

Improving Administration of Refundable Credits

Updated October 2022

The following items would **greatly increase the coverage rate of the Child Tax Credit (CTC)** (whether or not the American Rescue Plan CTC is extended) **and the Earned Income Tax Credit (EITC)**. None of these items require statutory authority, but Congressional directives would enable the IRS to prioritize them. **These items are achievable in 2023 and should be advanced as quickly as possible**, so that they are integrated into the broader systems modernization the IRS is undergoing in light of the Inflation Reduction Act.

(1) Allow W-2 only households to claim EITC and CTC without reporting income

[User research](#) and [data from GetCTC.org](#) indicate that finding tax documents and reporting income is the biggest hurdle to filing a return for low-income households.¹ Creating a filing process that does not require income reporting is critical to ensure low-income households can access their credits—and was crucial to TY 2021 CTC outreach efforts. Of course, total earned income is required to figure the EITC (and the pre-2021 CTC).

In filing season 2023, the IRS should authorize a pilot simplified filing process after the close of the traditional filing season,² via which households without a tax filing obligation³ and with only W-2 income may elect to have the IRS calculate their EITC and CTC amounts. Households would file their return with \$0 on Line 1, and write 'EIC' on Line 27 to indicate they fulfill the basic eligibility criteria for the credit. The IRS would process and post the return with \$0 income and \$0 in credits. (If CTC full refundability is extended, the refund would be issued with the CTC, but with \$0 EITC.) Later in the year, when IRS W-2 data is cleaned and processed, the IRS would issue EITC and CTC as plus-up payments (a.k.a. "recoveries"), with the credit amounts calculated in batch jobs based on IRS W-2 data.⁴

The IRS should report back to Congress by December 2023 on the results and implementation of the pilot process. If successful, the pilot would not only increase credit coverage and better serve taxpayers, but would save IRS effort manually resolving discrepancies and reduce EITC overpayments induced by income errors.

(2) Send direct, actionable outreach from the IRS to identified non-filers each year

In [2020](#), [2021](#),⁵ and [2022](#), the IRS sent direct mail outreach in September/October to nearly 10 million households who appeared eligible for Economic Impact Payments and/or the CTC but had not yet filed taxes, pointing them to simplified filing tools and encouraging them to claim their credits. Households were identified by comparing datasets of information returns and tax returns. This precisely-targeted outreach was highly effective, leading hundreds of thousands of families to file returns claiming their benefits.

¹ Early results from [GetCTC's implementation of EITC](#) underscore this point as well.

² IRS would use a Revenue Procedure akin to [Rev Proc 2022-12](#), [2021-24](#), and [2020-28](#) to authorize the process.

³ Practically speaking, the pilot could include households with a tax filing obligation, provided they are W-2 only. But limiting the scope may help with legal barriers, while still testing the same key processes.

⁴ Households who elect this process but are found to have disqualifying 1099 income or other out-of-scope criteria could instead be notified and asked to file a full return.

⁵ There does not appear to be any public documentation of the 2021 outreach letters.

This practice should be institutionalized: the IRS should perform such outreach annually for low-income households in the refundable credits coverage gap

- Communications should be targeted broadly, even to those whose eligibility is not guaranteed. Outreach would indicate that households “may be” eligible, and should file to find out.
- If the IRS gets consent and authority in the future to email or text taxpayers, outreach could be sent by those mediums as well.
- Communications should be tested with users and follow principles of human-centered design. Most importantly, communications should always contain a single prominent URL link where recipients can find the simplest possible filing tool—rather than a list of options, or informational links with ambiguous calls to action.
- If budget permits, outreach should start over the summer and contain multiple rounds. If there is just one round of outreach, it should occur in the fall, close to e-filing deadlines.

(3) Deliver an annual report to Congress on the refundable credits coverage gap

Clear and actionable data on refundable credit coverage gaps is critical to focus outreach efforts, troubleshoot access issues, and build momentum to reach full coverage. But public data remains scarce. The IRS issues headline [annual estimates of EITC participation rates](#), with little to no analysis of the missing population.⁶ There is no updated public estimate of CTC coverage.

Each year, in December, the Office of Tax Administration (OTA) or the IRS should deliver to Congress an Annual Report on the Refundable Credits Gap. The report should contain:

- Reliable headline statistics on EITC and CTC coverage rates and size of the missing population.
 - Estimates should be based on information returns, SSA data, and IRS-Census match.
 - Headlines figures should account for the impact of conflicting child claims.⁷
- Tax filing attributes of the missing population. (I.e., Did they file and not claim the credit, or not file at all? Did they attempt to file a return that was rejected by efile? Have they ever filed?)
- Sociographic, economic, and demographic attributes of the missing population. (I.e., What types of income do they have and what industries do they work in? Do they receive other benefits? What languages do they speak? Do they have ITINs or SSNs? How old are they?)
- Impact of IRS outreach. (I.e., What fraction of households who received IRS outreach letters took action to file after receiving them? Which populations were more likely to take action?)
- Geographic hotspots of missing population—if any.⁸

Please contact **Gabriel Zucker, Associate Policy Director for Tax Benefits**, at gzucker@codeforamerica.org, for more information.

⁶ Official government figures are also inconsistent; [TIGTA's 2018 report on the EITC gap](#) contains metrics which appear to contradict official IRS estimates.

⁷ Some of the currently estimated EITC participation gap may be attributable to cases where the “wrong household” claims a child. If Household A properly has a claim to Child X, but Household B always claims that child with Household A's tacit consent, Household A may show up in the gap, and Household B as an overpayment. This is far different from a case where Household A is missing entirely.

⁸ Zip code data released in September 2020 and May 2021 [did not show meaningful geographic patterns](#).