

## Exclusionary Effects of the IRS Correspondence Audit Process Warrant Further Study<sup>1</sup>

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### I. IRS correspondence audits can be challenging for EITC claimants to navigate.

To verify the accuracy of Earned Income Tax Credit (EITC) claims, the Internal Revenue Service (IRS) relies largely on correspondence audits (conducted via mail) rather than field audits (conducted face-to-face with an IRS examiner). For fiscal years 2008 to 2016, about 400,000-500,000 correspondence audits were conducted on returns with EITC claims, compared to 30,000-50,000 field audits.<sup>2</sup> These audits are conducted under the IRS’s operational audit program on returns that have been assigned higher “risk scores” for non-compliance.

The IRS conducts audits in accordance with its statutory duties to administer the tax system, but many low-income filers claiming the EITC struggle to navigate the correspondence audit process for reasons including:

- Interpreting the letters from the IRS informing filers that they are under audit and requesting proof of eligibility for the EITC can be challenging, especially for those with low levels of functional or financial literacy.<sup>3</sup> A 2007 Taxpayer Advocate Service (TAS) survey of filers with EITC claims under audit found that “more than 25 percent of them did not understand the IRS audit notice was telling them they were under audit, and about half didn’t understand what they needed to do in response to the audit letter.”<sup>4</sup>

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<sup>1</sup> Many thanks to John Wancheck for reviewing this report and providing helpful comments.

<sup>2</sup> John Guyton, Kara Leibel, Day Manoli, Ankur Patel, Mark Payne, and Brenda Schafer, “The Effects of EITC Correspondence Audits on Low-Income Earners,” IRS SOI Working Paper, December 2019, <https://www.irs.gov/pub/irs-soi/19rpeitccorrespondenceaudit.pdf>.

<sup>3</sup> Karie Davis-Nozemack, “Unequal Burdens in EITC Compliance,” *Minnesota Journal of Law & Inequality*, Volume 31 Issue 1, June 2013, <https://scholarship.law.umn.edu/cgi/viewcontent.cgi?article=1188&context=lawineq>; Leslie Book, “The IRS’s EITC Compliance Regime: Taxpayers Caught in the Net,” *Oregon Law Review*, Volume 81 Number 2, [https://scholarsbank.uoregon.edu/xmlui/bitstream/handle/1794/4647/81\\_Or\\_L\\_Rev\\_351.pdf?sequence=1&isAllowed=y](https://scholarsbank.uoregon.edu/xmlui/bitstream/handle/1794/4647/81_Or_L_Rev_351.pdf?sequence=1&isAllowed=y).

<sup>4</sup> Direct quote from: National Taxpayer Advocate, “Most Serious Problem #8: The IRS’s Correspondence Examination Procedures Burden Taxpayers and Are Not Effective in Educating the Taxpayer and Promoting Future Voluntary Compliance,” Annual Report to Congress 2018, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/07/ARC18\\_Volume1\\_MSP\\_08\\_CorrespondenceExamination.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/07/ARC18_Volume1_MSP_08_CorrespondenceExamination.pdf). See also: National Taxpayer Advocate, “The IRS EIC Audit Process – A Challenge for Taxpayers,” December 2007, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/eitc\\_audits\\_challenge\\_tps\\_ra\\_dec2007.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/eitc_audits_challenge_tps_ra_dec2007.pdf);

- Proving eligibility for the EITC is document-intensive and it can be difficult for filers to obtain needed documents or unclear what documents are required to prove eligibility. Often EITC audits address the relationship and residency tests for qualifying children, yet for some families (especially those experiencing homelessness or domestic violence, as well as those with non-traditional caring arrangements), it can be difficult to obtain documents verifying that they meet these requirements.<sup>5</sup> Also, it may be unclear from IRS correspondence which documents will suffice to prove eligibility for the EITC.<sup>6</sup>
- Getting help from the IRS is difficult. When filers have questions about their ongoing audit, they are generally unable to contact the specific IRS employees reviewing their case and often struggle to reach an IRS representative through the agency’s toll-free phone lines. Because “correspondence audits are not assigned to a single examiner who oversees the entirety of the audit,” filers cannot direct any questions they may have to a dedicated IRS employee familiar with their case.<sup>7</sup> IRS employee(s) do not include their contact information when writing letters in response to filers, so filers cannot directly ask them follow-up questions about their documents or about the IRS’s final decision on their eligibility.<sup>8</sup> There is a general hotline that filers can call with questions, but only about 400,000 out of roughly a million callers to the W&I audit hotline reached an IRS representative in FY2019, resulting in a 40.7% service rate.<sup>9</sup> The average wait time to

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Janet Holtzblatt and Janet McCubbin, “Issues Affecting Low-Income Filers.” *The Crisis in Tax Administration*, edited by Henry J. Aaron and Joel Slemrod, Brookings Institution Press, 2004, pp. 148–200, <http://www.jstor.org/stable/10.7864/j.ctvb1htq5.9>.

<sup>5</sup> Robert Greenstein, John Wancheck, and Chuck Marr, “Reducing Overpayments in the Earned Income Tax Credit,” Center on Budget and Policy Priorities, January 31, 2019, <https://www.cbpp.org/research/federal-tax/reducing-overpayments-in-the-earned-income-tax-credit>; Holtzblatt and McCubbin, *supra* note 4; Nina E. Olson, Written Statement for Hearing on Internal Revenue Service Oversight Before the Subcommittee on Financial Services and General Government, Committee on Appropriations, February 26, 2014, [https://www.irs.gov/pub/tas/nta\\_testimony\\_housepprops\\_oversight\\_022614.pdf](https://www.irs.gov/pub/tas/nta_testimony_housepprops_oversight_022614.pdf); Jacob Goldin, “Tax Benefit Complexity and Take-Up: Lessons from the Earned Income Tax Credit,” *Tax Law Review*, Volume 72 Issue 1, 2018, <https://heinonline.org/HOL/LandingPage?handle=hein.journals/taxlr72&div=7&id=&page=>.

<sup>6</sup> A 2018 Taxpayer Advocate report highlighted IRS CP 75 (Exam Initial Contact Letter – EIC – Refund Frozen), which is “one of the most common initial contact letters in correspondence exams,” as an example of a confusing notice. The CP 75 is “particularly confusing because it asks taxpayers to submit information to prove different residency requirements without clearly telling the taxpayer which documents may be submitted and which may fulfill some of or all of the different requirements.” See: National Taxpayer Advocate, Annual Report to Congress 2018, *supra* note 4.

<sup>7</sup> Erin Collins, “Lifecycle of a Tax Return: Correspondence Audits: Increased Communication Alternatives Are in Progress,” Taxpayer Advocate Service Blog, September 8, 2021, <https://www.taxpayeradvocate.irs.gov/news/nta-blog-lifecycle-of-a-tax-return-correspondence-audits-increased-communication-alternatives-are-in-progress/>; Nina E. Olson, “Earned Income Tax Credit: Making the EITC Work for Taxpayers and the Government,” National Taxpayer Advocate Special Report to Congress, June 30, 2019, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/JRC20\\_Volume3.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/JRC20_Volume3.pdf).

<sup>8</sup> National Taxpayer Advocate, Annual Report to Congress 2018, *supra* note 4.

<sup>9</sup> National Taxpayer Advocate, “Most Serious Problem #9: Low-Income Taxpayers Encounter Communication Barriers That Hinder Audit Resolution, Leading to Increased Burdens and Downstream Consequences for Taxpayers, the IRS, TAS, and the Tax Court,” Annual Report to Congress 2021, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21\\_MSP\\_09\\_Correspondence.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_09_Correspondence.pdf).

reach an IRS representative was 35 minutes.<sup>10</sup> The IRS phone service rate plummeted to historic lows in 2021, as call volume nearly tripled with an influx of questions related to Economic Impact Payments (EIPs), the Advance Child Tax Credit, and other elements of COVID-19 relief legislation.<sup>11</sup>

## **II. Many EITC claimants do not make it through the full correspondence audit process and their credit is disallowed – including a potentially large share of filers who in fact do meet the underlying eligibility criteria.**

There is suggestive evidence that some portion of filers who have their EITC denied or reduced on audit in fact meet the underlying eligibility criteria for the credit claimed. The share of EITC recipients who are unable to complete the audit process, despite being fully eligible for the credit, is currently unknown. However, some evidence and research suggest the share may represent a substantial number of filers:

- The majority of EITC claimants undergoing correspondence audits either do not respond at all or respond insufficiently to IRS inquiries. A 2019 IRS study found that about 75% of EITC recipients undergoing correspondence examinations did not make it through the full audit process and had benefits disallowed “due to undelivered mail, nonresponse, or insufficient response.”<sup>12</sup>
  - In the study’s sample of EITC recipients, 47% of self-employed filers and 43% of wage earners did not respond to IRS inquiries and subsequently had benefits disallowed.<sup>13</sup>
  - Additionally, 22% of self-employed filers and 20% of wage earners in the sample responded to IRS inquiries but did so “insufficiently,”<sup>14</sup> and ultimately had benefits disallowed.

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<sup>10</sup> National Taxpayer Advocate, “Most Serious Problem #7: Taxpayers Encounter Unnecessary Delays and Difficulties Reaching an Accountable and Knowledgeable Contact for Correspondence Audits,” Annual Report to Congress 2020, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20\\_MSP\\_07\\_Correspondence.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_07_Correspondence.pdf).

<sup>11</sup> Erin Collins, “Taxpayers and Practitioners Continue to Experience Frustration Over Lack of Adequate Phone Service,” Taxpayer Advocate Service Blog, February 1, 2022, <https://www.taxpayeradvocate.irs.gov/news/nta-blog-hello-is-anyone-there-taxpayers-and-practitioners-continue-to-experience-frustration-over-lack-of-adequate-phone-service/>.

<sup>12</sup> Guyton et al, *supra* note 2. These figures specifically for EITC recipients under audit are similar to those recently published by the Taxpayer Advocate Service for all taxpayers with incomes below \$50,000 undergoing correspondence audits. TAS found that in FY2019, 35% of correspondence audits were closed with no response (including 14% due to undelivered mail) and 25% were closed with no agreement signed (or “insufficient” response) among filers with incomes below \$50,000. See: National Taxpayer Advocate, Annual Report to Congress 2021, *supra* note 9.

<sup>13</sup> Guyton et al, *supra* note 2.

<sup>14</sup> These filers “engaged with the IRS and may have provided some documentation attempting to substantiate their claim but at some point discontinued communications and had their EITC disallowed.” See: Guyton et al, *supra* note 2.

- The specific reasons for non-response during correspondence audits are unclear, but this group may include some portion of eligible filers who either do not receive correspondence or do not understand the implications of non-response.<sup>15</sup>
- Separately from the IRS’s operational audit program, the agency also conducts audits on a smaller, randomly selected group of taxpayers through the National Research Program (NRP), with the goal of accurately measuring the tax gap. Unlike in the case of correspondence audits, the NRP process provides much more personalized support to filers under audit. NRP audits “often involve (possibly repeated) personal contact between a tax auditor and taxpayer via phone calls or in-person meetings.”<sup>16</sup> Research indicates that NRP audits have a considerably lower non-response rate among EITC recipients than correspondence audits<sup>17</sup>, which suggests that the structure of the correspondence audit process may be deterring filers from participating in them.
- Academic research from other social safety net programs, like SNAP and Medicaid, finds that administrative burdens can dramatically reduce program participation among eligible people – and, as noted in Section I, the burdens associated with the correspondence audit process are substantial.
  - The IRS uses audits to verify eligibility for the EITC because filers are not required to submit documentation proving they meet residency, relationship, and other criteria when they claim the credit on their federal tax returns. In contrast, other safety net programs like SNAP and Medicaid do not primarily rely on audits to verify eligibility for benefits, because they generally require extensive documentation (such as proof of residence, proof of employment, medical records, and receipts from household expenses) during initial application and periodic re-certification processes.<sup>18</sup> As a result, the administrative burdens imposed by other programs’ *application* processes are an appropriate point of comparison to the burdens imposed by IRS *audit* processes.

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<sup>15</sup> See: McCubbin and Holtzblatt, *supra* note 4. As they note, “Taxpayers might fail to respond to a notice of examination because they know that they should not have claimed the credit [...] But taxpayers might also fail to appear for an audit because they are confused or intimidated by the IRS. Some taxpayers might not have the time or other resources needed to get to an audit.”

<sup>16</sup> Guyton et al, *supra* note 2.

<sup>17</sup> Guyton et al note that differences between the NRP and correspondence audit processes “can lead to higher nonresponse rates for correspondence audits than NRP-style audits.” See: Guyton et al, *supra* note 2. Furthermore, a 2014 IRS study found that the non-response rate for EITC filers undergoing NRP audits was 14.6%, which is much lower than the non-response rates for EITC filers undergoing correspondence audits that were estimated by Guyton et al. See: Rosemary Marcuss, Alain Dubois, Janice Hedemann, Mary-Helen Risler, and Kara Leibel, “Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008 Returns,” Internal Revenue Service Research, Analysis & Statistics Report Publication 5162, August 2014, <https://www.irs.gov/pub/irs-soi/EITCComplianceStudyTY2006-2008.pdf>.

<sup>18</sup> See: Pamela Herd and Donald Moynihan, “How Administrative Burdens Can Harm Health,” Health Affairs, October 2, 2020, <https://www.healthaffairs.org/doi/10.1377/hpb20200904.405159/full/>. For an excellent overview of the academic literature on administrative burdens and a description of other areas of the tax system that impose substantial burdens on filers, see: Leslie Book, Keith Fogg, and Nina E. Olson, “Reducing Administrative Burdens to Protect Taxpayer Rights,” Harvard Public Law Working Paper No. 21-44, last revised January 18, 2022, [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3902570](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3902570).

- Minimal requirements to verify eligibility up front are one reason that the EITC has higher rates of program participation than many other transfer programs.<sup>19</sup> However, it is still important to ensure that the EITC audit process is not suppressing program participation among otherwise eligible people.
- More specifically, a 2004 TAS study found that 43% of EITC recipients whose claims were originally denied or reduced during audit received additional benefits after completing the IRS audit reconsideration process.<sup>20</sup> Experimentally, TAS also offered personalized assistance to filers undergoing audit reconsideration; filers working with TAS ultimately were more likely to receive additional EITC after the process and recovered a higher share of the total EITC dollars originally claimed on their return.<sup>21</sup>
  - The exact share of filers ultimately found eligible for the EITC after the audit reconsideration process should not be generalized to the full population of audited EITC recipients, because as TAS cautions, “taxpayers who seek audit reconsiderations generally believe that the IRS has made a mistake and thus may be more likely than the general EITC population to obtain different results from the original audit.”<sup>22</sup>
  - Nevertheless, these findings still indicate that the results of correspondence audits do not necessarily reflect true eligibility for the EITC – rather, they reflect the extent to which filers have the time and resources to navigate audit processes. These findings also demonstrate that personalized assistance from TAS or IRS can improve audit outcomes for filers.
- Professional representation (for example, from an Enrolled Agent or a Low-Income Taxpayer Clinic (LITC)) substantially increases the likelihood that filers will retain their full EITC after audit – which may indicate that oftentimes, filers with benefits disallowed are not ineligible for the credit but have instead just “flunked the IRS audit process.”<sup>23</sup> A 2007 TAS study found that “low-income filers with representation were twice as likely as their non-represented counterparts to emerge from an IRS audit with no change in their claimed EITC, at rates of 41.5% and 23.1%, respectively.”<sup>24</sup> However, the vast majority

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<sup>19</sup> Research estimates that about four-fifths of eligible people claim the EITC. This participation rate is comparable to SNAP’s rate and higher than other transfer programs. See: Elaine Maag, William J. Congdon, and Eunice Yau, “The Earned Income Tax Credit: Program Outcomes, Payment Timing, and Next Steps for Research,” OPRE Report #2021-34, Washington, DC: Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, February 2021, <https://www.acf.hhs.gov/sites/default/files/documents/opre/earned-income-tax-credit-timing-of-payments-and-program-outcomes%20feb%202021.pdf>.

<sup>20</sup> National Taxpayer Advocate, “Earned Income Tax Credit (EITC) Audit Reconsideration Study,” December 31, 2004, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/eitc\\_audit\\_recon\\_ra\\_dec2004.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/eitc_audit_recon_ra_dec2004.pdf).

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> Adam S. Chilton, Jonathan P. Schneller, and Joshua L. Boehm, “The Earned Income Tax Credit, Low-Income Workers, and the Legal Aid Community,” *Columbia Journal of Tax Law*, Volume 3, June 1, 2012, [https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=8189&context=journal\\_articles](https://chicagounbound.uchicago.edu/cgi/viewcontent.cgi?article=8189&context=journal_articles). See also:



of low-income filers – 97% of them – do not have professional representation during an IRS correspondence audit.<sup>25</sup>

- Again, statistics about the subset of filers likely to retain representation during audits cannot be generalized to the full population of audited EITC recipients, but these figures still suggest that some eligible filers are denied the credit because they struggle to navigate the audit process without assistance.
- These findings are consistent with a TAS survey of LITCs in 2005, which concluded that the “the majority of [LITC] clients were truly eligible for EITC, but... have difficulty assembling the requested documentation and just give up, forgoing the credit.”<sup>26</sup>

### III. Research Recommendations

The Administration should undertake or facilitate research to further an understanding of the share and characteristics of audited filers who meet the underlying eligibility criteria for the EITC, but do not make it through the audit process.<sup>27</sup>

As is recognized in EO 14058 and the OMB report on racial equity discussed further below, it is inappropriate to circularly view filers as “eligible” for the EITC only if they meet the credit’s extensive statutory criteria<sup>28</sup> and have the resources and skills needed to prove their eligibility during the audit process. This is because it is possible that current audit and administrative practices may impose implicit additional requirements – such as, for example, having advanced financial literacy and English language skills, or adequate free time and technology to collate and submit documentation – that are needed to successfully defend their EITC claim.<sup>29</sup>

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National Taxpayer Advocate, “The IRS EIC Audit Process – A Challenge for Taxpayers,” December 2007, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/eitc\\_audits\\_challenge\\_tps\\_ra\\_dec2007.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/eitc_audits_challenge_tps_ra_dec2007.pdf).

<sup>25</sup> National Taxpayer Advocate, Annual Report to Congress 2021, *supra* note 9.

<sup>26</sup> Davis-Nozemack, *supra* note 3; National Taxpayer Advocate, “Challenges for Taxpayers Claiming the Earned Income Tax Credit (EITC), From Interviews with Low Income Tax Clinics”, September 2005. A more recent report from the Taxpayer Advocate Service notes that “Low-income taxpayers may not respond to audit requests for documentation due to their perception of the burden involved in substantiating the credit amount rather than an inability to qualify for the credit. See: National Taxpayer Advocate, Annual Report to Congress 2021, *supra* note 9.

<sup>27</sup> Academic experts on tax administration and procedural issues affecting low-income tax filers have previously called for similar research. See, for example: Leslie Book, “The Poor and Tax Compliance: One Size Does Not Fit All,” *Kansas Law Review*, Volume 51, <https://heinonline.org/HOL/LandingPage?handle=hein.journals/ukalr51&div=45&id=&page=>.

<sup>28</sup> Internal Revenue Service, “Who Qualifies for the Earned Income Tax Credit (EITC),” last updated January 5, 2022, <https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/who-qualifies-for-the-earned-income-tax-credit-eitc>.

<sup>29</sup> Recipients of tax credit and benefit programs in other countries have faced similar obstacles during audit processes. For example, the Office of the Taxpayer Ombudsperson is currently investigating the Canada Revenue Agency (CRA)’s eligibility review process for the Canada Child Benefit (CCB). The Ombudsperson has stated that eligibility reviews impose requirements that “are often not clear and, in the cases of vulnerable individuals, difficult to fulfill,” and has noted that cancellation and recovery of benefits “can occur even if a recipient is actually entitled to benefits but is unable to provide the documents requested by the CRA, or the CRA has deemed the documentation provided insufficient.” See: Sherra Profit, “Review of the impact of the administration of the Canada Child Benefit,” August 7, 2019, <https://www.canada.ca/en/taxpayers-ombudsperson/programs/reports-publications/memoranda-minister/review-of-the-impact-of-the-administration-of-the-canada-child-benefit.html>.

It would be impossible to determine the precise share of filers who drop out of the EITC audit process despite meeting the credit's eligibility criteria, without perfect insight into each filer's circumstances or a perfectly unbiased sample of filers under audit. Nevertheless, research may help to shed light on the question. Examples of study approaches (some complementary) that could provide more information on this population of filers include:

- A randomized controlled trial (RCT) that:
  - Tests the effectiveness of various IRS outreach efforts (one or multiple follow-up letters, text messages, calls, etc.) to people who do not initially respond to IRS inquiries. These outreach efforts could also serve a dual purpose of better educating tax filers about EITC eligibility rules and improving compliance in the future.<sup>30</sup>
    - This type of research would be similar to the 2013 Enhanced Communication Study that was conducted by TAS but never officially published.<sup>31</sup> In the study, a test group of tax filers received two outbound call attempts, and additional efforts were made to track down accurate contact information for filers that were initially unresponsive. Filers in the test group “who were successfully contacted participated in the audit much more frequently than taxpayers in the control group (who received no outbound calls).”<sup>32</sup>
    - Alternative forms of outreach, such as text messages, and varying frequencies of outreach attempts could be tested in further research.
  - Assigns or offers varying levels of assistance to filers during the audit process, potentially including:
    - Referrals to program navigators or other external organizations, such as a dedicated LITC.

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<sup>30</sup> The Taxpayer Advocate Service found that distributing educational letters to filers that broke Dependent Database (DDb) rules, but were not selected for audits, improved compliance in subsequent years. See: National Taxpayer Advocate, “Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits (EITC) Apparently in Error and Were Sent an Educational Letter From the National Taxpayer Advocate,” Annual Report to Congress 2016, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/10/ARC16\\_Volume2\\_02\\_StudySubsequent.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/10/ARC16_Volume2_02_StudySubsequent.pdf); National Taxpayer Advocate, “Study of Subsequent Filing Behavior of Taxpayers Who Claimed Earned Income Tax Credits (EITC) Apparently In Error and Were Not Audited But Were Sent an Educational Letter From the Taxpayer Advocate Service, Part 2: Validation of Prior Findings and the Effect of an Extra Help Phone Number and a Reminder of Childless-Worker EITC,” Annual Report to Congress 2017, [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/10/ARC17\\_Volume2\\_02\\_StudySubsequent.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/10/ARC17_Volume2_02_StudySubsequent.pdf).

<sup>31</sup> Nina E. Olson, “Procedural Justice for All: A Taxpayer Rights Analysis of IRS Earned Income Credit Compliance Strategy,” *Advances in Taxation*, Volume 22, Emerald Group Publishing Limited, Bingley, pp. 1-3, <https://www.emerald.com/insight/content/doi/10.1108/S1058-749720150000022014/full/html>.

<sup>32</sup> *Ibid.* The response rate among filers in the test group who were successfully contacted was 61 percent, compared to 43 percent for the control group.

- Designation of a single point of contact within the IRS to each audit case, making it easier for filers to ask clarifying questions or indicate barriers to completing the process.
  - Intensive assistance provided directly by an IRS employee dedicated to each case (separate from the assigned auditor).
- Qualitative research that:
  - Follows a representative sample of filers through the correspondence audit process, documenting the barriers they face and the junctures at which different people drop out of the audit process.
  - Conducts in-depth focus groups and interviews with LITCs, program navigators, and other stakeholders to understand the barriers they face in helping clients, as well as the barriers filers face throughout the audit process.
  - Conducts outreach to tax filers that were audited in previous years to understand why some filers did not respond to IRS inquiries, to determine whether those filers currently meet the eligibility criteria for the EITC, and to encourage them to claim the credit if so. Existing research has found that taxpayers are less likely to claim the EITC in the years after being audited, even if they are eligible, so this form of outreach could also help boost program participation.<sup>33</sup>
- Analysis of whether characteristics such as geography or other demographic characteristics are associated with increased likelihood of responding or not to IRS inquiries and/or retaining credits through audit.

These are merely illustrative approaches; experts within the IRS, the Treasury Department, and researchers through the IRS Joint Statistical Research Program (JSRP) would be able to improve and refine methodologies. In doing so, research ideas and data collection efforts by state tax administrators, NGOs, and other countries may be informative.<sup>34</sup>

Pursuing such research would be consistent with:

1. Executive Order 13985: “Advancing Racial Equity and Support for Underserved Communities Through the Federal Government”<sup>35</sup>
  - a. The EO directs federal agencies to assess “potential barriers that underserved communities and individuals may face to enrollment in and access to benefits and services in Federal programs.”<sup>36</sup>

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<sup>33</sup> Guyton et al, *supra* note 2.

<sup>34</sup> For example, see Code for America, “Lessons from Simplified Filing in 2021: Client experience and outreach learnings from the operation of the GetCTC simplified filing tool,” January 2022, <https://codeforamerica.org/news/getctc-simplified-filing-report-2021/>.

<sup>35</sup> President Joseph R. Biden, “Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government,” January 20, 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/>.

<sup>36</sup> *Ibid.*



- b. An Office of Management and Budget (OMB) report on the EO’s implementation noted that “administrative burdens exacerbate inequity,” because they “do not fall equally on all entities and individuals, leading to disproportionate underutilization of critical services and programs, as well as unequal costs of access, often by the people and communities who need them the most.”<sup>37</sup>
  - c. In accordance with the EO, Treasury has already committed to analyzing the equity impacts of Economic Impact Payment (EIP) delivery and will “publish statistics on the composition of EIP recipients, including estimates of race and ethnicity and other demographic characteristics.”<sup>38</sup> Treasury will facilitate this analysis by developing a new empirical methodology that links demographic data to tax data and plans to eventually apply similar equity analysis to the delivery of refundable credits.<sup>39</sup>
2. Executive Order 14058: “Transforming Federal Customer Experience and Service Delivery to Rebuild Trust in Government”<sup>40</sup>
- a. The EO states that “the Federal Government must design and deliver services in a manner that people of all abilities can navigate.”<sup>41</sup>
  - b. The EO also instructs agencies to “work with the Congress; the private sector and nonprofit organizations; State, local, Tribal, and territorial governments; and other partners to design experiences with the Federal Government that effectively reduce administrative burdens.”<sup>42</sup>
3. Recommendations in TAS’s 2021 annual report to Congress.<sup>43</sup> For example,
- a. Recommendation 4 calls for the IRS to “implement a personal contact attempt to reach non-responsive taxpayers and taxpayers whose mail has been returned undeliverable.”<sup>44</sup>
  - b. Recommendation 6 calls for the IRS to work with TAS to “establish a working group to explore the root causes that contribute to the low response rates of low-

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<sup>37</sup> Shalanda D. Young, “Study to Identify Methods to Assess Equity: Report to the President,” Office of Management and Budget, July 2021, [https://www.whitehouse.gov/wp-content/uploads/2021/08/OMB-Report-on-E013985-Implementation\\_508-Compliant-Secure-v1.1.pdf](https://www.whitehouse.gov/wp-content/uploads/2021/08/OMB-Report-on-E013985-Implementation_508-Compliant-Secure-v1.1.pdf).

<sup>38</sup> Wally Adeyemo and Lily Batchelder, “Advancing Equity Analysis in Tax Policy,” U.S. Department of the Treasury, December 14, 2021, <https://home.treasury.gov/news/featured-stories/advancing-equity-analysis-in-tax-policy>.

<sup>39</sup> *Ibid.*

<sup>40</sup> President Joseph R. Biden, “Executive Order on Transforming Federal Customer Experience and Service Delivery to Rebuild Trust in Government,” December 13, 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/12/13/executive-order-on-transforming-federal-customer-experience-and-service-delivery-to-rebuild-trust-in-government/>.

<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

<sup>43</sup> National Taxpayer Advocate, Annual Report to Congress 2021, *supra* note 9.

<sup>44</sup> *Ibid.*

income taxpayers undergoing the correspondence audit process and implement a pilot program to decrease the high default and non-response rates.”<sup>45</sup>

- c. Recommendation 7 calls for the IRS to “conduct a proof-of-concept project that would assign correspondence audit cases to an examiner who could serve as the taxpayer’s single point of contact once the taxpayer sends in correspondence or reaches a correspondence audit assistor by phone.” This project would “involve data collection to determine if the IRS-perceived barriers to correspondence audit case assignment are valid, while also measuring customer satisfaction and responsiveness results.”<sup>46</sup>
- d. These recommendations are similar to those proposed in prior Annual Reports, including 2018 and 2020.<sup>47</sup>

#### **IV. Resource Implications**

Some research approaches proposed above, especially those implementing RCTs or using additional IRS or other personnel for assistance during audits, may require significant resources beyond those currently available to the Administration.

But other steps can be taken immediately without further resources, such as explicitly highlighting a desire to conduct research on administrative burdens and equity analysis (consistent with EO 14058 and EO 13985) in the next call for JSRP proposals.<sup>48</sup>

The Administration can describe in more detail potential research designs in this area along with resource constraints. This will give lawmakers a better sense of the opportunity cost of underfunding tax research capacity and could also prompt potential partnerships bringing external research capacity to bear, including through the JSRP, state tax administrators, and other organizations.

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<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

<sup>47</sup> See: National Taxpayer Advocate, Annual Report to Congress 2018, *supra* note 4; National Taxpayer Advocate, Annual Report to Congress 2020, *supra* note 10.

<sup>48</sup> “Statistics of Income – Joint Statistical Research Program: Call for Proposals,” Internal Revenue Service, 2018, <https://www.irs.gov/pub/irs-soi/18jsrpapplication.pdf>.