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**Can Administrative Data on Child Support Be Used to Improve the EITC?
Evidence from Wisconsin**

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Abstract

We use a unique dataset containing federal individual income tax returns, Unemployment Insurance data, state child support data, and data collected by hand from Wisconsin courthouses to examine EITC compliance and participation. A substantial number of claims are made by adults listed as the court-ordered payor, or are made by adults not identified in the state case registry. Simple calculations extrapolating Wisconsin's experience to the rest of the country suggests that as much as \$1.5 billion of noncompliant EITC claims could possibly be identified, though there are several reasons to regard this as an upper bound. We also find that 40 percent of child support recipients who appear entitled to the credit may not be receiving it.

Can Administrative Data on Child Support Be Used to Improve the EITC? Evidence from Wisconsin

The Earned Income Tax Credit (EITC) is the largest cash or near-cash U.S. antipoverty program. Taxpayers in both the federal and Wisconsin tax systems gain access to the EITC by having incomes below certain thresholds and by filing a tax return that reports an EITC-qualifying child.¹ A child must live with the taxpayer more than half the year to be EITC-qualifying.

A large fraction of EITC payments appear to go to taxpayers who are not eligible for the credit. The most recent study of EITC noncompliance examined returns filed in 2000 (for tax year 1999) and found that of the \$31.3 billion claimed in EITC, between \$8.5 and \$9.9 billion, or 27.0 to 31.7 percent of the total, exceeded the amount to which taxpayers were eligible (Internal Revenue Service, 2002b).

Of the errors the IRS was able to classify, roughly one-half arose because of qualifying-child errors and one-half of those (or 25 percent of the total) arose because the child claimed was not the taxpayer's qualifying child.² Of these errors, the most common problem was that EITC-qualifying children failed to live for at least six months with the taxpayer claiming the child. Mistakes of this type can run the gamut from innocent taxpayers running afoul of complex IRS rules to fraud.³

¹Beginning in 1994, a small EITC is available to childless taxpayers (see Hotz and Scholz, 2003, for details). In this paper we focus exclusively on the EITC available to taxpayers with children. Wisconsin has a sizable state EITC but we have access only to federal tax returns. Consequently, we do not analyze the Wisconsin state EITC.

²Holtzblatt and McCubbin (2004) provide a good discussion of the results of the EITC compliance study and broader tax compliance issues for low-income households. Also see Holtzblatt (1991), U.S. General Accounting Office (1998), and McCubbin (2000) for discussions of earlier EITC compliance studies. See Hotz and Scholz (2003) for a more detailed discussion of EITC compliance and other EITC-related issues.

³Consider, for example, a divorced couple where the noncustodial parent gets the dependency exemption because he (she) is regularly paying child support. The noncustodial parent receiving the dependency exemption could easily assume that he or she could also claim the child to receive the EITC if they are otherwise qualified. But in this case the claim would be inappropriate, since the child does not live with the claimant for more than six months. In the category of clearly noncompliant, consider the situation described in the ethnographic study of Romich and Weisner (2000). They write that "one woman relies on her mother to baby-sit her younger daughter every weekend. The grandmother also buys school clothes for the child. In return for this care, the grandmother 'gets hers back at the end of the year' by (illegally) filing the child as her dependent and receiving an EITC" (page 1256).

Tax returns do not collect information on the *location* of children during the year. Consequently, absent additional information, the IRS has little ability to scrutinize EITC-qualifying child claims before the EITC is paid out. Given this problem, in the 1997 budget bill Congress directed the Secretary of the Treasury and the Secretary of Health and Human Services to use the Federal Case Registry of child support orders (FCR) to improve the accuracy of the child support and tax systems. The logic underlying this provision was that the case registry identifies child support payees and child support payors.⁴ It was further assumed that the payee generally has physical custody of the child. If this assumption is true, then EITC claims made by someone other than the child support payee would be noncompliant. The 2001 tax bill (Economic Growth and Tax Relief Reconciliation Act) pushed this provision further, giving the IRS authority to apply “math error procedures” to tax returns claiming the EITC if, according to the FCR, the taxpayer is listed as being the court-ordered child support payor of the EITC-qualifying child.⁵

Since a large fraction of EITC errors arise in cases where someone other than the person living with the child is claiming the child for EITC purposes, the FCR is a potentially promising tool that could allow the IRS to identify a substantial number of noncompliant cases. Alternatively, the data in the registry could be flawed; living arrangements could be fluid, making the FCR data insufficiently up to date; or it could be infeasible or inefficient (from a cost-benefit standpoint) to use FCR data during processing to stop questionable refund claims before money is paid out. Once inappropriate EITC claims are paid out, it is very difficult to get the money back.

Eight years after the IRS was granted access to the FCR, we know little about its potential for detecting tax noncompliance or for better understanding other tax-related issues. More generally, except

⁴Throughout the report, we follow common language in the child support literature by referring to putative recipients as “payees” and those obligated to make payments as “payors.”

⁵Math error authority allows the IRS to avoid providing the taxpayer with a statutory notice of deficiency for math errors. In general, these are errors that must be corrected for the IRS to process the return. These include obvious errors such as omissions of data needed to substantiate items on the tax return, as well as mathematical errors.

for the use of Unemployment Insurance data to measure incomes in many contexts, there are few examples where administrative data from one program have been used to address key policy issues in complementary programs.

The EITC (or any tax expenditure) will be more effective if the provision has low noncompliance, has high participation among eligible taxpayers, and has desirable behavioral effects. In this paper we use a unique dataset, compiled in Wisconsin, to provide new insight into the first two issues: EITC compliance and participation.⁶ Through special arrangements made with the Internal Revenue Service and the state of Wisconsin, we have matched (by social security number) all federal individual income tax returns filed with Wisconsin addresses to state Unemployment Insurance data (which provide information on earnings), the state child support case registry (the Wisconsin portion of the FCR), and a special sample of child support cases collected by hand from selected county courthouses in Wisconsin, which provide additional evidence on the quality of the state child support case registry.

We first use our data to examine a central EITC compliance issue. The promise of using child support data to address issues of EITC noncompliance is that these data may help identify where children live during the calendar year. We take the sample of all EITC claimants with children in 1999 and 2000 (in Wisconsin), matched to the child support records, and document the frequency with which an EITC-qualifying child is claimed by someone other than the child support payee.⁷ We also calculate the value of the EITC that court-ordered recipients forsake had they used the child to claim the credit in situations where the child is an EITC-qualifying child on someone else's tax return. Given relatively low audit rates in the tax system, taxpayers may correctly perceive that they have some discretion over the information reported on their tax returns. We probe the reliability of the state case registry by making use of a unique

⁶See Hotz, Mullin, and Scholz (2005) for a recent paper using administrative data, including tax returns, to examine the employment effects of the EITC.

⁷As noted below, a child must live with the taxpayer more than half the year to be EITC-qualifying. EITC claims by parties other than the custodial parent are therefore noncompliant.

sample, collected by hand from county courthouses across Wisconsin, that has more detail than the case registry on the physical placement of children covered in child support orders. These hand-collected data allow us to identify cases where the case registry appears to provide inaccurate evidence of physical residence.

We then examine EITC participation—defined as the fraction of eligible families who file a tax return and claim the credit. Scholz (1994) and Blumenthal, Erard, and Ho (2005) present participation rate estimates using tax return data in 1990 and 1988. The IRS (2002a) uses non-tax data to estimate participation among eligibles in 1996. Estimated participation rates range from 69 to 90 percent in these studies. We look at EITC participation rates for an interesting subsample of EITC-eligible households: families with a child support order.⁸ Starting with a sample of all adults with an active order (as a child support recipient) in 1999 and 2000, we compute the fraction receiving the EITC. We also tabulate the income sources for these households, namely, wage and salary income, child support payments, adjusted gross income, and EITC receipts. These data allow us to made crude estimates of EITC eligibility (based on wage and salary income from Unemployment Insurance data, along with the number of children covered by specific child support orders). Tax return information then allows us to calculate the number of “eligible” households that actually receive the EITC.

I. BACKGROUND

In 1999, taxpayers with two or more children could receive a federal EITC of 40 percent of income up to \$9,540, for a maximum credit of \$3,816. Taxpayers (with two or more children) with earnings between \$9,540 and \$12,460 receive the maximum credit. Their credit is reduced by 21.06 percent of earnings between \$12,460 and \$30,585. Table 1 shows the income eligibility thresholds, credit

⁸Estimates from Wisconsin child support data indicate that only around 30 percent of households with an order receive their full child support obligation. The subsample we examine is generally responsible for children and they are unusually likely to be economically disadvantaged.

TABLE 1
Earned Income Tax Credit Parameters, 1999–2000 (in nominal dollars)

Year	Phase-In Rate (%)	Phase-In Range (\$)	Max. Credit (\$)	Phase-Out Rate (%)	Phase-Out Range (\$)
1999	34.00 ^a	0–6,800	2,312	15.98	12,460–26,928
	40.00 ^b	0–9,540	3,816	21.06	12,460–30,580
	7.65 ^c	0–4,530	347	7.65	5,670–10,200
2000	34.00 ^a	0–6,920	2,353	15.98	12,690–27,413
	40.00 ^b	0–9,720	3,888	21.06	12,690–31,152
	7.65 ^c	0–4,610	353	7.65	5,770–10,380

Source: Publication 596, Internal Revenue Service.

^aTaxpayers claiming one EITC-qualifying child.

^bTaxpayers claiming more than one EITC-qualifying child.

^cChildless taxpayers.

rates, and phase-out (or implicit tax) rates for taxpayers with no children, one child, and two or more children.

A. The Wisconsin Case Registry of Child Support Orders

The Wisconsin Case Registry of child support orders contains the information needed to administer the child support system. It typically identifies a child, a court-ordered recipient of child support, and a court-ordered payor of child support. The court-ordered recipient (or payee) is identified as a “CP” and the court-ordered payor is identified as an “NCP” in the case registry. The “CP” label suggests that the data identify the custodial parent, but in some circumstances the payee will not be a parent, such as when the payee is a grandparent or foster parent. In addition, the child does not *necessarily* need to live with the payee. In shared custody arrangements, for example, one custodial parent is assigned “CP” and the other is given “NCP”—commonly thought to indicate a noncustodial parent—status based on rules having to do with relative income differences and time spent with the child. In some of these cases, an EITC claim made by an NCP may be compliant.⁹

The state case registry has data for roughly 1.25 million child support cases. Around 12 percent of children in the case registry do not have social security numbers (SSNs), leaving a usable sample of roughly 1.1 million cases.¹⁰ New entries are added every time a child support order is changed, so there are significantly fewer unique children in the state case registry.¹¹ The registry also includes dates of the

⁹About 30 percent of all divorce cases end up with shared custody. The fraction of shared custody cases increases sharply with income: nearly half the cases where the combined income of the family exceeds \$75,000 are shared, while fewer than 20 percent are shared when the combined family income is less than \$30,000 (Cook and Brown, 2005). About 20 percent of shared custody cases do not appear in the state case registry.

¹⁰Not surprisingly with a large administrative dataset, there are odd cases. The same SSN is listed for both the CP and NCP, for example, in a small number of cases. More than 2,500 children are over age 50 in the case registry, making it clear that there are transcription errors or at least some (presumably minor) data glitches.

¹¹As many as 17 child support orders appear for a single child. As mentioned in the text, multiple records do not indicate a mistake. Rather these are generally historical records of changing orders.

order, dollar amounts of payments, and incomplete information on the relationship to the child of the court-ordered recipient and the court-ordered payor.

There may be more than one entry in the registry for a given child. To address this problem we use the order history table that is part of the case registry to identify those child support orders that were in effect during 1999 and 2000. This results in a set of roughly 300,000 child support records in each year. Over 97 percent are for a single child, largely solving the problem of multiple cases for a given child. We drop fewer than 3 percent of the cases where more than one record applies for the same child. Half of the children covered by child support orders in each year were claimed as a dependent on a tax return.

B. Wisconsin Is a Relatively Low Poverty State but Is Average in Other Ways

For this study to be broadly informative on the question of how useful the Federal Case Registry of child support orders could be in reducing EITC noncompliance, Wisconsin—the state used in this case study—should be broadly representative of the United States. As we show in Table 2,¹² many of the characteristics of Wisconsin’s population are similar to those of the entire country.

Wisconsin had one-fiftieth of the country’s population and Wisconsin residents filed one-fiftieth of the country’s tax returns in 2000. The age distribution of the population in Wisconsin is similar to the rest of the country, as is the fraction never married and those who remain in the same house in which they lived 5 years earlier.

Median household income in Wisconsin is slightly higher than median income nationally. The fraction of households with income less than \$25,000 is somewhat lower in Wisconsin, at 25.6 percent compared to the national total of 28.6 percent. Wisconsin’s poverty rate of 5.6 percent of households in 2000 is, however, significantly lower than the national rate of 9.2 percent, most likely because there are

¹²Tax data come from the Statistics of Income group at the Internal Revenue Service (<http://www.irs.gov/taxstats/>). The demographic information comes from the 2000 Census (<http://www.census.gov/main/www/cen2000.html>).

TABLE 2
The Characteristics of Wisconsin Relative to the Entire United States, Census 2000

	US	Wisconsin
Population	281,421,906	1.9% of US
Total tax returns (2000)	130,122,204	2.0% of US
Filing head of household returns (%)	13.9	8.5
Total returns claiming EITC (%)	14.7	9.4
Average EITC claim	\$1,658	\$1,511
White (%)	75.1	88.9
Black (%)	12.3	5.7
Hispanic (%)	12.5	3.6
21 or older (%)	70.0	69.9
Families with own children under 18 (%)	32.8	31.9
Single woman with own children (%)	7.2	6.2
Renting (%)	33.8	31.6
With high school degree or more (%)	80.4	85.1
Never married (%)	27.1	27.2
Same house as 5 years prior (%)	54.1	56.5
German, Polish, or Norwegian origin (%)	20.0	60.5
In labor force (%)	63.9	69.1
Household income less than \$25,000 (%)	28.6	25.6
Median household income	\$41,994	\$43,791
Families with incomes below the poverty line (%)	9.2	5.6
Poverty rates		
Families with children under 18 (%)	13.6	8.8
Families with children under 5 (%)	17.0	12.2
Female-headed households with child under 18 (%)	34.3	28.4
Female-headed households with child under 5 (%)	46.4	42.5

Source: Tax data come from the Statistics of Income group at the Internal Revenue Service (<http://www.irs.gov/taxstats/>). Demographic information comes from the 2000 Census (<http://www.census.gov/main/www/cen2000.html>).

proportionately fewer single-parent households in Wisconsin compared to the rest of the country: only 8.5 percent of Wisconsin households file head of household (single parent) returns compared to 13.9 percent for the nation. The racial and ethnic composition of Wisconsin also differs from the rest of the country. Eighty-nine percent of the Wisconsin population is white, compared to 75 percent nationally.

C. The EITC and Wisconsin Taxpayers¹³

Wisconsin residents filed roughly 2.5 million federal tax returns in 1999 and 2000, as shown in Table 3.¹⁴ As is well known, the distribution of income in Wisconsin (and elsewhere) is skewed rightward. Consequently, the average (or mean) adjusted gross income of roughly \$44,000 is considerably larger than the median adjusted gross income of roughly \$28,500.¹⁵ Tax returns can be filed by children with modest amounts of income (such as from a paper route) as well as by heads of households, married couples, and single adults. Thus, a tax return does not necessarily reflect the financial status of a family or household.

As can be seen in the next panel of Table 3, roughly 813,500 returns were filed by families with children. These returns correspond more closely to conventional conceptions of a family in that they are filed by single parents or married couples with children. The average income reported on these returns is roughly \$60,000, which is much larger than even the highest income that would qualify a taxpayer with a child for the EITC. Fewer than 1 percent of the dependent social security numbers used on tax returns

¹³All analyses have been done for both calendar year 1999 and calendar year 2000. The tables present results for both years. Because results are similar across years, we often discuss only the 1999 results in the paper or average results across the years.

¹⁴We drop 33,748 returns (in 1999), or 1.3 percent of the sample, that have a tax period that differs from December 1999. Almost all of the excluded returns were late returns filed for earlier calendar years.

¹⁵Adjusted gross income includes wages and salaries, interest, capital gains, income from retirement accounts, alimony received adjusted downward by specific deductions (including contributions to deductible retirement accounts and alimony paid); but not including standard and itemized deductions.

TABLE 3
Tax Returns Filed in Wisconsin: Incomes and the EITC, 1999 and 2000

	1999	2000
Total number of returns	2,549,992	2,577,820
Average adjusted gross income	\$42,932	\$45,075
Median adjusted gross income	\$27,887	\$29,185
Total number of returns claiming children	813,044	813,897
Average adjusted gross income	\$59,868	\$62,390
Median adjusted gross income	\$47,601	\$49,376
EITC claimants	242,636	240,612
Percentage of total returns	9.5%	9.3%
Average adjusted gross income	\$13,488	\$13,676
Median adjusted gross income	\$13,216	\$13,385
Average EITC claim	\$1,511	\$1,518
Childless EITC claimants	47,207	48,091
Returns using duplicated EITC-qualifying children	3,676	3,232
Unique EITC claims with children	191,753	189,289
Percentage of total returns with children	23.6%	23.3%
Average adjusted gross income	\$15,550	\$15,849
Median adjusted gross income	\$16,030	\$16,432
Average EITC claim	\$1,829	\$1,849
Total EITC claims (of families with children)	\$350,716,237	\$349,995,361
Families with 1 EITC child	86,937	86,802
Families with 2+ EITC children	104,816	102,487

Source: Tax returns filed in Wisconsin and authors' calculations.

Notes: We drop 1.3 percent of the initial sample for whom the last month of their filing period is something other than 12/1999 for the returns filed in the 1999 filing season, and other than 12/2000 for the returns filed in the 2000 filing season.

are duplicated, though it is still the case that over 6,000 dependents are claimed on more than one tax return.¹⁶

Wisconsin taxpayers made roughly 240,000 EITC claims in each year. Not surprisingly, given that the EITC targets the working poor, the average incomes of EITC recipients are much lower (\$13,500) than the average taxpayer in Wisconsin or the average taxpayer with children. The average EITC claim is \$1,500. Of the 240,000 EITC claims, nearly 50,000 are from childless taxpayers.¹⁷ Because the focus of this research is on children, the child support system, and the EITC, we drop childless EITC recipients for the rest of the analyses.

Of the returns filed in 1999 claiming the EITC, 3,676 claimed an EITC-qualifying child that was also used on another return. In total, returns using a duplicated EITC-qualifying child claimed roughly \$5.9 million in EITCs.¹⁸ Because we cannot determine which claimant is legitimate, we exclude these cases from our analysis. We hope these duplicate claims are identified and corrected in return processing, so that payments are not made more than once for a given EITC-qualifying child. As mentioned earlier, it is difficult to recover inappropriate EITC claims once they are paid.

The rules defining a dependent and EITC-qualifying child for tax purposes differ. A taxpayer claiming a dependent must meet, among other things, the “support test,” which requires the taxpayer to provide at least half the support for the child in question. A taxpayer claiming an EITC-qualifying child does not need to meet the support test, but the child does need to live with the taxpayer for at least half the year. This difference in the treatment of dependents and EITC-qualifying children is substantively

¹⁶In making these calculations, we do not drop returns with duplicated dependents.

¹⁷These are taxpayers claiming no EITC-qualifying children, so they are eligible only for the very small EITC shown in the third row of both panels of Table 1.

¹⁸2,362 returns had a duplicated first EITC-qualifying child, 733 had a duplicated second EITC-qualifying child, and 581 had both EITC-qualifying children duplicated. Recall that Wisconsin accounts for roughly 1/90th of EITC payments nationally. If the number of duplicated EITC qualifying children in Wisconsin is similar to the prevalence in the rest of the country, roughly \$0.5 billion of EITC is claimed by taxpayers using duplicated qualifying child SSNs.

important. Of the returns claiming the EITC in 1999, 20 percent of those claiming no dependents claimed at least one or two EITC-qualifying children. Similarly, 7 percent of those claiming one EITC-qualifying child claimed no dependents. And 11 percent of those claiming two EITC-qualifying children claimed one or zero dependents.¹⁹

The roughly 191,000 EITC claims made by Wisconsin taxpayers with unduplicated EITC-qualifying children are the focus of our analysis. Based on data for these claims, we find that nearly 25 percent of the tax returns filed by Wisconsin families with children claim the EITC. The average adjusted gross income of these families is around \$15,600. Their average EITC is \$1,840, resulting in a total of \$353 million in EITC payments. Of the Wisconsin EITC recipients with children, around 87,000 have one child and around 105,000 had two or more children. As shown in Table 1, the EITC schedule is somewhat more generous for families with two or more children than for one-child families.

II. CAN THE CASE REGISTRY BE USED TO IDENTIFY NONCOMPLIANT EITC CLAIMS?

In this section we document the frequency with which someone other than the CP uses the child of a court-ordered child support recipient as an EITC-qualifying child when filing his or her tax returns. The presumption behind the 1997 provision granting the Treasury Department access to the Federal Case Registry of child support orders is that these claims are likely to be noncompliant. We also calculate the value of the EITC that the court-ordered recipients forsake by not using the child to claim the credit. Given relatively low audit rates in the tax system, taxpayers may correctly perceive that they have some discretion over the information reported on their tax returns.

Our strategy is to start with the universe of EITC returns filed by Wisconsin families with children and match these returns to the information in the child support records, using the SSN of the first and second (if applicable) EITC-qualifying child for the tax return data and the SSN of the child in the

¹⁹ Moreover, 36 percent of EITC-qualifying children are not claimed as dependents on tax returns.

child support data. This is the strategy Congress had in mind when it gave the Secretary of the Treasury and the Secretary of Health and Human Services the authority to use the Federal Case Registry of child support orders to improve tax administration.

A critical issue when thinking about the viability of using case registry data to identify noncompliant EITC cases is the frequency with which EITC-qualifying children actually appear in the case registry. If EITC-qualifying children do not appear, the linkage between tax returns and the case registry would identify few potentially erroneous returns. Moreover, those highlighted by the case registry might challenge the integrity of a process that scrutinizes a small subsample of returns by virtue of their being identified in child support data.

We address the overlap between the case registry and EITC children in the first two rows of Table 4. More than 41 percent of the roughly 190,000 EITC claims use at least one case registry child to claim the EITC (implying that at least 57 percent of EITC claims do not use any case registry children). Children from low-income married couples (with no prior divorce) would not be expected to be in the case registry (there will be no child support order for these families). Indeed, nearly 40 percent of the claims without a case registry entry file joint returns, indicating they are married.

It is also the case that the case registry and tax data appear quite “clean,” in the sense that SSNs in the two files appears to be accurate. If we match to the entire 1.1-million child support registry, rather than the 300,000-case extracts that are restricted to active orders in 1999 and 2000, we match to 70 percent (as opposed to 41 percent) of the returns claiming an EITC. In what follows, we do not use this larger file, however. We think the child support registry information is likely inaccurate when the case is not considered active. And consistent with accuracy being an issue, roughly 30 percent of the EITC claims match to more than one child support record in the full registry, often with conflicting information about the likely residence of the child. Multiple records are rare among active orders.

Of the more than 80,000 EITC claims that match to the case registry, more than 70,000, or 88 percent of the total, indicate that the court-ordered payee (recipient) of the child support award is the

TABLE 4
Information from Child Support Case Registry Data Suggest Many EITC Claims
May Be Inappropriately Claimed

	1999	2000
Total number of returns with an EITC-qualifying child	191,753	189,289
Returns with children not in the case registry	111,413	107,831
Percentage of EITC cases not in registry	58.1%	57.0%
Percentage of returns from joint filers	38.2%	37.3%
Percentage of returns from head of household filers	52.9%	53.5%
EITC-qualifying child is claimed by a CP	70,971	72,327
Total EITC claims	\$139,812,870	\$143,786,076
Average EITC claim	\$1,970	\$1,988
EITC-qualifying child is claimed by an NCP	4,175	4,115
Total EITC claims	\$7,110,025	\$7,073,685
Average EITC claim	\$1,703	\$1,719
Average EITC if taken by the child support payee	\$888	\$896
Total forgone (direct) EITC payments	\$3,707,400	\$3,687,040
EITC-qualifying child claimed by an unknown adult	5,194	5,016
Total EITC claims	\$10,320,478	\$10,132,320
Average EITC claim	\$1,987	\$2,020
Average EITC if taken by the child support payee	\$748	\$770
Total forgone (direct) EITC payments	\$3,885,112	\$3,862,320

Notes: The unit of analysis is Wisconsin EITC filers with children. The tax returns are matched to child support case records that apply to 1999 and 2000. Calculations are described in the text.

EITC claimant. Recall that a central criterion for EITC eligibility is that a qualifying child must live with the taxpayer for at least six months. To the extent that the designation of a “child support payee” in the child support data also indicates the physical placement of the child, the linkage between child support and tax return data suggest that the vast majority of claims are appropriate. The average EITC claim for these families is \$1,980, for a total of roughly \$140 million in EITC payments.

Roughly 4,150 EITC claims, or 5 percent of the total matched cases, are made by the person listed as court-ordered payor (“NCP”) in the child support records. Recall that the presumption of policymakers in Congress and the Executive Branch was that a high fraction of the EITC claims made by NCPs were noncompliant. Specifically, policymakers presumed that an adult would not be identified as a child support *payor* if the child resided with the taxpayer. Of course it is possible that the adults identified in the case registry may have a complicated placement situation and/or have experienced changes in placement over time so that the information inferred about physical placement from the case registry is wrong. These issues are considered in more detail in the following subsection. But to foreshadow one conclusion, it appears that the case registry provides fairly accurate information.

To get a sense for an upper-bound estimate of the erroneous claims that child support data might uncover, consider the following simple assumptions. First, assume that all 4,175 EITC claims made by court-ordered payors (“NCPs”) in 1999 are noncompliant. Second, as one can calculate from Table 1, Wisconsin taxpayers collect 1/90th of EITC payments made nationally. If a state’s EITC noncompliance is proportional to a state’s total EITC claims, we can multiply total EITC claims by NCPs by 90 to get a rough estimate of potential noncompliance by NCPs. Doing so, NCPs may be making as much as \$640 million in erroneous EITC claims. Recall that total EITC noncompliance is estimated to be between \$8.5 billion and \$9.9 billion.

The remaining 5,194 claims are made by adults that are neither payees (CPs) nor payors (NCPs) in the child support data. It is difficult to assess the claims made by adults if they are not listed in the case registries. Some could be legitimate, as low-income children are sometimes cared for by grandparents,

aunts, and other relatives. There could be transcription errors in the SSNs. Some claims, of course, could be noncompliant. We generally think children live with the payees (or recipients) of child support payments, so EITC claims by these unidentified adults are puzzling. If we assume all these claims are noncompliant, using the assumptions noted above, they would highlight roughly \$929 million in erroneous EITC claims.

Because we have access to Unemployment Insurance wage data for the child support payees, we can make a rough calculation of the EITC that is (potentially) forgone by the recipient in cases where someone else claims the EITC. In cases where both the court-ordered payor and an unidentified adult make the EITC claim, the recipient would have received a substantially smaller credit (by over 50 percent; see Table 4). These data patterns are consistent with the possibility that (extended) families may allocate children in a way that maximizes EITC claims.

One possibility is that payees whose children are claimed by another taxpayer receive larger child support payments in return. In fact, child support receipts are \$1,000 to \$2,000 *lower* for payees when someone else uses their child to get the EITC, compared to cases where the payee also claims the EITC. Receipts are lowest (by roughly \$2,000) for those for whom an unidentified adult claims the child. Receipts are around \$1,000 lower when the NCP received the EITC based on the child for whom there is a child support award. These estimates are similar to ones we obtained using regression methods that condition on the adjusted gross income and number of children claimed by the EITC recipient. More work, of course, could usefully be done to explore financial relationships between custodial and noncustodial parents. But our evidence suggests that child support payees whose child is used by some other taxpayer as an EITC-qualifying child are doubly disadvantaged: they do not receive the EITC and their child support receipts are lower than payees who also claim the EITC.²⁰

²⁰It is not necessarily the case that the child support payees are receiving a lower fraction of the child support obligation they are entitled to. To examine this, we would need more detail on the incomes of the NCP than we have available for this project.

A. The Accuracy of the Child Support Case Registry Data: Evidence from Court Records

A fundamental question when trying to assess the accuracy of our noncompliance calculations and, more important, the usefulness of child support case registry data for identifying EITC noncompliance before inappropriate claims are paid, is whether the case registry provides reasonable evidence of the physical placement of children. In this subsection we make use of a unique sample collected from county courthouses across Wisconsin that allows us to identify primary physical placement of the child, at least as is specified in the court agreement. Comparing information from the case registry with data drawn from the court records helps us assess the degree to which the state case registry might be a valuable tool for identifying EITC noncompliance and provides new evidence on the likely effectiveness of the IRS's newly granted math error authority.

The Court Record Database (CRD) provides information on 2,969 divorce and paternity child support cases that first came to a Wisconsin county court in 1996 and 1997. Data were collected from county courthouses in 21 Wisconsin counties as part of a cooperative research agreement between the Institute for Research on Poverty and the state of Wisconsin.²¹ Unfortunately, many of the cases are missing the SSNs of the children. Therefore, we have information on roughly 1,750 cases with SSNs for both the child and the parents of the child. When these data are matched to the state case registry of child support orders, we end up with 1,109 cases with complete information.²²

The CRD data show, for example, that at the beginning of 1999, 64.7 percent of the children were in sole placement of the mother, and 13.2 percent were in shared placement, where the child lives with both parents. This could reflect one of two custody arrangements: equal sharing or one with unequal

²¹The counties are Calumet, Clark, Dane, Dodge, Dunn, Green, Jefferson, Juneau, Kewaunee, Marathon, Milwaukee, Monroe, Oneida, Ozaukee, Price, Racine, Richland, St. Croix, Sheboygan, Waukesha, and Winnebago.

²²In other research, scholars at the Institute for Research on Poverty found that 80 percent of cases in the court record data that first came to court in 1996 and 1997 can be matched with cases in KIDS, the state's administrative system for child support. However, the basis for that match is the court case number. Because some cases with a court number do not include the social security numbers of all children, the matching rate between the Court Record Data and KIDS based on social security numbers of children was approximately 63 percent.

sharing. In 10 percent of the cases, the parents are either living together or have some other arrangement where both parents have some responsibility for the children. In 7.5 percent of the cases, fathers have sole placement. The remaining cases (fewer than 5 percent of the total) involve third parties, missing information, or other more complex arrangements. Thus, although, not surprisingly, mothers and fathers have primary placement responsibility for their children, it is difficult to know, even with very good data, where, precisely, children are located in more than 25 percent of the cases (those cases without sole mother or sole father placement).

Accurately characterizing living arrangements of children is even more difficult, since actual and officially recorded placement can change during the year. In 6 percent of the cases where mothers have sole placement, for example, placement changed later in 1999. In nearly 25 percent of the cases where the father had sole physical placement, the arrangement changed in 1999. And, of course, there may be differences between actual living arrangements and those recorded in the case registry or the CRD.²³

Despite the perhaps obvious fact that living arrangements can be both complicated and fluid, there is fairly striking consistency between the CRD and the state case registry of child support orders in cases where the two datasets overlap. In 94.5 percent of the cases the SSN of the child support payee (in the child support data) is the same as the SSN of the mother in the CRD in cases where there is joint, split, or sole mother placement, or is the SSN of the father in cases where the father has sole placement.²⁴ Discrepancies, not surprisingly, are more likely in cases where the placement order changes during the year.

We draw two lessons from this description of the CRD data. First, the data in the state case registry appears to be of high quality. The SSN of the child support payee (recipient) matches the person who is recorded in the CRD as having primary physical placement in the vast majority of cases. Second,

²³For a detailed look at these issues see Krecker et al. (2002).

²⁴Children tend to spend more time with mothers in cases of joint placement. Split placement refers to situations where some children are placed with one parent, some are placed with the other.

however, although matching tax data to state case registries almost surely will increase the efficiency of efforts to identify noncompliant EITC claims, it will also generate some “false positives.” These will arise because fathers sometimes will have placement of their children for a majority of the time in shared placement arrangements, placement of children changes within a year, and/or other inaccuracies undoubtedly may occur. Nonetheless, the quality of the case registry data appears to be quite high. If the IRS uses the math error authority they have been granted, procedures will need to be in place so that the taxpayers in these false-positive cases can appeal and easily rectify mistakes in a way that does not inhibit current or future legitimate EITC claims.²⁵

III. EITC PARTICIPATION OF COURT-ORDERED CHILD SUPPORT PAYEES

Tables 5a and 5b document the frequency with which court-ordered child support recipients receive the EITC and shows the distribution of the dollar amounts of these receipts. Naturally, a given child support recipient may have more than one child with a child support order. Consequently, there are only around 190,000 adults who are supposed to receive child support payments in those years, although there are roughly 300,000 children with an active order in 1999 or 2000.

Based on the data from Unemployment Insurance (UI) wage records and tax returns that we merged to records for child support payees in the case registry, we find that roughly 90 percent of these individuals have earnings, as indicated by employer wage reports (aggregated over the calendar year) and 80 percent file tax returns (and thus report adjusted gross income) and actually receive child support payments (see Tables 5a and 5b). Recall, 100 percent of the observations have an ongoing child support *order*. In contrast, only 41 percent of the observations receive the EITC. For the typical, or median, recipient, the EITC provides nearly \$2,000, or almost two-thirds of the median amount of child support.

²⁵The importance of appeal rights and the need for eligible taxpayers to quickly secure legitimate EITC claims has been a point of emphasis of the Taxpayer Advocate (see, for example, IRS, 2002b, 2003).

TABLE 5a
Income Sources of Court-Ordered Child Support Payees (Recipients), 1999

Court-Ordered Payees	UI Earnings	AGI	EITC	Child Support
Percentage receiving	90%	81% ^a	41%	83%
Conditional mean ^b	\$18,284	\$31,102	\$1,949	\$4,287
Conditional median ^b	\$16,281	\$22,730	\$1,964	\$3,105
10 th percentile	\$2,388	\$6,301	\$475	\$420
90 th percentile	\$35,853	\$63,194	\$3,581	\$8,976
Court-ordered payees with UI earnings that would make them EITC-eligible				
Percentage receiving EITC			60%	
Conditional mean EITC ^b			\$1,990	
For those not getting EITC, dollars forgone			\$72,170,784 (or \$1,512 per CP)	

TABLE 5b
Income Sources of Court-Ordered Child Support Payees (Recipients), 2000

Court-Ordered Payees	UI Earnings	AGI	EITC	Child Support
Percentage receiving	91%	80% ^a	41%	84%
Conditional mean ^b	\$19,174	\$32,604	\$1,968	\$4,428
Conditional median ^b	\$17,148	\$23,700	\$1,972	\$3,205
10 th percentile	\$2,574	\$6,607	\$479	\$420
90 th percentile	\$37,582	\$65,554	\$3,630	\$9,275
Court-ordered payees with UI earnings that would make them EITC-eligible				
Percentage receiving EITC			61.2%	
Conditional mean EITC ^b			\$1,990	
For those not getting EITC, dollars forgone			\$70,412,692 (or \$1,526 per CP)	

Source: Wisconsin State Case Registry of child support orders, matched to Unemployment Insurance data and information from federal tax returns. Entries are authors' calculations and are described in the text.

Notes:

^aThis is the percentage of CPs with a 1999 child support order that filed a tax return (as either a primary or secondary filer).

^bA conditional mean (median) is the mean (median) for those with more than 0 of the source described in the entry (so the conditional mean of UI earnings is the mean earnings restricting the sample to those with positive UI earnings).

These figures are strikingly similar for both 1999 and 2000.

With information on many of the primary income sources available to the family, we can generate rough estimates of household EITC eligibility. In particular, we use UI wages as the measure of available earned income²⁶ and the number of distinct children for whom the court-ordered payee (CP) has a child support order as an indicator of the number of children in the household. We then simulate the EITC that would be available to the household assuming these measures provide accurate information on income and family structure to determine the amount of EITC that would be available to the household.

Based on these assumptions, around 60 percent of the court-ordered payees (CPs) who appear eligible for the EITC are actually receiving the credit. The average amount of their payment is \$1,990. These estimates imply that more than one-third of the court-ordered payees are not receiving the EITC to which they may be entitled. The estimated forgone payments are \$1,500 per family, or an aggregate total of roughly \$70 million.

Recall that the above sample is a subset of all EITC-eligible taxpayers in Wisconsin. It consists only of households in which there is a child support order. We expect this group to have a somewhat lower participation rate than EITC-eligible married couples with children (and no child support order), although we have no priors on the likely magnitude of the take-up differences.²⁷

²⁶UI wage records do not cover all forms of employment. In particular, state UI systems typically do not cover the employment of self-employed persons, most independent contractors, military personnel, federal government workers, railroad employees, some part-time employees of nonprofit institutions, employees of religious orders, and some students employed by their schools. As such, wage earnings from these types of employment are not contained in state UI Wage records. UI wage records will also not capture income provided by other members of the household. See Hotz and Scholz (2002) for further discussion of these issues.

Because we miss certain types of income, estimates of EITC eligibility may be overstated (if the missing sources of income would push taxpayers out of the EITC eligibility range). But some taxpayers may be eligible for the EITC solely as a consequence of these missing income sources, which implies our EITC eligibility estimates would be understated. We have no way of assessing which bias is likely to be most important, though we think the magnitude of the errors in either direction are likely to be small.

²⁷Those with child support orders are a more economically disadvantaged group than those without, and EITC participation among eligible families increases with income (Scholz, 1994; Blumenthal, Erard, and Ho, 2005).

A participation rate of 60 percent among eligible families is lower than estimates of EITC participation nationwide (and for all eligible families), although available national estimates are somewhat dated. Scholz (1994) used matched data from tax returns and the Survey of Income and Program Participation to calculate that 80–86 percent of taxpayers eligible for the EITC appeared to receive it in 1990.²⁸

It is not clear how developments since 1990 have affected EITC participation rates. The maximum credit has increased sharply since then, from \$1,207 to \$3,756 in 1999 dollars, and the credit extends further up the income distribution, where filing propensities are high. There also have been expanded outreach efforts by the IRS, state agencies, and nonprofit organizations. We expect each of these factors to increase EITC participation (conditional on eligibility).

However, there has been a steady increase in labor force participation of single women with children (Meyer and Rosenbaum, 2000, 2001), and new workers in this group presumably have lower filing propensities than the typical worker in the population. Hill, Hotz, Mullin, and Scholz (1999), for example, suggest that EITC participation rates for single mothers who had been on AFDC in California were in the range of 42–54 percent in 1993 and 1994, though participation rates appear to be increasing. Using different data, Hotz, Mullin, and Scholz (2003) found that the EITC participation rates rose from 56 percent in 1994 to 73 percent in 2000 among California households that were on AFDC or TANF in the fourth quarter of the preceding year. Finally, the IRS no longer will intervene and award the credit when taxpayers file and appear eligible but do not take the credit (they did this until the early 1990s). Instead they send a letter to taxpayers encouraging them to consider filing an amended return. EITC compliance efforts may also have discouraged some eligible taxpayers from claiming the credit.

²⁸Blumenthal, Erard, and Ho (2005) calculate participation rates between 69.4 percent and 74.3 percent for tax year 1988 making use of detailed audit data from the 1988 Taxpayer Compliance Measurement Program while the IRS (2002a) uses non-tax data to estimate somewhat higher take-up rates among eligibles in 1996.

Given previous estimates of EITC participation for the overall population and for families receiving welfare in California, it seems plausible that the EITC participation rate for EITC-eligible Wisconsin families with child support orders is around 60 percent. If even roughly accurate, this would imply that considerable opportunities exist to increase the incomes of EITC-eligible families who are not receiving the credit.

IV. CONCLUSIONS

When information from tax returns is linked to data from the state registry of child support orders, recipients of child support awards make most EITC claims. This makes sense, because the child support recipients are likely to be the custodial parents. Nevertheless, a substantial number of claims are made by adults listed as the court-ordered *payor*, or are made by adults not identified in the state case registry. Simple calculations extrapolating Wisconsin's experience to the rest of the country suggests that as much as \$1.5 billion of noncompliant EITC claims could possibly be identified, though there are several reasons to regard this as an upper bound. The potentially erroneous claims are much larger than the EITC that likely would have been received by the child-support payees (recipients), had they instead made the claims.

Information from the Wisconsin Court Record Database reinforces our view that the Federal Case Registry of child support orders could be a useful tool for identifying EITC noncompliance. The designation of "CP" in the Federal Case Registry indicates that the adult is the recipient of child support payments. It does not necessarily mean that this adult has physical placement of the child for at least six months during the year. Therefore, it is not obvious that the case registry is the right tool for substantially reducing EITC noncompliance. The Court Record Database, however, suggests that in the vast majority of cases, the adult designated as "CP" in the state case registry indeed has physical placement. Consequently, the underlying rationale for the use of the Federal Case Registry finds clear support in the Wisconsin data.

Wisconsin residents, including those who are part of the child support system, receive substantial income in the form of the Earned Income Tax Credit. Nevertheless, it appears that roughly 40 percent of child support recipients who appear entitled to the credit may not be receiving it. An upper-bound estimate suggests that as much as \$70 million (or \$1,500 per recipient) may go unclaimed. Outreach focusing on the availability of the credit and how to receive it may be a low-cost way of augmenting the economic resources of families with child support awards.

Our results support the use of the Federal Case Registry as a tool to reduce EITC noncompliance. But it is useful to keep relevant magnitudes in perspective. EITC noncompliance is estimated to result in \$8.5 to \$9.9 billion in overpayments. The IRS has been granted math error authority to hold EITC claims made by child support *payors* when using the child they are obligated to as an EITC-qualifying child. Our back-of-envelope calculations suggest that this may identify \$640 million of inappropriate claims. This would make a dent in the noncompliance problem, but it is clearly not a complete solution. More EITC claims are made by adults who are neither payees (CPs) nor payors (NCPs). The IRS cannot use math error authority in this situation, but these claims can be given additional scrutiny through other compliance initiatives. So, while use of the case registry has promise, it is only one element of a broader strategy to reduce EITC compliance.²⁹

The use of math error authority based on the FCR has been a topic of discussion in various reports of the National Taxpayer Advocate. The Taxpayer Advocate in IRS (2002c), for example, wrote: “If the results of the Federal Case Registry Study show that the state’s data is not reliable, the IRS should devise a backup plan that will reduce the timeframe for holding refunds” (page 80). The following year, the Taxpayer Advocate and the IRS clearly disagreed on the use of the case registry for exercising math error authority. The IRS notes that it delayed the implementation of expanded math error authority using the case registry for processing year 2004 and they would continue to study its value (IRS, 2003, page

²⁹For a discussion of other EITC compliance initiatives, see, for example, Internal Revenue Service (2004).

119). The Taxpayer Advocate (Nina Olson, head of the National Taxpayer Advocate Service) responds that she is “challenging, however, the appropriateness and efficacy of the FCR [...] under math error procedures” (IRS, 2003, page 121). Her primary concern is that math error procedures may substantially erode taxpayers’ rights of appeal. In particular, if taxpayers fail to respond to the math error notice in 60 days, they would lose access to deficiency proceedings or tax court.

We think the evidence from this study makes it clear that the child support case registry can be an effective tool for identifying a substantial number of inappropriate EITC claims before money is paid. We also show that a substantial number of EITC-eligible taxpayers are not receiving the credit. Outreach might effectively target custodial parents with child support orders. Finally, our work with the CRD reinforces what is already intuitively clear: living arrangements of children in the child support system are varied and fluid. Because the case registry approach will surely flag some EITC claims that prove to be legitimate, the Taxpayer Advocate raises an important concern: taxpayers need to receive clear notices and care must be taken so taxpayers have the ability to receive the tax outcomes that they are entitled to.

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