



Support a State EITC for Connecticut!

Concerns about the EITC error rate are overstated and can be addressed while still supporting working poor families

Some people have concerns about enacting a Connecticut EITC in light of a recent U.S. Treasury Department report criticizing the IRS for not doing enough to reduce overpayments for the federal EITC. However, that report may overstate the error rate problem by relying on decade-old data. **The state EITC proposed by Gov. Malloy deserves strong support.** Here's why:

- The EITC is **the most effective poverty reduction policy**, reducing child poverty by 25%. And its administrative costs are very low. That's why 24 states have created their own state EITC.
- The Treasury report is about the **error** rate, **not fraud**. Most erroneous payments are because the federal EITC is complicated, and tax filers and tax preparers have difficulty determining if they qualify.
- **The error rate does not include people who qualify for the EITC but don't receive it.** The IRS estimates that 15-20% of households in Connecticut who qualify for the EITC don't file for it.
- Only legally authorized workers can claim the EITC. According to the IRS, households receiving **the EITC in error tend** to do so because of incorrect reporting of family composition and related issues, **not immigration status.**
- **The IRS has taken and continues to take steps to reduce the error rate:**
 - The IRS 23-28% **error estimate is based on old data** (from 2001), and may be flawed. The IRS is conducting a new study of error rates, expected in 2012, which will allow it to set realistic enforcement targets—a key concern of the Treasury report.
 - Because of legislative and IRS procedural changes, the **current error rate may be much lower.** These changes include screening parent and child social security numbers to confirm the taxpayer relationship to the child and checking the National Case Registry of child support cases to determine whether the parent has custody (a significant cause of errors in 1999).
 - Next year, for the first time, the **IRS will regulate tax preparers**, which the IRS believes will reduce improper payments. (Two-thirds of EITC filers use a tax preparer.)
 - The IRS conducts about **500,000 EITC audits** each year to identify erroneous claims.
 - **Volunteer Income Tax Assistance (VITA) preparers receive comprehensive training and must pass an IRS certification test.** Volunteers at about 100 nonprofits in Connecticut complete tax returns free for low-income filers. If EITC claimants use such services, they can avoid often inadequately trained commercial preparers or filling out the complex tax forms themselves. This can reduce the number of erroneously claimed EITCs.
 - **The IRS works with state revenue departments to improve compliance with state** and federal EITCs. Efforts include timely sharing of data, helping states develop compliance strategies, and avoiding duplication in efforts to educate taxpayers and tax preparers about the EITC.
- **Connecticut's Department of Revenue Services can undertake its own screening efforts** to help identify potentially ineligible EITC claimants, and there appears to be funding in the proposed budget to do this. The NY Dept. of Taxation and Finance uses computer modeling, based on several different databases of tax information and other information, to identify erroneous EITC claims.

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