicators of self-employment. For residency, information on the household is not currently being collected in a systematic manner and reports to the state only occur a few times per year. For Florida, the case file validation suggested that more accurate residency information may be obtained by collecting applications and recertifications. In the case of relationship, the only discrepancy seemed to result from error in entering the relationship—"not related" should have been coded as "father". This suggests that states may be able to improve the quality of their relationship variable. Finally, given the volatile nature of self-employment earnings, caseworkers would likely need to collect monthly information on earnings, but the case file validation demonstrated that clients do not report to the state frequently enough to collect accurate information on self-employment earnings.

Table E-1. Case File Validation for Wisconsin

Verification Goal	Sample	Results			
		Cases	*Support*	*Refute*	*No Info*
Residency Pass	Single tax filer claiming a child for EITC purposes, passes the residency test	9	6	1	2
Residency Pass (with State Data)	Single tax filer claiming a child for EITC purposes, child is in the state data, adult is not	11	9	1	1
	Single tax filer claiming a child for EITC purposes, adult is in the state data, child is not	11	7	1	3
Residency Fail	Single tax filer claiming a child for EITC purposes, fails the residency test	9	6	1	2
Relationship Fail	Single tax filer claiming a child for EITC purposes, fails the relationship test	9	8	1	0
No Self-Employment Earnings	Single tax filer claiming the EITC with self-employment earning, but no self-employment earnings in the state data	9	4	0	5
Residency & Relationship with Child	Tax filer who does not claim the EITC and is attached to at least one child in the state data and passes all tests in the IRS data and state data	3	3	0	0
Earnings, Residency & Relationship with Child	Adult who does not file a tax return and is attached to at least one child in the state data and passes all tests in the state data	5	1	1	3

Notes: "Support" – There is evidence in the case file review to support the determination made in the state data. "Refute" – There is evidence in the case file review to refute the determination made in the state data. "No Info." – There is no evidence in the case file review to refute or support the determination.

Table E-2. Case File Validation for Florida

Verification Goal	Sample	Results			
		Cases	*Support*	*Refute*	*No Info*
Residency Pass	Single tax filer claiming a child for EITC purposes, passes the residency test	10	7	0	3
Residency Pass (with State Data)	Single tax filer claiming a child for EITC purposes, child is in the state data, adult is not	7	6	0	1
	Single tax filer claiming a child for EITC purposes, adult is in the state data, child is not	7	6	0	1
Residency Fail	Single tax filer claiming a child for EITC purposes, fails the residency test	8	3	1	4
	Single tax filer claiming a child for EITC purposes, both are in the state data, but never in the same case	8	6	1	1
Relationship Fail	Single tax filer claiming a child for EITC purposes, fails the relationship test	7	7	0	0
Relationship Other - Pass	Single tax filer claiming a child for EITC purposes, "maybe" for the relationship test	4	3	1	0
No Self-Employment Earnings	Single tax filer with self-employment earnings in the IRS data but none in the state data	9	3	3	3
Residency & Relationship w/ Child	Tax filer who does not claim the EITC and is attached to at least one child in the state data and passes all tests in the IRS data and state data	4	3	0	1
Earnings, Residency & Relationship w/ Child	Adult who does not file a tax return and is attached to at least one child in the state data and passes all tests in the state data	5	3	1	1

Notes: "Support" – There is evidence in the case file review to support the determination made in the state data, for residency variable this implies they are observed on a recertification, application or in case notes enough to pass based on the Wisconsin residency rule. "Refute" – There is evidence in the case file review to refute the determination made in the state data. "No Info" – There is no evidence in the case file review to refute or support the determination.

APPENDIX F: CONSTRUCTING THE ANALYSIS DATA FILES

Constructing Cases

For the purposes of verifying residency, ideally the state data would include information on household structure for all applicants or recipients. In the Wisconsin recertification data, the case is defined as all members of the household, thus the variable which defines the case should define the household structure. The Florida benefit data are more complicated. In Florida, both case number and sequence number can be used to define household. The case number represents an original assistance unit; the sequence number represents the number of any assistance unit that stems from the original assistance unit. Together these variables define a current assistance unit. Two different sequence numbers in a case number may represent an assistance unit that has split into two assistance units but remains in the same household or an assistance unit that has split into two assistance units that now resides in separate households. While problematic in terms of defining a household, these splits are rare. In Florida, over 97 percent of the cases in the benefit data include only one sequence in 2010. In our discussions with the Florida data experts, they recommended using case number and sequence to determine a household. The cases in the Florida benefit data represent assistance units which are defined differently in SNAP and TANF. SNAP defines an assistance unit as anyone who lives together and purchases and prepares meals together; TANF defines an assistance unit more narrowly. Although both the TANF and SNAP assistance units may exclude individuals residing in the household, the broader definition of SNAP assistance unit makes it less likely to exclude household members than the TANF assistance unit.

Construction of analytical files

In order to appropriately use the state data, it must be matched to tax units in the IRS data. As described above, a case and a tax unit may not be identical. Cases may include multiple potential tax units and multiple potential combinations of tax filers and qualifying children. Tax units may include individuals in the case and individuals outside the case. Instead of attempting to guess all potential tax units in a case, we generated two files, an individual level file and an adult-child pair file, which allow flexibility in matching the state data to the IRS data. The individual level file included only individual level data such as demographics, earnings, and identifiers. This file could be matched to any tax filer, qualifying child, or dependent in the IRS data using social security numbers. The adult-child pair file included all potential pairs of tax filers and qualifying children. A potential tax filer and qualifying child pair is defined as a pair of individuals who appear in the same case that pass the age test, where the potential tax filer is older than the child (and over 16) and the child is younger than 23 years old or disabled (as indicated by the receipt of SSI or a disability indicator). The definition of qualifying child is somewhat broader than the IRS rules allow and includes all 19-23 years old and disabled individuals (as defined by the program) because the state data do not contain information on student status or disability that

meet the qualifying child definition. The adult-child pair file includes any variables related to the pair, such as relationship or residency. This file is matched to tax-filer/qualifying-child pairs in the IRS data using social security numbers.

Identifying Information

To match state data to tax return data, the state data must possess accurate social security numbers for each of the individuals in the state data as well as dates of birth and first and last names. The state data are able to provide identifying information for almost all individuals in all three data sets. Table F-1 summarizes the quality of the identifying information available in each of the state data sets. In both Wisconsin and Florida, social security numbers are the only identifying item likely to be missing. In Wisconsin, more than 5 percent of individuals (mostly newborns) have missing social security numbers. In Florida, almost 3 percent of individuals have missing social security numbers. All other identifying information is missing less than 0.01 percent of the time.

The identifying information must also be accurate and consistent. Almost all individuals in the state data have relatively consistent information on identifying information, although the Wisconsin recertification data are slightly more likely to have inconsistencies. The nature of recertification data may explain the higher rates of missing data and more frequent inconsistencies in Wisconsin. Identifying information is collected at every recertification, but the data are not maintained in a manner that resolves missing or inconsistent information, probably leading to substantially more inconsistencies.

Table F-1. Quality of Data Elements in State Administrative Data Than May Be Useful in Verifying ETIC Eligibility Criteria

	WI TANF	FL TANF	FL SNAP
Number of Individuals:	94,171	301,808	4,358,954
State Identifier			
Appear Valid	99.71%	100.00%	100.00%
Missing	0.00%	0.00%	0.00%
Inconsistencies	0.29%	0.00%	0.00%
SSN			
Appear Valid	94.29%	97.45%	97.09%
Missing	5.58%	2.55%	2.91%
Inconsistencies	0.12%	0.00%	0.00%
Date of Birth			
Appear Valid	99.74%	100.00%	100.00%
Missing	0.00%	0.00%	0.00%
Inconsistencies	0.26%	0.00%	0.00%
First Name			
Appear Valid	98.77%	99.99%	99.99%
Missing	0.00%	0.00%	0.00%
Inconsistencies	1.23%	0.00%	0.01%
Last Name			
Appear Valid	98.35%	99.99%	99.99%
Missing	0.00%	0.00%	0.00%
Inconsistencies	1.65%	0.01%	0.01%

Inconsistencies include: (1) More than one value for the variable for the same person, e.g. two different SSNs for the same person or two different people according to the state identifiers with the same SSN; and (2) Inappropriate values, e.g. letters or symbols in a person's name or a birthdate after the date of the first observation.

The reported inconsistencies and missing values are reported based on state data that has been cleaned by the Urban Institute. Inconsistencies and missing values listed above represents issues that could not be resolved with accuracy using the state data. The rate of missing values and inconsistencies may therefore be higher in the raw state data.

APPENDIX G: USING TANF BENEFIT AND RECERTIFICATION DATA TO VERIFY EITC CLAIMS

People applying for, or receiving, TANF represent a very small portion of the population claiming the EITC in both the Wisconsin recertification data and Florida benefit data. If people on TANF were more likely to make erroneous EITC claims than others claiming the EITC, the TANF population may still be of interest to the IRS, despite its relatively small overlap with EITC claimants. We explore this possibility below and reject it.

In addition, we explore the quality of the TANF data compared to the SNAP data. In Florida, the majority of those receiving TANF also receive SNAP. We generate a TANF data set supplemented with SNAP data in order to determine whether the SNAP data can provide more information on household composition and residency than the TANF data. The matches of the three TANF data sets are presented in Table G-1. When supplemented with SNAP data, the TANF data are more likely to match on all members of the tax filing unit, increasing the number of full matches by more than 7,000 tax units (see Table G-1). This indicates that the TANF data exclude some individuals from the household.

Similar to the SNAP data, we find nearly all people claiming the EITC for families with children pass the relationship test. In 99 percent of tax returns where we observe all members of the tax unit, the children appear to be related to the adults claiming them as reported in the Wisconsin TANF data. This is also true for 99 percent of the Florida TANF population (see Table G-2).

As with the SNAP data, for cases where we find every member of the tax unit present in the TANF data, we find evidence of very few tax units claiming the EITC appearing not to meet the residency test (1 percent in Wisconsin, 1 percent in Florida). However, we find a smaller proportion of cases where we see evidence of passing the residency test than we observe in the SNAP data.

The final column of Table G-2 shows that TANF data can be misleading, because it does not collect enough information on individuals in the household outside the TANF unit. When we create the residency test so that a person in Florida can be observed in TANF and in SNAP data, we observe a much higher "passing" rate – 87 percent (table G-2).

Table G-1. EITC Claimants Found in Wisconsin Recertification Data or Florida Benefit Data (2010)

	Wisconsin Recertification**		Florida Benefit*			
	TANF		TANF		TANF + SNAP	
	Number	*Percent*	*Number*	*Percent*	*Number*	*Percent*
Individuals In Tax Units Claiming EITC	982,548		4,890,219		4,890,219	
TANF Data	64,993	6.6	207,999	4.3	207,999	4.3
Not in TANF Data	917,555	93.4	4,682,220	95.7	4,682,220	95.7
Tax Units	388,441		2,168,369		2,168,369	
Matched Tax Units	30,517	7.9	105,544	4.9	105,563	4.9
Claiming Children for EITC Purposes						
All Members Found in State Data	12,821	3.3	38,775	1.8	46,066	2.1
All Tax Filer(s) and at least One Child Not Found in State Data	5,789	0.8	9,999	0.3	8,017	0.4
No Tax Filer(s), but at least One of the Children Found in the State Data	10,802	2.8	50,509	2.3	46,138	2.1
At least One Tax Filer but Not All Tax Filer(s) Found in State Data	476	0.1	3,754	0.2	2,835	0.1
Claiming Childless EITC						
At least One Tax Filer Found in State Data	629	0.2	2,507	0.1	2,507	0.1
Unmatched Tax Units	357,924	92.1	2,062,825	95.1	2,062,806	95.1

Source: IRS data matched to Florida SNAP and TANF benefit receipt data and Wisconsin TANF recertification data.
*Benefit data refers to individuals receiving benefits.
**Recertification data refers to anyone applying for TANF, regardless of whether they receive TANF.

Table G-2. Analysis of the Qualifying Child Tests for Tax Units with All Members in the TANF Data

	Wisconsin	Florida	
	TANF	TANF	TANF + SNAP
Tax Units	12,821	38,775	46,066
Relationship Test[a]			
All children pass	99%	99%	98%
At least one child fails	1%	1%	1%
Insufficient Evidence	0%	1%	1%
Residency Test[b]			
All children pass	38%	45%	87%
At least one child fails	1%	1%	1%
Insufficient Evidence	61%	54%	12%

Sample: Tax Units claiming the EITC in the IRS data where the primary tax filer, secondary tax filer (if applicable) and all qualifying children are matched to individuals in the state data, regardless of whether any individuals claimed solely as dependents are matched

[a]Relationship Test:
    Fail if the tax filer(s) and the child are not qualifying relatives.
    Have insufficient information if the tax filer(s) and the child have an ambiguous or missing relationship.
    Pass if the tax filer(s) and the child are qualifying relatives.

[b]Residency Test:
    Fail if either the tax filer(s) or the child receives benefits or recertifies in a case without the other covering a six month period with fewer than 10 months between benefit receipt or recertifications.
    Have insufficient information if the tax filer(s) and the child receive benefits or recertifies in the same case but the benefit receipt does not cover a six month period or there are more than 10 months between benefit receipt or recertification.
    Pass if the tax filer(s) and the child receive benefits or recertifies in the same case over a six month period with no more than 10 months between benefit receipt or recertifications.

We find some evidence of failing the residency test for 12 percent of the nearly 6,000 tax units in which all adults are found in the Wisconsin TANF data but not all of the children are found. We find evidence of failing the residency test for 43 percent of the nearly 10,000 tax units in Florida (Table G-3) in which all adults are found in the Florida TANF data, but some children are missing. These represent 0.2 percent of all EITC claims in Wisconsin and 0.2 percent of all tax units claiming the EITC in Florida. If we include SNAP data, we observe 64 percent of these tax units in Florida that might fail the residency test. The 64 percent fail rate in the combined TANF-SNAP data is a bit higher than the 59 percent found in SNAP data alone (table VI-3); however, the estimates are based on a very small group.

Table G-3. Analysis of the Residency Tests for Tax Units Claiming Children Not in the TANF Data

	Wisconsin	Florida	
	TANF	**TANF**	**TANF + SNAP**
Tax Units	5,789	9,999	8,017
Residency Test[a]			
At least one child fails	12%	43%	64%
Insufficient Evidence for all Children	88%	57%	36%

Sample: Tax Units claiming the EITC in the IRS data where the primary tax filer (AND the secondary tax filer if applicable) are matched to individuals in the state data, but at least one of the children they claim is NOT matched to an individual in the state data.
[a]Residency Test:

Fail if either the tax filer(s) receives benefits or recertifies in a case without the child covering a six month period with fewer than 10 months between benefit receipt or recertifications.
Have insufficient information if the tax filer(s) receive benefits or recertifies in a case without the child but the benefit receipt does not cover a six month period or there are more than 10 months between benefit receipt or recertifications. A child, who is not in the state data, is considered to have insufficient information if the child has a missing SSN or was born in 2010.

The final group of tax units we examine are those for which we observe in the state data at least one child being claimed for the EITC, but no adults appear in the state data. In nearly half of these cases in Wisconsin and more than half of these cases in Florida, we observe a child appearing in the state data without the primary taxpayer (or spouse) for at least six months, which provides some evidence of failing the residency test. If we include observations in the Florida SNAP data as well, that number increases dramatically – to 93 percent (table G-4), another example of TANF data being misleading.

Table G-4. Analysis of the Residency Tests for Tax Units with Primary Tax Filers Not in the TANF Data Claiming Children in the TANF Data

	Wisconsin	Florida	
	TANF	**TANF**	**TANF + SNAP**
Tax Units	10,802	50,509	46,138
Residency Test[a]			
At least one child fails	46%	57%	93%
Insufficient Evidence for all Children	54%	43%	7%

Sample: Tax Units claiming the EITC in the IRS data where the primary tax filer (AND the secondary tax filer if applicable) are NOT matched to individuals in state data, but at least one of the children they claim is matched to an individual in the state data.
[a]Residency Test:

Fail if the child receives benefits or recertifies in a case without the tax filer(s) covering a six month period with fewer than 10 months between benefit receipt or recertifications.
Have insufficient information if the child receives benefits or recertifies in a case without the tax filer(s) but the benefit receipt does not cover a six month period or there are more than 10 months between benefit receipt or recertifications.

Unlike in the SNAP data, a very small number of tax units claiming the childless EITC are found in TANF data. As a result, we do not explore these data for evidence that a claimant of the childless EITC has a qualifying child.

Finally, similar to the SNAP data, the match of TANF data to IRS tax returns does not reveal many eligible non-claimants among tax filers, whether using Wisconsin's recertification data or Florida's monthly benefit data (Table G-5). Among individuals who did not file a tax return, the potential pool of eligible non-claimants (those who pass the qualifying child tests) ranges from 37 percent in Wisconsin to 58 percent in Florida.

Table G-5. Analysis of Potential EITC Claimants in the Wisconsin and Florida TANF Data

	Wisconsin TANF		Florida TANF	
	Filed a Tax Return	**Did Not File a Tax Return**	**Filed a Tax Return**	**Did Not File a Tax Return**
Potential Claimants	1,694	5,537	8,298	12,153
Fails	93%	83%	82%	97%
Fails Based on Earnings, Citizenship, or Qualifying Child of Another Person[a]		82%		96%
Fails Based on Qualifying Child Tests[b]	93%	63%	82%	42%
Passes[c]	7%	6%	18%	3%

Sample: Either primary tax filers matched in the SNAP data that do not claim the EITC and have earnings and are citizens or adults in the SNAP data that do not file a tax return.

Notes: These results do not filter out tax units that are already receiving letters, have a recertification indicator, who would not have positive EITC or those with a return processing code indicating ineligibility. Of those who file a tax return the percentage who pass falls to 2% for Wisconsin and 5% for Florida if you exclude these individuals.

[a]If the potential claimant is either not a citizen, has no earnings, and is the qualifying child of another person according to the state data.

[b]If the potential claimant is either alone in a case or in a case with a child that does not meet all of the following criteria: is younger than the potential claimant, is younger than 18, is a qualifying relative, received benefits or recertified in the same case for a period covering at least 6 months with less than 6 months between benefit receipt or recertification and the child is not already claimed for the EITC.

[c]If the potential claimant meets all of the following conditions: is a citizen, has earnings, is not the qualifying child of another person and is in a case with at least one child that is younger than the potential claimant, is younger than 18, is a qualifying relative, is not already claimed for the EITC and received benefits or recertified in the same case for a period covering at least 6 months with less than 6 months between benefit receipt or recertification.

APPENDIX H: CONSIDERATIONS FOR PURSUING A FEDERAL-STATE DATA MATCHING PROGRAM

Although the value of a federal-state data matching program probably does not warrant the time and expense required to put it in place, we consider several challenges that would need to be overcome if the IRS were to choose to pursue a federal-state data matching program for EITC validation purposes.

Improving the usefulness of the data match. As noted in this report, state benefit program data do not prove useful for identifying improper EITC payments, as compared with determining who has a higher probability of error upon examination or audit. Changes to what states collect, how often they collect it, and how they verify it, could make a match more accurate as an exam filter, but will still not raise reliability to the level required for math error authority.

One step that could be taken is to improve the measure of residency by gathering additional information on household composition to reduce the reliance on assumptions. To improve the measure of residency, states could require recertifications to include retrospective questions on changes in household composition since the last data collection. Thus, rather than assume that the household composition did not change between recertifications, one would have detailed reports on how long a tax filer and a child lived together. This approach would likely fail on several accounts. First, it imposes a significant burden and cost on the states and on benefit recipients. Second, it goes against the trend of states attempting to simplify the recertification process. Third, it is doubtful that the retrospective data would be reliable enough due to recall error as well as clients' hesitance to report on changes they fear might affect prior benefits.

Overcoming challenges. To facilitate a matching program with the states, several factors should be considered:

(1) If dealing with multiple agencies, bring the agencies together with a central state facilitator like the Department of Revenue, rather than deal with agencies one-by-one.
(2) The federal government should provide the funds to support the creation of a data file with the required elements in a common structure.
(3) A system should be devised for states to run data pulls that produce a data file with the required data elements in a specific format.
(4) The entire process should be kept as simple as possible.

Ways to incentivize states to share information. Although legislation can compel states to participate, program implementation would go smoother and faster if states have an incentive to share information. Twenty five states and the District of Columbia have a state EITC that is

generally tied to the federal EITC. Anything that reduces improper payments at the federal level would also reduce them at the state level, providing these states an incentive to participate in a matching program. Even in these states, the costs imposed on the states and the burden on staff could still act as a deterrent to participate. States will be more likely to participate if their program benefits in some way, such as receiving resources to upgrade their information systems.

In addition, states (with and without a state EITC) may value using results from the data match to identify EITC-eligible non-claimants in order to conduct outreach. Using outreach to increase federal EITC payments would both improve the well-being of low-income families and inject federal dollars into the states' local economies. Our analysis indicates that matching to state benefit data would not be of use for outreach for those families that filed a tax return. However, if additional analysis were to indicate that eligible non-claimants might be found by identifying benefit recipients who did not file a tax return, the state may be in a position to use this information to conduct outreach. An example of an approach to facilitate outreach is as follows:

- The state agency submits a file to the IRS with the social security numbers and names of all SNAP applicants (or beneficiaries), and the IRS informs the state agency which individuals appear on a tax return.
- The state agency considers whether SNAP applicants who did not file a tax return could benefit from outreach. To facilitate this outreach decision, quarterly earnings from the state's Unemployment Insurance (UI) system could be used to identify who has earnings that qualify them for the EITC.[45]

Legislation would be required for IRS to share this information with state agencies. However, state agencies reluctant to share data with the IRS due to possible enforcement actions against ineligible EITC claimants may be motivated to provide data to the IRS so they can conduct outreach to eligible non-claimants who did not file tax returns.

Continued Evaluation

As noted in this report, SNAP data have potential to flag possible improper claims of qualifying children for auditing. Given that claiming children who are not qualifying children is a major source of error in EITC claims, this would be the direction to pursue if a matching program were to be pursued further. However, further evaluation would be needed. Under those circumstances, we see four specific directions should further evaluation be considered:

1. Any further evaluation should focus primarily on the residency test. Two courses should be pursued.

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[45] State benefit agencies may have to enter into a data sharing agreement with their state employment agency to obtain access to the UI earnings data. However, such agreements may already exist as part of the wage verification the benefit agency undertakes.

a. In our analysis, we made various assumptions in order to calculate whether a tax filer and child could have co-resided for at least six months. We recommend further testing of how good our assumptions are. We found the benefits from using state data come primarily when a tax filer or a child are observed multiple times in the data, but are not observed together. Our assumptions include two components: (1) assuming that the tax filer and child did not reside together in the time period between observations and (2) setting limits as to how far apart observations can be and consider the assumption valid. Further investigation of these two components could reduce the number of both false positive and false negative inferences, making the residency filter more effective. In particular, this investigation could resolve whether household composition changes between recertifications might account for the apparent presence of a qualifying child for those claiming the childless EITC. One concern for future use of SNAP or other benefit program data is the length of time between recertifications. A full investigation of the recertification requirements in each state is warranted, including what changes must be reported between recertifications (and evidence of compliance).

b. We noted that consideration could be given to having benefit recipients provide the month household composition changes took place between recertifications. The feasibility of collecting this information should be explored in terms of (1) states' willingness to collect it and, (2) beneficiaries willingness and ability to provide it. Exploring this path could be combined with (a) above to provide information that helps explore the validity of our assumptions.

2. Our conclusion that SNAP data hold promise for identifying qualifying children is based on a single state. Obtaining SNAP data from additional states would be wise to determine if the possibility exists more widely. Furthermore, we did not have access to SNAP recertification data. The monthly benefit data include the information collected at recertification, but do not identify when the recertification took place. Adding this information to the monthly benefit file may augment the usefulness of the matching exercise. In addition, an investigation across multiple states would be needed to ascertain to what extent recertification information is retained in monthly benefit data files.

3. Finally, we reiterate the idea of exploring the feasibility of combining the residency information from the state benefit data with the FCR in order to improve the FCR's reliability for use in math error processing.