

Volume 2

TAS RESEARCH AND RELATED STUDIES

Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits (EITC) Apparently In Error and Were Not Audited But Were Sent an Educational Letter From the Taxpayer Advocate Service, Part 2: Validation of Prior Findings and the Effect of an Extra Help Phone Number and a Reminder of Childless-Worker EITC

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EXECUTIVE SUMMARY

This study corroborates and expands upon a 2016 study, described in the National Taxpayer Advocate's 2016 Annual Report to Congress, of taxpayers who were sent an educational letter from TAS in January of 2016.¹ The letter was sent to taxpayers who appeared to have erroneously claimed the Earned Income Tax Credit (EITC) on their 2014 returns. The letter explained the requirements for claiming EITC and identified the error the taxpayer appeared to have made. The 2016 study explored the extent to which the letter affected taxpayers' subsequent compliance.

This year, TAS sent the same letter to taxpayers who appeared to have erroneously claimed EITC on their 2015 returns, except that this year's letter also reminded taxpayers they could be eligible for the childless-worker EITC. In addition, TAS sent a separate letter to a group of taxpayers who appeared to have erroneously claimed EITC because the residency test for claiming EITC was not met. The letter to this group was the same as the letter sent to other taxpayers who appeared to not have met the residency test, except that it included a toll-free number taxpayers could call to speak to a TAS employee about their eligibility for EITC. This study explores the effect of both letters on taxpayers' subsequent compliance.

Among the study findings:

- Overall, the TAS letter averted erroneous EITC claims among taxpayers who claimed EITC in 2016, mostly because taxpayers who were sent TAS letters were less likely to repeat on a 2015 return the same error that appeared to have been made on the 2015 return compared to unaudited taxpayers who did not receive a TAS letter;
- For taxpayers who appeared to not meet the *residency requirement*, the TAS letter with an extra help telephone number averted erroneous EITC claims more effectively than not sending a letter, sending a letter without the additional phone number, or auditing the taxpayer. Sending the TAS letter with the extra help phone number to all taxpayers whose 2015 returns appeared to be erroneous because the residency test was not met would have averted more than \$44 million in erroneous EITC claims;
- For taxpayers who appeared to not meet the *relationship requirement*, the TAS letter averted erroneous EITC claims more effectively than not sending a letter. Sending the TAS letter to all taxpayers whose 2015 returns appeared to be erroneous because the relationship test was not met would have averted nearly \$53 million of erroneous EITC claims;
- For audited taxpayers who appeared to have claimed the same qualifying child as another taxpayer (*i.e.*, there were duplicate claims) who then claimed EITC in the subsequent year, the audits were the least effective in modifying their behavior; and
- This year's TAS letter sent to taxpayers who appeared not to have met the residency test that included the extra help phone number (as opposed to the letter sent to all taxpayers reminding them of the childless-worker EITC) resulted in more taxpayers claiming the childless-worker EITC on their 2016 returns, compared to those taxpayers who received the last year's TAS letter without the notification that the taxpayer may still be entitled to the childless-worker EITC.

¹ National Taxpayer Advocate 2016 Annual Report to Congress vol. 2, 32-52 (Research Study: *Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate*).

INTRODUCTION²

Internal Revenue Code (IRC) § 32 provides for the Earned Income Tax Credit (EITC), a refundable credit received by over 27 million workers and families in 2015.³ The amount of EITC available is a function not only of a taxpayer’s earned income but also the number of “qualifying children” in the household.⁴ A “qualifying child” is a person who among other things meets age requirements, bears a specified relationship to the taxpayer, and has the same principal residence as the taxpayer for more than half the year.⁵ Taxpayers usually receive EITC with respect to qualifying children.⁶ However, for tax year (TY) 2015, taxpayers who did not have a qualifying child accounted for 25 percent of all returns processed that claimed EITC.⁷ In this situation, the credit may be referred to as a “childless-worker” credit.

The IRS selects returns that claim EITC for audit using the Dependent Database (DDb) workload selection tool. The Department of the Treasury describes the DDb as follows:

The IRS’s Dependent Database refers to an IRS process that combines data from IRS and third-party sources such as the Social Security Administration and the Federal Case Registry. When returns are filed, they are compared against these data and scored for the probability of noncompliance. This process incorporates filters for characteristics that are strong indicators of noncompliance.⁸

EITC is available to workers whose earned incomes do not exceed certain amounts.⁹ In the past, the IRS did not receive third party income reports (such as Forms W-2, *Wage and Tax Statement*) until the filing season ended. It thus released claimed refunds, including refunds due to claimed EITC, before the claimant’s income could be verified.¹⁰

2 The principal authors of this study are Jeff Wilson, Senior Advisor to the National Taxpayer Advocate and Jill MacNabb, Senior Attorney Advisor.

3 IRS, *EITC & Other Refundable Credits, Statistical Sample* (2017), <https://www.eitc.irs.gov/eitc-central/press/statistics/statsmpl/statistical-sample> (showing data for tax year (TY) 2015 Earned Income Tax Credit (EITC) returns processed in 2016).

4 Internal Revenue Code (IRC) § 32(c)(1) sets out the definition of “eligible individual” and IRC § 32(b) contains the calculation of the amount of allowable credit.

5 IRC §§ 32(c)(3); 152 (c) (providing that a qualifying child is an individual who is the taxpayer’s son, daughter, stepchild, foster child, or a descendant of any of them (e.g., a grandchild), or a child who is a sibling, stepsibling, or half-sibling of the taxpayer, or a descendant of any of them).

6 IRS, *EITC & Other Refundable Credits, Statistical Sample* (2017), <https://www.eitc.irs.gov/eitc-central/press/statistics/statsmpl/statistical-sample> (showing that for TY 2015 EITC returns processed in 2016, taxpayers with one qualifying child accounted for 37 percent, taxpayers with two qualifying children accounted for 26 percent, and taxpayers with three or more qualifying children accounted for 12 percent).

7 IRS, *EITC & Other Refundable Credits, Statistical Sample* (2017), <https://www.eitc.irs.gov/eitc-central/press/statistics/statsmpl/statistical-sample> (showing that for TY 2015 EITC returns processed in 2016, EITC was received without respect to a qualifying child 25 percent of the time).

8 Dept of the Treasury, *Report to Congress on Strengthening Earned Income Tax Credit Compliance through Data Driven Analysis* 14 (July 5, 2016), <https://www.treasury.gov/resource-center/tax-policy/Documents/Report-EITC-Data-Driven-Compliance-2016.pdf>.

9 See IRC § 32(b).

10 Income reports such as Forms W-2, *Wage and Tax Statement*, and Form 1099-Misc, *Miscellaneous Income* (used to report non-employee compensation) were required to be filed with the Social Security Administration (SSA) by the last day of February (or March, if filed electronically). The IRS received the data from the SSA only after the filing season had ended and could begin matching data in the summer.

The Protecting Americans from Tax Hikes (PATH) Act of 2015 accelerated the due dates for filing Forms W-2 and 1099-MISC with the SSA to January 31.¹¹ This new deadline allows the IRS to receive data from SSA in time to compare return data against the data reported by employers — before paying out refunds. In addition, the PATH Act mandated a delay of any refund that includes a claim for EITC until February 15 of each filing year.¹² Because banking and financial systems then needed time to process the deposits, the IRS advised taxpayers not to expect EITC refunds claimed on 2016 returns until the week of February 27, 2017.¹³

BACKGROUND

In 2016, TAS studied a representative sample of taxpayers who were identified by the DDb as having erred in claiming EITC on their 2014 returns.¹⁴ The study was undertaken to determine whether these taxpayers' subsequent compliance was affected by an educational letter from the National Taxpayer Advocate that explained the requirements for claiming EITC and identified the error the taxpayers appeared to have made on their returns. The study compared the level of compliance of these taxpayers' 2015 returns to the level of compliance of a representative sample of 2015 returns filed by taxpayers whose unaudited 2014 returns had similar characteristics as those who received the TAS letter, but who were not sent the TAS letter (the control group). The study also compared the level of compliance of taxpayers who were sent the TAS letter to a representative sample of 2015 returns filed by taxpayers whose 2014 returns had similar characteristics as those who received the TAS letter but were not sent the TAS letter, and whose 2014 returns were audited by the IRS.

The study findings for the population studied were statistically valid at the 95 percent confidence level. As described below, the study showed that taxpayers' improved compliance behavior depended on the type of DDb rule that was broken.

The 2016 Study Showed That Taxpayers' Improved Compliance Behavior Depended on the Type of DDb Rule That Was Broken

When the error on the 2014 return appeared to be that the *relationship test* was not met, taxpayers who were sent the TAS letter were less likely to repeat that error on their 2015 returns than taxpayers in the control group. Specifically, those in the control group repeated their error 77.3 percent of the time, compared to 74.7 percent for the TAS group, an improvement of 2.6 percent, which is statistically significant. Taking into account the number of 2014 returns that appeared to repeat this error (and only this error) in 2015, the TAS letter could have averted about 20,000 erroneous EITC claims in 2015. Because the average amount of EITC paid to 2014 claimants was more than \$2,400, we projected that sending the TAS letter to all taxpayers who did not appear to meet the relationship test would have averted about \$47 million of erroneous EITC claims. We did not quantify the cost of sending letters to the nearly 1.2 million taxpayers who appeared to have made this error, but even if the cost would be \$2

11 Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, Title II, § 201, 129 Stat. 2242, 3076 (2015) (codified at IRC § 6071(c)).

12 *Id.*

13 See, e.g., IRS News Release IR-2016-167, *2017 Tax Filing Season Begins Jan. 23 for Nation's Taxpayers, Tax Returns Due April 18* (Dec. 9, 2016), <https://www.irs.gov/newsroom/2017-tax-filing-season-begins-jan-23-for-nations-taxpayers-with-tax-returns-due-april-18>. For a discussion of the 2017 filing season, including the earlier deadline for information reporting documents, see National Taxpayer Advocate 2018 Objectives Report to Congress 6, 9 (*Review of the 2017 Filing Season*).

14 National Taxpayer Advocate 2016 Annual Report to Congress vol. 2, 32-52 (Research Study: *Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate*).

per letter, for a total cost of \$2.4 million, the cost of sending the letter would be far outweighed by the increased compliance.

When the error on the 2014 return was that there were *duplicate claims* (i.e., another person claimed the same qualifying child or children), the TAS letter prevented taxpayers from filing returns on which they claimed EITC, compared to the control group. This suggested that taxpayers may have interpreted the TAS letter as indicating that they would not qualify for EITC *at all*, when in fact they may have qualified for the childless-worker EITC. To test this hypothesis, and to better inform taxpayers of their rights, the 2017 letter sent to all taxpayers (regardless of which DDb rule their return appeared to have broken) reminded them of the childless-worker EITC.

In cases of *duplicate claims*, audited taxpayers were less likely to file EITC returns compared to taxpayers who received the TAS letter, and were less likely to file EITC returns compared to the control group. However, audited taxpayers were more likely to trip a different EITC DDb rule on those returns than taxpayers who received the TAS letter or taxpayers in the control group.

When the error on the 2014 return appeared to be that the *residency* test was not met, taxpayers who received the TAS letter were slightly less likely to repeat the same error on their 2015 returns than taxpayers in the control group, but this result was not statistically significant. This suggested that household arrangements and EITC rules, which may be too complex to address in a simple letter, might be better understood when discussed by phone. To test this hypothesis, and to better support taxpayers' *right to quality service* and *right to be informed*, this year we identified a separate group of taxpayers who appeared to not meet the residency requirement. These taxpayers were sent a separate letter identical to the one sent to other taxpayers in the study who appeared to not meet the residency test, except that it provided a toll-free number the taxpayer could call to discuss EITC requirements with a TAS employee.

Using similar methodology as for the 2016 study, in 2017 TAS conducted a study of a representative sample of taxpayers who were not audited but appeared to have erroneously claimed EITC on their 2015 returns. Unless otherwise noted, statistical significance is at the 95 percent confidence level (5 percent level of significance).

RESEARCH QUESTIONS

1. The extent to which the study corroborates the findings of the 2016 study with respect to three types of DDb rule breaks: residency, relationship, and duplicate claims.
2. The extent to which providing taxpayers with an additional phone number to call to talk with a TAS employee about their eligibility for the EITC affected future compliance.
3. The extent to which the reference to the childless-worker EITC in the TAS letter affected the rate at which taxpayers claimed it.

METHODOLOGY

Of the 27 million returns on which taxpayers claimed the EITC in TY 2015, the IRS selected over 380,000 returns (about 1.4 percent) for audit.¹⁵ Most of these audited returns (about 77 percent) were selected because they broke DDb rules. There were nearly 6.7 million returns that broke the DDb rules but were not selected for audit. Of these returns, 1,965,182 broke a single rule of the type indicated below:

- 648,924 returns tripped a DDb rule because the residency test did not appear to have been met;
- 1,101,422 returns tripped a DDb rule because the relationship relationship did not appear to have been met; and
- 56,602 returns tripped a DDb rule because another taxpayer claimed the same qualifying child or children.

TAS Research identified a random sample of taxpayers from each of these three groups. The sample sizes were equal among the groups, consisting of 1,200 returns each. TAS Research then adjusted the records in each sample to remove those with an inadequate address and those of deceased taxpayers. Prior to removing letters that were returned as undeliverable, the resulting data file included 8,343 returns:

- There were 2,309 returns in the representative sample of the group that tripped a DDb rule because the relationship test did not appear to have been met;
- There were 2,255 returns in the representative sample of the group that tripped a DDb rule because the residency test did not appear to have been met; and
- There were 2,340 returns in the representative sample of the group that tripped a DDb rule because another taxpayer claimed the same qualifying child or children.

The National Taxpayer Advocate sent one of three versions of a letter to each taxpayer (or taxpayers, for joint returns) who filed one of the 6,904 returns. The letters, which appear in the Appendices A-D, informed the taxpayers that their 2015 returns may have contained an error and explained the error that appeared to have been made (relationship test not met, residency test not met, another taxpayer claiming the same qualifying child or children). The letters also noted “if you cannot claim a child for the EITC, you may still be able to receive the ‘childless-worker’ EITC,” a reminder that did not appear in the letter sent as part of the 2016 study.

In addition to the 2,255 returns that tripped a DDb rule because the residency did not appear to have been met, TAS Research identified a random sample, after excluding letters that were returned as undeliverable, of 967 taxpayers who were not already selected as part of a random sample for this study.¹⁶ These taxpayers were sent a letter that was identical to the letter sent to other taxpayers who appeared to have not met the residency test, except that these 967 taxpayers were told: “If you would like to talk with a Taxpayer Advocate Service employee about your eligibility for the EITC, you can call [toll-free phone number] for assistance.” To minimize the possibility of taxpayers not being able to immediately speak to a TAS employee due to the volume of calls generated by the letter, there were four versions of this letter, each with a different toll-free number. The TAS employees designated to respond to each number were alerted that the letter had been sent and were briefed on the purpose of the letter.

¹⁵ Individual Returns Transaction File on IRS Compliance Data Warehouse for Tax Year 2015; FY 2016 IRS Data Book.

¹⁶ TAS originally selected a sample of 1,200 taxpayers; however, after removing deceased taxpayers and undeliverable mail the sample only contained 967 taxpayers.

The letters used in the study appear in Appendices A-D. All letters were mailed in an envelope, which appears in Appendix E, that carried the notation, in red capital letters, “Important Tax Information” and a TAS return address.

Taxpayers who were sent the TAS letter were in the sample group; taxpayers who were not sent a TAS letter and were not audited were in the control group. We attempted to ensure that the sample cases and control group cases had DDb scores at least as high as those audited by the IRS because of relationship, residency, or the claiming of an EITC dependent already claimed on another tax return.¹⁷ We only selected returns where the DDb rule break occurred in one of aforementioned categories. However, the taxpayer could have incurred other DDb rule breaks related to other issues. The sample and control group initially had returns with nearly identical DDb scores. However, we did not send some taxpayers in the sample group the test letter because of issues associated with the taxpayer address or because the taxpayer was deceased. Of the original 8,400 sample taxpayers, we mailed 7,871 an educational letter regarding claiming the EITC. We adjusted the sample group accordingly. We analyzed all of the audited returns with corresponding rule breaks, regardless of the DDb score. The following table depicts the average and median DDb scores and EITC (allowed by the IRS after math error processing) for the three categories of returns in our study.

FIGURE 2.1

	Group								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount Of EITC	\$ 3,789	\$ 3,359	7,016	\$ 2,958	\$ 3,069	14,272	\$ 3,018	\$ 3,133	8,343
DDb Score	59.4	59.0	7,016	51.4	44.5	14,272	51.7	44.0	8,343

The mean and median DDb scores of the sample and control groups were nearly identical. However, as mentioned, earlier the audited group of taxpayers had higher DDb scores. On average, the test group, as a whole, claimed \$60 more EITC than the control group, while the audited group of taxpayers claimed over \$700 more EITC than either the sample or control groups. Prior to beginning our analysis, we removed cases where the TAS educational letter was returned as undeliverable and cases where the IRS disposed of the audit as undeliverable. The following table shows the comparison of the DDb scores and EITC claimed from the TY 2015 return, after removing the undeliverables:

17 In the previous year’s study, taxpayers in all three groups had nearly identical Dependent Database (DDb) scores. However, in the current study, the IRS selected returns for audit which had somewhat higher DDb scores than we were able to select for the test and control groups.

FIGURE 2.2

	Residency								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount of EITC	\$3,661	\$3,359	2,125	\$2,881	\$2,957	4,674	\$2,977	\$3,077	3,222
DDb Score	54.9	50.0	2,125	47.1	35.0	4,674	49.1	38.0	3,222
	Relationship								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount of EITC	\$3,945	\$4,038	2,051	\$3,185	\$3,235	4,800	\$3,236	\$3,324	2,309
DDb Score	63.4	62.0	2,051	61.8	60.0	4,800	61.6	59.0	2,309
	Duplicate Dependents								
	Audit			Control			Sample		
	Mean	Median	Count	Mean	Median	Count	Mean	Median	Count
Amount of EITC	\$3,785	\$3,359	2,328	\$2,807	\$2,950	4,798	\$2,826	\$2,979	2,340
DDb Score	59.6	60.0	2,328	45.2	33.0	4,798	45.0	33.0	2,340

Overall, the DDb scores are similar among test and control groups, as is the amount of EITC claimed. However, particularly for the residency and duplicate dependent groups, the audited taxpayers claimed significantly more EITC and had higher DDb scores. When comparing the sample group and the control group, the TY 2015 DDb score is slightly higher in the control group, for relationship and duplicate dependent issues, but somewhat lower for residency issues.

As noted above, unlike last year's letters, this year's TAS educational letters included a message that the taxpayer may be eligible for the childless-worker EITC. To evaluate the effect of the added sentence about potential eligibility for the childless-worker EITC, we compared the prevalence of TAS letter recipients claiming childless-worker EITC last year to the frequency with which taxpayers receiving the TAS letter this year claimed the childless-worker EITC.

DATA COLLECTION

There were 472 TAS letters that were returned as undeliverable.¹⁸ TAS Research reviewed IRS records to determine how many taxpayers whose letters were not returned as undeliverable filed a return for 2016. Of this group, TAS researched:

- How many taxpayers claimed EITC;
- Of those who claimed EITC on their 2016 return, how many appeared to have done so erroneously (*i.e.*, the return broke a DDb rule); and
- Of the 2016 returns that broke a DDb rule, how many appeared to break the same DDb rule as appeared to have been broken in the 2015 return (*i.e.*, the reason for the apparent error was the same as that identified in the TAS letter).

TAS Research collected the same information about taxpayers:

- Who broke the same TY 2015 DDb rules as those who received the TAS letter but did not received the TAS letter and were not audited; and
- Who broke the same TY 2015 DDb rules as those who received the TAS letter and were audited.

Of the 1,200 TAS letters that contained the additional toll-free phone number, 233 had been returned as undeliverable.¹⁹

FINDINGS

I. Overall, the TAS letter averted erroneous EITC claims among taxpayers who claimed EITC in 2015, mostly because taxpayers who were sent TAS letters were less likely to repeat on a 2016 return the same error that appeared to have been made on the 2015 return compared to unaudited taxpayers who did not receive a TAS letter

We first considered the same three groups as in last year’s study: taxpayers who were sent the TAS letter (which last year did not include the extra help phone number), taxpayers who were not sent a TAS letter and were not audited, and taxpayers whose 2015 returns were audited. Taxpayers whose 2015 returns were audited were significantly less likely to file 2016 returns, and those who filed were significantly less likely to claim EITC, compared to the other two groups. Audited taxpayers’ 2016 returns were less likely to claim EITC in error and much less likely to repeat the same error that appeared to have been made on their 2015 returns than 2016 returns filed by taxpayers who did not receive a TAS letter.

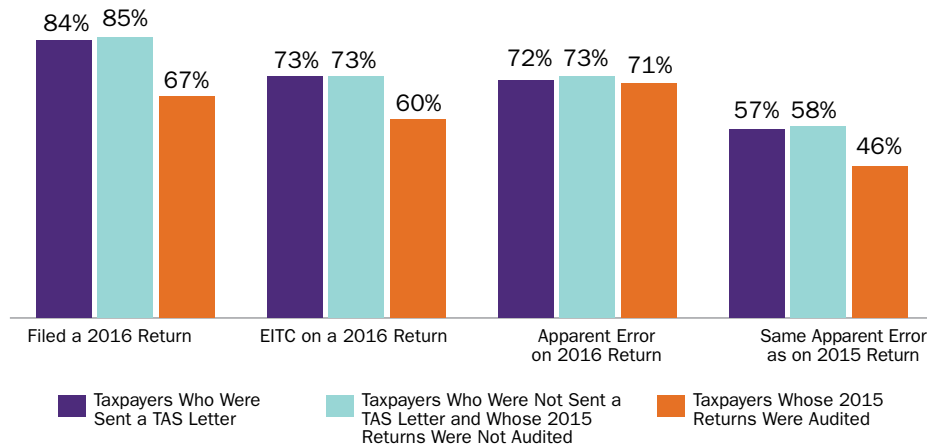
Figure 2.3 summarizes the overall data.

18 We actually received 496 of these letters, which were returned as undeliverable; however, only 472 could be matched to the names of taxpayers who were selected to receive one of these letters.

19 Of the 1,200 letters with the additional phone number, 233 were returned as undeliverable. We do not know why this sample group contained more undeliverable letters than the other sample groups.

FIGURE 2.3

**Overall Outcomes for Taxpayers in the Study,
Not Including Those Who Received a TAS Letter with an Extra Help Phone Number**



- A. Of the 7,871 taxpayers who were sent a TAS letter, and the letter was not returned as undeliverable:
 1. 6,644, or 84 percent, filed a return for TY 2016;
 2. 4,849, or 73 percent, of the 2016 returns claimed EITC;
 3. Of the 4,849 returns filed for 2016 that claimed EITC, it appeared that 1,364, or 28 percent, qualified for the credit and it appeared that 3,485, or 72 percent, did not qualify for the credit, according to DDb rules; and
 4. Of the 4,849 EITC returns filed for 2016, for 2,766 returns, or 57 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- B. Of the 14,272 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have been eligible for the EITC claimed on their 2015 returns:
 1. 12,190, or 85 percent, filed a return for TY 2016;
 2. Of the 12,190 returns filed for 2016, 8,893, or 73 percent, claimed EITC;
 3. Of the 8,893 returns filed for 2016 that claimed EITC, it appeared that 2,428, or 27 percent, qualified for the credit and it appeared that 6,465, or 73 percent, did not, according to the DDb; and
 4. Of the 8,893 EITC returns filed for 2016, for 5,189 returns, or 58 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2014, according to DDb rules.

Thus, 58 percent of taxpayers who were not sent a TAS letter repeated on their 2016 returns what appeared to be the same error as appeared to have been made on the 2015 return, compared to 57 percent where taxpayers were sent a TAS letter, a difference that is not statistically significant.

- C. Of the 6,504 taxpayers in the study whose 2015 returns were audited:
 1. 4,369, or 67 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 84 or 85 percent) that is statistically significant;

2. Of the 4,369 returns filed for 2016, 2,614, or 60 percent, claimed EITC, a lower frequency than for returns in the other two groups (73 percent) that is statistically significant;
3. Of the 2,614 returns filed for 2016 that claimed EITC, it appeared that 763, or 29 percent, qualified for the credit and it appeared that 1,851 or 71 percent did not, according to DDb rules; and
4. Of the 2,614 EITC returns taxpayers filed for 2016, for 1,207 returns, or 46 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, a lower frequency than for taxpayers in the other two groups (57 or 58 percent) that is statistically significant.

Thus, compared to the other two groups of taxpayers, taxpayers whose 2015 returns were audited were much less likely to file a return the following year (67 percent for audited taxpayers compared to at least 84 for the other two groups). Those who did file a return were much less likely to claim EITC (60 percent for audited taxpayers compared to 73 percent for the other two groups). Those who claimed EITC were also less likely to have done so erroneously than taxpayers who did not receive a TAS letter and the error was significantly less likely to have been the same error that appeared to have been made on the 2015 return (46 percent for audited taxpayers compared to 58 percent for those who did not receive a TAS letter). These findings are consistent with the findings of last year's report.

Taxpayers in this year's study may have been more compliant in some respects than taxpayers in last year's study. For example, for all three groups, taxpayers who filed returns and claimed EITC did so in error at a lower rate than last year. Specifically, the rate of erroneous EITC claims declined:

- From 75 percent last year to 72 percent this year, for taxpayers who received the TAS letter;
- From 76 percent last year to 73 percent this year, for unaudited taxpayers who did not receive a TAS letter; and
- From 73 percent to 71 percent this year for audited taxpayers.

The rate at which taxpayers repeated their error on their 2016 returns also declined for all three groups. The decline in these rates could have been affected by taxpayers' awareness of the change in due dates for third party reporting, discussed above, the IRS's consequent capability of matching return information before issuing refunds, and the possibility that taxpayers anticipated greater IRS scrutiny of their returns.

II. Because the TAS letter with the extra help phone number prevented taxpayers who appeared to not meet the residency test on their 2015 returns from making any error on their 2016 returns, sending the TAS letter with the additional phone number to all taxpayers whose 2015 returns appeared to be erroneous because the residency test was not met would have averted more than \$44 million of erroneous EITC claims

As described above, 967 taxpayers who appeared to not to have met the residency test on their 2015 returns were sent a separate letter that contained an additional phone number to call to talk with a TAS employee. Only 35 taxpayers called the additional phone number and spoke with a TAS employee.²⁰ Thus, the results described below appear to be attributable to providing the additional phone number,

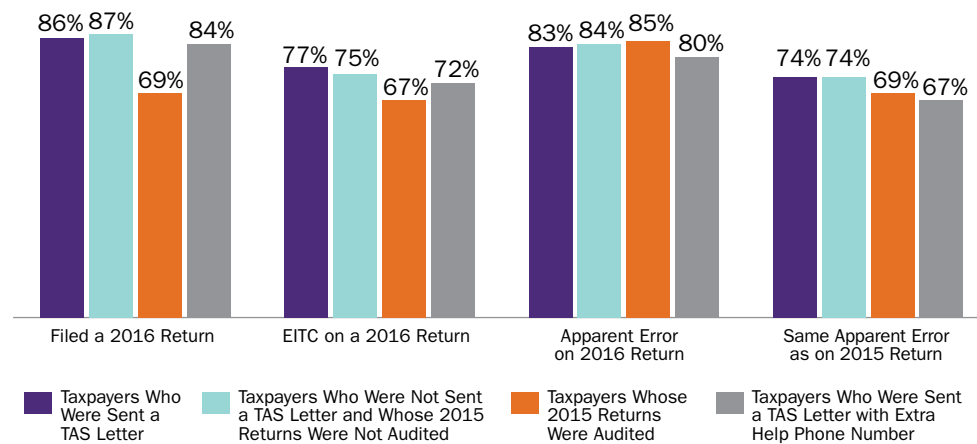
20 As discussed earlier in this report, callers who used the additional phone number asked repeatedly about two areas: the rules for claiming another taxpayer as a dependent versus claiming EITC with respect to another taxpayer, and the rules that apply when parents have shared custody of a qualifying child. See Most Serious Problem: *Earned Income Tax Credit (EITC): The IRS Continues to Make Progress to Improve Its Administration of the EITC, But It Has Not Adequately Incorporated Research Findings That Show Positive Impacts of Taxpayer Education on Compliance*, *supra*.

rather than taxpayers actually availing themselves of this additional resource. *For taxpayers who appeared to not meet the residency requirement, providing an extra help telephone number averted erroneous EITC claims more effectively than not sending a letter, sending a letter without the additional phone number, or auditing the taxpayer.* We first discuss the effect of the TAS letter with the extra help phone number. We then present the data for the three groups analogous to last year, where the TAS letter did not contain the additional help phone line.

Figure 2.4 summarizes the data:

FIGURE 2.4

Outcomes for Taxpayers Whose 2015 Returns Appeared to Erroneously Claim EITC Because the Residency Test Was Not Met, According to Dependent Database Rules



Of the 967 taxpayers who were sent a letter with an additional phone number:

- A. 809, or 84 percent, filed a 2016 return, compared to 86 percent of taxpayers who received a letter from TAS without the additional phone number, 87 percent of taxpayers who did not receive a letter from TAS, and 69 percent of taxpayers who were audited;
- B. 579, or 72 percent claimed EITC with respect to a qualifying child on the 2016 return, compared to 77 percent of taxpayers who received a letter from TAS without the additional phone number, 75 percent of taxpayers who did not receive a letter from TAS, and 67 percent of taxpayers who were audited;
- C. 464, or 80 percent, appeared to erroneously claim EITC with respect to a qualifying child on the 2016 return, compared to 83 percent of taxpayers who received a letter from TAS without the additional phone number, 84 percent of taxpayers who did not receive a letter from TAS, and 85 percent of taxpayers who were audited; and
- D. 389, or 67 percent, appeared to claim EITC in error on the 2016 return, with the apparent error the same as the apparent error on the 2015 return, compared to 74 percent of taxpayers who received a letter from TAS without the additional phone number, 74 percent of taxpayers who did not receive a letter from TAS, and 69 percent who were audited.

Thus, taxpayers who received the TAS letter that provided the additional phone number were less likely to file returns, less likely to claim EITC on returns they did file, less likely to claim EITC in error, and less likely to repeat an error in claiming EITC, compared to taxpayers who received the TAS letter without the additional phone number and compared to taxpayers who did not receive a TAS letter. These results are all statistically significant at the 90 percent confidence level.

Compared to audited taxpayers, taxpayers who were sent the TAS letter that provided the additional phone number were more likely to file returns and more likely to claim EITC on the returns they filed. Taxpayers who received the TAS letter that provided the additional phone number and filed an EITC return were less likely to claim EITC in error, compared to audited taxpayers who claimed EITC. These results are all statistically significant (at least) at the 90 percent confidence level. They were also less likely to repeat their error, compared to audited taxpayers who claimed EITC but the difference was not statistically significant.

Projecting these results to the relevant population, there were about 649,000 returns for 2015 that appeared to erroneously claim EITC because the residency requirement had not been met.²¹ Unaudited taxpayers who were not sent a TAS letter and in 2015 appeared to not meet the residency test filed 2016 returns that claimed EITC with eligible children at the rate of 66 percent, which amounts to about 428,000 returns.²² However, compared to taxpayers who did not receive the TAS letter, taxpayers who received the TAS letter were 4.2 percent less likely to claim EITC in error. Thus, the TAS letter with the extra help line would have averted about 18,000 erroneous EITC claims.²³ Because the average amount of EITC paid to 2015 claimants was about \$2,470, sending the TAS letter with the extra help phone number to all taxpayers who did not appear to meet the residency test would have averted more than \$44 million of erroneous EITC claims.²⁴

We did not quantify the cost of sending letters to all 649,000 taxpayers who appeared to have made this error, but even if the cost was \$2 per letter, for a total cost of \$1.3 million, the cost of sending the letter would be far outweighed by the increased compliance.

As Figure 2.4 above shows, where the residency test appears to not have been met, and the TAS letter with extra help was not sent, audits were most effective in averting noncompliance.

The following data summarizes outcomes analogous to the data presented in last year’s study, where the TAS letter did not contain an extra help phone number.

- E. Of the 2,255 taxpayers who were sent a TAS letter advising them that the residency test did not appear to have been met with respect to EITC claimed on their 2015 return, but the letter did not offer the additional toll-free phone number to call, and the letter was not returned as undeliverable:
1. 1,934, or 86 percent, filed a return for TY 2016;

21 There were 648,942 returns processed in 2016 (which generally equates to returns filed for TY 2015) that appeared to contain this error. Data is from a Business Object interface with the DDb, showing returns claiming EITC scored by the DDb for processing year (PY) 2016, which generally corresponds to returns filed for TY 2015.

22 As discussed below, there were 4,674 taxpayers in the study who appeared to have not met the residency test on their 2015 returns, were not audited, and did not receive the TAS letter. Of these taxpayers, 3,072, or 66 percent, filed returns for 2016 on which they claimed EITC (with children). 66 percent of 648,942 is 428,290.

23 4.2 percent of 428,290 is 17,988.

24 Average EITC was \$2,470. \$2,470 times 17,988 is \$44.4 million. See IRS, *Statistics for Tax Returns with EITC*, <https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-eitc>.

2. 1,484, or 77 percent, of the 2016 returns claimed EITC;
 3. Of the 1,484 returns filed for 2016 that claimed EITC, it appeared that 256, or 17 percent, qualified for the credit and it appeared that 1,228, or 83 percent, did not qualify for the credit, per DDb rules; and
 4. Of the 1,484 EITC returns filed for 2016, for 1,096, or 74 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- F. Of the 4,674 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have met the residency test for EITC claimed on their 2015 returns:
1. 4,076, or 87 percent, filed a return for TY 2016;
 2. Of the 4,076 returns filed for 2016, 3,072, or 75 percent, claimed EITC;
 3. Of the 3,072 returns filed for 2016 that claimed EITC, it appeared that 481, or 16 percent, qualified for the credit and it appeared that 2,591, or 84 percent, did not, per DDb rules; and
 4. Of the 3,072 EITC returns filed for 2016, for 2,282, or 74 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.

Thus, there were no significant differences in outcomes between the group of taxpayers who received the TAS letter and taxpayers who did not.

- G. Of the 2,125 taxpayers in the study whose 2015 returns were audited because they appeared to not meet the residency test for EITC claimed on their 2015 returns:
1. 1,458, or 69 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 86 or 87 percent) is statistically significant;
 2. Of the 1,458 returns filed for 2016, 983, or 67 percent claimed EITC, a lower frequency than for returns in the other two groups (75 or 77 percent) that is statistically significant;
 3. Of the 983 returns filed for 2016 that claimed EITC, it appeared that 151, or 15 percent, qualified for the credit. It appeared that 832, or 85 percent, did not qualify for the credit (according to the DDb), about the same rate as for taxpayers who did not receive the TAS letter (83 or 84 percent) and were not audited; and
 4. Of the 983 EITC returns taxpayers filed for 2016, for 681, or 69 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.

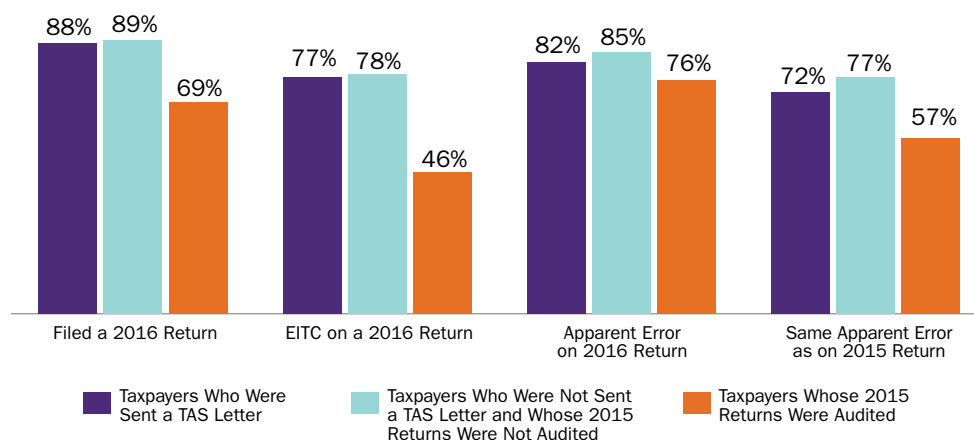
Thus, compared to the other two groups of taxpayers, taxpayers whose 2015 returns were audited because they did not appear to meet the residency test for claiming EITC were less likely to file a return the following year. Those who did file a return were less likely to claim EITC. Those who claimed EITC were about as likely as taxpayers who were not sent a TAS letter to have done so erroneously. Taxpayers who were audited were less likely to make the same mistake that appeared to have been made on the 2015 return as taxpayers in the other two groups.

III. Because the TAS letter prevented taxpayers who appeared to not meet the relationship test on their 2015 returns from making any error on their 2016 returns, sending the TAS letter to all taxpayers whose 2015 returns appeared to be erroneous because the relationship test was not met would have averted nearly \$53 million of erroneous EITC claims

Figure 2.5 summarizes the data.

FIGURE 2.5

Outcomes for Taxpayers Whose 2015 Returns Appeared to Erroneously Claim EITC Because the Relationship Test Was Not Met, According to Dependent Database Rules



- A. Of the 2,309 taxpayers who were sent a TAS letter advising them that the relationship test did not appear to have been met with respect to EITC claimed on their 2015 return, and the letter was not returned as undeliverable:
 1. 2,033, or 88 percent, filed a return for TY 2016;
 2. 1,570, or 77 percent of the 2016 returns claimed EITC;
 3. Of the 1,570 returns filed for 2016 that claimed EITC, it appeared that 282, or 18 percent, qualified for the credit and it appeared that 1,288, or 82 percent, did not qualify for the credit (according to DDb rules); and
 4. Of the 1,570 EITC returns filed for 2016, for 1,132, or 72 percent it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- B. Of the 4,800 taxpayers in the study who were not audited and were not sent the TAS letter, but who appeared not to have met the relationship test for EITC claimed on their 2015 returns:
 1. 4,270, or 89 percent, filed a return for TY 2016;
 2. Of the 4,270 returns filed for 2016, 3,340, or 78 percent, claimed EITC;
 3. Of the 3,340 returns filed for 2016 that claimed EITC, it appeared that 509, or 15 percent, qualified for the credit and it appeared that 2,831, or 85 percent, did not, according to DDb

rules. This rate is higher than for taxpayers who were sent the TAS letter (82 percent) and is statistically significant; and

4. Of the 3,340 EITC returns filed for 2016, for 2,580, or 77 percent, the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules. This rate is higher than for taxpayers who were sent the TAS letter (72 percent) and is statistically significant.

Thus, taxpayers who were sent the TAS letter because they appeared to not meet the relationship test on their 2015 returns were less likely to claim EITC in error on their 2016 returns, a result that is statistically significant. Those who did not receive the TAS letter appeared to claim EITC in error on their 2016 returns 84.8 percent of the time, compared to 82 percent for the TAS group, an improvement of 2.8 percent. In addition, taxpayers who received the TAS letter and who erroneously claimed EITC on their 2016 returns were less likely to repeat the same error on their 2016 returns they made on their 2015 returns. Those who did not receive the TAS letter repeated their error 77.2 percent of the time, compared to 72.1 percent for the TAS group, a statistically significant improvement of 5.1 percent.

Projecting these results to the relevant population, there were about 1.1 million returns for 2015 that appeared to erroneously claim EITC because the relationship requirement had not been met.²⁵ Unaudited taxpayers who did not receive a TAS letter and in 2015 appeared to not meet the relationship test filed 2016 EITC returns that claimed EITC with eligible children at the rate of over 69 percent, which amounts to about 760,000 returns.²⁶ However, compared to taxpayers who did not receive the TAS letter, taxpayers who received the TAS letter were 2.8 percent less likely to claim EITC in error. Thus, the TAS letter would have averted 21,279 erroneous EITC claims.²⁷ Because the average amount of EITC paid to 2015 claimants was about \$2,470, sending the TAS letter to all taxpayers who did not appear to meet the relationship test would have averted nearly \$53 million of erroneous EITC claims.²⁸

We did not quantify the cost of sending letters to all 1.1 million taxpayers who appeared to have made this error, but even if the cost was \$2 per letter, for a total cost of \$2.2 million, the cost of sending the letter would be far outweighed by the increased compliance.

- C. Of the 2,051 taxpayers in the study whose 2015 return was audited because they appeared to not meet the relationship test for EITC claimed on their 2015 returns:
 1. 1,414, or 69 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 88 or 89 percent) that is statistically significant;
 2. Of the 1,414 returns filed for 2016, 655, or 46 percent, claimed EITC, a lower frequency than for returns in the other two groups (77 or 78 percent) that is statistically significant;
 3. Of the 655 returns filed for 2016 that claimed EITC, it appeared that 160, or 24 percent, qualified for the credit. It appeared that 495, or 76 percent, did not, according to DDb

25 There were 1,101,422 returns processed in 2016 (which generally equates to returns filed for TY 2015) that appeared to contain this error. The data is from a Business Object interface with the DDb, showing returns claiming EITC scored by the DDb for PY 2016, which generally corresponds to returns filed for TY 2015.

26 4,800 taxpayers in the study who appeared to have not met the relationship test on their 2015 returns, were not audited, and did not receive the TAS letter. Of these taxpayers, 3,340 or more than 69 percent, filed returns for 2016 on which they claimed EITC. 69 percent of 1,101,422 is 759,981.

27 2.8 percent of 759,981 is 21,279.

28 Average EITC was \$2,470. \$2,470 times 21,279 is \$52.6 million. Moreover, the TAS letter also impeded taxpayers from repeating this error on their 2016 returns.

rules, a lower frequency than for taxpayers in the other two groups (82 or 85 percent) that is statistically significant; and

- Of the 655 EITC returns taxpayers filed for 2016, for 374, or 57 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, a lower frequency than for taxpayers in the other two groups (72 or 77 percent), that is statistically significant.

Thus, compared to the other two groups of taxpayers, taxpayers whose 2015 returns were audited because they did not appear to meet the residency test for claiming EITC were less likely to file a return the following year. Those who did file a return were much less likely to claim EITC. Those who claimed EITC were less likely than taxpayers in the other two groups to have done so erroneously, and they were less likely to make the same mistake that appeared to have been made on the 2015 return as taxpayers in the other two groups.

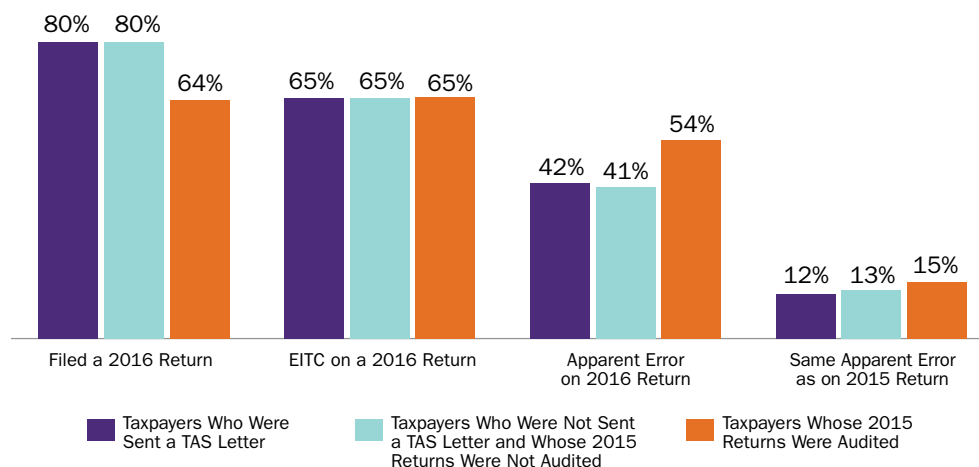
IV. Where the error appeared to be a duplicate claim, audits were the least effective in preventing erroneous claims or repeat errors

Taxpayers whose returns were audited because their 2015 returns contained a duplicate claim for EITC were less likely to file 2016 returns but those who filed returns were just as likely to claim EITC, compared to taxpayers in the other two groups. However, the 2016 returns of audited taxpayers were more likely to contain an error than taxpayers in the other two groups.

Figure 2.6 summarizes the data.

FIGURE 2.6

Outcomes for Taxpayers Whose 2015 Returns Appeared to Erroneously Claim EITC Because Another Taxpayer Claimed the Same Qualifying Child, According to Dependent Database Rules



- A. Of the 2,340 taxpayers who were sent a TAS letter advising them that another taxpayer appeared to have claimed the same qualifying child on their 2015 return, and the letter was not returned as undeliverable:
 1. 1,868, or 80 percent, filed a return for TY 2016;
 2. 1,216, or 63 percent, of the 2016 returns claimed EITC;
 3. Of the 1,216 returns filed for 2016 that claimed EITC, it appeared that 661, or 57 percent, qualified for the credit and it appeared that 505, or 43 percent, did not qualify for the credit, according to DDb rules; and
 4. Of the 1,216 EITC returns filed for 2016, for 149, or 13 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules.
- B. Of the 4,798 taxpayers in the study who were not audited and were not sent the TAS letter, but another taxpayer appeared to have claimed the same qualifying child on a 2015 return:
 1. 3,844, or 80 percent, filed a return for TY 2016, the same as for those who received the TAS letter;
 2. Of the 3,844 returns filed for 2016, 2,481, or 65 percent, claimed EITC, a slightly lower rate than those who received the TAS letter, but the difference is not statistically significant;
 3. Of the 2,481 returns filed for 2016 that claimed EITC, it appeared that 1,458, or 59 percent, qualified for the credit and it appeared that 1,023, or 41 percent, did not, according to DDb rules, not statistically different than the same frequency with which taxpayers who received the TAS letter appeared to not qualify for the credit (42 percent); and
 4. Of the 2,481 EITC returns filed for 2016, for 327, or 13 percent, it appeared the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, the same as for taxpayers who received the TAS letter.

Thus, there were no statistically significant differences in outcomes between the group of taxpayers who received the TAS letter advising that there appeared to be a duplicate claim and the group of unaudited taxpayers who did not receive the TAS letter.

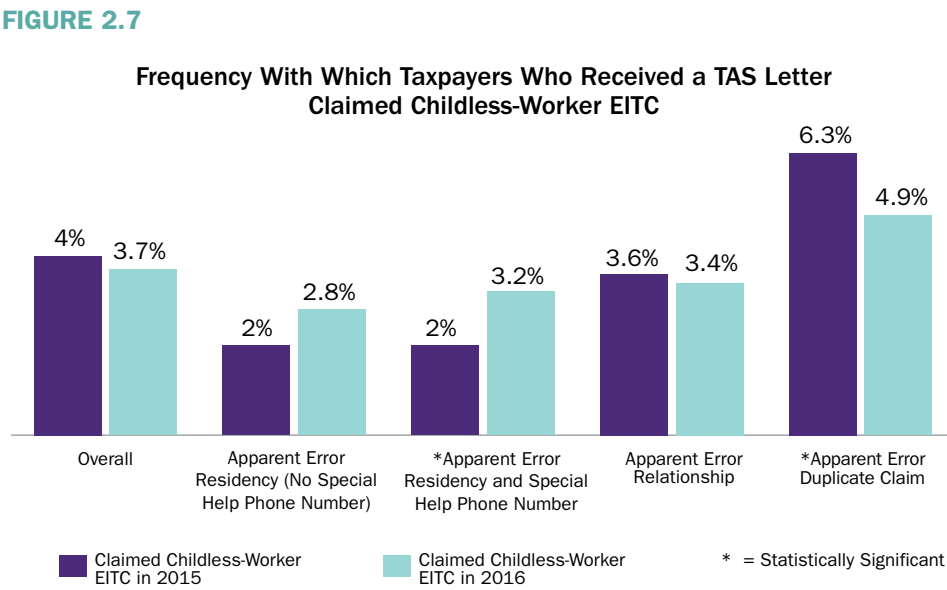
- C. Of the 2,328 taxpayers in the study whose 2015 return was audited because they appeared to have claimed the same qualifying child as another taxpayer on their 2015 returns:
 1. 1,497, or 64 percent, filed a return for TY 2016, a lower frequency than for taxpayers in the other two groups (who filed at the rate of 80 percent) is statistically significant;
 2. Of the 1,497 returns filed for 2016, 976, or 65 percent, claimed EITC, a frequency that is about the same for returns in the other two groups (63 percent and 65 percent);
 3. Of the 976 returns filed for 2016 that claimed EITC, it appeared that 452, or 46 percent, qualified for the credit and it appeared that 524, or 54 percent, did not, according to DDb rules. The higher rate at which the claim for EITC appeared erroneous compared to the other two groups (43 and 41 percent) is statistically significant; and
 4. Of the 976 EITC returns taxpayers filed for 2016, in 148 cases, or 15 percent, the taxpayer was not eligible for EITC for the same reason as in 2015, according to DDb rules, a higher frequency than for taxpayers in the other two groups (13 percent). This finding is statistically significant at the 95 percent confidence level with a seven percent significance level.

One hypothesis for the apparent ineffectiveness of audits in preventing taxpayers from appearing to erroneously claim EITC on their 2016 returns is that the audit of the 2015 return did not change the outcome (*i.e.*, the taxpayer was entitled to the claimed EITC). Thus, the taxpayer may have claimed EITC on the 2016 return on the basis of the positive outcome of the prior year’s audit. On the other hand, as noted above, this year audited taxpayers claimed more EITC and had higher DDb scores, which suggests that they were actually more likely to be noncompliant. TAS will explore this possibility in 2018.

V. The TAS letter, when it included the extra help phone number, was effective in educating taxpayers about the availability of the childless-worker EITC

As described above, the TAS letter used in last year’s study, sent in January 2016, did not contain a reference to the childless-worker credit. Taxpayers who received this year’s letter, which reminded them of the availability of the childless-worker EITC, claimed it more often when they were among those who appeared not to meet the residency test and who received the TAS letter with the extra help phone number.

Figure 2.7 summarizes the data.



- A. Overall: Of all the taxpayers who received the TAS letter in 2016, 4 percent then claimed the childless-worker credit on their 2015 returns. Of all the taxpayers who received a TAS letter in 2017, which reminded them of the childless-worker credit, 3.7 percent claimed the childless-worker on their 2016 returns, a difference in outcome that is not statistically significant.
- B. Residency Test, No Extra Help Number: Of the taxpayers who received the TAS letter in 2016 because they appeared to not have met the residency test on their 2014 returns, 2 percent claimed the childless-worker EITC on their 2015 returns. Of taxpayers who received the TAS letter in 2017 advising them they appeared not to have met the residency test on their 2015 returns, and

the letter did not contain the extra help phone number, 2.8 percent claimed the childless-worker EITC on their 2016 returns. This difference is not statistically significant.

- C. Residency Test: Extra Help Number: Of the taxpayers who received the TAS letter in 2017 advising them they appeared not to have met the residency test on their 2015 returns, but the letter provided the extra help phone number, 3.2 percent claimed the childless-worker EITC on their 2016 returns. This difference (from 2 percent in 2015) is statistically significant.
- D. Relationship Test: Of taxpayers who received the TAS letter in 2016 because they appeared to have broken the relationship rule on their 2014 returns, 3.6 percent claimed the childless-worker EITC on their 2015 returns. Of taxpayers who received the TAS letter in 2017 because they appeared to have broken the relationship rule on their 2015 returns 3.4 percent claimed the childless-worker EITC on their 2016 returns. This difference is not statistically significant.
- E. Duplicate Claims: Of taxpayers who received the TAS letter in 2016 letter advising them that another taxpayer appeared to have claimed the same qualifying child on their 2014 returns, 6.3 percent, claimed the childless-worker EITC on their 2015 returns. Of taxpayers who received the TAS letter in 2017 advising them that another taxpayer appeared to have claimed the same qualifying child on their 2015 return, 4.9 percent, claimed the childless-worker EITC on their 2016 returns, a difference in outcome that is statistically significant.

CONCLUSION

This year's study is generally consistent with the findings of last year's study. As hypothesized last year, sending a TAS letter that included an extra help phone number to taxpayers who appeared not to have met the residency test was particularly effective. Sending the TAS letter with the additional phone number to all taxpayers whose 2015 returns appeared to be erroneous because the residency test was not met would have averted about \$44 million of erroneous EITC claims. The TAS letter was particularly effective when the apparent error was that the relationship requirement had not been met. Sending the TAS letter to all taxpayers whose 2015 returns appeared to be erroneous because the relationship test was not met would have averted about \$53 million of erroneous EITC claims. There may be reason to send a group of these taxpayers a letter with an additional help phone number to learn whether the additional resource would further enhance compliance. Where the apparent error was that another taxpayer claimed EITC for the same qualifying child, audited taxpayers who claimed EITC actually made mistakes more frequently than taxpayers in the other two groups and also made the same mistake more frequently than taxpayers in the other two groups. The TAS letter reminding taxpayers of the potential availability of the childless-worker EITC was effective for taxpayers who appeared not to have met the residency test and who were sent the TAS letter with the extra help phone number.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS send letters similar to the TAS letter to EITC claimants the IRS does not have current plans to audit as follows:

1. To taxpayers who appear not to have met the residency test. Include in the letter an extra help phone number taxpayers can call to speak directly with an IRS employee, because this year's study shows that doing so resulted in more taxpayers claiming the childless-worker EITC (compared to the prior year's TAS letter that did not mention the possibility of the childless-worker EITC) and averted erroneous EITC claims in this study, while an educational letter without the extra help number did not affect the rate at which these taxpayers claimed EITC in error or the rate at which they claimed the childless-worker EITC;
2. To taxpayers who appear not to have met the relationship test, because such a letter appears to prevent these taxpayers from claiming EITC in error; and
3. To taxpayers who appear to have claimed EITC with respect to the same qualifying child or children as another taxpayer. Include in the letter an extra help phone number because while it is unknown whether the extra help phone number would avert noncompliance, it is known that an educational letter alone does not affect the rate at which these taxpayers claim EITC in error.

APPENDIX A: TAS LETTER, VERSION ONE: RESIDENCY AT ISSUE



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040.

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that the child or children claimed on your 2015 Form 1040 may not have lived with you for more than six months of the year. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the "childless-worker" EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX B: TAS LETTER, VERSION TWO: RELATIONSHIP AT ISSUE



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040.

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that you may not have an eligible relationship with the child or children claimed on your 2015 Form 1040. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the "childless-worker" EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX C: TAS LETTER, VERSION THREE: THE SAME CHILD OR CHILDREN CLAIMED BY ANOTHER TAXPAYER



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that the child or children claimed on your 2015 Form 1040 were also claimed on another person's tax return for that year. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the "childless-worker" EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX D: TAS LETTER, VERSION FOUR: RESIDENCY AT ISSUE, “EXTRA HELP” PHONE NUMBER PROVIDED



YOUR VOICE AT THE IRS



THE OFFICE OF THE TAXPAYER ADVOCATE OPERATES INDEPENDENTLY OF ANY OTHER IRS OFFICE AND REPORTS DIRECTLY TO CONGRESS THROUGH THE NATIONAL TAXPAYER ADVOCATE.

INSERT DATE

INSERT ADDRESS AND ID NUMBER

Dear Taxpayer:

My office, the Taxpayer Advocate Service, is an independent organization within the IRS. Our job is to ensure that every taxpayer is treated fairly, and that you know and understand your rights as a taxpayer. I am writing to you today to help you understand the rules for claiming the Earned Income Tax Credit (EITC) so you don't make a mistake on your 2016 Form 1040.

Your 2015 Form 1040 shows you claimed the EITC for that year. The IRS has noticed that your 2015 return may have contained an EITC error. This letter provides you some helpful information so that you can avoid an error in the future. **This is not an audit and the IRS is not auditing your 2015 return at this time.**

You may claim the EITC for a child but only if **all** of the following statements are true:

1. The child is your child **or** a descendant of your child, **or** is your brother, sister, stepbrother, or stepsister, **or** a descendant of any such relative. This is the **relationship test**.
2. Your principal place of abode — the place where you live — is in the United States.
3. The child lived with you in your principal place of abode for more than half the year. **This is the residency test.**

It appears that the child or children claimed on your 2015 Form 1040 may not have lived with you for more than six months of the year. Before you file your 2016 Form 1040, you should review the relationship and residency tests and how they apply to you, especially if the child did not live with you the entire year. Please note that the rules for claiming a child for the EITC are different from the rules for receiving benefits like Temporary Assistance to Needy Families (TANF) and Section 8 Housing Assistance. So you could receive benefits for the child but not be eligible for the EITC. Also, if you cannot claim a child for the EITC, you may still be able to receive the “childless-worker” EITC.

I hope this letter has been helpful. If someone is assisting you in preparing your return, please show this letter to him or her. You can find out more information about the EITC at <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> or in Publication 596 *Earned Income Credit*. If you would like to talk with a Taxpayer Advocate Service employee about your eligibility for the EITC, you can call 1-844-852-5944 for assistance. If you need assistance with an IRS problem that is causing you financial harm or isn't getting solved, the Taxpayer Advocate Service may be able to help you. You can find a list of our local offices at <https://www.irs.gov/Advocate/Local-Taxpayer-Advocate>, or you can call us at 1-877-777-4778.

Sincerely,

Nina E. Olson
National Taxpayer Advocate

APPENDIX E: ENVELOPE USED TO SEND TAS LETTERS

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