

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

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March 2008

Abstract

We examine EITC compliance using a unique dataset combining income tax returns, Unemployment Insurance data, state child support data, and data collected by hand from Wisconsin courthouses. A substantial number of EITC claims are made by adults listed as the court-ordered payor or by adults not identified in child support data. Simple calculations extrapolating Wisconsin's experience to the rest of the country suggests that as much as \$1.7 billion of noncompliant EITC claims could possibly be identified. We conclude the child support case registry can be an effective tool for identifying a subset of inappropriate EITC claims prior to payment.

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

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

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 filed with a Wisconsin address. 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).

the EITC is paid out. Given this problem, in the 1997 budget bill the Clinton Administration and 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 since they would not meet the “residence test” that requires an EITC qualifying child to live with the claimant for more than half the year. 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.

⁴Throughout the paper, 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. If math error authority were used in the EITC context, the IRS would, without corresponding with the taxpayer, reduce the refund (or increase the owed taxes) by re-computing taxes, disregarding the disputed EITC-qualifying child.

Eleven 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 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.

Through special arrangements made with the Internal Revenue Service and the state of Wisconsin, we matched (by social security number) all federal individual income tax returns filed with Wisconsin addresses in 1999 and 2000 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 use these unique data to examine a central EITC compliance issue. We take the sample of all EITC claimants in Wisconsin with children in 2000 (and 1999), 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. In cases where someone other than the child support payee uses the EITC-qualifying child, we also calculate the value of the EITC that they forgo had they used the child to claim the credit and compare that amount to the value of the EITC that was actually claimed to see whether behavior is consistent with some taxpayers allocating children in a refund-maximizing way. 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 conclude with a discussion of the reliability of the state case registry, making use of a unique 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. Our results for 1999 and 2000 are nearly identical, so for brevity, we report only the results for calendar year 2000 here. Complete results are available on request.

I. BACKGROUND

In 2000, taxpayers with two or more children could receive a federal EITC of 40 percent of income up to \$9,720, for a maximum credit of \$3,888. Taxpayers (with two or more children) with earnings between \$9,720 and \$12,690 receive the maximum credit. Their credit is reduced by 21.06 percent of earnings between \$12,690 and \$31,152. The EITC for taxpayers with one child was 34 percent of income up to \$6,920, for a maximum credit of \$2,353. One-child taxpayers with earnings between \$6,920 and \$12,690 receive the maximum credit. Their credit is reduced by 15.98 percent of earnings between \$12,690 and \$27,413. A small EITC with a maximum value of \$353 was available to childless taxpayers, but we focus on taxpayers with children in this paper. See Scholz (2007) for more on tax policies for childless workers.

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.⁶

⁶About 30 percent of all divorce cases in Wisconsin 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

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.⁷ The registry includes dates of the order, dollar amounts of payments, and incomplete information on the relationship to the child of the court-ordered recipient and the court-ordered payor.

New entries are added to the case registry every time a child support order is changed. One child, for example, appears in 17 different orders over the years. Information on tax returns and the case registry are conceptually only comparable when they refer to the same year. Thus, we use the order history table that is part of the case registry to identify those child support orders that were in effect during 2000, resulting in a set of 313,040 child support records. Even within a year, however, orders can change. Fortunately, these changes are infrequent, so we drop 2.7 percent of cases where more than one record applies to the same child in 2000.

This step – ensuring that the state case registry information is restricted to orders that are *active* in a given calendar year – is critical if the IRS were to make use of state-level child support data to improve EITC compliance. There is no reason to think that an order that was active three years earlier but that is no longer active will provide useful information on the *current* living arrangements of children.

Of the children that appear in a single active order in 2000, 75.6 percent were claimed as a dependent on a tax return and 36.6 percent were claimed as an EITC qualifying child.

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.

⁷Not 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.

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. Based on data from the IRS (<http://www.irs.gov/taxstats/>) and the Census (<http://www.census.gov/main/www/cen2000.html>), characteristics of Wisconsin's population are similar to those of the entire country. The primary differences are, first, that Wisconsin's poverty rate of 5.6 percent of households in 2000 is significantly lower than the national rate of 9.2 percent, and second, eighty-nine percent of the Wisconsin population is white, compared to 75 percent nationally.⁸

C. The EITC and Wisconsin Taxpayers

Wisconsin residents filed 2.58 million federal tax returns in 2000, as shown in Table 1.⁹ As is well known, the distribution of income in Wisconsin (and elsewhere) is skewed rightward. Consequently, the average (or mean) adjusted gross income of \$45,075 is considerably larger than the median adjusted gross income of \$29,185.¹⁰ 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 1, 813,897 returns were filed by families with children. These returns correspond more closely to conventional conceptions of a family in that they are filed by

⁸ We have no way to assess the quality of Wisconsin's child support data relative to data available from other states. Because child support data are used to support legal actions such as wage garnishment throughout the U.S., however, we speculate that the data quality is fairly high across states.

⁹ We drop 32,379 returns, or 1.2 percent of the sample, that have a tax period that differs from December 2000. Almost all of the excluded returns were late returns filed for earlier calendar years.

¹⁰ Adjusted 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.

single parents or married couples with children. The average income reported on these returns is \$62,390, 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 are duplicated.

Wisconsin taxpayers made 240,612 EITC claims in tax year 2000. Of these claims, 48,091 are from childless taxpayers: their average EITC is \$198. 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 2000 claiming the EITC, 3,232 claimed an EITC-qualifying child that was also used on another return.¹¹ This is 1.7 percent of the total number of returns claiming at least one EITC qualifying child. Returns using a duplicated EITC-qualifying child claimed \$5.8 million in EITCs.¹² Data from the IRS show 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. Below we explore whether child support data can be used to assess whether one of the duplicate claims is legitimate. It is important that 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.

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 \$15,800. Their average EITC is \$1,848, resulting in a total of \$356 million in EITC payments. Of the Wisconsin EITC recipients with children, 88,287 had one child and 104,234 had two or more children. Of the EITC claimants with children, 46,397

¹¹ There is little evidence in these data that child SSNs are being used by many taxpayers. 1,844 SSNs were used twice for EITC qualifying children. Four were used three times.

¹² 2,058 returns had a duplicated first EITC-qualifying child, 706 had a duplicated second EITC-qualifying child, and 468 had both EITC-qualifying children duplicated.

filed joint returns and 126,240 filed as heads of households. As noted earlier, the EITC schedule is more generous for families with two or more children than for one-child families.

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 meet a “residence test,” the child must live with the taxpayer for at least half the year. This difference in the treatment of dependents and EITC-qualifying children is substantively important.¹³ Of taxpayers with dependents and adjusted gross income in the EITC-eligible range, only 2.6 percent fail to claim an EITC with at least one EITC-qualifying child. But 16.9 percent of taxpayers who have no dependents, but have adjusted gross income within the EITC-eligible range for taxpayers with one EITC-qualifying child, claim an EITC reporting at least one EITC-qualifying child.¹⁴ Because the support and residence tests are distinct, these potentially anomalous claims could be legitimate. But they reinforce the value for EITC compliance of developing accurate information on the living arrangements of children.

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 return. 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

¹³ The fact that the test for a dependent and an EITC-qualifying child differ accounts for the fact that 19,506 single filers received an EITC claiming a qualifying child (if compliant, the child met the residence but not the support test).

¹⁴ Fewer than 2.2 percent of childless EITC recipients claimed dependents on their tax returns. However, 6.7 percent of EITC recipients with one qualifying child claimed zero dependents (3.7 percent claimed two or more), and 10.5 percent of taxpayers with two (or more) EITC qualifying children claimed zero (3.8 percent) or just one (6.7 percent) dependent.

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 child support data. This is the strategy the Clinton Administration and 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 2. Of the 192,521 EITC claims in 2000, 43.3 percent use at least one case registry child to claim the EITC. 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. Of the total number of EITC claimants in 2000 that filed a joint return, only 13.0 percent claim an EITC qualifying child that appears in the state case registry. Of the total number of EITC claimants that filed a head of household return, 53.6 percent claim an EITC qualifying child that is also in the case registry.

It is also the case that the case registry and tax data appear quite “clean,” in the sense that SSNs in the two files appear to be accurate. If we match to the entire 1.1-million child support registry, rather than the

300,000-case extract that is restricted to active orders in 2000, we match to 70 percent (as opposed to 43 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 less likely to be accurate 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 83,289 EITC claims that match to the case registry, 73,258, or 88.0 percent of the total, indicate that the court-ordered payee (recipient) of the child support award is the 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 most claims about where EITC qualifying children reside are appropriate. The average EITC claim for these families is \$1,988, for a total of roughly \$146 million in EITC payments to Wisconsin taxpayers in 2000.

Of the total matched cases, 4,744 (or 5.7 percent) of EITC claims 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 4,744 EITC claims made by

court-ordered payors (“NCPs”) in 2000 are noncompliant. Second, as noted earlier, Wisconsin taxpayers receive 1/90th of EITC payments made nationally. If Wisconsin’s EITC noncompliance is proportional to its 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 \$729 million in erroneous EITC claims. Recall that total EITC noncompliance is estimated to be between \$8.5 billion and \$9.9 billion.

The remaining 5,287 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 \$960 million in erroneous EITC claims.¹⁵

The sum of the two figures – \$1.7 billion – could be a significant overestimate of identifiable noncompliance if the noncustodial or unknown adult claimants are engaged in joint custody. It could also be a significant underestimate if the custodial parents themselves do not satisfy the residency requirements. We consider this issue below, when we discuss the small subsample that we can augment with data from court records.

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 custodial parent in cases where

¹⁵ IRS data suggest 27 to 32 percent of total EITC claims are inappropriate. Of these, 25 percent arise because the child claimed was not the taxpayer’s qualifying child. Put differently, 6.75 to 8 percent of total EITC payments are going to taxpayers with inappropriate child claims. Total EITC payments in Wisconsin to families with children are \$349.9 million. If we assume all payments that fail to go to the CP in the case registry are inaccurate, erroneous child claims would be 5.4 percent of total. Thus, child residency-related noncompliance potentially identifiable by the case registry is lower, but still broadly consistent with national estimates.

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 (see Table 2). 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.¹⁶ 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 (even after conditioning on income and the number of children) who also claim the EITC.

III. 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

¹⁶It is not necessarily the case that the child support payees are receiving a lower fraction of the child support obligation than 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.

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.¹⁷ 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 of the 72 Wisconsin counties as part of a cooperative research agreement between the Institute for Research on Poverty and the state of Wisconsin.¹⁸ Unfortunately, many of the cases are missing the SSNs of the children. Therefore, we have information on 1,758 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 1,160 cases with complete information.¹⁹ Because these cases first came to court in 1996 and 1997, we focus on calendar year data from 1999 (rather than 2000) in this portion of our analysis. As mentioned earlier, all prior results are very similar for 1999 as they are for 2000.

While the CRD sample is a small subset of the set of taxpayers with children who claim an EITC, the characteristics of both samples that match to tax returns claiming an EITC and to the case registry are similar. The average adjusted gross income of the 85,528 EITC claimants with children who match to the

¹⁷ The court record data collection effort has been part of a large, sustained program of child support research conducted at the Institute for Research on Poverty for more than 25 years. See <http://www.irp.wisc.edu/research/childsup/cspolicy/cshistory.htm> for further details.

¹⁸ The 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.

¹⁹ In 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.

case registry in 1999 is \$15,006. It is \$14,657 for the CRD subsample that claim an EITC with children and who also match to the case registry. The average EITC is \$1,954 for the large sample, \$1,952 for the smaller CRD one. The average number of children is 1.6 for the large sample, 1.5 for the smaller one. And 81.4 percent of filers are heads of households in the large sample, while it is 83.2 percent in the smaller CRD sample. The fact that the sample characteristics are similar gives us greater confidence that the data patterns we observe in the CRD subsample are likely representative of the broader EITC-filing population.

The CRD data show that at the beginning of 1999, 79.1 percent of the children were in sole placement of the mother, and 9.0 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 sharing. In 5 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 4.9 percent of the cases, fathers have sole placement. The remaining cases (2 percent of the total) involve third parties 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 16 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 5.8 percent of the cases where mothers have sole placement, for example, placement changed later in 1999. In 35 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.²⁰

Despite the perhaps obvious fact that living arrangements can be both complicated and fluid, there is striking consistency between the CRD and the state case registry of child support orders in cases where

²⁰For a detailed look at these issues see Krecker et al. (2002).

the two datasets overlap. In 96 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.²¹

Our “point estimate,” therefore, is that 96 percent of the cases flagged as being inappropriate when matching child support and tax return data would, in fact, be noncompliant claims. The confidence interval surrounding this estimate is fairly large. First, the court record database is a very small subsample of the EITC-claiming population in Wisconsin, so sampling variability alone may lead to success rates that are lower than 96 percent. Second, while the case registry and the court records are generally in agreement about the physical placement of children, both sources of information could be wrong. Finally, to the extent that children spend more time with fathers than with mothers in joint placement cases, success rates could be as low as 73 percent (the placement rate for mothers getting sole custody, minus the 5 percent of these cases that change over the year). We also note that math error applies only to cases where the NCP claims, as an EITC qualifying child, the child they are supporting. The empirically more common case is that some unidentified adult claims a CP’s child – we think a match between tax returns and child support case registries could be very useful for identifying inappropriate claims in this situation, but the IRS does not have authority to use math error procedures when an unidentified adult claims a CP’s child.

We draw two lessons from this description of the CRD data. First, the data in the state case registry appear 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, 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

²¹Children 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.

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.²²

IV. CONCLUSIONS

In this paper we use a unique dataset constructed from tax returns filed by Wisconsin taxpayers for calendar year 2000 matched, by social security number, to the state case registry of child support orders. For EITC claimants that appear in both datasets, 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 \$1.7 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

²²The 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).

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.

While the Federal Case Registry could be one promising tool to reduce EITC noncompliance, 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 \$729 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.²³

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 119). The Taxpayer Advocate (Nina Olson, head of the National Taxpayer Advocate Service) responds that she

²³For a discussion of other EITC compliance initiatives, see, for example, Internal Revenue Service (2004).

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. Nevertheless, 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.

Acknowledgements

Many people were instrumental in this project. Maria Cancian and Tom Kaplan, co-Principal Investigators of a broad grant of which this was a small part, supported the project from the beginning and were patient with various delays. Nick Greenia at the Internal Revenue Service (IRS) was exceptionally helpful in gaining access to the data and making the project happen. We are also very grateful for the support of our IRS and Treasury Department colleagues Mark Mazur, Eric Toder, Janet Holtzblatt, and Janet McCubbin (and surely others at the IRS we are not aware of). Lynn Wimer, Lily Xie, and Pat Brown helped us gain access to the Wisconsin child support data and they taught us a great deal about these data and child support in Wisconsin. Jan Blakeslee provided valuable editorial guidance. Colleagues at the Wisconsin Bureau of Child Support provided helpful comments. We also benefited from the comments of the editor and two unusually perceptive referees. The views and findings in this paper do not necessarily reflect the views of the IRS, the state of Wisconsin, or anyone besides the authors. Only Scholz had access to the underlying data used in the project, as required by the various security arrangements governing the strictly guarded access to tax return and child support data.

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TABLE 1
Tax Returns Filed in Wisconsin: Incomes and the EITC for Tax Year 2000

Total number of returns	2,577,819
Average adjusted gross income	\$45,075
Median adjusted gross income	\$29,185
Total number of returns claiming children	813,897
Average adjusted gross income	\$62,390
Median adjusted gross income	\$49,376
EITC claimants	240,612
Percentage of total returns	9.3%
Childless EITC claimants	48,091
Average EITC of childless claimants	\$198
EITC claims with children	192,521
Percentage of total returns with children	23.7%
Average adjusted gross income	\$15,820
Median adjusted gross income	\$16,402
Average EITC claim	\$1,848
Total EITC claims (of families with children)	\$355,718,741
Families with 1 EITC child	88,287
Families with 2+ EITC children	104,234
Number of joint filers	46,397
Average EITC of joint filers	\$1,678
Number of head of household filers	126,240
Average EITC of head of household filers	\$1,907
Number of single filers (with EITC-qualifying children)	19,506
Average EITC of these single filers	\$1,868
Returns using duplicated EITC-qualifying children	3,232

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 12/2000 for the returns filed in the 2000 filing season.

TABLE 2
Information from Child Support Case Registry and Tax Return Data in 2000 Suggest Many EITC Claims May Be Inappropriately Claimed

Total number of returns with an EITC-qualifying child	192,521
Returns with children not in the case registry	109,232
Percentage of EITC cases not in registry	56.7%
Percentage of returns from joint filers	36.9%
Percentage of returns from head of household filers	53.6%
EITC-qualifying child is claimed by a CP	73,258
Total EITC claims	\$145,628,186
Average EITC claim	\$1,988
EITC-qualifying child is claimed by an NCP	4,744
Total EITC claims	\$8,098,914
Average EITC claim	\$1,707
Average EITC if taken by the child support payee	\$972
Total forgone (direct) EITC payments	\$4,611,521
EITC-qualifying child claimed by an unknown adult	5,287
Total EITC claims	\$10,665,729
Average EITC claim	\$2,017
Average EITC if taken by the child support payee	\$785
Total forgone (direct) EITC payments	\$4,151,719

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