Using Supplemental Nutrition Assistance Program Data in Earned Income Tax Credit Administration

A Case Study of Florida SNAP Data Linked to IRS Tax Return Data

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The earned income tax credit (EITC) is the most effective antipoverty program targeted to working-age households. But the program has been criticized for its high error rate, and these errors often stem from complicated, hard-to-enforce rules about who counts as a "qualifying child."

Workers with qualifying children receive a much larger benefit from the earned income tax credit than workers without qualifying children. To be claimed by a tax filer, the child must meet requirements for age, residency, and relationship with the tax filer. A recent Internal Revenue Service (IRS) compliance study found that the largest share of overclaimed EITC benefits stems from errors in determining whether a child met those requirements, particularly that a child must live with the taxpayer in the United States for at least six months of the year.

Many people who are eligible for the EITC also receive Supplemental Nutrition Assistance Plan (SNAP; formerly food stamps) benefits. SNAP administrative data often include information on all members of the household. In this brief, we use Florida as a case study to explore whether SNAP data could be used to improve EITC enforcement and whether SNAP data can provide information that would help the IRS identify EITC-eligible workers who have not claimed the tax credit.[1]

We found that, except in limited circumstances, the information that applicants report to SNAP is not detailed enough to conclusively verify eligibility, but the data could help the IRS spot potential overclaims worthy of further examination as part of the audit process. SNAP data could also help identify workers who appear to have a qualifying child but claimed the much smaller "childless" EITC and uncover some workers who are eligible for the EITC but did not claim the tax credit. The IRS would face several challenges in developing a data-matching program with states, including getting states to collaborate, navigating the varying organizational structures of states' social service and revenue departments, and handling issues related to data confidentiality and sharing data with the IRS. State data are likely to be cumbersome to work with and may not be available in a timely manner.

Congress could improve credit administration by simplifying the EITC's rules or by creating a "worker credit" that is available to all low-income workers regardless of whether they have children. Examples of this type of reform have been developed in Maag (2015) and proposed by Bipartisan Policy Center (2010). However, such a proposal would represent a major change that would either substantially increase the cost of the program or require cuts in benefits for many current beneficiaries.

Introduction

The EITC is among the largest cash or near-cash transfer programs targeted at low-income families. In 2012, the credit provided $64.1 billion to 27.8 million tax units (IRS 2012). The lion's share of EITC payments went to families with children (97 percent).[2]

The IRS faces two main challenges to the EITC's efficient administration. First, some individuals and families that are ineligible for the EITC claim the credit erroneously. Second and conversely, some individuals and families that are eligible for the EITC fail to claim the credit. The IRS works to correct both of these errors.

Using data from the IRS's National Research Program from tax year 2009, the IRS estimates that for fiscal year 2013, between 22.1 percent and 25.9 percent of total EITC program payments were overclaims (US Department of the Treasury 2013). On tax returns claiming an EITC between 2006 and 2008, determining whether a child met the complex "qualifying child" rules was the largest source of error (IRS 2014). Determining whether a child passed the residency test was a source of error on 75 percent of returns with qualifying child errors. The Office of Management and Budget has identified the EITC as having the highest improper payment rate and second-highest improper payment amount among 13 "high-error" programs.[3]

Unlike some information necessary for calculating taxes (e.g., wages, interest payments, and mortgage interest), the IRS does not receive information from a third party verifying where and with whom a child resides, yet residency is an important element in determining whether a child meets the EITC test of being a qualifying child. To reduce errors associated with the qualifying child test, Congress could simplify the EITC eligibility criteria to remove the residency test or the IRS could develop third-party data that could verify EITC claims. We explore the latter option by using Florida SNAP data matched to IRS data to determine whether such data could be used to verify whether a child meets the residency test.

Our analysis finds that half of all tax units in Florida that claimed the EITC have at least one member who appears in the SNAP data. Although SNAP data contain some information on household structure, the data are only suggestive of EITC eligibility. They are not definitive enough to warrant delaying a refund. These data might, however, help identify returns for audit because of evidence that a child might not meet the residency test. The data may also help determine whether someone claiming the childless EITC has a qualifying child and is thus ineligible for the childless EITC. No person with a qualifying child may claim a childless EITC, even if he or she does not claim the EITC for workers with children.[4] Finally, SNAP data may help the IRS target outreach efforts to potentially eligible nonclaimants who fail to file a tax return.

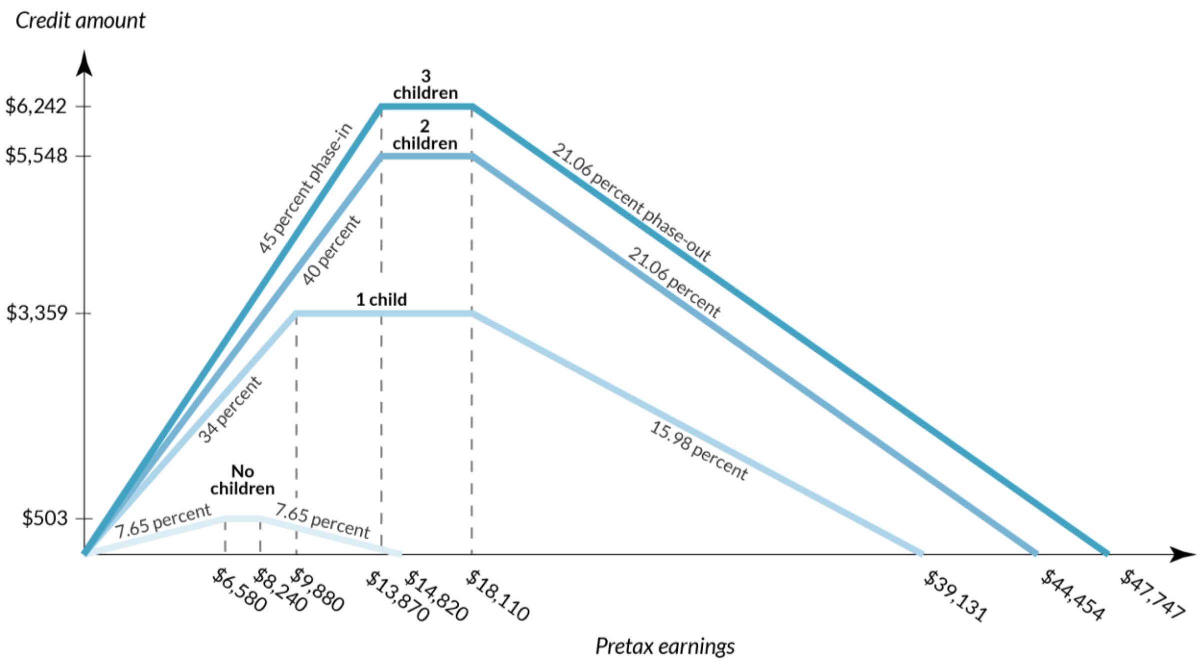
Understanding the EITC and SNAP

The Earned Income Tax Credit

The EITC subsidizes low-income working families. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches its maximum; both the percentage and the maximum credit depend on the number of children in the family. The credit then stays flat at the maximum as earnings continue to rise, but earnings eventually reach a phaseout range. From that point, the credit falls with each additional dollar of income until it disappears entirely (figure 1). The phaseout begins at a higher income for married couples than for individuals. The credit is fully refundable: any excess beyond a family's income tax liability is paid as a tax refund. In tax year 2015, the maximum credit ranges from $503 for tax filers with no children to $6,242 for families with three or more children. All credit thresholds are adjusted annually for inflation.

FIGURE 1

Earned Income Tax Credit, 2015



Source: Urban-Brookings Tax Policy Center, "Earned Income Tax Credit Parameters, 1975-2015," accessed September 7, 2015, http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=36.
Notes: Assumes all income comes from earnings. Amounts are for taxpayers filing a single or head-of-household tax return. For married couples filing a joint tax return, the credit begins to phase out at income $5,520 higher than shown.

Complex 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. Some ineligible EITC claimants receive the tax credit (US Department of the Treasury 2011) and some eligible people fail to claim it. EITC-eligible individuals with incomes below the tax filing threshold are not required to file tax returns, but by not filing they miss the opportunity to receive the EITC. Consider a married couple with two children. If all of their gross income came from earnings, they could earn of up to $19,000 before being required to file a tax return. However, failing to do so would mean they would forgo 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).

Most information required for determining EITC eligibility and the credit amount applies to all people claiming the EITC. This includes having a Social Security number valid for work, filing status, and income and earnings. Families with children must also establish whether each child is a qualifying child. Key determinants of whether a child is a qualifying child include (1) the relationship of the tax filer to the child ("relationship test"), (2) the length of time the tax filer and child have lived together ("residency test"), (3) the age of the child and special conditions, such as being in school ("age test"), and (4) whether the child is married and filed a joint tax return ("joint return test"). Tax filers claiming the childless EITC must also meet an age requirement and certain other restrictions, including not having a qualifying child (even if they do not claim that child for tax purposes).

Qualifying children must meet several requirements. A qualifying child must have a specific relationship to the tax filer (child or stepchild [whether by blood or adoption], foster child, sibling, half-sibling, stepsibling, or descendant of any of these) and live with them in the United States at least half of the year. These two requirements are referred to as the relationship test and residency test, respectively. Children sometimes meet the qualifying child requirements for more than one person, and sorting out who ought to claim the child can be confusing. There are also age restrictions, or an age test. The child must be younger than the taxpayer (or spouse) and be (1) under age 19, (2) between the ages of 19 and 23 and attending school full time during at least five months of the year, or (3) totally disabled. Beyond this, the child cannot file a joint return unless it was only filed to claim a refund of withheld taxes; this is the joint return test. In addition, a child may serve as a qualifying child for only one tax filer, even if he or she meets the requirements for multiple tax filers.[5] Currently, the IRS does not receive third-party information verifying that a child and adult have lived together in the United States for at least half the year, whether a 19- to 23-year-old is in school full time during at least five months of the year, a child's relationship to an adult who is not the child's parent, or a person's disability status. In addition, only incomplete information is available to verify self-employment income. These are all important factors in calculating a person's EITC.

The Supplemental Nutrition Assistance Program

SNAP provides low-income families with funds for food purchases via electronic cards. Benefits are based primarily on household makeup (people who purchase and prepare meals together) and income. It is likely that many people eligible for SNAP benefits are also eligible for the EITC.

The Food and Nutrition Service in the US Department of Agriculture runs the SNAP program. The federal government pays for all benefits and splits the cost of program administration with the states. To receive SNAP benefits, a household must have gross income (income before deductions, which vary by state) less than or equal to 130 percent of the federal poverty level (FPL), and net income (gross income minus deductions) no more than 100 percent of FPL (table 1). 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 because their likelihood of employment is lower and they are less likely to have qualifying children.

TABLE 1

SNAP Income Test, October 1, 2014, through September 30, 2015

Household size	Gross monthly income (130 percent of federal poverty level) ($)	Net monthly income (100 percent of federal poverty level) ($)
1	1,265	973
2	1,705	1,311
3	2,144	1,650
Each additional member	+440	+339

Source: "Supplemental Nutrition Assistance Program (SNAP)," USDA Food and Nutrition Service, accessed July 16, 2015, http://www.fns.usda.gov/snap/eligibility#Income.
Note: SNAP = Supplemental Nutrition Assistance Program.

Most households must have counted assets of less than $2,000 to qualify for SNAP benefits. 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. (EITC refunds can be saved for 12 months after receipt before being counted toward the SNAP asset limit.) Relative to the EITC, SNAP asset limits are more restrictive because the EITC rules only limit the level of income received from investments, not the total value of assets. Households in which all members receive Supplemental Security Income, Temporary Assistance to Needy Families, or General Assistance—programs which have far more restrictive eligibility rules—do not need to pass the income and asset tests because they are automatically eligible for SNAP. About one-quarter of SNAP caseloads in 2010 received these types of benefits (USDA 2011).

Broad-based categorical eligibility (BBCE), a policy that 42 states and the District of Columbia have implemented 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 Temporary Assistance for Needy Families 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. Gross income limits under BBCE range from 130 percent to 200 percent of FPL; 14 states use the latter limit. Some states retain the federal net income limit of 100 percent of FPL, but most do not. However, because benefit calculations are still based on net income, some households that have broad-based categorical eligibility may not actually be eligible to receive a SNAP payment.

Determining exactly how many families are eligible solely because of BBCE is not possible, because the asset information on families in states with these policies often is not collected. In 2008, among the eight states that had broad-based programs with gross income limits over 130 percent of 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.

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 much shorter recertification periods. In 2000, 19 percent of households recertified every three months or less; in 2009 only 1 percent of households did so (Klerman and Danielson 2011). During the recertification interviews, SNAP beneficiaries must update information used to determine eligibility, including household composition.

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), a necessary element to being eligible for the EITC.

Intersection of SNAP and EITC in Florida Administrative Data

Not all EITC recipients will be eligible for or receive SNAP, and not all SNAP recipients will be eligible for the EITC. Importantly, EITC eligibility is based on an annual measure of earnings; SNAP benefits are based on monthly earnings. Assuming annual earnings are spread out evenly across all months of the year, the EITC is available to individuals at higher income levels than SNAP benefits. It is possible to have low earnings in some months and qualify for SNAP but move to a higher-paying job later on and lose eligibility for SNAP in those months and the EITC for the entire year. Although an individual (or spouse, if married) must work and have a valid Social Security number to be eligible for the EITC,[6] 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 Social Security numbers to receive transfer benefits.

In 2010, almost 4.9 million people in Florida were in a tax unit claiming the EITC (table 2). About half (2.4 million) of the people in a tax unit claiming the EITC also received SNAP.[7] These people were in 2.2 million tax units. Half of those tax units (1.1 million) contained at least one person who also received SNAP. Most tax units claiming the EITC found in SNAP units reported at least one qualifying child on their tax return. About 182,000 tax units with at least one person in the Florida SNAP data had no qualifying child.[8]

This study relies on SNAP benefit data from Florida in 2010, a period when the overlap between the two programs was likely unusually high. As the economy recovered, many SNAP beneficiaries probably continued to be eligible for the EITC, but the total number of SNAP beneficiaries declined.

TABLE 2

EITC Claimants Found in Florida SNAP Data (2010)

	Number	Percentage
Individuals in tax units claiming EITC	4,890,219	
State SNAP data	2,444,276	50.0
Not in state benefit data	2,445,943	50.0
Number of tax units claiming EITC	2,168,369	
Matched tax units (tax units with at least one person receiving SNAP benefits)	1,087,308	50.1
Claiming children for EITC purposes	905,009	41.7
All members found in state data	528,257	24.4
All tax filer(s) and at least one child found in state data, but not all children	42,499	2.0
All tax filer(s), but none of the children found in state data	100,527	4.6
No tax filer(s), but all of the children found in the state data	208,449	9.6
At least one tax filer but not all tax filer(s) found in state data	25,277	1.2
Claiming childless EITC	182,299	8.4
At least one tax filer found in state data	182,299	8.4
Unmatched tax units (tax units with no people identified in SNAP data)	1,081,061	49.9

Source: IRS data matched to Florida SNAP benefit receipt data.
Note: EITC = earned income tax credit; SNAP = Supplemental Nutrition Assistance Program.

We test various aspects of EITC eligibility based on which people in the tax unit appear in the Florida SNAP data. For some tax units, we find all members of the tax unit in the state data (24.4 percent). For tax units with all members found in the SNAP data, we analyze both the EITC residency and relationship tests. We can test whether all children in the tax unit appear to be related by one of the qualifying relationships to the adults in the tax unit and observe how many months the children appear to live with the adults in the tax unit. For the 2 percent of tax units in which we observe only a portion of the children, we can test these same things, but only for a portion of the tax unit. For the 4.6 percent of tax units in which we observe adults but none of the children, we have no SNAP data on the relationship of the children being claimed in the tax unit, but we can infer that children claimed by the tax unit are unlikely to have lived in the tax unit long enough if we observe the adults for more than half the year. Finally, in the 9.6 percent of tax units in which we observe children in the SNAP data but not the person claiming them for tax purposes, we can estimate how long these children appear to have lived with someone other than the tax unit claiming them during the year. In cases in which the child lived apart from the person who claimed him or her as a qualifying child for more than half the year, the child is unlikely to have passed the residency test.

Our final analysis group comprises 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.

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

Using Florida SNAP data matched to IRS data, we analyzed the relationship and residency of qualifying children. 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. We identify failures as children whom we observe with a household other than the one claiming the child for EITC purposes for at least six months, or as a taxpayer who claims a child and the child does not appear to be in the SNAP unit containing the taxpayer for at least six months of the year. However, the SNAP data do not record whether a child is present in every month, so we assume that if a child is observed in two periods with an adult, he or she remains with the adult during the intervening months.

If an adult has a qualifying child for the EITC, regardless of whether he or she claims that qualifying child, he or she is ineligible to receive the childless EITC. Our analyses of Florida SNAP data indicate approximately one-eighth (12 percent) of all tax units in Florida that claimed the childless EITC in 2010 may have had an improper claim, based on having a qualifying child.

Finally, our analysis indicates there may be some people who receive SNAP benefits who appear eligible for the EITC but do not file a tax return.

Tax Returns for Families Claiming the EITC for Workers with Children

TAX UNITS WITH ALL ADULTS AND CHILDREN FOUND IN THE STATE DATA

There are 528,257 fully matched tax units in which all adults claiming an EITC and all children claimed for the EITC are found in the state data. All children in almost all fully matched tax units claiming the EITC for families with children have reported relationships that are consistent with EITC qualifying relationships (99.1 percent; table 3).

Determining whether children in these fully matched units meet the residency test is less straightforward than for the relationship test, largely because we must make assumptions about where a child lives during months that are not directly reported to the SNAP office.

To pass the residency test, a claimant and his or her qualifying child must live together for at least six months of the year. Ideally, we would verify residency by observing an EITC claimant and his or her qualifying child together in six months of SNAP data. Conversely, if we observed an EITC claimant and the child he or she claims in different households for at least six months, we could consider the pair to have failed the residency test.

Florida SNAP benefit data do not provide enough information to determine whether a claimant passes or fails the residency test directly. Less than 1 percent of individuals appear in a recertification in six different months and more than half only appear in a recertification once in 2010 (Pergamit et al. 2014). 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 analyzed individual case records in Florida and learned that most SNAP recipients only appeared in a recertification once or twice in 2010, which would be the only direct reports of household composition available in the Florida SNAP data. Our analysis assumes that a child who appears in a SNAP unit remains in that unit until a change is reported to the SNAP administrators, consistent with how benefits are calculated.

We assess length of residency by analyzing how many months a child is considered to be in a SNAP unit during the year. Each case presumably recertifies one or two times a year based on Florida's six-month recertification period; most families will not recertify more than twice a year. Once an application has been submitted, the household structure is assumed by Florida program administrators to remain unchanged until the next recertification, when it is updated based on new information provided by the recipient. SNAP rules in Florida do not require beneficiaries to report household changes except at the time of recertification. If an adult and child appear together in the SNAP data at least twice during the year (which would mean they received benefits in at least two months), with at least four months between observations (to cover a six-month period) and up to 10 months between those two appearances, we consider them to have passed the residency test. In cases in which an adult and child appear together in the SNAP data for fewer than six months, we consider there to be insufficient information for determining whether they passed the residency test.

Applying these criteria, we find that 76.9 percent of fully matched tax units 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 (thus, at the very least the EITC claimants would still be eligible for an EITC for families with one child) and in the remaining 20.5 percent of these tax units, no children claimed for the EITC pass the residency test. In most cases where not all children pass the residency test, the reason is because there is insufficient evidence to evaluate the test for at least some children. In only 0.5 percent of cases is there sufficient evidence to conclude that all children fail the residency test. In another 0.3 percent, at least one child fails, but some either pass or are inconclusive.

TABLE 3

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	0.6%
At least one child fails	0.4%
At least one child has insufficient information	0.2%
No children pass	0.3%
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	2.1%
At least one child fails	0.2%
At least one child has insufficient information	1.9%
No children pass	20.5%
At least one child fails	0.1%
All children have insufficient information	20.5%
All children fail	0.5%

Source: IRS data matched to Florida SNAP benefit receipt data.

Notes: SNAP = Supplemental Nutrition Assistance Program. Sample composed of tax units claiming the earned income tax credit in the IRS data in which the primary tax filer, secondary tax filer (if applicable), and children claimed for the earned income tax credit 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 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 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 receipts; "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 receipts.

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 (but not in the same household as claimed for EITC purposes), and in the remaining 100,527 we observe no children that were claimed for the EITC in the state data (table 4). We apply the same residency tests to these returns as was applied to fully matched tax units 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 the 42,499 tax units in which we observe an adult that claimed a child for the EITC and at least one child who was claimed is observed in the state data, the child claimed for the EITC appeared to live in a different SNAP unit for at least six months than the one the adult claiming them for the EITC lived in. Up to 16 percent more tax units in this group claimed a child for the EITC who did not live with them for at least some months, according to their SNAP reports. In cases where no children were found in the state data, we find evidence of adults who claimed a child for the EITC not reporting at least one child in 1.9 percent of tax returns to SNAP offices and reporting no children eligible for the EITC to SNAP offices in 57.9 percent of cases.

TABLE 4

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	99.1%	
At least one child fails	0.2%	
At least one child has insufficient information	98.9%	
No children pass	0.8%	
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	70.8%	
At least one child fails	54.8%	
At least one child has insufficient information	16.0%	
No children pass	28.0%	42.1%
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%

Source: IRS data matched to Florida SNAP benefit receipt data.
Notes: SNAP = Supplemental Nutrition Assistance Program. Sample composed of tax units claiming the earned income tax credit in the IRS data in which 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 less 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 Social Security number 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 perform 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; table 5). In 60.8 percent of these tax units, we observe at least one of the children claimed as a qualifying child in the Florida SNAP data who, for at least six months, lives 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 5

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	39.3%
At least one child fails	18.2%
All children have insufficient information	21.1%
All children fail	60.8%

Source: IRS data matched to Florida SNAP benefit receipt data.
Notes: SNAP = Supplemental Nutrition Assistance Program. Sample composed of tax units claiming the earned income tax credit in the IRS data in which 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 receipts; "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.

Tax Returns for Workers Claiming the EITC for Workers without Children

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 attempts to claim the childless EITC, if both are eligible to claim the child. It can also happen if unmarried parents live together with their child. In either case, only one adult may claim the EITC for workers with children and neither may claim 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 (table 6). We test these tax units to see whether the claimant appears to have a qualifying child. On 77 percent of these returns, we find no evidence that the EITC claimant has a qualifying child. In 12 percent of the returns in this group that we were able to match, however, we find evidence that the childless EITC claimant has a qualifying child, which would make them ineligible to receive the childless EITC. This represents approximately 1 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 6

Analysis of Childless EITC Claims in Which 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%

Source: IRS data matched to Florida SNAP benefit receipt data.
Notes: EITC = earned income tax credit; SNAP = Supplemental Nutrition Assistance Program. Sample composed of tax units claiming the EITC in the IRS data in which 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 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 six-month period with fewer 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.

Nonclaimants and Nonfilers: Outreach

In some cases, we observe individuals in the Florida SNAP data who 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 is rare.

We observe 731,426 individuals in the SNAP data that have at least one child in the SNAP unit but do not claim the EITC. Of these, 156,518 do not file a tax return (table 7). We do not attempt to find SNAP claimants without children who might be eligible for the EITC, given the very small income range over which someone can be eligible for the childless EITC. The income information in the SNAP data we had was not generally of high enough quality to determine whether a childless individual would qualify for the EITC.

Among the 574,908 individuals with children who file a tax return but do not claim the EITC, 121,976 pass the household level tests to be eligible for the EITC.[9] Only a small fraction of these, 14,326 returns, have children in the SNAP unit that appear to meet the rules to be an EITC qualifying child. However, almost half of these filed returns that appear to have an eligible child (6,158) have either a recertification indicator in the IRS data, meaning they had a previous EITC claim disallowed and must recertify eligibility to receive the EITC, or IRS data indicate that the tax unit has a special processing code indicating the unit is either ineligible or does not want the EITC.

For the 156,518 people who do not appear in the tax data, 3,397 meet the household level tests as well as the qualifying child tests. In total, that leaves 11,565 people who may benefit from IRS outreach efforts aimed at notifying people of potential eligibility for the EITC.

TABLE 7

Analysis of the Potential EITC Claimants in the Florida SNAP Data

	Filed a tax return	Did not file a tax return
Found in SNAP data with child	574,908	156,518
Fails[a]	97.5%	97.8%
Passes all household and individual tests[b]	2.5%	2.2%
No recertification indicator[c]	1.4%	2.2%

Source: IRS data matched to Florida SNAP benefit receipt data.
Notes: EITC = earned income tax credit; SNAP = Supplemental Nutrition Assistance Program. Sample composed of 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.
[a] If the potential claimant is not a citizen, has no earnings, or is the qualifying child of another person according to the state data. The potential claimant must not be alone in a case or in a case with a child who does not meet all of the following criteria: is younger than the potential claimant, received benefits in the same case for a period covering at least six months with less than six months between benefit receipt and the child is not already claimed for the EITC.
[b] If the potential claimant meets all of the following criteria: is a citizen, has earnings, is not the qualifying child of another person and is in a case with at least one child who 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 six months with less than six months between benefit receipts.
[c] A recertification indicator is a note on the IRS data file that indicates a person was denied eligibility in a previous year and must recertify eligibility to receive the EITC.

Discussion

The EITC provides substantial assistance to low-income workers, primarily those with children. To serve as a qualifying child for the EITC, a child must live with the tax filer for at least six months of the year. IRS studies indicate that this residency test is a large source of errors found on returns claiming the EITC. To date, the IRS has no reliable source of third-party information on where a child lives, though transfer programs collect similar data. In addition, some people eligible for the EITC each year fail to get the credit, and information collected by transfer programs could help identify at least some of these nonclaimants. Transfer program information may also help determine whether someone erroneously claims the childless EITC because he or she has a qualifying child; having such a child makes him or her ineligible for the childless EITC regardless of whether he or she claims that child.

Data from SNAP, which covers a relatively large portion of the EITC-eligible population, may help the IRS. The broad definition of a SNAP assistance unit covers most household members, unlike other transfer programs, making it potentially helpful in informing EITC relationship and residency tests. SNAP income limits in many states are substantially lower than the EITC income and earnings limits, so certainly not all people claiming the EITC would be eligible for SNAP. Conversely, all EITC recipients must have a worker in the tax unit, which is not true of all SNAP recipients. The overlap between the EITC population and SNAP population should be better in states that use broad-based categorical eligibility for SNAP, but even then SNAP still fails to include all potential EITC recipients.

State benefit agencies collect eligibility information primarily at the initial program application and at benefit recertification interviews. Over the past decade, state benefit programs have begun allowing longer periods between recertifications, especially for certain subpopulations, such as disabled individuals. Generally, recertifications in SNAP occur every 12 months. The changes states require households to report before recertification vary, and the trend has moved toward reduced reporting requirements. In Florida, for example, SNAP participants are not required to report household composition changes before recertification. Consequently, household composition is known with most confidence at recertification points. This analysis assumes that if someone in the SNAP data reported living with the same people at two different times, then he or she lived with those same people in all intervening time periods. This assumption is not reliable enough to be used for processing under the IRS's math error (initial return checking) authority, but could be a useful filter for selecting cases for auditing.

We find some evidence that tax filers may claim children who have not lived with them for at least half of the tax year (which we count as six full months), assuming our assumption about household stability is correct. We observe cases in which (1) an adult is seen in the benefit data for at least six months without a child he or she claimed as a qualifying child and (2) a child is seen in the benefit data for at least six months with an adult other than the one who claimed him or her as a qualifying child. In cases in which we observe the tax filer in the state data without at least one of the children he or she claimed for the EITC, the taxpayer receives SNAP benefits without that child for at least six months of the year in 60 percent of the tax units, which we infer to mean the child fails the residency test. This represents 4 percent of all EITC claims in Florida. In cases where we observe a child in the SNAP data without the adult who claimed them for the EITC, in 79 percent of tax units, at least one child being claimed for the EITC appeared to live with an adult other than the one claiming the child for at least six months of the year. Those units represent 7.6 percent of all tax units in Florida claiming the EITC.

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 he or she has a qualifying child (IRS 2013). The rule is used to prevent a situation where one person eligible to claim a child for the EITC does so and another person eligible to claim that same child (but filing a separate tax return) claims the childless EITC.

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 about 182,000 cases in the Florida SNAP data in which a tax unit claims the childless EITC. Based on our assessment of the residency and relationship tests, 12 percent of these cases appear to have a qualifying child and thus are not eligible to claim a childless EITC. In 75 percent of these ineligible cases, the child we identify as being a qualifying child of the childless EITC claimant is actually claimed as a qualifying child by another person in the IRS data.

It is possible 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 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, because 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 population.

Finally, although we find many childless EITC claimants in the SNAP data that may have qualifying children, the dollar amount associated with a childless EITC claim is small relative to that available to families with children. The returns from pursuing errant childless EITC claims would be small.

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 help the IRS conduct outreach to eligible nonclaimants 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; 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 postfiling notices.[10]

Eligible nonclaimants 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 data, leaving only 2 percent of nonfilers appearing to be eligible. 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 nonclaimants.

Developing a data-matching program with all states would take considerable effort on the part of the IRS. 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 when dealing with multiple state agencies. These agreements would need to be tailored to comply with each state's laws regarding sharing confidential data. Some states might need to improve their data systems or collect additional data. The state data would have to be reconfigured to meet the requirements of the match, and the IRS would need to set up systems to match the data with tax returns. 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 50 states and the District of Columbia would likely take many years to complete.

Congress could improve the EITC by simplifying the program rules or by creating a worker credit that is available to all low-income workers, regardless of whether they have children. These changes could preserve the EITC's work-incentive and antipoverty benefits while reducing errors and making the tax credit easier for workers to claim. Examples of this type of reform have been developed in Maag (2015) and proposed by Bipartisan Policy Center (2010). However, such a proposal would represent a major change that would either substantially increase the cost of the program or require cuts in benefits for many current beneficiaries.

Notes

1. This report is part of a larger project documented in Pergamit et al. (2014).
2. Urban-Brookings Tax Policy Center. "Table T13-0221: Tax Benefit of the Earned Income Tax Credit." Washington, DC: Urban Institute, 2013. http://www.taxpolicycenter.org/numbers/displayatab.cfm?DocID=3980&topic2ID=60&topic3ID=65&DocTypeID=.
3. See "High-Error Programs," Payment Accuracy, accessed July 1, 2015, http://www.paymentaccuracy.gov/high-priority-programs. The Office of Management and Budget 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."
4. Only one person may claim any particular child for the EITC. If a child can be a qualifying child for more than one person, any nonclaimant is disqualified for the childless EITC (although he or she might be able to claim an EITC by virtue of other qualifying children).

5. If more than one person claims a child for the EITC, the IRS invokes a tiebreaker rule if the 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.
6. In a married couple, both partners in the couple must have a Social Security number valid for work to be eligible for the EITC.
7. Less than 1 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.
8. In a small number of cases, Social Security numbers recorded in SNAP data were invalid and others were not recorded. We exclude these cases from this analysis.
9. All adults in the tax unit are citizens with valid Social Security numbers with earnings that appear to be beneath the EITC qualifying threshold. No adult in the unit has been claimed as a qualifying child on another return, the return that has been filed does not use the status "married filing separately," and no adult in the unit files a tax form indicating he or she has investment income in excess of the allowable limit.
10. 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.

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