



Highlights of [GAO-03-794](#), a report to congressional requesters

## Why GAO Did This Study

The Earned Income Credit (EIC), a tax credit available to the working poor, has experienced high rates of noncompliance. Unlike many benefit programs, EIC recipients generally receive payments without advance, formal determinations of eligibility; the Internal Revenue Service (IRS) checks some taxpayers' eligibility later. IRS estimated that tax year 1999 EIC overclaim rates, the most recent data available, to be between 27 and 32 percent of dollars claimed or between \$8.5 billion and \$9.9 billion. To address overclaims, IRS plans to test a new certification program.

Because IRS's plans have garnered much attention, you asked us to (1) describe the design and basis for the EIC qualifying child certification program, (2) describe the current status of the program, including significant changes, and (3) assess whether the program is adequately developed to prevent unreasonable burden on EIC taxpayers and improve compliance so that the test should proceed.

## What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue accelerate the development of IRS's plan to evaluate the certification test. The plan should demonstrate how the program's objectives would be evaluated, including milestones for conducting the evaluation. The Commissioner said that IRS would further develop its evaluation plan as we recommended.

[www.gao.gov/cgi-bin/getrpt?GAO-03-794](http://www.gao.gov/cgi-bin/getrpt?GAO-03-794).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

# EARNED INCOME CREDIT

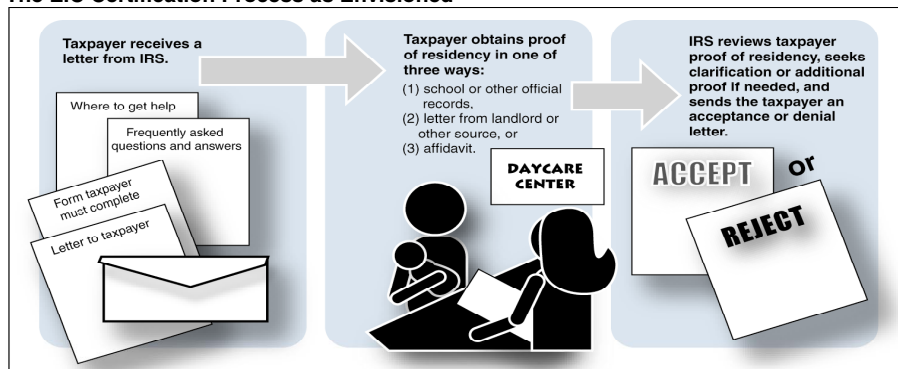
## Qualifying Child Certification Test Appears Justified, but Evaluation Plan Is Incomplete

### What GAO Found

The Assistant Treasury Secretary and IRS Commissioner convened a task force to identify ways of reducing EIC overclaims while minimizing taxpayer burden and maintaining the EIC's relatively high participation rate. In August 2002, the Secretary approved a recommendation to certify taxpayers' eligibility to claim EIC qualifying children. The proposal is based on analyses of the leading sources of EIC errors, thus focusing attention and burden on the subset of taxpayers most likely to make those errors.

Since August 2002, IRS has made key changes to the certification program, including concentrating on residency certification and postponing relationship certification, delaying program implementation until later this year, and reducing the test sample from 45,000 to 25,000. Despite the changes, the process for selecting taxpayers, what taxpayers will receive from IRS, what taxpayers are required to provide, and the program's goals remain fundamentally the same as originally planned. In addition, IRS has emphasized that program expansions, if any, will depend on the results of this year's test. The process would involve three key stages as shown below.

### The EIC Certification Process as Envisioned



Source: GAO analysis of IRS data.

These changes, including the most recent, help achieve a better balance between preventing unreasonable taxpayer burden and addressing the EIC's high overclaim rate and support IRS's plans to test the certification program. However, IRS's plan for evaluating the test is incomplete, presenting only some information on how IRS would evaluate whether certification would reduce the EIC overclaim rate, minimize burden, and maintain a relatively high participation rate. The plan proposes potential options for identifying how and when certain critical data will be obtained, but does not provide further details on when decisions will be made or on the specific data that will be collected. Officials have developed preliminary drafts identifying data to be obtained and have begun considering how to use contractors to gather the data. Because the data relate to taxpayers' actions that will occur next spring, IRS appears to have some time to finalize its evaluation plan.