

## IRS Failure to Prevent EIC Errors

### Cross References

- Treasury Inspector General for Tax Administration report dated August 28, 2013

A recent report by the Treasury Inspector General for Tax Administration (TIGTA) says the IRS has made little improvement in reducing improper Earned Income Tax Credit (EITC) payments since being required to report estimates of these payments to Congress. The IRS' fiscal year 2012 improper payment report to TIGTA indicates that EITC payments totaled nearly \$62 billion. The IRS estimated that 21% to 25% of the EITC payments made in fiscal year 2012 were paid in error.

The IRS said the complexity of the EITC program as well as the need to balance the reduction in improper payments while still encouraging individuals to use the credit are the main reasons for the errors. All of the factors listed in the report that contributes to EITC errors include:

- Complexity of the tax law, including the need for congressional authorization of math error authority.
- Structure of the EITC.
- Confusion among eligible claimants.
- High turnover of eligible claimants.
- Unscrupulous tax return preparers.
- Fraud.

The IRS said that reductions in the EITC improper payment rate will be difficult to achieve. The following presents the IRS' estimated EITC improper payments for fiscal years 2003 through 2012.

<i>Fiscal Year</i>	<i>Minimum Improper Payments %</i>	<i>Maximum Improper Payments %</i>	<i>Minimum Improper Payments in Billions of Dollars</i>	<i>Maximum Improper Payments in Billions of Dollars</i>
2003	25%	30%	\$9.5	\$11.5
2004	22%	27%	\$8.6	\$10.7
2005	23%	28%	\$9.6	\$11.4
2006	23%	28%	\$9.8	\$11.6
2007	23%	28%	\$10.4	\$12.3
2008	23%	28%	\$11.1	\$13.1
2009	23%	28%	\$11.2	\$13.3
2010	24%	29%	\$15.3	\$18.4
2011	21%	26%	\$13.7	\$16.7
2012	21%	25%	\$11.6	\$13.6

TIGTA said the IRS must develop alternatives to traditional compliance methods to significantly reduce EITC improper payments. Limited resources and the need to balance compliance efforts among taxpayers in all income levels limit the effectiveness of traditional compliance methods in reducing improper EITC payments.