



JOINT ECONOMIC COMMITTEE

SENATOR CHARLES E. SCHUMER (D-NY) – CHAIRMAN



ECONOMIC FACT SHEET

APRIL 2007

FAMILIES MISSING OUT ON BILLIONS IN UNCLAIMED TAX CREDITS

Over the course of the past six years, the Bush administration has done everything it can to alleviate the tax burden on the wealthiest taxpayers. Yet it has done little to ensure that eligible American families take advantage of tax credits specifically designed to reward their hard work and help them get ahead.

Benefits such as the dependent care tax credit, the earned income tax credit (EITC), education tax credits, and the saver's credit are among the federal government's most effective tools to help American families afford to raise their children, pay for higher education, and save for retirement. Yet each year millions of these taxpayers do not claim the credits for which they are eligible, leaving billions of tax credit dollars on the table.

Over \$10 Billion of Unclaimed Credits

In 2004, the most recent year for which data are available, taxpayers claimed nearly \$83 billion in combined credits

from the earned income, child, education, child care, and saver's credits (See Table). But evidence suggests that deserving taxpayers missed out on at least another \$10 billion in tax credits, if not more, as a result primarily of inadequate information and complicated filing requirements.¹

For example, an analysis by the Government Accountability Office (GAO) estimated that approximately 25 percent of all households eligible for the EITC in 1999 did not claim it.² Estimated participation rates varied by household composition, with households eligible for higher benefits more likely to participate. Applying these participation rates to recent data on average credit amounts suggests that working Americans may have lost out on approximately \$8 billion in unclaimed earned income credits in 2004.

Similarly, participation rate estimates for the education and saver's credits suggest that taxpayers may have left an additional \$2.7 billion on the table in 2004.³ (This figure does not account for the billions of dollars that could have been

Selected Claimed and Unclaimed Tax Credits 2004

Credit	Total Credit Claimed (billions)	Recipients (millions)	Average Credit	Total Credit Unclaimed (billions)
Earned Income Tax Credit	\$40.0	22.3	\$1,797	\$8.0
Child Tax Credit	\$32.3	26.0	\$1,243	*
Education Tax Credits	\$6.0	7.2	\$838	\$2.2
Child Care Credit	\$3.3	6.3	\$528	*
Saver's Credit	\$1.0	5.3	\$191	\$0.5
Total	\$82.7			\$10.8

* Utilization rate estimates are unavailable.

Sources: Internal Revenue Service, *SOI Individual Complete Report (Publication 1304)*, Tables 2.5 and 3.3 (2004). Total unclaimed credits estimated by JEC Staff.

claimed if these credits were refundable.) Together, these estimates suggest that taxpayers may have missed out on over \$10 billion in unclaimed tax credits in 2004.⁴

Why Credits Go Unclaimed

There are a number of reasons that individuals who are eligible for certain credits may not claim them. Some lower-income individuals who have no tax liability do not file income taxes, even if they could claim refundable tax credits such as the EITC. Some taxpayers simply may not know that certain credits are available. Finally, because most of the tax credits are complicated and require tax preparation services, some taxpayers may believe the extra effort or expense involved is not worth the benefit.

Better Outreach Needed

While a number of outreach programs already exist to increase awareness and utilization of the various tax

credits available to families, the IRS needs to make a much more concerted effort to encourage eligible taxpayers to claim these credits. As part of its research program, the IRS should regularly estimate the percentage of eligible households that do not receive the various credits and analyze the characteristics of those households in order to better target outreach efforts.

Endnotes

¹The IRS does not keep statistics on how many individuals who are eligible for the various credits but do not receive them.

² U.S. General Accounting Office, *Earned Income Tax Credit Eligibility and Participation*. GAO-02-290R, Washington, DC, 2001.

³ The GAO estimated that about 27 percent of tax filers who were eligible for education tax credits or deductions in 2002 failed to take them (U.S. General Accounting Office, *Student Aid and Postsecondary Tax Preferences*. GAO-05-684, Washington, DC, 2005). An analysis of the Saver's credit estimated that 34 percent of eligible taxpayers failed to claim the credit in 2002 (Koenig, Gary and Robert Harvey, "Utilization of the Saver's Credit: An Analysis of the First Year," *National Tax Journal* 58, No. 4 [December 2005]).

⁴ Utilization rate estimates are difficult given data limitations; nevertheless, it is clear that the amount of unclaimed credits is substantial.