

Tax Filing and EITC Take-up

Reminders promote tax filing compliance and increase EITC payments

Agency Objective. Increase tax filing compliance and EITC participation rates among lower-income individuals who did not file a tax return.⁶²

Background. Income tax compliance is a key goal of the Internal Revenue Service (IRS). A proportion of noncompliance is made up of those who never file a tax return—including those who might receive a refund if they filed. The Earned Income Tax Credit (EITC) is among the largest Federal government programs providing assistance to working, lower-income Americans, sending over \$66 billion to more than 27 million families in 2015.⁶³ Eligible filers claim the credit as part of filling their annual Federal income taxes, and receive the credit in the form of a tax refund. The credit increases with earnings up to a maximum amount before phasing out at higher levels of income. While overall EITC participation rates among eligible households are relatively high, at an estimated 80 percent, the remaining eligible population represents millions of individuals each year who fail to claim the credit, either by filing a return and failing to claim the credit or not filing a return.⁶⁴

Methods. Researchers at the Internal Revenue Service (IRS), in collaboration with SBST members at GSA and academic researchers, tested the impact on tax filing and EITC participation of mailing notices to individuals potentially eligible for the EITC but who did not file a tax return in recent years. In addition to a control group that received no mailing, six treatment groups received combinations of behaviorally informed postcards and brochures, highlighting the recipient's potential

eligibility for the EITC, and drawing on previous studies sending notices to individuals who filed but did not claim the EITC. A sample of 360,352 was drawn from the population of roughly individuals estimated to be eligible but who failed to file in either 2011 or 2012; of this group, 199,910 were randomly assigned to a treatment and 160,442 to control.

Results. The notices lead to an increase in the rates of individuals filing a 2013 tax return between 0.6 and 1.0 percentage point, depending on the model. A simple comparison of filing rates between the treatment and control groups suggests a 1.0 percentage point increase in filing ($p < 0.01$, 95% CI [0.006, 0.014]), while a model that incorporates other factors associated with filing such as gross income and potential EITC suggests a treatment effect of 0.6 percentage points ($p < 0.01$, 95% CI [0.002, 0.01]). The impact was largest for those sent a postcard early in the tax season. Conditional on filing, there were not significant differences in the fraction of individuals claiming the EITC. However, treatment individuals did receive a greater EITC in 2014, by about \$25 on average ($p < 0.01$, 95% CI [13.2, 36.4]).⁶⁵

Conclusions. The notices were effective at modestly increasing the rate of tax filing among the targeted population; while they did not increase the rates at which individuals claimed the EITC, they did increase the amount of EITC dollars paid to treatment individuals. Interestingly, the effect of the notices appeared to be transitory. The study tracked the effects on filing a year later, in 2015, finding no differences in filing rates between treatment and control individuals. The project also sent reminder notices in the second year to a randomly selected subsample of individuals who filed in year one of the study; the reminder notices increased the rate of tax filing, suggesting the

⁶² For a full report on this project, see: John Guyton, Dayanand S. Manoli, Brenda Schafer, and Michael Sebastiani, "Reminders & Recidivism: Evidence from Tax Filing & EITC Participation among Low-Income Nonfilers," (NBER Working Paper No. 21904, 2016).

⁶³ See: <https://www.eitc.irs.gov/EITC-Central/eitcstats>

⁶⁴ See <https://www.eitc.irs.gov/EITC-Central/Participation-Rate>. See also Dean Plueger, "Earned Income Tax Credit Participation Rate for Tax Year 2005," (IRS Working Paper, 2009).

⁶⁵ Treatment individuals also on average both paid larger balances and received larger refunds in 2014, suggestive that the main effect of the notice was to increase filing in general.