

# Study finds simple ways to increase participation in EITC

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It is estimated that roughly seven million Americans each year—or 25 percent of those eligible—fail to claim the Earned Income Tax Credit (EITC), the primary channel through which the government supports the working poor. Economists and policymakers have long been puzzled over why millions of low to moderate income individuals voluntarily forego credits worth, on average, a month of income.

To shed new insight into why so many people fail to sign up for valuable government benefits, and to identify strategies to improve participation, Carnegie Mellon University's Saurabh Bhargava led a first-of-its kind field experiment with the Internal Revenue Service. Published in the recent issue of the *American Economic Review*, the study strategically modified the appearance and content of tax claiming notices and worksheets in such a way that permitted a better understanding of how confusion, informational complexity and program stigma affected the decision not to claim.

The IRS distributed the re-designed mailings to over 35,000 eligible non-claimants in California to determine which mailings led to the highest response. The study found that small changes to the appearance of the tax notices, such as a cleaner layout, a modestly shorter claiming worksheet, or displaying the amount of the potential credit in the headline, led significantly more individuals to claim than mailings with typical government complexity.

"Many government policies are shaped by standard economic theories

that assume people are rational and self-informed," said Bhargava, an assistant professor of economics in CMU's Department of Social and Decision Sciences. "This study suggests that complexity and small administrative burdens or 'hassles' can deter regular people from acting in their own interest, even when the stakes are large."

The authors examined the low participation rates for the EITC because the costs of claiming—merely filling out and returning a form—appeared to be low, while the benefits—some were eligible for credits over \$5,000—can be substantial. The field study, along with additional surveys of thousands of low-income individuals, suggested that the absence of claiming is not the result of stigma or the amount of time required to apply for a credit—explanations favored by traditional economic theory—but instead the result of 'psychological frictions,' such as low levels of program awareness, confusion regarding eligibility and inattention to program information.

Intriguingly, across recipients of all of the new mailings, 22 percent claimed a credit, despite these individuals having already received an earlier, but complicated, notice from the IRS. This indicates that a mere reminder can lead a substantial number of individuals to claim benefits.

Overall, the study led to additional claiming of about \$4 million in credits among a group owed about \$26 million in benefits. The study estimated that redesigning and expanding the distribution of notices could lead to several hundred thousand additional claimants in a population not highly sensitive to traditional incentives.

Since the completion of the study, the IRS has begun to circulate redesigned notification forms. And, because other government assistance programs have even more severe challenges getting eligible individuals, often in dire economic need, to sign up for benefits, Bhargava sees this type of work as having widespread relevance.

"This study demonstrates the value and need for rigorous evidence-based approaches to public policy. It also suggests that, in an increasingly complicated world, simplicity and a commonsense recognition of how individuals make decisions can play a critical role in the ultimate success of policies like the EITC," Bhargava said.

Provided by Carnegie Mellon University

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