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New Study Finds EITC Non-Claimant Rate Likely Double IRS Estimate

As Tax Day Approaches, Almost 10 Million People Losing Out on Billions in Tax Refunds

Memphis – On average, only 45 percent of households with eligible earnings are claiming the Earned Income Tax Credit (EITC) nationally, while in some states as few as 31 percent of households with eligible earnings are claiming it. This is in stark contrast with official figures: According to the data available from the Internal Revenue Service (IRS) and the Brookings Institution, anywhere from 80 - 85 percent of those eligible to claim the EITC do so. Dr. Elena Delavega, assistant professor in the Department of Social Work at the University of Memphis, has discovered that the official figures at all income levels are inaccurate. Says Dr. Delavega: "There are methodological issues with this kind of data, of course, but the results should not be so wildly different. This is an important issue and the lack of appropriate research is only contributing to the problem."

Although the EITC is an excellent way to end poverty by promoting work and self-reliance, many poor people are not claiming it for various reasons. In Dr. Delavega's state rankings chart, North Dakota has the worst EITC nonclaim rate (68.6 percent), while Hawaii has the best (36.4 percent). The national average is 55 percent. Despite the rhetoric, this problem does not appear to be a concern to the IRS, since it last published a report on this topic in 1996. Moreover, the Brookings Institution's research focuses on the EITC credit payment error rate, which the Institution claims to be as high as 35 percent. Because so few low-income households claim the credit, the overpayment rate appears questionable.

Dr. Delavega estimates that almost 10 million Americans are not filing for the EITC tax credit, losing out on billions and billions of their hard-earned wages. Moreover, since people are able to back file their tax returns for up to three years, the actual number of lost dollars to low- and moderate-income people is actually a lot higher.

The Earned Income Tax Credit (EITC) is a refundable tax credit American citizens or permanent residents can receive if they have earned any income in a fiscal year. The purpose of the EITC is to redress poverty by transferring income to the lowest-earning workers. Rather than provide welfare and encourage dependence, the EITC encourages employment and fosters independence and self-reliance. Larger families can earn more income and still qualify for the EITC.

THE EARNED INCOME TAX CREDIT: A STATE BY STATE RANKING

Table 1 - Percentage Difference (Ratio) between Households at Income Level and Earned Income Tax Credit (EITC) Claim Rate

State	Total Households with Incomes to \$49,999 (Census)	Total Number of EITC Returns up to \$49,999 (IRS)	EITC Returns as % of Households up to \$49,999	Estimated EITC Non Claim Rate Households w/ Incomes to \$49,999	State Ranking of Household Non-Claim Rate	State	Total Households with Incomes to \$49,999 (Census)	Total Number of EITC Returns up to \$49,999 (IRS)	EITC Returns as % of Households up to \$49,999	Estimated EITC Non Claim Rate Households w/ Incomes to \$49,999	State Ranking of Household Non-Claim Rate
North Dakota	143,188	45,009	31.4	68.6	1	Oklahoma	821,782	359,577	43.8	56.2	27
Wisconsin	1,158,355	389,823	33.7	66.3	2	North Carolina	2,064,374	931,608	45.1	54.9	28
Iowa	634,511	214,379	33.8	66.2	3	Arkansas	688,318	318,275	46.2	53.8	29
West Virginia	458,993	163,322	35.6	64.4	4	Arizona	1,229,563	571,249	46.5	53.5	30
Oregon	801,370	286,935	35.8	64.2	5	Illinois	2,237,463	1,042,849	46.6	53.4	31
Maine	292,214	104,710	35.8	64.2	6	Tennessee	1,417,893	677,201	47.8	52.2	32
Vermont	129,682	46,889	36.2	63.8	7	New Jersey	1,185,153	580,890	49.0	51.0	33
Minnesota	942,031	349,510	37.1	62.9	8	Virginia	1,250,606	613,749	49.1	50.9	34
Pennsylvania	2,495,249	930,066	37.3	62.7	9	Nevada	484,093	238,067	49.2	50.8	35
Nebraska	369,183	137,772	37.3	62.7	10	Delaware	145,689	72,661	49.9	50.1	36
Montana	228,916	86,693	37.9	62.1	11	South Carolina	1,013,545	506,261	49.9	50.1	37
Massachusetts	1,032,484	395,362	38.3	61.7	12	Alaska	97,149	48,873	50.3	49.7	38
Washington	1,169,668	448,539	38.3	61.7	13	Utah	396,735	201,055	50.7	49.3	39
New Hampshire	210,708	81,073	38.5	61.5	14	District of Columbia	106,514	54,088	50.8	49.2	40
Connecticut	540,178	209,130	38.7	61.3	15	Alabama	1,072,420	549,184	51.2	48.8	41
South Dakota	171,471	66,785	38.9	61.1	16	New Mexico	436,164	223,783	51.3	48.7	42
Wyoming	102,181	39,816	39.0	61.0	17	New York	3,330,205	1,754,089	52.7	47.3	43
Kansas	567,339	221,237	39.0	61.0	18	Florida	3,886,393	2,113,098	54.4	45.6	44
Ohio	2,464,179	979,259	39.7	60.3	19	Maryland	758,105	412,260	54.4	45.6	45
Colorado	906,908	362,533	40.0	60.0	20	Louisiana	951,376	550,095	57.8	42.2	46
Indiana	1,358,452	553,335	40.7	59.3	21	California	5,440,339	3,165,760	58.2	41.8	47
Michigan	2,066,712	846,904	41.0	59.0	22	Texas	4,461,820	2,703,657	60.6	39.4	48
Kentucky	1,001,936	412,315	41.2	58.8	23	Georgia	1,845,473	1,142,083	61.9	38.1	49
Missouri	1,294,663	533,872	41.2	58.8	24	Mississippi	675,191	421,625	62.4	37.6	50
Rhode Island	191,237	81,051	42.4	57.6	25	Hawaii	175,738	111,789	63.6	36.4	51
Idaho	323,233	139,185	43.1	56.9	26						

Table 2 – Percentage Difference (Ratio) between Households at Income Level and Earned Income Tax Credit (EITC) Claim Rates and Average of the States

	Total Households with Incomes to \$49,999 (Census)	Total Number of EITC Returns up to \$49,999 (IRS)	EITC Returns as % of Households up to \$49,999	Estimated EITC Non Claim Rate Households w/ Incomes to \$49,999
United States	57,227,142	19,506,202	48.1	51.9
Average of the States			45%	55%

NOTE:

For Fiscal Year 2013, a single individual earning \$13,460 was eligible to receive the credit, but a single mother or father of one child could earn as much as \$35,535 and still be eligible, and a family with three children as much as \$48,362. Given the above and the limitations of available data, the authors have chosen to utilize IRS reports of incomes up to \$49,999. The authors have selected to conduct the analysis utilizing households given that the number of households is highly correlated with the number of returns reported by the IRS ($r=0.976$, $p=.000$), suggesting that it is the most appropriate measure. While not all households are eligible to file, some households are composed of more than one eligible filer. On average 36% of births occur to unmarried mothers, suggesting that a large percentage of the population is eligible to claim the EITC even in smaller households. Although, on average, about 28% of households are composed of single individuals, households that are composed of non-related individuals who are eligible to file taxes independently exceed this number by 45%, This also suggests that the number of tax filers should exceed the number of households at each income level.

While it is impossible to estimate with extreme precision the non-claim rate, due to complex methodological difficulties and data availability (Williams & Kneebone, 2013), state rankings provide useful insights, in particular when there is wild variation among the states, and when the obtained results differ so greatly from the “best available research by the IRS and other scholars” (Williams & Kneebone). According to the Brookings Institution, anywhere from 80% to 85% of those eligible to claim the EITC do so (Williams & Kneebone), producing a non-claim rate of 15% to 20%, very different from the present results.

Table 3 – Number of Households Not Claiming the Earned Income Tax Credit and Dollar Amount Lost to States and Communities

The Earned Income Tax Credit: Dollars Not Claimed**			
For All Households Up to \$49,999:			National IRS Data for All Households:
Number of Total Tax Returns Filed	94,140,914		Total Taxable Income
Total Number of Wage and Salary Tax Returns Filed	74,059,233		Total Dollar Amount Received in Taxes
Total Number of EITC Claims Filed	20,561,160		Total Dollar Amount Paid in EITC
Number of Potentially Eligible Households*	30,307,952		
Percentage of Eligible Households Claiming EITC	68.00%		
Percentage of Eligible Households NOT Claiming EITC	32.16%		Percent of Tax Receipts that EITC Represents
Number of Potentially Eligible Households Not Claiming EITC	9,746,792		Percent of Tax Receipts that EITC Possible If Maximum Amount Paid
Dollar Amount Lost to Communities and States If All Eligible Households Received the EITC in the Following Amounts:			
	\$457	4,454,284,008	
	\$1,300	12,670,829,782	
	\$2,700	26,316,338,778	
	\$4,000	38,987,168,560	
*Number of Potentially Eligible Households is based on percentage of eligible households at each income level. This figure is calculated by estimating number of households of eligible characteristics for each income level and aggregating income-level data.			
**The estimates presented herein are extremely conservative - the number of eligible households not claiming the EITC may be much higher.			

Data and Other Sources:

IRS, Statistics of Income Division, Individual Master File System, December 2011.

US Census Bureau: 2010 American Community Survey 1-Year Estimates: Selected Economic Characteristics, Selected Social Characteristics, Selected Housing Characteristics.

Williams, J.R., & Kneebone, E. (2013). *EITC interactive: User guide and data dictionary*. Metropolitan Policy Program, The Brookings Institution. Retrieved March 30, 2013, from <http://www.brookings.edu/about/programs/metro/eitc/eitc-data#people>