DESCRIPTION OF PRESENT LAW AND DISCUSSION OF ISSUES RELATING TO THE EARNED INCOME TAX CREDIT

Scheduled for a Public Hearing

Before the

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and the

SUBCOMMITTEE ON HUMAN RESOURCES

of the

HOUSE COMMITTEE ON WAYS AND MEANS

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INTRODUCTION

The Subcommittee on Oversight and the Subcommittee on Human Resources of the House Committee on Ways and Means have scheduled a joint public hearing on June 15, 1995, on the earned income tax credit ("EITC") and proposals to modify the EITC.

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of the present-law EITC, its legislative history, proposals, and a discussion of related issues.

Part I of the document is a description of present law, Part II is a legislative history of the EITC, Part III describes certain legislative proposals, and Part IV is a discussion of related issues. The Appendix provides certain data relating to the EITC.

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[1] This document may be cited as follows: Description of Present Law and Discussion of Issues Relating to the Earned Income Tax Credit (JCX-27-95), June 14, 1995.

I. DESCRIPTION OF PRESENT-LAW EARNED INCOME TAX CREDIT PROVISIONS

In general

Under present law, certain eligible low-income workers are entitled to claim a refundable earned income tax credit. The amount of the credit an eligible taxpayer may claim depends upon whether the taxpayer has one, more than one, or no qualifying children and is determined by multiplying the credit rate by the taxpayer's earned income up to an earned income threshold. The maximum amount of the credit is the product of the credit rate and the earned income threshold. For taxpayers with earned income (or adjusted gross income (AGI), if greater) in excess of the phaseout threshold, the credit amount is reduced by the phaseout rate multiplied by the amount of earned income (or AGI, if greater) in excess of the phaseout threshold. For taxpayers with earned income (or AGI, if greater) in excess of the phaseout limit, no credit is allowed.

As enacted in Public Law 104-7 (H.R. 831), for taxable years beginning after December 31, 1995, a taxpayer is not eligible for the EITC if the aggregate amount of "disqualified income" of the taxpayer for the taxable year exceeds $2,350. Disqualified income is the sum of:

(1) interest (taxable and tax-exempt),
(2) dividends, and
(3) net rent and royalty income (if greater than zero).

The parameters for the EITC depend upon the number of qualifying children the taxpayer claims. For 1995 the parameters are as follows:

	Two or more qualifying children--	One qualifying child--	No qualifying children--
Credit rate	36.00%	34.00%	7.65%
Phaseout rate	20.22%	15.98%	7.65%
Earned income threshold	$8,640	$6,160	$4,100
Maximum credit	$3,110	$2,094	$314
Phaseout threshold	$11,290	$11,290	$5,130
Phaseout limit	$26,673	$24,396	$9,230

For 1996 and after, the credit rate will be 40 percent and the phaseout rate will be 21.06 percent for taxpayers with two or more qualifying children. For 1996 and after, the credit rate and

the phaseout rate for taxpayers with one qualifying child or no qualifying children will be the same as those listed in the table above.

The earned income threshold and the phaseout threshold are indexed for inflation; because the phaseout limit depends on those amounts, the phaseout rate, and the credit rate, the phaseout limit will also increase if there is inflation.

Earned income consists of wages, salaries, tips, other employee compensation, and net self-employment income. To calculate earned income for purposes of the EITC a taxpayer must take into account several sources of income. First, the taxpayer must take the amount reported on line 7 of the Form 1040. This amount is the total of wages, salaries and tips for the taxpayer (and, if married, the taxpayer's spouse) for the taxable year. Second, the taxpayer then subtracts any taxable scholarship or fellowship grants. Third, the taxpayer adds nontaxable earned income. Examples listed in the IRS instructions to the Form 1040 include: basic quarters and subsistence allowance and the value of in-kind quarters and subsistence received from the U.S. military, housing allowances or the rental value of parsonage for clergy members, meals and lodging provided for the convenience of the employer, certain voluntary salary deferrals (*e.g.*, contributions to a 401(k) plan), excludable dependent care benefits, certain voluntary salary reductions, and excluded combat zone pay.

In the case of a self-employed taxpayer, the self-employment income of the taxpayer (and, on a joint return, the self-employment income of the taxpayer's spouse) must be included. To compute self-employment income, the taxpayer adds net profit or loss from Schedule C, Schedule C-EZ, Schedule F, and Schedule K-1 (Form 1065). There are special rules for ministers and members of religious orders.

A worker with qualifying children may elect to receive the EITC on an advance basis by furnishing an advance payment certificate to his or her employer. For such a worker, the employer makes an advance payment of the credit at the time wages are paid. The amount of advance payment allowable in a taxable year is limited to 60 percent of the maximum credit available to a taxpayer with one qualifying child.

In order to claim the EITC, a taxpayer must either have a qualifying child or meet other requirements. A qualifying child must meet a relationship test, an age test, an identification test, and a residence test.

In order to claim the EITC without a qualifying child, a taxpayer must not be a dependent and must be over age 24 and under age 65. In addition, the taxpayer's principal place of abode must be located in the United States for more than one-half of the taxable year. For purposes of this test, a member of the Armed Forces stationed outside the United States on extended active duty is considered to be maintaining a principal place of abode in the United States.

Qualifying child

Under the relationship and age tests, an individual (or married couple) is eligible for the EITC with respect to another person only if that other person: (1) is a son, daughter, or adopted child (or a descendent of a son, daughter, or adopted child); a stepson or stepdaughter; or a foster child of the taxpayer (a foster child is defined as a person whom the individual cares for as the individual's child; it is not necessary to have a placement through a foster care agency); (2) is under the age of 19 at the close of the taxable year (or is under the age of 24 at the end of the taxable year and was a full-time student during the taxable year), or is permanently and totally disabled; and (3) shares the same place of abode as the person claiming the credit for more than one-half the year (the entire year for foster children). Also, if the qualifying child is married at the close of the year, the individual may claim the EITC for that child only if the individual may also claim that child as a dependent. Taxpayers who are married (as defined in Code sec. 7703) may claim the EITC only if they file a joint return.

In addition to the above criteria, two "tiebreaker" rules apply:

(1) If more than one individual may claim the EITC (if any) with respect to any qualifying child, then only the individual with the highest AGI may claim the EITC with respect to the child. For example, assume a hypothetical household comprised of a grandmother, mother (age 25), and child (age 2). Both the grandmother and the mother are eligible to claim the credit with respect to the child. In this case, however, only the individual with the higher AGI is eligible to claim the credit (assuming the other requirements are met).

(2) An individual who is himself or herself a qualifying child may not claim the EITC. If in the above example, the mother is age 17 (instead of age 25), then she is a qualifying child of the grandmother. In this case, only the grandmother could claim the EITC, with respect to her own child (mother, age 17) and her grandchild (child, age 2).

To satisfy the identification test, taxpayers must include on their tax return the name and age of each qualifying child. For returns filed with respect to tax year 1995, taxpayers must provide a taxpayer identification number (TIN) for all qualifying children who were born on or before October 31, 1995. For returns filed with respect to tax year 1996, taxpayers must provide TINs for all qualifying children born on or before November 30, 1996. For returns filed with respect to tax year 1997 and all subsequent years, taxpayers must provide TINs for all qualifying children, regardless of their age. A taxpayer's TIN is generally that taxpayer's social security number. Some taxpayers are exempt from social security taxes because of their religious beliefs. These taxpayers do not have a social security number; instead, the Internal Revenue Service administratively assigns them a taxpayer identification number.

The residence test requires that a qualifying child must have the same principal place of abode as the taxpayer for more than one-half of the taxable year (for the entire taxable year in the case of a foster child), and that this principal place of abode must be located in the United States.

For purposes of determining whether a qualifying child meets the residence test, for any period during which a member of the Armed Forces is stationed outside the United States while serving on extended active duty, the member is not subject to the requirement that the principal place of abode for a qualifying child and the member be in the United States.

Nonresidents and the EITC

The EITC may be claimed by a taxpayer meeting the above requirements if the taxpayer is a U.S. citizen or a resident alien.

Section 7701(b) defines a resident alien for income tax purposes. Aliens who do not meet this definition are nonresident aliens. For income tax purposes, an individual is generally considered a resident if the individual:

(1) has entered the United States as a lawful permanent U.S. resident (the "green card test"), or

(2) is present in the United States for 31 or more days during the current calendar year and has been present in the United States for 183 or more days during a three-year period weighted toward the present year (the "substantial presence test"). (An individual who is present in the United States for fewer than 183 days and establishes that he has a closer connection with a foreign country than with the United States is generally not subject to tax as a resident alien on account of the substantial presence test.)

Individuals who are nonresident aliens for any portion of the taxable year are not eligible to claim the EITC for taxable years beginning after December 31, 1994, unless an election under Code section 6013(g) or (h) is in effect for the taxable year.

Under section 6013(g), a nonresident alien who is married to an individual who is either a citizen or resident alien of the United States at year end may elect to be treated as a resident for the entire year. The election applies to the year for which it is made and all subsequent years until terminated. The election will be suspended, however, if neither spouse is a U.S. citizen or resident at any time during a taxable year.

Under section 6013(h), an individual who (1) is a nonresident alien at the beginning of the year and a resident alien at the end of the year and (2) is married to an individual who is either a citizen or resident of the United States at the end of the year may elect to be treated as a resident for the entire year. Thus, this election can be made by a foreign married couple who arrive in the United States during the taxable year and who are resident aliens at year end.

Mathematical errors

The IRS may summarily assess additional tax due as a result of a mathematical error without sending the taxpayer a notice of deficiency and giving the taxpayer an opportunity to petition the

Tax Court. Where the IRS uses the summary assessment procedure for mathematical or clerical errors, the taxpayer must be given an explanation of the asserted error and a period of 60 days to request that the IRS abate its assessment. The IRS may not proceed to collect the amount of the assessment until the taxpayer has agreed to it or has allowed the 60-day period for objecting to expire. If the taxpayer files a request for abatement of the assessment specified in the notice, the IRS must abate the assessment. Any reassessment of the abated amount is subject to the ordinary deficiency procedures. The request for abatement of the assessment is the only procedure a taxpayer may use prior to paying the assessed amount in order to contest an assessment arising out of a mathematical or clerical error. Once the assessment is satisfied, however, the taxpayer may file a claim for refund if she believes the assessment was made in error.

II. LEGISLATIVE HISTORY

The earned income tax credit (Code sec. 32) was enacted in 1975 as a means of targeting tax relief to working low-income taxpayers with children, providing relief from the Social Security payroll tax for these taxpayers, and improving incentives to work. As originally enacted,[2] the credit equaled 10 percent of the first $4,000 of earned income (*i.e.*, a maximum credit of $400). The credit began to be phased out for taxpayers with earned income (or AGI, if greater) above $4,000, and was entirely phased out for taxpayers with income of $8,000.

The Revenue Act of 1978 increased the maximum credit to $500 (10 percent of the first $5,000 of earned income). Also, the income level at which the phaseout began was raised to $6,000, with a complete phaseout not occurring until an income level of $10,000. The Deficit Reduction Act of 1984 increased the maximum credit to $550 (11 percent of the first $5,000 of earned income) and the credit was phased out beginning at $6,500 of income and ending at $11,000.

The Tax Reform Act of 1986 increased the maximum credit to $800 (14 percent of the first $5,714 of earned income), beginning in 1987. The maximum credit was reduced by 10 cents for each dollar of earned income (or AGI, if greater) in excess of $9,000 ($6,500 in 1987). These $5,714 and $9,000 amounts (stated above in 1985 dollars) were indexed for inflation.

The Omnibus Budget Reconciliation Act of 1990 (OBRA 1990) substantially increased the maximum amount of the basic credit and added an adjustment to reflect family size. OBRA 1990 also created two additional credits as part of the EITC: the supplemental young child credit and the supplemental health insurance credit. Both of these supplemental credits used the same base as the basic EITC.

OBRA 1990 also modified the definition of taxpayers eligible for the EITC. Under prior law, taxpayers were required to file a joint return or file as a head of household or surviving spouse in order to be eligible for the EITC. OBRA 1990 generally broadened the set of eligible taxpayers and set out uniform requirements for qualifying children. The definition of "qualifying child" enacted in OBRA 1990 is described in the present-law section.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 1993) expanded the EITC in several ways. For taxpayers with one qualifying child, the EITC was increased to 26.3 percent of the first $7,750 of earned income in 1994. For 1995 and thereafter, the credit rate was increased to 34 percent. In 1995, the maximum amount of earned income on which the credit could be claimed is $6,160 (this is a $6,000 base in 1994, adjusted for inflation). The phaseout rate for 1994 and thereafter is 15.98 percent.

For taxpayers with two or more qualifying children, the EITC was increased to 30 percent of the first $8,425 of earned income in 1994. The maximum credit for 1994 was $2,527 and was

[2] Table 2 in the Appendix shows the parameters of the EITC over its history.

reduced by 17.68 percent of earned income (or AGI, if greater) in excess of $11,000. The credit rate increases over time and equals 36 percent for 1995 and 40 percent for 1996 and thereafter. The phaseout rate is 20.22 percent for 1995 and 21.06 percent for 1996 and thereafter.

OBRA 1993 also extended the EITC to taxpayers with no qualifying children. This credit for taxpayers with no qualifying children is available to taxpayers over age 24 and below age 65. Finally, OBRA 1993 repealed the supplemental young child credit and the supplemental health insurance credit.

The implementing legislation for the General Agreements on Tariffs and Trade enacted in 1994 made a number of modifications to the EITC. First, it removed from the definition of earned income in Code section 32(c)(2) any amount received for services provided by an inmate of a penal institution. Second, it generally made nonresident aliens ineligible to claim the EITC. Third, it deemed that a member of the Armed Forces stationed outside the United States while serving on extended active duty would satisfy the test that the principal place of abode be within the United States. Fourth, it required that members of the Armed Forces receive annual reports from the Department of Defense of earned income (which includes nontaxable earned income such as amounts received as basic allowances for housing and subsistence). Fifth, it phased in a requirement that taxpayers provide a TIN for each qualifying child regardless of the dependent's age. Prior to the legislation, taxpayers had to provide a TIN only for qualifying children who attained the age of one before the close of the taxpayer's taxable year.

Under Public Law 104-7 (H.R. 831), effective for taxable years beginning after December 31, 1995, a taxpayer is not eligible for the EITC if the aggregate amount of disqualified income (i.e., taxable and tax-exempt interest, dividends, and (if greater than zero) net rent and royalty income) of the taxpayer for the taxable year exceeds $2,350.

III. DESCRIPTION OF PROPOSALS

A. Administration's Fiscal Year 1996 Budget Proposal

Earned income tax credit denied to individuals not authorized to be employed in the United States[3]

Taxpayers would not be eligible for the EITC if they do not include their taxpayer identification number (and, if married, their spouse's taxpayer identification number) on their tax return. Solely for these purposes and for purposes of the present-law identification test for a qualifying child, a taxpayer identification number would be defined as a social security number issued to an individual by the Social Security Administration other than a number issued under section 205(c)(2)(B)(i)(II) (or that portion of 205(c)(2)(B)(i)(III) relating to it) of the Social Security Act (regarding the issuance of a number to an individual applying for or receiving Federally funded benefits). Thus, if an individual obtained a social security number solely because that individual is an applicant for, or a recipient of, Federally funded benefits, the individual would be ineligible to claim the EITC.

If a taxpayer fails to provide a correct taxpayer identification number, such omission would be treated as a mathematical or clerical error. Thus, any notification that the taxpayer owes additional tax because of that omission would not be treated as a notice of deficiency.

Earned income tax credit denied to individuals with substantial unearned income[4]

A taxpayer would not be eligible for the EITC if the aggregate amount of interest and dividends includible in his income for the taxable year exceeds $2,500. For taxable years beginning after 1996, the $2,500 limit would be indexed for inflation with rounding to the nearest multiple of $50.

Effective date

These proposals would be effective for taxable years beginning after December 31, 1995.

B. Senate Budget Resolution (S.Con.Res. 13)

The Senate Budget Resolution for fiscal years 1996-2002 (S.Con.Res. 13; S.Rept. 104-82), as passed by the Senate on May 25, 1995, contains a provision that would achieve savings in the EITC. That provision would (1) accept the Administration proposal that would deny the EITC to

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[3] Included in H.R. 981, "Tax Compliance Act of 1995," as introduced by Representatives Gephardt and Gibbons (by request) on February 16, 1995.

[4] Public Law 104-7 (H.R. 831) enacted a similar provision with more stringent limits.

individuals not authorized to be employed in the United States, (2) repeal the credit for individuals with no qualifying children, and (3) set the EITC for 1996 at 30.15 percent of the first $7,150 of earned income (for taxpayers with one qualifying child[5]) and at 35 percent of the first $8,910 of earned income (for taxpayers with two or more qualifying children). The phaseout rate for 1996 would be set at 15.98 percent for taxpayers with one qualifying child and 19.37 percent for taxpayers with two or more qualifying children.

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[5] The combination of the reduction in the credit rate and the increase in the earned income threshold would leave the maximum credit for taxpayers with one qualifying child virtually unchanged from present law.

IV. DISCUSSION OF ISSUES

As mentioned earlier (see Part II), two of the stated goals of the EITC when it was enacted were to provide targeted tax relief to working low-income taxpayers with children and to improve those individuals' work incentives. This part discusses the effect of the EITC on work incentives, the EITC's effectiveness at reaching the targeted population, and the IRS's administrative measures to reduce noncompliance. It then concludes with a brief discussion of some proposed alternatives to the EITC.

Effect of the EITC on labor supply

In general, a program like the EITC can have two effects on the work effort of individuals already in the labor force. First, since it changes the after-tax wage (*i.e.*, the return to each additional hour of work), people might choose to work a different number of hours. With a higher after-tax wage, for example, it is more expensive for individuals not to work, so they may substitute hours of work for hours of leisure. Second, since it increases people's disposable income, they might choose to work less — for instance, by working fewer hours per week, taking more leisure time, or giving up a part-time job. The direction of the first effect (the "substitution effect") depends upon whether the individual's income puts him in the phase-in, plateau, or phaseout range of the credit. The direction of the second effect ("the income effect") is to reduce hours worked for all individuals receiving the credit. For individuals not currently in the labor force, the EITC increases the average wage and can induce them to enter the labor force.

For individuals who are in the labor force and whose income puts them in the phase-in range, the EITC increases the after-tax wage, so the substitution effect is in the opposite direction of the income effect. The net change in work effort depends upon the relative magnitude of the two effects. For individuals in the plateau range, there is no effect on the after-tax wage. Since the credit is at the maximum amount, the EITC operates like a lump-sum grant, and work effort would tend to fall because of the income effect. For individuals in the phaseout range, the EITC reduces the after-tax wage, since an additional dollar of earnings will result in a reduction in the EITC received (by the phaseout rate times the additional earnings). In this case, the substitution effect reinforces the income effect, and a reduction in work effort could be expected.

In the aggregate, the effect of the EITC on those already in the labor force depends upon the relative sizes of the work incentives or disincentives for individuals in the different income ranges and the relative number of EITC-eligible individuals in each of the those ranges. Estimates suggest that just under one-quarter of recipients are in the phase-in range, just over three-fifths are in the phaseout range, and the remainder (about one-sixth) are in the plateau range.[6] So for the vast

[6] Estimates are from John Karl Scholz, "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness," *National Tax Journal*, 47, March 1994, p. 78, and Janet Holtzblatt, Janet McCubbin, and Robert Gillette, "Promoting Work through the EITC," *National Tax Journal*, 47, September 1994, p. 598.

majority of individuals, the marginal effect of the credit is unambiguously to reduce work incentives. Using estimates from the economics literature of the response of labor supply to changes in after-tax wages, a number of researchers have simulated the effects on aggregate labor supply of recent changes in the EITC.[7] In general, they find that hours worked increase for individuals in the phase-in range (where the theoretical effect is ambiguous) and decrease for individuals in both the plateau and phaseout ranges (in accord with the theoretical prediction). The effects on labor supply are generally larger for secondary earners in two-parent families than for primary earners or single-parent families.

One caveat with these findings is that they presume that individuals correctly perceive the effect of the credit on their after-tax wage. Most of the EITC claimants receive their credit in a lump-sum at the time they file their tax returns. If they do not make the connection between the amount they receive in credit and their earned income, these estimates of labor supply effects may be incorrect. A second caveat is that the studies did not examine directly the effects of the EITC on labor supply. The studies generally simulated the effects of the EITC using behavioral parameters from the economics literature, in some cases, from the negative income tax experiments from the 1970s, in other cases from other labor supply studies. Thus, the accuracy of the simulation results depends upon whether the parameters from other labor supply studies accurately reflect the behavior of EITC participants.

Most of the estimates of the EITC's effect on labor supply focus on the individuals already receiving the credit and do not attempt to model individuals' decisions of whether or not to work. One study[8] that does look at the question of labor market participation suggests that the OBRA 1993 changes would, on average, increase the after-tax wage of single-parent families by 15 percent, leading to a 6.2 percent increase in the probability of working. For secondary earners in two-parent families, the OBRA 1993 changes would, on average, decrease the after-tax wage by five percent, leading to a decrease in the probability of working. These changes in labor force participation,

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[7] The following sources use labor supply estimates from the Seattle and Denver negative income tax experiments: U.S. General Accounting Office, *Earned Income Tax Credit: Design and Administration Could Be Improved*, GAO/GGD-93-145, September 1993 (looking at the EITC in 1988 and as it would have been in 1994 had the OBRA 1993 changes not been made); Holtzblatt, McCubbin, and Gillette (looking at the OBRA 1990 and OBRA 1993 changes); Saul D. Hoffman and Laurence S. Seidman, *The Earned Income Tax Credit: Antipoverty Effectiveness and Labor Market Effects*, (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research), 1990 (looking at the EITC in 1988). Stacy Dickert, Scott Houser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," in James M. Poterba (ed.), *Tax Policy and the Economy*, vol. 9, (Cambridge, Mass.: National Bureau of Economic Research and MIT Press), 1995, pp. 1-50 (looking at the OBRA 1993 changes) used another set of estimated labor supply responses.

[8] Dickert, Houser, and Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation," *op. cit.*

which on balance increase the labor force, may offset the reduction in work effort by those already in the labor force. Dickert, Houser, and Scholz calculate that if the new entrants worked an average of 20 hours per week for 20 weeks a year, the increase in labor force participation would more than fully offset the reduction in hours from those already in the labor force.[9]

Some commentators have stressed that one should not look at the EITC as an isolated program but rather as one part of a system of transfers to lower-income individuals.[10] The interaction with other programs can affect labor supply. Other transfer programs, such as Aid to Families with Dependent Children (AFDC), food stamps, and Supplemental Security Income (SSI), contain significant implicit marginal tax rates in the form of the phaseout of benefits as income increases. For individuals whose income puts them in the phase-in range of the EITC, the wage subsidy in the phase-in range may offset some of the implicit marginal tax from the reduction in other benefits. For individuals whose income puts them in the phaseout range of the EITC, the phaseout of the EITC may exacerbate any implicit marginal tax from the loss of other benefits. On balance, one set of simulations suggest that the combined marginal tax rate (explicit and implicit) on lower-income individuals does not exceed 40 percent, but the variance across individuals may be large.[11]

Targeting of the EITC to its intended beneficiaries

Because it is delivered through the tax system, the EITC may have better participation rates than other transfers, perhaps because there is less stigma to claiming the credit. The EITC may also involve less intrusion into claimants' lives. Individuals can file a claim by filling out a tax return in the privacy of their own home rather than by standing in line at a disbursement office and being subject to questions. Scholz estimated that in 1990, between 75 and 90 percent of the taxpayers

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[9] *Ibid.*

[10] See, for example, Anne L. Alstott, "The Earned Income Tax Credit and Some Fundamental Institutional Dilemmas of Tax-Transfer Integration," *National Tax Journal*, 47, September 1994, pp. 609-619, and Anne L. Alstott, "The Earned Income Tax Credit and the Oversimplified Case for Tax-Based Welfare Reform," *Harvard Law Review*, 108, January 1995.

[11] Stacy Dickert, Scott Houser, and John Karl Scholz, "Taxes and the Poor: A Microsimulation Study of Implicit and Explicit Taxes," *National Tax Journal*, 47, September 1994, pp. 621-638.

eligible to receive the EITC actually claimed the credit.[12] By comparison, the percentage of eligible individuals claiming food stamps, SSI, and AFDC have generally been lower.[13]

At the same time, the EITC may also be more prone to improper claims, because unlike such programs as food stamps and AFDC, there are no caseworkers to process the claims and check up on claimants. Instead, any monitoring of the EITC must come through the IRS tax enforcement process. Estimates using data from the IRS's Taxpayer Compliance Measurement Program (TCMP) suggest that in 1988, 32 percent of the EITC claimants were ineligible for the credit. Thirty-four percent of the credit amount claimed that year was claimed inappropriately (this measure includes excess amounts claimed by individuals entitled to the credit as well as the entire amounts claimed by individuals who were not entitled to the credit). Data from earlier TCMP audits were roughly similar. Data from the 1985 TCMP suggest that 38 percent of the EITC claimants were ineligible for the credit and 37 percent of the credit amount was claimed inappropriately, while data from the 1982 TCMP suggest that 27 percent of the EITC claimants were ineligible for the credit and 29 percent of the credit amount was claimed inappropriately.[14]

No TCMP audits of individual taxpayers have been conducted since the 1988 panel, so there has not been a chance to update these estimates, which come from a sample representative of all EITC claimants. Also, there have been substantial changes to the EITC since 1988, which makes it difficult to extrapolate the findings from TCMP data from the 1980s to the present. For example, one of the contributing factors to erroneous claims of the credit was taxpayer confusion about filing status. On the 1985 TCMP, over half of the EITC returns that were disallowed were a result of taxpayers erroneously claiming a child exemption. Upon audit, over half of those disqualified claims had the filing status changed from one that would have allowed the EITC to be claimed to one that did not (*e.g.*, from head of household to single).[15] The simplification of the qualifying child rules in OBRA 1990 could have helped to reduce this type of erroneous EITC claim. The filing of

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[12] John Karl Scholz, "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness," *National Tax Journal*, 47, March 1994, pp. 65-72. Scholz used a number of methods to estimate the participation rate; the extreme values of the estimate are listed above. His preferred estimate is 80 to 86 percent.

[13] Robert H. Haveman estimated participation rates for food stamps and SSI of 50-60 percent in the late 1970s and for AFDC from 56 percent in Arizona to 95 percent in the District of Columbia in 1975-1976. Rebecca M. Blank and Patricia Ruggles estimated participation rates for food stamps of 54 to 66 percent and for AFDC of 62 to 72 percent (both in 1986-1987). Both studies are cited in Scholz, "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness," *op. cit.*, at p. 71.

[14] Scholz, "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness," *op. cit.*, at pp. 68-69.

[15] Janet Holtzblatt, "Administering Refundable Tax Credits: Lessons from the EITC Experience," *Proceedings of the 84th Annual NTA-TIA Conference*, 1991, pp. 180-186.

a separate Schedule EIC (also a result of OBRA 1990) may also have reduced the error rate. On the other hand, the increase in the credit rate and the maximum credit may have encouraged more individuals to claim the credit erroneously.

The IRS studied a sample of EITC returns that were filed electronically during a two-week period in January 1994 in order to look at erroneous EITC claims. Unlike the TCMP data, which provide a sample of the entire EITC population, this sample is only generalizable to the returns filed electronically in that two-week period. The IRS's preliminary analysis of this sample indicated that 29 percent of the 1.3 million EITC returns filed during the two-week period claimed too large a refund. About 13 percent of the 1.3 million returns were classified as intentional error.[16] The IRS's final analysis of the sample indicated that 26.1 percent of the dollar amount of the credit was claimed inappropriately.[17]

As enacted in Public Law 104-7 (H.R. 831) for taxable years beginning after December 31, 1995, taxpayers with "disqualified income" in excess of $2,350 will not be eligible for the earned income credit. One might argue that individuals with substantial assets could use proceeds from the sale of those assets in place of the EITC to support consumption in times of low-income. Transfer programs such as AFDC, food stamps, and Medicaid have asset tests for determining eligibility.[18] Such programs also have caseworkers available to make determinations about the assets owned by a potential claimant. In the case of the EITC, the IRS does not have caseworkers to assess the balance sheets of millions of taxpayers, and it does not currently have information on most taxpayers' asset-holdings. Therefore, in order to apply a proxy for an asset-based test, Public Law 104-7 concentrates on the returns generated by those assets. Interest, dividend, and net rental and royalty income represent flows of income from assets that represent wealth of the taxpayer.[19] Any proposed additions to this test could be evaluated on whether they represent returns from an asset that can be liquidated without much difficulty. Examples of possible additions are net capital gains and other passive income.

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[16] U.S. General Accounting Office, *Earned Income Credit: Targeting to the Working Poor*, GAO/GGD-95-122BR, March 1995, pp. 14-15.

[17] Internal Revenue Service, "Study of EIC Filers for Tax Year 1993," June 1995, pp. 4-5. This study was provided as an appendix to the testimony of IRS Commissioner Richardson before the Senate Committee on Finance (June 8, 1995).

[18] For a discussion of the effect on saving behavior of asset-based means testing of welfare programs, see R. Glenn Hubbard, Jonathan Skinner, and Stephen P. Zeldes, "Precautionary Saving and Social Insurance," *Journal of Political Economy*, 103, April 1995, pp. 360-399.

[19] Because there is no adjustment for liabilities of the taxpayer, a taxpayer could be denied an EITC on the basis of unearned income even when net wealth is zero.

Another possible way to target the credit is by expanding the definition of income used in phasing out the EITC. The rationale for this approach is that the definition of AGI used currently in phasing out the EITC is too narrow and disregards other components of ability-to-pay. Examples of possible additions would be untaxed Social Security benefits and untaxed IRA, pension and annuity distributions. In addition, one could deny losses reported on Schedules C, D, E, and F to conform the phaseout more closely to the concept of "total positive income." One difficulty with expanding the definition of income used in phasing out the EITC is that it may make the calculation of the credit more complex.

Administrative measures to limit fraud

There has been concern that the IRS's institutional goal to process returns and pay refunds quickly has made it susceptible to fraud, in particular where returns are filed electronically and are consequently processed more rapidly. Electronic filing has been fairly widespread among taxpayers claiming the EITC.

The IRS has to date taken some steps to reduce its exposure to EITC fraud, both for electronically filed returns and paper returns. For example, the IRS has instituted a system of matching names and taxpayer identification numbers listed on tax returns with the Social Security Administration's database and lengthened processing time for certain returns by up to eight weeks to allow this matching before issuing refunds. Prior to this filing season, the IRS was unable to match TINs with the Social Security Administration database on a nationwide basis before processing tax returns.[20] This matching may significantly reduce fraud, but it may also substantially delay the issuance of refunds to taxpayers who are entitled to claim the EITC but who do not report their names and TINs on their tax returns identically to the records in the Social Security Administration database.

A possible way to help limit fraud would be increased scrutiny of the approximately 40,000 electronic return originators (EROs). Some EROs do not comply fully with IRS requirements for electronic filing, and several have been convicted of criminal activity in schemes to defraud the government through false EITC claims.[21] Through March 5, 1995, the IRS conducted 3,600 monitoring visits of EROs, resulting in 103 suspensions and 303 warnings.[22] If the ratio of EROs with compliance problems uncovered to date held true for all EROs, it would mean that more than 4,000 EROs are not in complete compliance with IRS requirements. (This would not, however, necessarily be indicative of widespread fraud among EROs.) Another way to reduce dependence upon EROs while still encouraging electronic filing would be expanded use of free electronic filing.

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[20] Testimony of IRS Commissioner Richardson before the Senate Committee on Governmental Affairs (April 4, 1995).

[21] Ways and Means Subcommittee on Oversight hearing of February 10, 1994.

[22] Testimony of IRS Commissioner Richardson before the Senate Committee on Governmental Affairs (April 4, 1995).

As of March 24, 1995, only 122,000 filers used any of the 1,200 free electronic filing sites in the United States.[23] Some observers believe that the IRS could take additional steps to improve participation in the free electronic filing program.

Another administrative reform that could be effective against EITC fraud would be matching of third-party wage and withholding records (*e.g.*, W-2s) against the tax returns before refunds are issued. Because currently this matching generally is only performed after the refunds are issued, if the IRS determines that a refund that was paid should not in fact have been paid, it must then go to the taxpayer directly to attempt to collect the money. It is inefficient to try to collect relatively small sums of money from a large number of relatively poor individuals. On the other hand, delaying the issuance of refunds until tax returns could be matched against third-party wage data would be a major change to the current system of processing tax returns. It could result in delays of many months between the filing of tax returns and the issuance of refunds, unless significant administrative changes were made to accelerate the processing of third-party wage data.

Even if the IRS were able to match tax returns against third-party wage and withholding records on a more rapid basis than it does currently, there could still be a problem with noncompliance regarding self-employment income, where there are no independent third-party records. In the case of individuals who have qualifying children and whose income puts them in the phase-in range for the EITC, the extra credit on another dollar of earned income exceeds the tax liability on that income under the Self-Employment Contributions Act (SECA). Thus, such individuals may have an incentive to claim enough self-employment income to raise their reported income at least to the earned income threshold.[24] Note that this incentive to claim self-employment income need not involve fraud. Two individuals who normally mow their own lawns could arrange to mow each other's lawn for a fee. The fees would represent earned income for the individuals. By transforming nonmarketed leisure activity (mowing one's own lawn) into marketed labor income (mowing one's neighbor's lawn for a fee) EITC amounts could be generated in excess of SECA liability, even though there were no change in aggregate economic activity.

As a possible remedy for these problems with the EITC and self-employment income, one commentator has suggested restricting the EITC credit rate for self-employment income to the employer and employee shares of payroll taxes.[25] The higher credit rate under current law would continue to be available for income that is subject to third-party withholding and reporting. Such a proposal could reduce the incentives for overreporting self-employment income, but at the cost of creating an inequity in the treatment of self-employed and wage income and creating complexity

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[23] *Supra.*

[24] Eugene Steuerle has referred to these incentives as encouraging a "superterranean economy." See George K. Yin, "Summary of EITC Conference Proceedings," *The American Journal of Tax Policy*, 11(2), Fall 1994, pp. 305-306.

[25] Testimony of John Karl Scholz before the Senate Committee on Governmental Affairs (April 5, 1995).

in the administration of the credit (for example, in determining how to stack wage income and self-employment income in calculating the credit).

Another course of action would be to make the EITC nonrefundable, but that course might be objectionable to some on policy grounds. The annual refundable portion of the EITC is estimated to exceed $20 billion per year beginning in 1996.

Replacement of the EITC with another delivery system

To address the issue of EITC fraud, some have argued that the EITC should be replaced with a direct expenditure program. While no one contends that fraud can be eliminated by a direct expenditure program, two other arguments are made in support of the direct expenditure program. First, it is argued that the IRS is ill-prepared institutionally to administer a program that puts a premium on the overstatement of income. In almost all other cases, the IRS seeks to attribute income to a taxpayer and the taxpayer has an incentive to minimize reported income. The second argument is that it could take several filing seasons before the IRS can establish effective matching during the filing season.

Opponents of the direct expenditure alternative respond that no government program is immune from fraud and suggest that the EITC should be fixed, not abandoned. They contend that one way to partially offset the problem of overstatement of income may to set up some sort of proxy for effective matching before paying the EITC. One alternative would be to use wage information from the third quarter of the previous calendar year for a filing season rather than the annual year-end information.[26]

Another proposal is to replace the EITC with a floor on FICA taxes.[27] The theory behind this proposal is that the EITC was initially designed as an offset of FICA taxes for the working poor. The proponents of this proposal claim that this is a more direct solution to the problem of work disincentives caused by high payroll taxes. They contend that it should also be easier than to administer present law and not subject to the same fraud and filing complexity as the EITC. It also frees IRS resources for other productive work because the repeal of the EITC would eliminate over 10 million tax returns annually. This proposal could apply to all taxpayers or could only be available to low-income taxpayers. Some contend that limiting the benefit from a floor on FICA taxes to lower-income taxpayers is more consistent with the original EITC goal of a FICA tax offset for the working poor than is granting more general relief from FICA taxes for all taxpayers regardless of income level. Besides the additional complexity involved, a phaseout of the exclusion for all or only some taxpayers will effect the revenue cost significantly. Opponents of the FICA tax

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[26] Testimony of Finn M. W. Caspersen before the Senate Committee on Governmental Affairs (April 4, 1995).

[27] Testimony of Professor George K. Yin before the Senate Committee on Governmental Affairs (April 5, 1995).

floor argue that the EITC serves as more than a payroll tax offset; it also serves the goal of lifting many working poor above the poverty line. This additional goal would not be served by the replacement of the EITC with a FICA tax floor. Also, this proposal could have the effect of reducing amounts allocated to the Social Security Trust Fund and thereby reducing the solvency of the social security program unless corresponding changes are made to social security benefit payments.

Some of those who argue that the EITC is a mechanism to raise low-income families above the poverty line argue that an increase in the minimum wage[28] would serve that purpose without the administrative complexity. It would also free IRS resources for other productive work by eliminating over 10 million tax returns annually. On the other hand, the class of individuals who would benefit from an increase in the minimum wage are not the same as the class of individuals who currently receive the EITC.

An increase in the minimum wage would transfer the cost of providing relief from the general taxpayer (through the government transfer) to the employers of the individuals subject to the minimum wage. But it would not be without its effects on the labor market. Economists generally argue that increases in the minimum wage would reduce demand for low-skilled workers and could result in fewer of such workers being employed.[29]

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[28] Testimony of Robert Greenstein before the Senate Committee on Finance (June 8, 1995).

[29] For a discussion of the effect of the minimum wage on employment, see Charles Brown, "Minimum Wage Laws: Are They Overrated?", *Journal of Economic Perspectives*, 2, Summer 1988, pp. 133-145; Lawrence F. Katz and Alan B. Krueger, "The Effect of the Minimum Wage on the Fast Food Industry," *Industrial and Labor Relations Review*, 46, October 1992, pp. 6-21; and David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, 84, September 1994, pp. 772-793.

Another alternative to the EITC that could avoid some of the negative effects on labor supply would be a subsidy to wage rates. For a discussion of the relative efficiency effects of a wage credit and the EITC, see Edgar K. Browning, "Effects of the Earned Income Tax Credit on Income and Welfare," *National Tax Journal*, 48, March 1995, pp. 23-43.

APPENDIX

The Appendix contains tables and charts providing additional information about the EITC.

Table 1 is based on data from the Internal Revenue Service's Statistics of Income Division and shows over the history of the credit the number of families who received the credit, the total amount of EITC claimed, and the portion of EITC in excess of tax liability. The dollar amounts are not adjusted for inflation. Information for 1994 through 2000 are projections by the staff of the Joint Committee on Taxation.

Table 2 shows the EITC parameters over the history of the credit in dollar amounts unadjusted for inflation.

Table 3 converts the information for the earnings limit, the maximum credit, and the phaseout ranges from Table 2 into 1995 dollars. It is also converts the information on the total amount of EITC and the average credit per family from Table 1 into 1995 dollars.

Table 4 is drawn from Internal Revenue Service, *Statistics of Income Bulletin*, Publication 1136, vol. 14, no. 3, Winter 1994-1995, pp. 178-204. These data pertain to tax year 1992 and come from the aggregate of all returns filed and processed through the Individual Master File during calendar year 1993. They are not edited for Statistics of Information purposes and thus may not be directly comparable to the information in Table 1. The first set of columns show by State the number of returns claiming the EITC (in aggregate and as a percentage of all returns) and the amount of EITC claimed. The second set of columns show the number of returns claiming an EITC that exceeds the taxpayer's tax liability (*i.e.*, at least some portion of the EITC is received as a refundable credit). The number of returns with some refundable credit is shown in aggregate and as a percentage of returns claiming the EITC. The amount of refundable credit is shown, in aggregate and as a percentage of the total amount of EITC claimed.

Charts 1 and 2 show the effects of the EITC changes in OBRA 1990 and OBRA 1993 on the size of the credits that would be available in 1996. For purposes of these charts, all income of the individual is assumed to be wage income.

Table 1.--Data on Earned Income Tax Credits Claimed, 1975-2000

Calendar year to which credit applies	Number of families who received (thousands)	Total amount of credit (millions)	Refunded portion of credit (millions)	Average credit per per family
1975	6,215	$1,250	$900	$201
1976	6,473	1,295	890	200
1977	5,627	1,127	880	200
1978	5,192	1,048	801	202
1979	7,135	2,052	1,395	288
1980	6,954	1,986	1,370	286
1981	6,717	1,912	1,278	285
1982	6,395	1,775	1,222	278
1983	7,368	1,795	1,289	224
1984	6,376	1,638	1,162	257
1985	7,432	2,088	1,499	281
1986	7,156	2,009	1,479	281
1987	8,738	3,391	2,930	450
1988	11,148	5,896	4,257	529
1989	11,696	6,595	4,636	564
1990	12,612	6,928	5,303	549
1991	13,105	10,589	7,849	808
1992	14,097	13,028	9,959	926
1993	15,117	15,537	12,028	945
1994[1]	18,059	19,647	16,549	1,088
1995[1]	18,425	23,310	19,779	1,265
1996[1]	18,716	25,825	21,880	1,380
1997[1]	18,907	26,947	22,810	1,425
1998[1]	19,104	28,134	23,819	1,473
1999[1]	19,369	29,417	24,839	1,519
2000[1]	19,638	30,809	25,942	1,569

[1] Projected

Source: 1975-1993: Internal Revenue Service, *Statistics of Income*, various years; 1994-2000: JCT calculations

Table 2.--Earned Income Tax Credit Parameters, 1975-1996
(dollar amounts unadjusted for inflation)

Calendar year	Credit rate	Minimum income for maximum credit	Maximum credit	Phaseout rate	Phaseout range: Beginning income	Ending income
1975-78	10.00%	$4,000	$400	10.00%	$4,000	$8,000
1979-84	10.00	5,000	500	12.50	6,000	10,000
1985-86	11.00	5,000	550	12.22	6,500	11,000
1987	14.00	6,080	851	10.00	6,920	15,432
1988	14.00	6,240	874	10.00	9,840	18,576
1989	14.00	6,500	910	10.00	10,240	19,340
1990	14.00	6,810	953	10.00	10,730	20,264
1991:						
One child	16.70	7,140	1,192	11.93	11,250	21,250
Two children	17.30	7,140	1,235	12.36	11,250	21,250
1992:						
One child	17.60	7,520	1,324	12.57	11,840	22,370
Two children	18.40	7,520	1,384	13.14	11,840	22,370
1993:						
One child	18.50	7,750	1,434	13.21	12,200	23,050
Two children	19.50	7,750	1,511	13.93	12,200	23,050
1994:						
No children	7.65	4,000	306	7.65	5,000	9,000
One child	26.30	7,750	2,038	15.98	11,000	23,755
Two children	30.00	8,425	2,528	17.68	11,000	25,296

Table 2.--Earned Income Tax Credit Parameters, 1975-1996
(dollar amounts unadjusted for inflation)

Calendar year	Credit rate	Minimum income for maximum credit	Maximum credit	Phaseout rate	Phaseout range: Beginning income	Phaseout range: Ending income
1995:						
No children	7.65%	$4,100	$314	7.65%	$5,130	$9,230
One child	34.00	6,160	2,094	15.98	11,290	24,396
Two children	36.00	8,640	3,110	20.22	11,290	26,673
1996:						
No children	7.65	4,230	324	7.65	5,290	9,520
One child	34.00	6,340	2,156	15.98	11,630	25,119
Two children	40.00	8,910	3,564	21.06	11,630	28,553

Source: Compiled by staff of the Joint Committee on Taxation

Table 3.--Earned Income Tax Credit Parameters, 1975-1995 in 1995 Dollars

Calendar year		Adjusted to 1995 dollars by CPI-U					
		Minimum income for maximum credit	Maximum credit	Phaseout range		Total amount of EITC (millions)	Average credit per per family
				Beginning income	Ending income		
1975		$11,352	$1,135	$11,352	$22,704	$3,548	$570
1976		10,734	1,073	10,734	21,467	3,475	537
1977		10,078	1,008	10,078	20,157	2,840	504
1978		9,367	937	9,367	18,734	2,454	473
1979		10,516	1,052	12,619	21,031	4,316	606
1980		9,265	926	11,118	18,530	3,680	530
1981		8,399	840	10,078	16,797	3,212	479
1982		7,911	791	9,493	15,822	2,808	440
1983		7,665	766	9,198	15,330	2,752	343
1984		7,348	735	8,817	14,695	2,407	378
1985		7,095	780	9,224	15,609	2,963	399
1986		6,966	766	9,055	15,324	2,799	391
1987		8,172	1,144	9,301	20,742	4,558	605
1988		8,054	1,128	12,700	23,975	7,610	683
1989		8,004	1,121	12,609	23,814	8,121	694
1990		7,956	1,113	12,535	23,673	8,093	641
1991						11,871	906
	One child	8,004	1,336	12,612	23,822		
	Two children	8,004	1,384	12,612	23,822		
1992						14,178	1,008
	One child	8,184	1,441	12,885	24,345		
	Two children	8,184	1,506	12,885	24,345		
1993						16,417	999
	One child	8,189	1,515	12,891	24,356		
	Two children	8,189	1,597	12,891	24,356		
1994						20,242	1,121
	No children	4,121	315	5,151	9,272		
	One child	7,985	2,100	11,333	24,474		
	Two children	8,680	2,605	11,333	26,062		
1995						23,310	1,265
	No children	4,100	314	5,130	9,230		
	One child	6,160	2,094	11,290	24,396		
	Two children	8,640	3,110	11,290	26,673		

Source: *JCT Calculations*

Table 4. -- State Data on Earned Income Tax Credits Claimed, 1992

State	Average AGI (All returns)	Earned Income Credit: Number of Returns	Earned Income Credit: % of Total Returns	Earned Income Credit: Amount (Thousands)	Credit in excess of tax liability: Number of Returns	Credit in excess of tax liability: % of EITC Returns	Credit in excess of tax liability: Amount (Thousands)	Refundable Portion as % of EITC Amount
Alabama	$27,426	362,084	20.7%	$367,936	298,544	82.5%	$292,761	79.6%
Alaska	27,642	18,101	5.1%	13,645	12,284	67.9%	8,540	62.6%
Arizona	28,338	249,461	14.9%	236,700	203,745	81.7%	188,442	79.6%
Arkansas	25,016	194,502	19.6%	187,324	154,709	79.5%	142,258	75.9%
California	33,083	2,118,514	15.4%	2,032,135	1,808,964	85.4%	1,668,477	82.1%
Colorado	31,378	164,193	9.9%	148,839	123,312	75.1%	108,061	72.6%
Connecticut	42,671	77,638	4.9%	63,193	51,826	66.8%	40,805	64.6%
Delaware	33,668	34,538	10.5%	32,206	26,424	76.5%	24,444	75.9%
District of Columbia	33,478	48,840	16.0%	45,678	38,449	78.7%	35,662	78.1%
Florida	30,095	847,682	13.6%	812,582	671,924	79.3%	611,789	75.3%
Georgia	29,988	512,534	17.2%	499,658	409,619	79.9%	386,393	77.3%
Hawaii	32,316	37,486	6.6%	31,185	25,605	68.3%	20,446	65.6%
Idaho	27,048	60,978	13.2%	56,129	46,023	75.5%	40,949	73.0%
Illinois	33,800	575,354	10.7%	525,275	449,236	78.1%	402,958	76.7%
Indiana	29,791	270,062	10.7%	246,561	201,861	74.7%	181,126	73.5%
Iowa	27,450	111,443	8.8%	97,888	78,674	70.6%	66,051	67.5%
Kansas	30,064	110,464	9.9%	97,206	80,640	73.0%	69,013	71.0%
Kentucky	27,193	219,252	14.3%	199,832	168,907	77.0%	146,097	73.1%
Louisiana	26,564	376,267	22.2%	367,212	313,162	83.2%	294,847	80.3%
Maine	27,182	55,605	10.1%	47,586	39,351	70.8%	30,740	64.6%
Maryland	36,048	233,430	10.0%	212,476	173,127	74.2%	153,402	72.2%
Massachusetts	35,536	167,745	6.0%	142,124	116,308	69.3%	93,736	66.0%
Michigan	31,993	368,166	8.9%	316,447	279,250	75.8%	231,438	73.1%
Minnesota	32,564	149,133	7.2%	128,558	104,861	70.3%	84,507	65.7%
Mississippi	23,353	297,985	28.7%	304,280	253,247	85.0%	248,536	81.7%

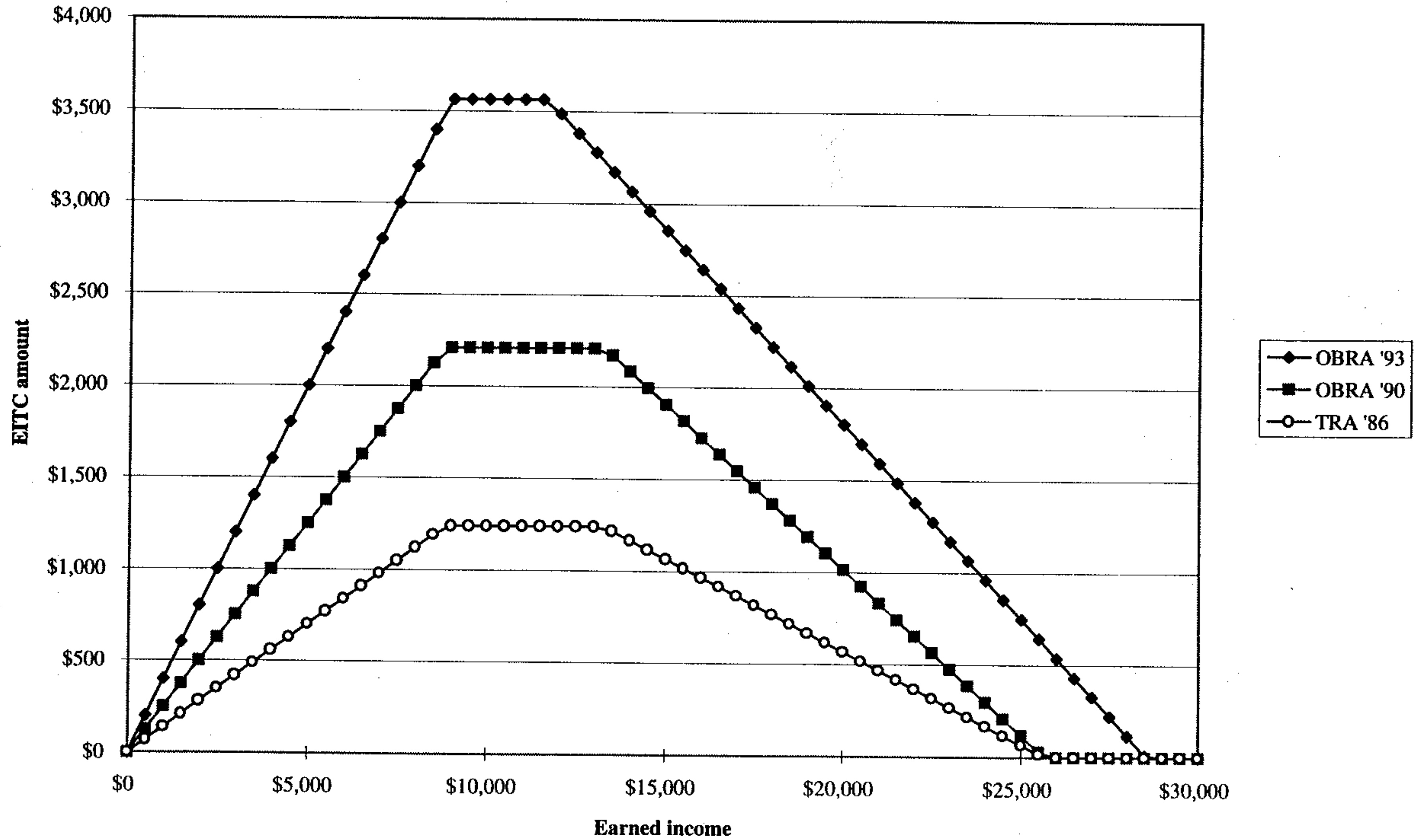
Source: Internal Revenue Service, *Statistics of Income Bulletin*, Winter 1994-95, pp. 178-204

Table 4. -- State Data on Earned Income Tax Credits Claimed, 1992

State	Average AGI (All returns)	Earned Income Credit: Number of Returns	Earned Income Credit: % of Total Returns	Earned Income Credit: Amount	Credit in excess of tax liability: Number of Returns	Credit in excess of tax liability: % of EITC Returns	Credit in excess of tax liability: Amount	Refundable Portion as % of EITC Amount
Missouri	$29,097	279,121	12.2%	$253,795	212,029	76.0%	$186,120	73.3%
Montana	24,528	44,932	12.0%	40,011	33,586	74.7%	27,700	69.2%
Nebraska	27,580	74,031	10.0%	66,586	53,996	72.9%	46,257	69.5%
Nevada	32,816	75,332	11.2%	68,600	57,351	76.1%	51,453	75.0%
New Hampshire	33,484	37,915	7.1%	32,947	25,669	67.7%	21,015	63.8%
New Jersey	39,298	338,193	8.9%	304,798	254,625	75.3%	224,217	73.6%
New Mexico	25,010	127,900	18.6%	119,459	105,008	82.1%	93,801	78.5%
New York	36,690	830,710	10.4%	746,967	621,532	74.8%	537,930	72.0%
North Carolina	28,472	503,333	16.3%	487,277	393,652	78.2%	367,745	75.5%
North Dakota	25,465	26,848	9.5%	23,853	19,176	71.4%	15,883	66.6%
Ohio	29,161	472,901	9.3%	416,539	350,625	74.1%	300,959	72.3%
Oklahoma	26,437	202,588	15.2%	185,897	157,299	77.6%	137,837	74.1%
Oregon	29,456	142,147	10.5%	128,433	107,380	75.5%	94,597	73.7%
Pennsylvania	31,090	465,021	8.6%	405,066	334,553	71.9%	283,034	69.9%
Rhode Island	31,438	36,204	8.1%	31,836	26,431	73.0%	22,397	70.4%
South Carolina		295,057	18.8%	292,147	237,751	80.6%	229,009	78.4%
South Dakota	25,361	37,156	11.7%	34,060	27,348	73.6%	23,281	68.4%
Tennessee	28,338	361,580	16.3%	341,522	283,006	78.3%	256,134	75.0%
Texas	29,256	1,413,644	18.4%	1,363,423	1,156,176	81.8%	1,068,357	78.4%
Utah	28,861	79,094	10.8%	72,520	59,584	75.3%	53,015	73.1%
Vermont	28,188	24,024	9.1%	20,339	16,546	68.9%	12,661	62.2%
Virginia	33,598	316,935	10.8%	298,600	244,386	77.1%	223,904	75.0%
Washington	33,636	203,952	8.5%	178,446	152,388	74.7%	130,412	73.1%
West Virginia	26,329	96,848	14.0%	87,197	74,793	77.2%	65,419	75.0%
Wisconsin	30,569	182,151	8.0%	160,737	132,655	72.8%	111,636	69.5%
Wyoming	29,246	23,260	11.0%	20,585	17,556	75.5%	14,917	72.5%

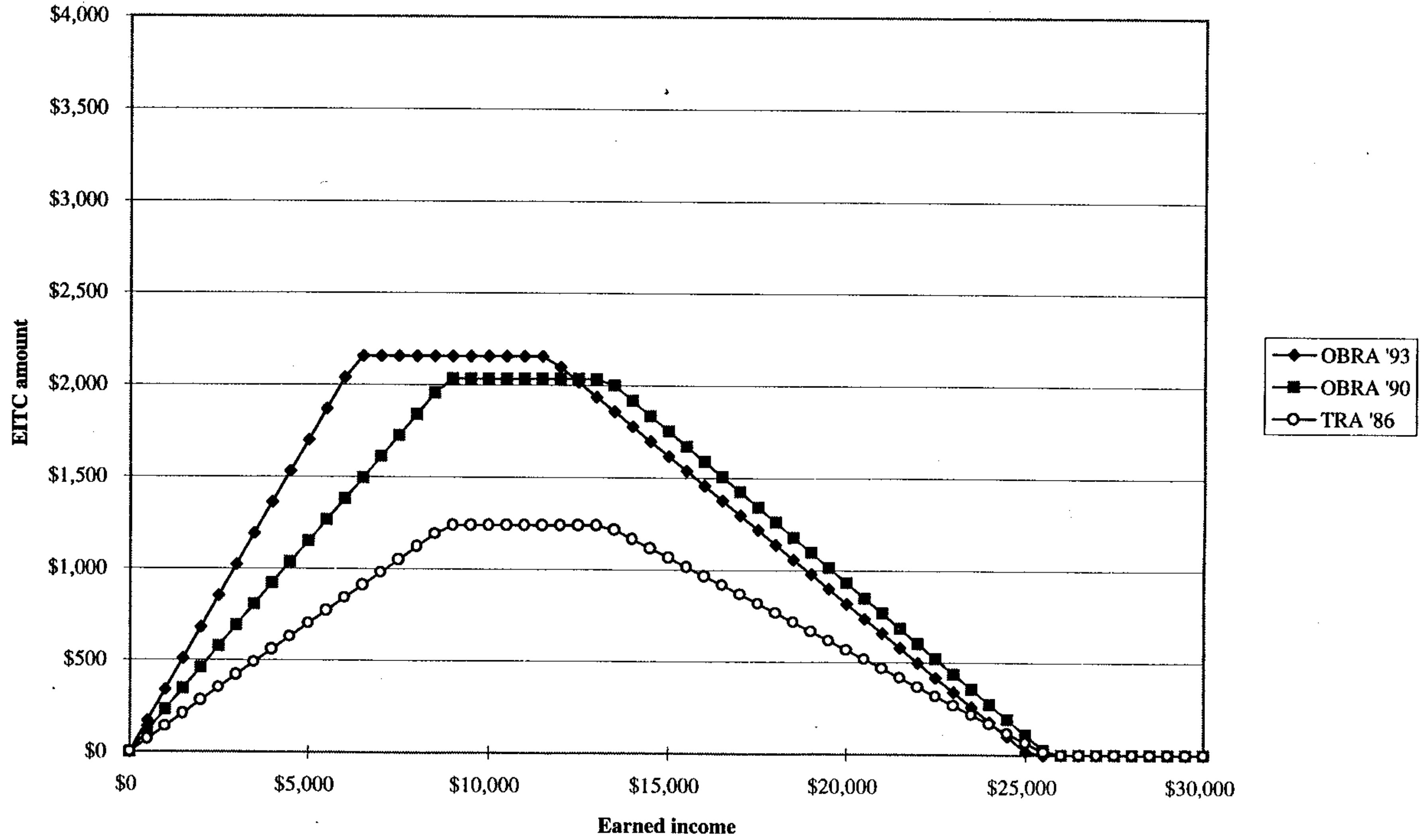
Source: Internal Revenue Service, *Statistics of Income Bulletin*, Winter 1994-95, pp. 178-204

Chart 1



Source: *JCT Calculations*

Chart 2



Source: *JCT Calculations*