

**GAO Study of EITC Eligibility and Participation**  
by Len Burman and Deborah Kobes

**Q:** GAO recently estimated that one fourth of all eligible households do not claim the EITC. Isn't this alarming?

**A:** No. GAO's study was based on information from two mismatched databases and its conclusions should be taken with a large grain of salt. Given that caveat, the study confirms earlier findings that the participation rate is high—at least 86 percent among families with children. The study's findings do suggest that outreach to raise participation among very low-income households without children may be in order.

**Discussion**

GAO released an analysis on January 11 of Earned Income Tax Credit (EITC) eligibility and participation rates. The study estimated that 17.2 million households were eligible for the EITC in 1999, but only 12.9 million claimed it. Participation rates differed significantly according to the number of qualifying children in the household. Families with one or two children had 93 and 96 percent participation rates, respectively. By contrast, only 45 percent of households without children and 62 percent of those with at least three children claimed the EITC. Overall, more than half of the nonparticipants qualified for the childless credit and almost one third had at least three children. The report speculates that participation rates among those without children and those with three or more children may be low because many families in those categories have incomes so low that they don't have to file an income tax return.

GAO's estimates are imprecise because they draw on two potentially inconsistent data sets. The data for EITC eligibility come from the Current Population Survey (CPS) for 1999; estimates for taxpayers claiming the credit are based on income tax returns filed with the IRS and adjusted in tax audits. As the report acknowledges, the CPS information isn't detailed enough to definitively establish eligibility, especially for the larger credit available to families with children. John Karl Scholz concluded based on a study of data from 1990 that it is very difficult to determine eligibility on the CPS.<sup>1</sup> In some ways, it is easier to estimate eligibility now because it no longer depends on providing support for the child or the return status of single parents.<sup>2</sup> In other ways it is more difficult. Eligibility now depends on the presence of a child in the household for at least half the year (residency test) and on the incomes of all adults in the household who could claim the EITC by

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<sup>1</sup>John Karl Scholz, "The Earned Income Tax Credit: Participation, Compliance, and Antipoverty Effectiveness," *National Tax Journal*, Vol. 47, no. 1, (March 1994), pp. 63-87.

<sup>2</sup> In 1990, claimants had to choose a filing status of head of household or married filing joint to qualify for the EITC. In 1999, only taxpayers electing the married filing separate status were disqualified.

virtue of their relationship to the child and residence (AGI tie-breaker test). Both criteria are difficult to ascertain based on CPS data. It is also very possible that nonparticipation is overstated because of data limitations. In particular, households with moderate levels of capital income, such as interest and dividends, are not eligible for the EITC. The CPS seriously understates capital income for many households. Thus, households apparently eligible based on the CPS may not, in fact, be eligible. Moreover, both the IRS and the CPS estimates are based on samples, and thus subject to error on that account. Finally, because the data on eligibility and participation come from different data sets, information on those who do not participate can't be determined, including whether most filed an income tax return. Given the uncertainty of the data, GAO's findings should thus be viewed cautiously.

GAO's numbers are consistent with Scholz's estimates using 1990 data. Families had to have a child to claim the EITC in 1990, and Scholz estimated participation at between 80 and 86 percent. GAO estimates that 86 percent of families with children participated. The rate was higher for families with one or two children and much lower for larger families. Why participation is so low for larger families is unclear. The GAO conjectures that the tax data may understate the number of families with three or more qualifying children and overstate the number with two. Taxpayers have no financial incentive to report more than two qualifying children since additional children do not increase the amount of EITC.

The news in the GAO report is how few childless households participate. These estimates are probably the most reliable because eligibility depends only on earnings, which are relatively easy to determine on the CPS. However, some households that appear to qualify for the tax credit for families with children based on information in the CPS may be misclassified and actually eligible only for the childless EITC. If so, participation among families with children might in fact be higher than 86 percent and participation among households without children may be even less than 45 percent.

GAO posits that the participation rate among childless households is low because childless households qualify for only a small benefit. On average, the nonparticipants could claim a roughly \$150 credit, based on the GAO estimates. People might decide that it is not worth

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filing a tax return for so little money. In addition, childless people with very low incomes may not have access to the kinds of support services that families with children have and may thus have fewer opportunities to learn about the EITC.

The EITC findings are consistent with evidence from the food stamp program. In 2001, a USDA-commissioned study found that food stamp participation has been consistently lower in households without children than in households with them.<sup>3</sup> The USDA estimates, based on a similar methodology to the GAO study, show that 57 percent of eligible households comprised of able bodied adults used food stamps in 1994, compared with 90 percent of households with children.<sup>4</sup> By 1999 (after eligibility was tightly restricted by welfare reform), the rates had dropped to 29 percent for households without children and 66 percent for households with children. The study also found that those who qualified for smaller benefits (less than 51 percent of the maximum) were much less likely to participate than those who qualified for more.

The bottom line? Most of the assistance that Congress intended lower income families to receive under the EITC reaches its marks. Participation among families with children, who qualify for the largest tax credits, is well over 80 percent, and unclaimed credits, aimed mostly at childless households, average only \$150. Overall, eligible households claimed 89 percent of the \$23.5 billion in total available tax credits estimated by the GAO in 1999. If Congress is concerned about the apparently low participation rate among households without children, it should consider supplying the IRS with resources to advertise the credit's availability to those families or increase the credit rate for families without children to make filing a tax return worthwhile.

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<sup>3</sup> Randy Rosso, "Trends in Food Stamp Participation Rates: 1994 to 1999," Mathematica Policy Research (October 2001). Available at <http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/Participation/1999TrendsReport.pdf>.

<sup>4</sup> Household level estimates are based on data from appendix tables E.1 (1994) and E.6 (1999) in the USDA report. Table III.4 of the report presents estimates for individual participation rates, which are consistent with the household level estimates, but slightly smaller. The disparity arises because larger households are less likely to participate than smaller ones. One reason is that two-parent households are much less likely to participate than single parent households.