

Highlights of [GAO-05-92](#), a report to Congressional Requesters

Why GAO Did This Study

Research has shown that the Earned Income Tax Credit (EITC) has helped lift millions of individuals out of poverty. In recent years, the Internal Revenue Service (IRS) has paid approximately \$30 billion annually to about 20 million EITC recipients. However, the program also has experienced a high rate of noncompliance. IRS estimated that EITC overclaim rates for tax year 1999, the most recent data available, were between 27 and 32 percent of dollars claimed or \$8.5 billion and \$9.9 billion, respectively.

We were asked to describe the three tests IRS has begun to reduce overclaims and how the funds appropriated for them were spent; assess how well IRS implemented the tests and describe planned refinements for the 2005 tests; and assess whether IRS's evaluation plans had sufficient documented detail to facilitate managerial review and stakeholder oversight and describe the status of the 2005 evaluation plans.

What GAO Recommends

GAO recommends that the Commissioner of Internal Revenue ensure the rationale for key decisions is documented; information on the quality and use of all types of taxpayer assistance is obtained; limitations are clearly stated when disseminating results; and development of detailed evaluation plans for the 2005 tests is completed. The Commissioner agreed with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-92.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mike Brostek at (202) 512-9110 or brostekm@gao.gov.

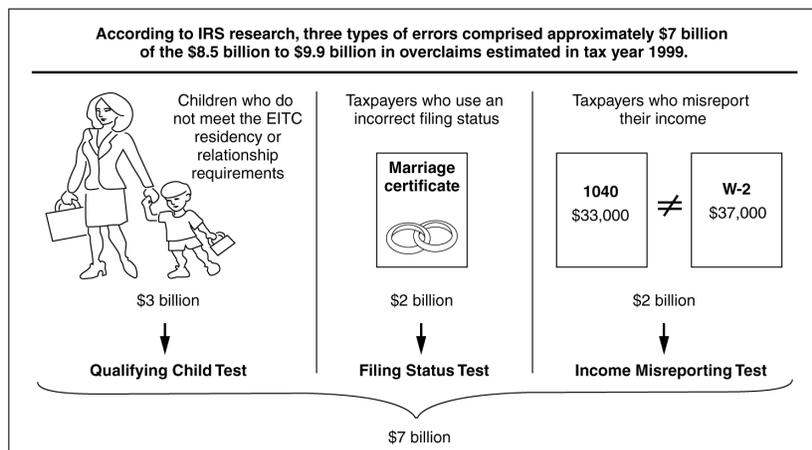
EARNED INCOME TAX CREDIT

Implementation of Three New Tests Proceeded Smoothly, But Tests and Evaluation Plans Were Not Fully Documented

What GAO Found

IRS implemented three tests in 2004 to address leading sources of EITC errors: a qualifying child test, where selected taxpayers were asked to document that their child lived with them for more than half the year in 2003; a filing status test, where selected taxpayers were asked to provide documentation to prove the accuracy of their 2003 filing status, and an income misreporting test, where a new screening process was used to select EITC returns that identify taxpayers likely to have the most significant changes in their assessments due to underreporting of income on their tax return.

Leading Sources of EITC Errors Contributing to Overclaims in Tax Year 1999



Source: GAO.

IRS's implementation of the tests proceeded smoothly and largely as planned. However, some information, such as a key change in the filing status test, was not well documented and the level and quality of some services provided to test participants were not measured. This lack of documentation hindered monitoring, oversight, and did not foster a common understanding of the tests. For the 2005 tests, IRS made key changes to the qualifying child test to encourage taxpayers to certify in advance of filing their return and to attempt to simulate what might happen with nationwide implementation. IRS also changed the sample selection criteria for the filing status test to better target noncompliant taxpayers.

IRS's plans for evaluating the 2004 tests generally lacked documentation and detail for many key issues, which undermined their value to managers and stakeholders. For example, IRS did not specify how it planned to analyze some qualifying child survey data. In essence, an evaluation plan is the management plan or roadmap for the evaluation endeavor and well-developed plans facilitate test management and oversight. Despite the importance of having evaluation plans prior to implementation, IRS had not completed its plans for the 2005 tests before two of the tests had begun.