

Tax Filing without the Headaches

Illinois' Earned Income Tax Credit Simplified Filing Pilot

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Background

The Earned Income Tax Credit (EITC) is the federal government's largest benefit for workers who have low to moderate income and has been proven to be an effective anti-poverty program. Unfortunately, not everyone in the United States or Illinois claims the dollars they should receive. According to [IRS data](#), approximately 22 percent of all eligible taxpayers did not claim the federal credit in tax year 2018. Similarly, [Illinois' participation rate](#) for eligible taxpayers in TY 2018 landed at 78.4 percent. A new pilot in Illinois has successfully increased participation rate in the state Earned Income Tax Credit (EIC), but could reach millions more low-income individuals by implementing a simplified filing tool similar to the one opened at the federal level in 2020. Collaboration across state departments could also help open access to this poverty-fighting tax credit for very low-income Illinoisans.

In Illinois, those who qualify for the federal EITC will generally qualify for [Illinois' Earned Income Tax Credit](#) (EIC) and receive 18 percent of their federal credit. Starting tax year [\(TY\) 2023](#), Illinois' EIC will increase to 20 percent and eligibility has been expanded to childless workers aged 18 to 24 and 65 and older, as well as immigrants who file taxes using an ITIN number. Additionally, Illinois' EIC is a refundable tax credit, meaning that the credit can not only reduce the dollar amount people may be liable to pay back in taxes but can also result in a refund if the credit is greater than the total amount they owe. Thus, Illinois' EIC can be an important tool to combat poverty in conjunction with the federal credit and make the tax system more equitable for low-income Illinoisans.

The Pilot

In 2019, following outreach by nonprofit advocates, the Pritzker administration and the Illinois Department of Revenue (IDOR) began conversations around a pilot that could help reimagine how tax credits are administered to better reach the people they are meant to serve. As a result, in 2020 IDOR began a [new outreach initiative](#) for Illinois residents who claimed the federal EITC but did not file an Illinois income tax return based on their internal capabilities and IRS data.

This approach greatly simplified access to the state EIC for taxpayers who had claimed their federal EITC but not their state EIC. IDOR rolled out the pilot in October 2020 with 23,732 letters to Illinois residents and another 25,026 letters in 2021. The response to the pilot has been excellent and in 2021 the department integrated the process into their annual workflow.

Pilot Outcomes

Using data provided by IDOR, some key outcomes from the past two rounds of the pilot include:

- The department gave refunds to nearly half of its intended recipients with a response rate of **46 percent** over two rounds of the pilot.
- In total over two years, the pilot issued refunds of over **\$12 million to low and middle-income Illinoisans**.
- The majority of the refunds went out to individuals or couples **earning less than \$44,885 per year**.
- The pilot was particularly successful at reaching one of the groups least likely to claim their EITC, low-income, single filers. **Just over 80 percent of dollars issued the first year and second year went to single filers earning less than \$29,194 a year**.

EIC Simplified Filing Pilot Outcomes

| Stage | Year Issued | Total Mailed | Total # Refunded | Percentage Refunded | Total \$ Refunded |
|--------------|-------------|---------------|------------------|---------------------|---------------------|
| EIC Pilot | 2020 | 23,732 | 11,410 | 48% | \$5,986,387 |
| EIC 2.0 | 2021 | 25,026 | 11,089 | 44% | \$6,023,474 |
| Total | | 48,758 | 22,499 | 46% | \$12,009,861 |

Table: New America Chicago • Source: Illinois Department of Revenue May 2022
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Policy Recommendations

By expanding the pilot to more complex use cases in phases, the State of Illinois could build upon the success of this pilot to provide simplified access to tax credits for struggling families in Illinois. For all of these recommendations, additional funding would be essential to ensure the departments involved have sufficient staff to enact these changes well.

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| EIC 4.1: Improve Access for Low-Income Non-Filers | <p>Clarify existing state policy to indicate that people who would be eligible for the federal EITC but have not claimed it may receive the state EIC.</p> <p>Create and test an Illinois online non-filer portal to increase uptake by low-income families.</p> |
| EIC 4.2: Reduce Costly Barriers to Access | <p>Limit return reviews for very low-income individuals.</p> <p>Limit offsets from the Comptroller's Office.</p> <p>Reduce cost barriers to tax credits for small business owners, while addressing racial inequities in professional licensing.</p> |
| EIC 5.0 Simplified Access for Newly Struggling Families | <p>Allow families who apply for government benefits to opt in to state tax credits through a partnership with IDHS.</p> |
| EIC 6.0 Simplified Support for Simple Cases | <p>Pilot a simplified filing tool with IRS and IDHS for both national and state credits to increase access for very low-income Illinoisans with simple income.</p> |

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