

For Immediate Release:

April 5, 2013

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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>