



# WAYS TO ADDRESS CHALLENGES FAMILIES FACE WHEN FILING TAXES AND CLAIMING TAX BENEFITS

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The tax system is the largest source of cash assistance for families with children and low incomes. In 2024, the earned income tax credit (EITC) and child tax credit (CTC) lifted 6.8 million people out of poverty. But eligibility rules can exclude many families from these tax benefits, and even when people are eligible for these benefits, tax rules can be complicated to navigate. This is especially true for parents that share custody of a child, cohabitating couples, nonparent caregivers (grandparents, cousins, or aunts and uncles), family members with a mix of immigration statuses, and gig economy workers. Below we highlight evidence-based solutions Congress, the IRS, and others could pursue to address common challenges families face filing taxes and claiming federal tax benefits, based on real experiences drawn from the literature and our interviews with tax experts and practitioners—as illustrated in our [accompanying feature](#).

## 1. EXPANDING ELIGIBILITY FOR CHILD-RELATED TAX CREDITS BY UPDATING THE RELATIONSHIP TEST AND EARNING RULES COULD HELP NONTRADITIONAL PRIMARY CAREGIVERS AND THOSE WITH LOW INCOMES CLAIM BENEFITS FOR THE CHILDREN THEY RAISE

Couples who live together but are not married, and families that include nonbiological children, can face challenges qualifying for tax benefits.

**Update relationship test rules.** Congress could allow primary caregivers who are not close relatives to be eligible if they demonstrate a close connection with a child. This could potentially expand CTC eligibility to 2 million children.

**Modify the CTC's earnings rules for families with low incomes.** Eliminating the earnings phase-in for families with low incomes would benefit 19 million children, of which nearly 2 million children would be newly eligible for the CTC. Policymakers could also consider phasing in the tax credit faster so more children in families with low incomes could get a larger tax credit, even if some would still receive less than the credit's maximum amount.

## 2. IMPROVING THE ADMINISTRATION OF ITINS AND ADJUSTING EITC RULES COULD REMOVE BARRIERS FOR MIXED-STATUS FAMILIES, INCLUDING THOSE WITH US CITIZEN CHILDREN, WHO OFTEN MISS OUT ON TAX BENEFITS

Millions of US families have a mix of immigration statuses, including members who are US citizens, lawfully present immigrants, and undocumented immigrants. SSN and ITIN requirements can exclude many of them, including families with US-citizen children, from tax benefits.

**Improve ITIN processes.** If more Volunteer Income Tax Assistance (VITA) sites offered certifying acceptance agent services, this could increase ITIN filers' access to these services. Congress could increase agents' availability at VITA sites by increasing VITA grant amounts and allowing them to cover these services. The IRS could also create an online portal for submitting ITIN applications, among other modernization reforms.

**Create more Taxpayer Assistance Centers.** Expanding services would make it simpler for families to renew ITINs at in-person IRS sites. And, if the IRS eliminated the requirement that an ITIN application be filed with a tax return, these centers could also process them year-round.

**Make qualifying children in mixed-status families eligible for the EITC.** Congress could consider revising the EITC rules to match the new CTC rules under the One Big Beautiful Bill Act, requiring one parent, but not necessarily both, to have an SSN.

### 3. DEVELOPING OUTREACH AND FREE-FILING ASSISTANCE COULD HELP FAMILIES WITH LOW INCOMES WHO DO NOT TYPICALLY FILE TAXES AND THEREFORE MISS OUT ON THEIR EARNED TAX BENEFITS

Though families with low incomes may not *owe* income taxes and are not *required* to file, they can still receive substantial benefits if they're eligible for the EITC or CTC and file a tax return.

**Increase outreach efforts that serve nonfilers.** These efforts could involve schools, hospitals, faith-based institutions, and other community organizations to share information about taxes. The IRS and state and local agencies, alongside tax preparers and advocates, could also share tax information in multiple languages and media to increase awareness.

**Expand free and low-cost tax-filing services.** To make it easier for families to file and claim the EITC and the CTC, Congress and the IRS could revive the IRS's Direct File program and ensure that free tax filing software is easier to access. Congress could increase funding for VITA services, and state and local governments could develop their own free tax-filing portals.

### 4. SIMPLIFYING RESIDENCY RULES AND ALLOWING MORE FLEXIBLE PROOFS OF RESIDENCY COULD REDUCE ERRORS AND BURDENS ON FAMILIES WITH CHILDREN WHO LIVE IN MULTIPLE HOUSEHOLDS

When children move between homes and caregivers throughout the year, they may fail to meet the residency test. Failure to meet this test is the most common reason children are claimed in error for tax benefits like the EITC.

**Waive the residency test rules and allow families to decide which taxpayer claims a child for tax benefits.** If this resulted in multiple claims, tie-breaker rules could decide which taxpayer claims the child. Or if a child doesn't live with any taxpayer for more than six months of the year, Congress could amend the rules to allow the taxpayer who spent the most time with the child to claim them, as long as that caregiver meets the other credit eligibility rules.

**Make documentation rules more flexible so it's easier for families to comply.** Taxpayers can struggle to provide the correct documentation to prove that a child meets this test if they're audited. The residency test is also difficult for the IRS to administer. Congress and the IRS could make documentation rules more flexible by adopting third-party affidavits—written statements in which someone attests to the living arrangement of taxpayers they know.

### 5. PROVIDING TAILORED IRS SUPPORTS AND REQUIRING GIG ECONOMY BUSINESSES TO WITHHOLD TAXES COULD PREVENT LARGE DEBTS FOR GIG WORKERS AND PEOPLE JUGGLING MULTIPLE JOBS

People who work multiple jobs, including gig economy jobs, may struggle to accurately report their income on tax returns. If they haven't paid their taxes throughout the year, their taxes will be due all at once and they will face penalties. This may be beyond the means of many families with low incomes.

**Create more tailored supports for gig workers.** Self-employed workers, including gig economy workers, must navigate several complexities in preparing their tax returns, such as understanding what deductions they're allowed to take. With community-based social services organizations, VITA sites, and private tax preparation providers, the IRS could design tailored information and filing services for gig economy workers, who are increasing in numbers.

**Require certain gig economy businesses to do mandatory tax withholding.** For gig workers, making estimated tax payments and figuring out what they owe in taxes can be confusing. Congress could consider requiring gig economy third-party platforms to automatically withhold a reasonable share of earnings from paychecks.

#### ABOUT THE AUTHORS

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#### ADDITIONAL READING

##### ***How the Tax System Can Better Support All Families***

Aravind Boddupalli, Margot Crandall-Hollick, and Gabriella Garriga <https://urbn.is/49KDgyJ>