

Highlights of [GAO-07-1110](#), a report to the Chairman and Vice Chairman of the Joint Committee on Taxation

ADVANCE EARNED INCOME TAX CREDIT

Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance

Why GAO Did This Study

The Advance Earned Income Tax Credit (AEITC) allows individuals to receive a portion of the Earned Income Tax Credit (EITC) in their paychecks, instead of receiving all of it when filing their year-end tax return. Limited research has been conducted on the AEITC since GAO last examined it in the early 1990s.

GAO was asked to determine (1) how many individuals received the AEITC compared with the EITC in tax years 2002 through 2004, what actions, if any, have been taken to increase use, and the potential for increases in use in the future; (2) the extent of noncompliance, if any, associated with the AEITC; and (3) how well the Internal Revenue Service's (IRS) procedures address the areas of noncompliance. To address these questions, GAO analyzed Forms W-2 and tax return data and interviewed IRS and Social Security Administration (SSA) officials.

What GAO Recommends

GAO recommends that the Acting Commissioner of Internal Revenue analyze options to reduce AEITC noncompliance such as implementing a "soft notice" test. If these options are deemed ineffective, and no other options are viable, the Treasury Secretary should provide an opinion to the Congress as to whether the AEITC should be retained. IRS agreed with our recommendation and outlined the actions IRS plans to take.

www.gao.gov/cgi-bin/getrpt?GAO-07-1110.

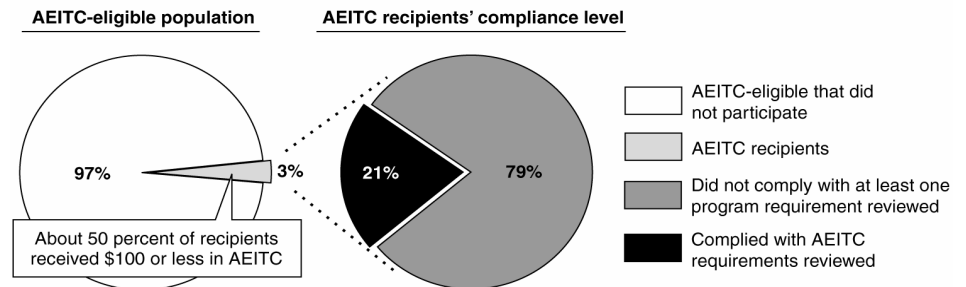
To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov

What GAO Found

AEITC use was low—only about 3 percent of EITC recipients potentially eligible for the advance received it in tax years 2002 through 2004, or about 514,000 of the 17 million potentially eligible individuals each year. About half of all recipients received \$100 or less in AEITC and 75 percent received \$500 or less for the year, with a total benefit paid of about \$146 million each year. Several efforts have been aimed at increasing use over the last approximately 15 years, such as sending notices to individuals informing them that they were potentially eligible for the AEITC and making changes to IRS forms. Despite these efforts, use did not substantially increase and, for several reasons, it may be difficult to increase it in the future. For example, IRS officials, other experts, and prior GAO work suggests that individuals often do not elect the AEITC because they prefer receiving the entire EITC as a lump sum after filing their tax return.

As many as 80 percent of AEITC recipients did not comply with at least one of the program requirements GAO reviewed, and some were noncompliant with more than one during the 3 years we reviewed. In tax years 2002 through 2004, about 20 percent, or more than 100,000 AEITC recipients, may not have been eligible for the AEITC because they had an invalid Social Security number (SSN). These individuals received a total of \$37 million to \$39 million each year. Almost 40 percent (about 200,000 recipients) did not file the required tax return; these individuals received \$42 million to \$50 million each year. Of the about 60 percent (more than 300,000) AEITC recipients who did file a return, about two-thirds misreported the amount received.

AEITC Use, Dollars, and Compliance in Tax Years 2002-2004



IRS's procedures have limited effectiveness in addressing AEITC noncompliance. For example, Automated Underreporter (AUR) staff worked on only a fraction of AEITC cases because of resource constraints and criteria limiting case selection. IRS could address AEITC noncompliance by sending "soft notices" to recipients, requiring employers to verify employee SSNs before providing the AEITC, or creating a Forms W-5, "EITC Advance Payment Certificate," database. Each of these options have advantages, however, they also have potential disadvantages that could limit their effectiveness.