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