



Simplifying the EITC: Automatic Filing

State Policy Recommendations

February 2019

Automated filing through a pre-populated tax form would be crucial to increasing the low EITC take-up rates that exist in many states.

OVERVIEW

The percentage of eligible workers who actually receive state Earned Income Tax Credits remains too low. States need to take stronger measures to raise EITC uptake and reduce the share of refunds diverted to fees for tax preparers.¹

A clear way for a state revenue agency to do so would be to design and mail a simple form to those the agency believes to be eligible for the state EITC, which would serve as both the taxpayer's EITC claim worksheet and tax return. The form would be pre-populated to the greatest possible extent, using a variety of data sources available to state agencies. It also provides for a cover letter that informs recipients of the EITC amount to which they may be entitled based on the data the state already has.

KEY RECOMMENDATIONS:

- A state agency administering an EITC should design (in consultation with experts) a short EITC form that includes relevant fields necessary to claim the EITC that would also serve as the filer's tax return for the year, with the goal of increasing the EITC take-up rate. Look to IRS [CP-09 form](#) as example of limited info necessary and how to walk taxpayers through the process of providing accurate data. Lines should include:
 - Income lines: Wages, Self-employment income, Other income (dividend, interest, etc.)
 - Qualifying dependents
 - Filing status
 - State residency
- Pre-populate this short form to the greatest extent possible, utilizing data from prior year tax returns (and if possible, data from other state agencies with dependent information).
 - Income that has been reported to the state (e.g. on W2s and 1099s) should be pre-populated.
 - Dependents, marital status, and residency should also be pre-populated, but could alternatively be left blank for the taxpayer to complete.
- Filers should be instructed in a simple, easy to understand cover letter that the form has

¹ See California Legislative Analyst's Office, "California Earned Income Tax Credit Education and Outreach," May 8, 2018 (<https://lao.ca.gov/Publications/Report/3826>); Alissa Anderson, California Budget & Policy Center, "California Should Do More to Raise Awareness of the California Earned Income Tax Credit (CalEITC)", April 2017 (<https://calbudgetcenter.org/resources/california-raise-awareness-california-earned-income-tax-credit-caleitc/>).

been populated with all the data of which the state is aware of, and that if this data is correct, they may be eligible for a state EITC of up to [amount].

- Recognizing that determining dependents is challenging (and often changes year to year), the cover letter could have a general statement such as, “You may be eligible for a refund of up to \$X if you have qualifying dependents or \$Y if you do not.” Or, the cover letter could provide a simple table showing the maximum credits for 0, 1, 2, and 3+ dependents.
- It should then invite them to verify the pre-populated data (with a blank space for corrected data next to each prepopulated entry) and/or provide changes and additional data if necessary.
- Send paper versions of this form and cover letter between April 15 and June 30 to those the agency believes eligible (based on prior year wage data as well as dependent and other relevant information from prior year returns), but who have not yet filed. It should also be sent to anyone who filed a current return and appears eligible for EITC but did not claim it.
 - Send a second mailing before September 30 to those whom the agency newly believes may be eligible based on info received from IRS or other state agencies, and to those who did not respond to the first mailing.
- The agency should also make this form available on the agency website, including if possible a mobile-optimized version that can be completed entirely on a smartphone.
 - All paper communications should inform recipients that they can complete the form quickly and securely on their smartphone, and direct them to the online form.
 - Provide a hotline to assist EITC claimants, shown on the form and cover letter, run by the agency or by a non-governmental organization and staffed by VITA workers.
 - All communications should make claimants aware of free tax prep programs, including free online and in-person filing services.
- Include an appropriation for the funds needed to administer this program, including design, staffing, postage, programming computers, and the hotline.
- Take necessary measures to provide for security of communication to and from taxpayers.
 - The form should be sent by mail, like other state revenue agency outreach to taxpayers, but outreach should direct filers to the online filing site using phrases like “faster refunds,” “check on refunds,” and “update current tax filing and tax information.”

CALCULATING POTENTIAL IMPACT:

- If, as recommended, the state sends pre-populated forms to (1) current year filers who appear eligible but did not claim the credit; and (2) non-filers who appear eligible, we estimate:
 - Maine: 7,000 households might claim their state EITC in response to simplified filing.
 - Massachusetts: 25,000 households might claim their state EITC with simplified filing.
 - Illinois: 85,000 additional households might claim their state EITC with simplified filing.
 - California: 265,000 households might claim their state EITC with simplified filing.
- This estimate relies on a 28% response rate in a [New York pilot](#) of outreach to apparently eligible households that had not claimed the credit. As an example, using IRS data for California's EITC estimated eligibility and take-up rate, approximately 950K households are eligible but not claiming the credit.² This federal data works as a rough estimate for the minimum number of EITC recipients that could be added to the state EITC, as state EITC uptake tends to be somewhat lower than federal, especially for newer credits.

² This pool is estimated using IRS data for California: federal EITC [uptake rate of 74.7%](#) results in [2.8 million federal EITC claims](#), so there are 3.75M eligible for federal EITC, and a 28% response from the 950K not claiming the credit = 265,000.