

Using Data Analytics to Automate State and Federal Earned Income Tax Credit Claims

STEPHANIE SCHARDIN CLARKE

NEW MEXICO SECRETARY OF TAXATION AND REVENUE



Earned Income Tax Credit Overview

- New Mexico offers a “Working Families Tax Credit” that is a percentage of federal EITC
 - Was 10% of EITC until tax year 2018, increased to 17% of EITC tax years 2019 forward
- Well targeted to working poor
- Broad citizen benefit (about 21% of New Mexico income tax filers claim it)
- Easy to administer
- Credit ramps up with more dependents
- Incentivizes work
- **One downside: about 20% eligible do not claim it**

Identifying 56,065 Possible EITC/WFTC Eligible Returns in Tax Years 2016 and 2017

- Population 1: State return filed, no federal return filed: 8,156
- Population 2: State and federal returns filed; claimed EITC but claimed less than 10% WFTC: 20,419
- Population 3: Federal return filed, no state return filed: 27,490

Filtered Out 23,381 Ineligible Returns

- Deceased (43)
- New Mexico Residency (20,853)
- Inmates (9)
- Return Flagged for Possible Fraud (314)
- Department Auditors had previously adjusted WFTC to \$0 (2,115)
- No physical presence in New Mexico (25)
- Filer is a dependent (22)

Remaining Population Will Receive Letter Alerting to Possible Credits, Instructions to Claim

- Population 1: State return filed, no federal return filed: 4,463 returns (eligible for both EITC and WFTC)
- Population 2: State and federal returns filed; claimed EITC but did not claim any or all of WFTC: 794 returns estimated to be eligible for \$80,996 WFTC)
- Population 3: Federal return filed, no state return filed: 27,427 returns estimated to be eligible for \$5,959,615 WFTC)
- FINAL RETURNS STANDING TO RECEIVE EITC/WFTC 32,684 totaling \$6,040,131