

**WRITTEN TESTIMONY OF  
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COMMISSIONER OF THE WAGE AND INVESTMENT DIVISION  
OF THE  
INTERNAL REVENUE SERVICE  
BEFORE THE  
HOUSE WAYS AND MEANS COMMITTEE'S  
SUBCOMMITTEE ON OVERSIGHT  
ON THE  
EARNED INCOME TAX CREDIT AND OUTREACH EFFORTS TO  
ENCOURAGE ELIGIBLE TAXPAYERS TO FILE**

**FEBRUARY 13, 2007**

Good afternoon Chairman Lewis, Ranking Member Ramstad, and Members of the Subcommittee. My name is Richard J. Morgante and I am the Commissioner of the Wage and Investment (W&I) division of the IRS. W&I is one of the four operating divisions linked to specific taxpayers that were created after enactment of the IRS Restructuring and Reorganization Act of 1998 (RRA 98). The Earned Income and Health Coverage Tax Credit office, which administers the Earned Income Tax Credit (EITC), is part of W&I. David R. Williams, the Director of that office, is accompanying me this morning and will assist in responding to any questions that you may have.

I am pleased to be with you this afternoon to discuss the EITC and IRS' outreach efforts to encourage eligible taxpayers to take advantage of this tax benefit.

**Background**

The EITC was created in 1975 and was designed to help offset Social Security taxes for low income workers and provide an incentive to work. Since that time, it has grown into one of the government's most successful anti-poverty programs. A recent Census study found that 4.6 million people – including 2.4 million children – were lifted out of poverty in 2002 thanks to the EITC. In Tax Year (TY) 2005, over 22 million returns were credited with more than \$41 billion in payments through the EITC.

For TY 2006, the maximum credit is \$4,536 for a family with two or more children; \$2,747 for a family with one child and \$412 if there are no children. The earned income must be less than \$36,348 (\$38,348 if married filing jointly) for families with two or more children; \$32,001 (\$34,001 if married filing jointly) for families with one child or \$12,120 (\$14,120 if married filing jointly) if there are no children. In addition, investment income must be \$2,800 or less. Children must also meet certain relationship and residency requirements.

Most taxpayers eligible for the EITC receive a refundable federal tax credit when they file their income tax return that offsets taxes owed through the income tax system. If the credit exceeds the amount of taxes owed, a lump-sum payment is provided to those individuals and families who qualify. This was the case on almost 20 million of the returns filed in FY 2006, when over \$36 billion was refunded to taxpayers in excess of the total tax on their returns.

Taxpayers can also receive an advance against their EITC through their employer. This allows taxpayers who expect to qualify for the EITC and have at least one qualifying child to receive part of the credit in each paycheck during the course of the year. The employee merely needs to see if he or she qualifies for Advance EITC (AEITC) payments by completing the five questions on the back of Form W-5, the Earned Income Credit Advance Payment Certificate. If he or she qualifies, the employee completes the bottom part of the Form W-5 and gives it to the employer. Then, based on income, the employer adds additional money to the employee's take-home pay.

### **Characteristics of People who are Eligible but Don't Claim EITC**

The Subcommittee expressed interest in the characteristics of those taxpayers who are eligible but fail to claim the EITC and why they don't claim it. The IRS estimates that between 75 to 80% of all eligible taxpayers receive the EITC – meaning 20-25% do not get the credit they deserve.

We have just launched a new study working with the Bureau of the Census and Treasury Department economists to update these figures. The study will also give us better information about non-claimants so that we can improve the targeting of our EITC education and outreach efforts.

Today, our anecdotal evidence suggests people fail to claim the credit for a variety of reasons. First, is lack of knowledge. They may not know about the credit – in some cases because they may be in underserved (e.g. rural) areas. They may be put off by the credit's complexity or the complexity of the forms they must complete in order to file for it. They may also be unaware of where to get help in claiming the credit.

Second, they may not make enough money to file a tax return. Currently, individuals with incomes below \$8,450 and couples with incomes below \$16,900 do not have a filing requirement. However, taxpayers with earned incomes at, or well below these limits are potentially eligible for the EITC.

Cultural or language barriers may also prevent EITC claims. In addition, some community-based organizations have indicated that taxpayers fear claiming the EITC can affect eligibility for other types of benefits.

Finally, some studies suggest a large portion of non-claimants are childless workers. There are at least two reasons this group may not claim EITC. First is the misperception that the credit is only for people with children. Second, the value of the credit is much

lower for those without children (a maximum of \$412 compared to a maximum of \$4,536).

## **Outreach Efforts**

When the current IRS Commissioner Mark Everson took office in 2003, he established as one of his priorities the development of a program strategy for the EITC around a very simple philosophy: Everyone who qualifies for the EITC should receive it, but only those who qualify.

We have made significant progress in achieving the Commissioner's EITC philosophy. As I pointed out earlier, we estimate that EITC participation for eligible individuals' ranges between 75 and 80 percent. Compared to other government programs, EITC participation rates are high. For example, only about half of all households eligible for food stamps receive those benefits.

But, we know we need to do better to fulfill the Commissioner's philosophy -- that *everyone* eligible for the EITC receives it. The challenge, of course, is that the remaining EITC-eligible taxpayers are much harder to identify and reach. Here are some of the activities the IRS conducts to improve EITC participation.

### *Direct Mail to Potentially Eligible Taxpayers*

The IRS automatically reviews all tax returns that are filed to identify taxpayers who may potentially be eligible for the EITC but have not claimed it. Each year, the IRS sends between 500,000 and 700,000 letters to these taxpayers. The letters contain information about the EITC and suggest they may want to claim the credit if they think they're eligible.

We also send a direct mail package to a half million taxpayers in 10 Limited English Proficiency markets. These markets are some of the major urban areas of the country and include:

- Los Angeles-Riverside-Orange County, CA
- New York-Northern New Jersey-Long Island, NY-NJ-CT-PA
- Miami-Ft. Lauderdale, FL
- Chicago-Gary-Kenosha, IL-IN-WI
- Houston-Galveston-Brazoria, TX
- Dallas- Ft. Worth, TX
- San Francisco-Oakland-San Jose, CA
- San Antonio, TX
- Phoenix-Mesa, AZ
- Brownsville-Harlingen-San Benito, TX

## *Community Partnerships*

Another way we attempt to reach this underserved community is through EITC awareness events that the IRS sponsors and, more importantly, the long lasting relationships we have formed with concerned stakeholder groups. For example, we currently support EITC and other tax assistance and education services provided through more than 300 community-based coalitions representing thousands of national and local partners around the country. These organizations regularly interact with low-income taxpayers, offer built-in credibility with their local community, and provide avenues of access for taxpayers who may be reluctant to work directly with the IRS.

These coalitions conduct their own local EITC outreach through direct mail and media efforts. This can be as simple as EITC advertisements placed on fast food restaurant tray liners or as complex as translating EITC messages into 11 different languages. IRS and its EITC partners made an estimated 135 million EITC outreach contacts in FY 2006.

One of our most successful partnerships has been with the United Way of America. The United Way spearheads the 2-1-1 program, an easy-to-remember telephone number that connects people with important community services and volunteer opportunities. Currently, 2-1-1 is available to approximately 196 million Americans, over 65 percent of the U.S. population. Through telephone systems covering all or part of 41 states and Washington, DC, local 2-1-1 affiliates are educating the public about the availability of the EITC and referring eligible taxpayers to nearby Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites for free return preparation services. In some cities, the 2-1-1 line even schedules appointments for these volunteer sites.

United Way has also announced a partnership with Bank of America to create a new national initiative designed to help individuals and families in communities across the country obtain tax preparation assistance and unrealized tax refunds through the EITC. Under this initiative, the Bank of America Charitable Foundation will provide \$500,000 in grants to two statewide and 31 local United Ways. Bank of America associate volunteers will also assist in tax preparation for qualified individuals and families eligible for EITC.

These tax preparation assistance efforts dovetail nicely with our VITA and TCE programs where EITC claimants can have their returns prepared free of charge. The number of tax returns prepared by these IRS-sponsored volunteer programs has doubled over the past five years, serving 2.2 million taxpayers during the last filing season. In addition to approximately 12,000 volunteer sites, there are 401 IRS offices around the country that also provide free tax return preparation service for EITC-eligible taxpayers.

The President's proposed FY 2008 budget for the IRS includes \$5 million to expand the VITA program targeting an even higher number of low income, elderly, Limited English Proficiency (LEP), and disabled taxpayers.

The VITA and TCE sites serve several important purposes. First and foremost, they allow low income and elderly taxpayers to have their income taxes done at no cost. Second, the sites help educate the taxpayers about their eligibility for not only EITC, but also other tax credits as well. Third, they often allow taxpayers to have their returns filed electronically, also free of charge, meaning that the taxpayers will get their refunds in two weeks or less.

This latter point is particularly important in that it should reduce the demand for refund anticipation loans (RALs), which are used by banks, tax preparation companies and others to provide the taxpayer his or her refund immediately. However, the cost of the RALs are significant and as a result they have become a vexing problem, enticing those people least able to afford it to lose a healthy portion of their EITC refund just to get their money a few days sooner through a RAL. I am pleased to announce that this year we have reached agreement with our FreeFile partners that they will not offer RALs to taxpayers utilizing FreeFile. FreeFile is the public/private partnership between the IRS and approximately 20 tax preparation software manufacturers, which allows EITC recipients and other eligible taxpayers to file their Federal return online at no cost.

#### *Awareness Programs*

To increase awareness of the EITC further, the IRS started this year an EITC Awareness Day. Since the majority of EITC returns are filed in February, the date selected for the day-long series of events was February 1. The goal was to encourage coalition partners nationwide to hold news conferences or issue press releases on that day. We were able to get more than 150 coalitions to participate. In addition, the IRS participated in more than 40 interviews on local TV morning shows in English and Spanish, hosted a national media news conference that was web cast nationwide, and conducted conference calls in both English and Spanish with print and radio reporters in the afternoon. The scope of media coverage has been unprecedented and should prove very effective in raising EITC awareness among eligible taxpayers.

Our awareness efforts do not end there. IRS field media spokesmen make EITC a priority message during the entire filing season, placing EITC messages in the vast majority of the largest 100 newspapers. EITC will also be a prominent item on the home page of our web site, IRS.gov. The web site received a total of 197 million “hits” in 2006. Approximately 1.6 million visits were made to the EITC pages on IRS.gov last year.

Also on IRS.gov is the “*EITC Assistant*”, which allows taxpayers to see if they qualify for the EITC and if they do, estimates the level of their credit. Approximately 1.1 million visitors availed themselves of this service in 2006. The *EITC Assistant* is available in both English and Spanish. In 2006, we significantly revised this feature to reflect changes in the law enacted to assist victims of Hurricane Katrina.

Some have suggested that the *EITC Assistant* might not be that useful since many of those eligible may lack access to a computer. Even if they do not have a computer in

their homes, they may have access through other means, such as public libraries. As I indicated earlier over 70 percent of all EITC returns are done by paid preparers and the *EITC Assistant* can also help those professionals assist taxpayers better.

The IRS also does outreach through certain paid media outlets. We will have paid media placements for EITC in 12 community newspapers around New York, Los Angeles, Houston and Miami. We have also developed and dispersed bilingual print and radio Public Service Announcements. Our EITC office has also updated publications, brochures, and other marketing materials with the new “I Take Credit” campaign, which ties EITC to financial literacy.

In addition, the IRS has partnered with Telemundo to generate awareness of EITC and promote EITC Awareness Day through a one-hour infomercial that aired on January 28. A 30-minute version of the infomercial will replay throughout the filing season. Telemundo is one of the primary media outlets for the Hispanic community.

One of the prime areas where we really hope to increase awareness is advance payments of the EITC. We are now partnering with organizations such as Corporate Voices for Working Families. This non-profit consortium of member businesses promotes advance payments as an option to boost employees’ paychecks. Although limited progress has been made in increasing advance payment participation rates, we will continue to look for opportunities to partner with employer groups and others to expand the use of this worthwhile option.

One of the major benefits of the advance payment is that eligible taxpayers are able to get up to \$1,712 of the credit for which they are eligible throughout the year. This not only increases take home pay for the EITC recipient, but we also believe it will reduce the likelihood of the recipient needing a RAL.

### **Possible Legislative Changes**

The legislative proposals contained in the President’s FY 2008 Budget will serve to simplify eligibility criteria for EITC. The simplification proposals include:

- *Allowing separated spouses to claim the EITC.* Married taxpayers who file separate returns would be allowed to claim the EITC if they live with a qualifying child for over half the year.
- *Simplifying the rules regarding presence of qualifying child.* A taxpayer with a qualifying child who lives in an extended family would be eligible to claim the EITC for workers without qualifying children even if another member of the family claims the taxpayer’s qualifying child. This would allow grandparents who care for a child to claim the EITC.
- *Making taxpayers eligible to receive the EITC for workers without qualifying children if their child does not have a valid social security number.* As under current law, the taxpayer (and spouse, if married) must have a valid social security number.

- *Clarifying when a social security number is valid for EITC purposes.* To qualify for the EITC, a taxpayer (including his or her spouse, if married) must have a social security number that is valid for employment in the United States (that is, they are U.S. citizens, permanent residents, or have certain types of temporary visas that allow them to work in the United States). The Treasury Department and the IRS will develop an outreach strategy to ensure that taxpayers, including those whose immigration and work status has changed since they received social security numbers, are aware of the new requirements.

The first three provisions would be effective for tax years beginning after December 31, 2007. The provision to clarify when a social security number is valid for EITC purposes would take effect January 1, 2008.

These changes should both make it easier to claim the EITC, reduce confusion around eligibility, and also reduce the number of cases IRS must later examine.

The budget also contains proposals to clarify the uniform definition of a qualifying child, which applies to the EITC as well as to other child-related tax benefits. In addition, the budget would reduce the computational complexity of the refundable child tax credit, which many EITC claimants also receive.

## **Conclusion**

Mr. Chairman, the EITC program is among the most successful anti-poverty programs in the Federal Government. But, the success of the program can not hide the fact that 20-25 percent of eligible taxpayers may not be taking advantage of the credit. I can assure you that the IRS, from Commissioner Everson on down, is firmly committed to ensuring that everyone eligible to receive the EITC does so.

We are attempting to do that by continuing to establish solid relationships with stakeholders in the community, leveraging the resources of our VITA and TCE sites, and by implementing an aggressive and robust awareness program through various types of media. In addition, we will continue to seek additional means of increasing awareness.

I appreciate the opportunity to be here this afternoon, and I will be happy to respond to any questions.