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TREASURY DEPARTMENT ACTIONS TO REDUCE EARNED INCOME TAX CREDIT OVERPAYMENTS AND FRAUDULENT CLAIMS

The Earned Income Tax Credit (EITC) provides appropriate incentives for people to choose work over welfare and rewards these working families by helping to lift them out of poverty. The Administration already is in the process of implementing and developing proposals to stem erroneous and fraudulent claims for EITC refunds.

I. ADMINISTRATIVE ACTIONS

The following actions are being implemented:

- The 1994 EITC Schedule was simplified to make it easier for low-income taxpayers to understand if they are eligible for the credit.
- The supplemental credits for health insurance and for infants under the age of one have been repealed. This has helped reduce the complexity of the EITC and improve compliance and administration. It also ensures that the most needy families get the credit amounts to which they are entitled.
- The IRS is conducting studies of refund fraud and EITC compliance to better understand the magnitude and source of erroneous payments.
- Working with the Justice Department, the IRS is prosecuting preparers and electronic return originators (EROs) who take advantage of the EITC provisions to defraud the Federal government.
- The IRS will continue a major overhaul of its information systems to help keep pace with the demands of a growing number of taxpayers.

The following actions will take effect in tax year 1995:

- The IRS will delay refunds on <u>any</u> questionable return with an invalid or missing taxpayer identification number. This will give greater time to verify the refund being claimed.
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October 26, 1994

II. LEGISLATIVE PROPOSALS

During the past year, the Treasury Department has also made a number of legislative proposals to improve oversight of the EITC. The following proposals are contained in the GATT legislation which will be considered by the Congress in the November/December session:

- The EITC would be denied to prisoners and non-resident aliens.
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III. ADDITIONAL ACTIONS

The Treasury Department is announcing two additional measures today to ensure that EITC refunds are paid only to eligible individuals:

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October 26, 1994

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October 11, 1994

The Honorable Ronald K. Noble
Under Secretary for Enforcement
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Under Secretary Noble:

I want to take this opportunity to personally thank you for leading the effort to combat tax refund fraud. Your recognition of the scope and magnitude of the refund fraud problem, coupled with your candid testimony before the Subcommittee on Oversight on October 6th, has helped generate the momentum necessary to assure that this problem is effectively dealt with at the highest levels of Government. I appreciate your contribution and respect the manner in which you are conducting this important review and presenting the facts.

The Tax Refund Fraud Task Force (TRF Task Force), under your stewardship, should also be commended for its thorough and independent investigation, solid findings, and recommendations for meaningful short-term reform. The TRF Task Force is performing a valuable public service and I'm hopeful its efforts will bring about an end to wide-scale fraud abuses.

The progress made by the TRF Task Force is a good start and your interim report offers some encouraging news. But clearly, more must be done to address the long-term concerns, such as implementation of strong fraud controls as part of IRS's Tax Systems Modernization program. It is my hope that you will help ensure that Treasury and IRS stay committed to addressing the tax refund fraud problem and preserving our voluntary tax system. You are doing an excellent job, Ron, keep up the good work.

With warm personal regards, I am

Sincerely,

J. J. Pickle

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/ph
cc: The Honorable Lloyd Bentsen, Secretary
U.S. Department of the Treasury
Mr. Stephen A. Saltzburg, Director, TRF Task Force
Ms. Joyce J. Walker, Manager, TRF Task Force

The Population Council

One Dag Hammarskjold Plaza, New York, New York 10017

Statement of Margaret Catley-Carlson, President of the Population Council
Media Briefing – Mifepristone Clinical Trials*
October 27, 1994

The Population Council announces today that clinical trials of mifepristone–formerly called RU 486–are under way in the United States. The trials will involve 2100 women at over a dozen sites around the country. Enrollment of women volunteers has already started. The goal is to test the safety, efficacy, acceptability, and accessibility of nonsurgical medical abortion, leading to an application for FDA approval for marketing. We are making this announcement–which is unusual for a clinical trial and not something the Council routinely does–because of the enormous amount of media interest in all aspects of this project and because we want the method to be described in a balanced and scientific manner.

We will not identify the locations of the studies, to protect the security of the clinics and the confidentiality of the women who will volunteer for these trials. Individual clinics and women may choose to identify themselves and talk about their experiences. In selecting the clinics, the Population Council looked for institutions that could provide scientific investigators with experience in conducting clinical trials or the ability to work under trial conditions and staff experienced in providing high quality abortion services. Each potential clinic was inspected by Council monitors. We also attempted to vary the type of facility, geographic location, and clientele. We made our selection from a large group of outstanding clinics.

At the recent population conference in Cairo, the international community strongly affirmed that unsafe abortion is a major public health concern and that unwanted pregnancies should be prevented through expanded and improved family planning services. This is the Population Council's position as well. We are a research organization. We do not promote the use of abortion; we promote the use of contraception. We do not lobby for specific legislation and we are not abortion advocates. Our program supports: prevention of unwanted pregnancy through development and promotion of new safe, effective contraceptives; prevention of unsafe abortion, which is responsible for thousands of maternal deaths and illnesses, particularly in developing countries; and, because abortion exists and is legal, development of alternative safe methods.

We believe mifepristone is an important scientific advance in women's reproductive health care. Mifepristone has been shown in numerous studies to be safe and effective for early medical abortion. Over 150,000 women have used the drug safely in Europe; over 32,000 French women have used the same combination of mifepristone and prostaglandin that is being used in the U.S. We believe this will provide an equally safe alternative to surgical abortion that women can use in the earliest weeks of a pregnancy. Women who have used this regimen report it is similar to a natural miscarriage.

Medical abortion eventually will increase women's access to abortion services and give them

Telephone (212) 339-0500 Telex: 0107200040 POPCO Facsimile: (212) 755-6052 Cable: POPCOUNCIL NEW YORK

privacy in making their reproductive health decisions. Women will be able to obtain medical abortion at doctors' offices, free of anti-choice violence and harassment. We believe mifepristone will not lead to an increased number of abortions--it hasn't in France, where it has been available since 1989--but it will expand women's options.

American women urgently need better access to effective contraceptive methods to prevent unintended pregnancy. But when a woman does face a crisis pregnancy, she must have access to all medically safe options. The Population Council believes mifepristone can significantly expand women's reproductive choices.

*Mrs. Casley-Carlson is out of the country. This statement was read for her by Sandra Arnold, Vice President for Corporate Affairs of the Population Council.

We also plan to monitor EROs more closely during the filing season. This will ensure that EROs who fail to comply with our requirements are denied access to the electronic filing program.

- The 1994 Earned Income Credit form was simplified to make it easier for low income workers to apply for the credit.

During the 1995 filing season, in addition to the elimination of the DDI, we plan to take other steps to protect our filing system from those intent on filing fraudulent returns.

While we remain committed to issue refund checks timely on returns filed with complete and accurate information, refunds on returns with incorrect or missing social security number will be delayed until we can verify that the taxpayer is due the refund.

I cannot emphasize enough that during the next filing season, it will be essential that all taxpayers file their returns with complete and accurate information. Any taxpayers unsure about the accuracy of their social security numbers should contact the Social Security Administration as soon as possible to verify their numbers.

As Secretary Bentsen stated, the IRS and Treasury are committed to insuring that the Earned Income Credit is there for the 20 million low income American workers who deserve it and need it.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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FOR IMMEDIATE RELEASE
October 26, 1994

STATEMENT OF TREASURY SECRETARY LLOYD BENTSEN EITC PRESS CONFERENCE

I have a few points to make about the Earned Income Tax Credit program today, and some announcements. I have another meeting I have to go to in a couple of minutes, but this is important to me so I wanted to stop in and say something. I've asked Peggy Richardson, the IRS Commissioner, and our Under Secretary for Enforcement, Ron Noble, to stay and go over the fine points with you.

The Earned Income Tax Credit is an extraordinary program that helps American families stay out of poverty and encourages them to work. It's been around since 1975, and we improved it last year because helping American families is a priority for this administration. It has the potential to help 20 million low income working Americans and their families have a better life -- by rewarding work. The EITC has a refundable tax credit which can be taken as a lump sum at the end of the year, or a partial credit that comes in the form of lower withholding during the year, with a smaller refund at tax time.

Over the years there have been difficulties, and now there are problems in particular with fraud and electronic filing. We have an on-going effort to attack this problem. I named a task force earlier this year to examine the issue, and it made an interim report to Congress earlier this month. We've also worked with the GAO.

Let me quickly go over some numbers for you. In the good news department, the error rates for the EITC program appear to be more than a third lower now than they were in the 1980s. But they're still too high.

The data the IRS put together tell us that for the last two weeks in January, there were 1.3 million electronic returns that claimed the EITC. The work the IRS has done tells us that if we went through those returns line by line we'd find that 29 percent of them, accounting for 24 percent of the total tax credit claimed, or about $358 million, overclaimed what was due. That doesn't necessarily mean the taxpayer wasn't entitled to some tax credit, but that they claimed too much.

The figures also tell us that 13 percent of the filers, accounting for about 12 percent of the refund total claimed, may have intentionally overclaimed what was due. The good side of that is that 87 percent of the filers are getting it right. Now as to that 13 percent, I'd like to use some strong language about lying and fraud, but the lawyers tell me I have to bite my tongue because of the issue of intent.

We haven't been sitting on our hands. For nearly two years now we've been going after problems and cracking down, and we're going to be doing more.

First, it may not sound like the place for an EITC provision, but we have a number of proposals in the GATT legislation, such as requiring taxpayer identification numbers for all children, regardless of age. It also has an item to have the Defense Department report some of the non-taxable earned income both to military personnel and to the IRS -- such as housing and subsistence allowances. And, the legislation would deny the EITC to prisoners and to non-resident aliens.

Our welfare reform proposal also has a program to look at other administrative ways to improve EITC compliance.

So far we've taken more than a dozen separate actions in our comprehensive program to improve the EITC, such as deciding to add staff to help detect fraud, and making forms more understandable.

Today we're announcing a number of additional steps to make as certain as we can that only those people who are truly entitled to the Earned Income Tax credit receive it. Some of what we're doing can be done administratively, and some of it will take legislation.

By the time we release the 1996 budget -- early next year -- we will develop measures to deny the Earned Income Tax Credit to illegal aliens. The IRS estimates that over 150,000 illegal aliens claimed the EITC this year for last year's taxes. We looked into this one. There was nothing on the books that made it possible to verify the existence of children claimed by an illegal alien, which leaves an opportunity for fraud that we're closing off.

Second, starting in the next tax season, we will no longer provide preparers who file electronic returns what we call a direct deposit indicator. That indicator means that we don't see anything that would require us to hold the tax credit to pay some other tax bill. It's often used as a signal to lenders who work with preparers that a refund will be on the way shortly.

We've found that a very very high number of EITC fraud schemes involve refund anticipation loans, and those loans are based on the direct deposit indicator we send out. The crooks take the money and run, and the taxpayers and banks get burned. So we're no longer going to tell the electronic filing operations whether a refund is likely to be coming. The taxpayer will still get any refund they're due, but we won't be sending out that notification.

The Earned Income Tax Credit is for those who deserve it, who need that extra encouragement to work full time, to lift their families out of poverty, to join the mainstream in American life. It is not for cheats and frauds and slick operators, and we're going to do our best to weed them out, and prosecute them when we find them.

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STATEMENT OF TREASURY UNDER SECRETARY FOR ENFORCEMENT
RONALD K. NOBLE
EITC PRESS CONFERENCE

Since I arrived here at Treasury, Secretary Bentsen has been committed to addressing the problem of tax refund fraud. Tax refund fraud undermines the integrity of our voluntary tax system, and is a direct assault on the federal Treasury. Those who commit fraud using the Earned Income Tax Credit are preying on a valuable program designed to assist low-income working Americans.

We all are determined not to allow ineligible people and fraud perpetrators to take advantage of the EITC program. We are equally committed to making sure that people who are entitled to EITC get it. As Secretary Bentsen told you, the Treasury Department has been taking continuing steps to combat refund fraud in general, and EITC fraud in particular.

I would like to review some of these steps. Almost as soon as she arrived at the IRS, Commissioner Richardson recognized that refund fraud and EITC fraud were serious problems that had not been properly addressed in the past. She commissioned an outside expert to assess the IRS's vulnerability to fraud. She appointed a Refund Fraud Executive to focus on this problem and to report directly to her. She also directed the IRS to conduct a study of EITC compliance during the 1994 filing season. That study is the basis for the statistics that Secretary Bentsen quoted.

In March of this year, Secretary Bentsen appointed me to chair a Task Force that would make an independent, comprehensive review of the problem. The Task Force hired experienced, impartial experts to manage and direct its efforts. The IRS fully supported the Task Force. The Task Force consulted with representatives of the IRS, OMB, Department of Justice, other components of the Treasury Department, GAO, private industry, and outside experts. Some of the new procedures that the IRS is putting in place for the next filing season are the result of coordination between the IRS and the Task Force.

On October 6, I testified before Rep. Pickle's Oversight Subcommittee, and presented an interim report from the Task Force. There was bipartisan support for the Task Force's work. We plan to provide a final report to Secretary Bentsen and Congress by the end of December.

One area that the Task Force examined closely was the problem of EITC non-compliance. An obvious question is, "How large is the EITC fraud problem?" The IRS's 1994 study provides the best available data on EITC compliance. The encouraging news from the study is that almost 90% of the people who claim the EITC are well-intentioned and trying to comply with the law. As I explained more fully in my testimony on October 6, the EITC forms can be complicated. Complicated forms can lead to mistaken claims for too much EITC. In addition, taxpayers may have legitimate disagreements that lead to erroneous claims. For example, two parents living and filing separately may both believe they can claim their child on the EITC form because they both provide financial support for the child. The child can be claimed only on the EITC form of the parent with whom the child lived for more than half the year. If the child frequently spent nights at both parents houses, the parents may legitimately dispute who qualifies to claim the child for EITC purposes.

The IRS has been working for several years to simplify the EITC form, and to provide greater assistance to taxpayers in understanding how properly to file for the EITC. The IRS is also taking more aggressive enforcement actions, including making expanded fraud checks before refunds are paid. During the 1994 filing season, the IRS instituted improved fraud control systems, which resulted in the rejection of over 600,000 electronically filed EITC claims. As a result of these efforts, we expect to see the number of erroneous EITC claims drop in the upcoming years.

Additional studies are necessary before we can quantify the amount of EITC fraud, but it would be misleading to presume that 29% of the $14-15 billion paid every year in EITC involves fraud. Let me explain the best information that we have.

The Task Force publicly disclosed at the October 6 hearing that between one and five billion dollars in problematic refunds are paid every year. Only a portion of the problematic refund claims involve fraud, and only a portion of those involve the EITC.

In closing, let me say that it is critical for there to be continued cooperation between Main Treasury and the IRS, and that the IRS's Tax System Modernization program be fully and expeditiously funded. Enhanced computer capability will allow the IRS to more vigorously guard against EITC fraud, and other forms of refund fraud.

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DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

COMMISSIONER

For immediate release
October 26, 1994

STATEMENT OF MARGARET MILNER RICHARDSON
COMMISSIONER OF INTERNAL REVENUE

Since becoming Commissioner over a year and a half ago, I have made the elimination of filing fraud a top priority at the IRS.

We appreciate the support of Secretary Bentsen and in particular his establishment of the Treasury Refund Fraud Task Force. In addition, we appreciate the fine work that Undersecretary Noble and the task force have done and the assistance they have given us in our efforts to eliminate filing fraud from our tax system.

We at the IRS have taken a number of steps to protect the integrity of our tax system and, as Secretary Bentsen stated, we plan to take more during the upcoming filing season.

While these steps are important and, I believe, will be effective, the solution to protecting our system from fraud is the immediate full funding and implementation of our Tax System Modernization efforts. Only with the enhanced computer capabilities that TSM will provide us will we be able to respond to both sophisticated fraud attempts and the various problematic refund returns that we receive each year.

Let me take a moment and list just some of the steps we have taken so far:

- During the last filing season, we began pre-refund examinations of questionable refund claims, including some returns claiming the Earned Income Credit. During the upcoming filing season we will significantly increase the number of these pre-refund examinations.

- Also during the next filing season, we are increasing the staff we have in place in our service centers who work to detect fraudulent returns.

- Earlier this month, we issued new rules for electronic return originators or EROs. These new rules require some new EROs to submit to credit checks and fingerprinting. We feel these new rules will ensure that only appropriate and responsible people are allowed to participate in our electronic filing system.

We also plan to monitor EROs more closely during the filing season. This will ensure that EROs who fail to comply with our requirements are denied access to the electronic filing program.

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COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

SUBCOMMITTEE ON OVERSIGHT

October 11, 1994

The Honorable Ronald K. Noble
Under Secretary for Enforcement
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Under Secretary Noble:

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With warm personal regards, I am

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/ph
cc: The Honorable Lloyd Bentsen, Secretary
U.S. Department of the Treasury
Mr. Stephen A. Saltzburg, Director, TRF Task Force
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