



CENTER ON BUDGET AND POLICY PRIORITIES

820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org <http://www.cbpp.org>

September 19, 2000

STATES CAN USE IRS COMPUTER TAPES TO IDENTIFY POTENTIAL RECIPIENTS OF STATE EARNED INCOME TAX CREDITS

More than a dozen states offer state Earned Income Tax Credits, but not all eligible families in those states receive the credits to which they are entitled. In states with EITCs, up to 15 percent of the federal EITC recipients fail to claim the state credit, particularly in the first few years of implementation when many potential recipients may not be aware the state credit exists.

There is a way for state tax administrators to raise state EITCs' participation rates. The Internal Revenue Service provides detailed, confidential information from tax returns to state tax collectors in order to ensure that taxpayers are providing consistent information to federal and state authorities. This information is provided on computer tapes, and it can include names, addresses, taxpayer identification numbers, and the amount of federal EITC received by each taxpayer, among other information. A state revenue department could use such information to identify any eligible taxpayer who had failed to claim a state EITC, compute the credit amount, and send a check to the taxpayer.

Two states have used this procedure to maximize participation in the EITC.

- In fall 1997, Minnesota Revenue Department cross-checked state tax returns for tax years 1995 and 1996 with federal tax returns for those same years. About 8,000 taxpayers who claimed the federal EITC but not the state EITC in one or both of those years received checks from the state.
- The Maryland Comptroller of the Treasury used the federal tapes in late 1999 to compare federal and state EITC claims for tax year 1998, the first year in which the state offered a refundable EITC. The tapes identified 12,811 taxpayers in the state who were eligible for the state's refundable EITC but had not claimed the credit. The Comptroller computed and mailed refunds to those taxpayers totaling \$1.9 million. Maryland tax administrators expect to continue to use this procedure for future tax years.

Minnesota and Maryland used the federal tapes to complement taxpayers' use of state income tax forms to claim state EITCs. To date, only states with state personal income taxes have enacted state EITCs, but the procedure described above could be used to implement a state EITC in a state with no income tax.