EITC Eligibility, Participation and Compliance Rates for AFDC Households: Evidence from the California Caseload

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Executive Summary

In this report, we examine the eligibility for and participation in the earned income tax credit (EITC) for low-income families in California during the 1990s. The EITC is a federal income tax credit available to working poor families, with the amount of credit determined by the number of eligible children and by family income. The EITC has become the largest cash or near-cash program available to low-income families in the U.S., making it one of the cornerstones of the nation's antipoverty effort. The effectiveness of the EITC depends, in part, on whether those who are eligible for the credit actually receive it and whether it is actually claimed.

We examine EITC eligibility, participation and non-compliance rates for a special group of potential EITC beneficiaries, namely low-income households in California who received AFDC during the 1990s. Our sample consists of AFDC assistance units from four counties—Alameda, Los Angeles, San Bernardino and San Joaquin—that were part of the California Work Pays Demonstration Project (CWPDP), a waiver demonstration to assess the impacts of a series of reforms to the AFDC program in the state. For this sample we have data from administrative records from county welfare offices on AFDC participation, AFDC payments and the income reported to county welfare departments for the purpose of determining AFDC payments. These data were supplemented with quarterly wage and salary information from the state's unemployment insurance records as well as taxable income, by source, and EITC credits from federal income tax returns for the years 1993 and 1994. The latter information was obtained by matching state unemployment insurance wage earnings records and IRS tax returns data for the adults in the assistance units included in the demonstration project.

EITC Eligibility Rates: Using several alternative operational measures of the criteria for EITC eligibility, we estimate that between 21 and 53 percent of CWPDP assistance units were eligible for an earned income tax credit in 1993 and 1994 (Table 3a). The rates of eligibility were higher among AFDC-U units (i.e., primarily units headed by two adults) than AFDC-FG units (i.e., units headed by a single adult), and the rates are higher among assistance units that have only recently gone on welfare compared to samples that include long-term welfare recipients.

EITC Participation Rates: With respect to EITC participation rates, which are determined using data from federal tax returns, we find that between 42 and 84 percent of eligible assistance units filed a tax return and, as such, claimed the EITC in 1993 or 1994 (Table 3a). While these rates are lower than those estimated for all EITC eligible households in the U.S.—the latter estimated participation rates are around 80 percent—they are not substantially lower, especially among AFDC-U assistance units in the CWPDP. As with eligibility rates, EITC participation is higher among AFDC-U assistance units than AFDC-FG units and higher among recent entrants to welfare versus long-term recipients.

EITC Non-Compliance Rates: Finally, we estimate that the proportion of assistance units in our samples that filed tax returns and claimed the EITC who we estimate were not eligible for the credit—which we call the EITC non-compliance rate—ranged from 10 to 57 percent depending upon which operational definition of eligibility was used (Table 3a). We find that rates of non-compliance were higher for AFDC-FG units compared to AFDC-U cases and that non-compliance was more prevalent among those units who had only recently entered the AFDC rolls. We

note that our estimated rates of non-compliance for a population of households taken from welfare rolls are not substantially different from recent estimates of rates of non-compliance obtained by the IRS from a nation-wide audit of the EITC program in 1988. (The latter audit study found that approximately one-third of all claimants of the EITC were not eligible for the credit.) At the same time, we must add a cautionary note concerning our findings on non-compliance. As explained below, our classifications of EITC eligibility are based on income measures that *understate* the earnings of households. Furthermore, the measures we use to determine whether households meet the presence of qualifying children are less than ideal. Accordingly, our estimates of non-compliance rates must be treated with caution, as they are likely to be subject to bias.

While most of the assistance units in our sample were still on welfare during the years (1993 and 1994) in which we analyze their EITC status, not all are. Between 1 and 10 percent of AFDC-FG units and between 1 and 13 percent of AFDC-U households were no longer on AFDC in the years we analyze EITC eligibility, participation and compliance (Tables 4a and 4b). But, the estimated EITC eligibility, participation and non-compliance rates for those units that were on AFDC for at least one month in a particular tax year are not substantially different from those for all units in the CWPDP (Table 3b). As such, our findings indicate that a non-trivial proportion of households on AFDC—as well as those who were recently on welfare—work enough to qualify for an earned income tax credit and, of those who qualify, a substantial fraction actually received assistance from this program.

It is important to note that the data we use to analyze EITC eligibility, participation and compliance for households from the California AFDC caseload are subject to potential problems with accurately measuring the two key determinants of EITC eligibility: the annual earned income of adults in the household and the extent to which these adults have responsibility for the care of children during a particular tax year. With respect to income, our measures are limited to what households reported to county welfare departments and wage and salary earnings for which unemployment insurance taxes were paid. We do not have separate measures of self-employment or casual labor income on individuals beyond what those who file tax returns report to the IRS. With respect to measuring the "presence-of-children" requirement for EITC eligibility, we only have information on this status in months when the household was on AFDC. In order to assess the extent to which these potential measurement problems may bias our findings, we also investigated the comparability of our alternative measures of income and the presence-of-children across available data sources.

With respect to children for which adults may be responsible, we compared the reported number of children in each AFDC assistance unit with the number of exemptions claimed on tax returns for the assistance units that filed federal tax returns (Tables 5a and 5b). We find that between 57 and 80 percent of these households claimed the same number of children under the AFDC program and on their tax returns, with the lower match rates occurring among AFDC-FG units. When there are discrepancies in reporting, the number of exemptions tends to be *less* than the number of children reported in the AFDC assistance unit. While this evidence is less than conclusive, it suggests that the limitations of our information on the presence-of-children are not likely to impart sizable biases on our estimates of EITC eligibility, participation and compliance. To the extent there are biases, it is likely that our estimates of EITC eligibility and participation

rates *understate* and our estimates of non-compliance *overstate* the respective true rates in our sample.

Several conclusions emerge from our analysis of differences in measures of income across AFDC, unemployment insurance and IRS records. First, for between 75 and 82 percent of the assistance units in our sample, there is little difference in the levels of labor earnings they report to county welfare departments and those for wages and salary covered by unemployment insurance (Tables 7a and 7b). These relatively high rates of agreement result from the fact that the majority of households in our sample report no income to the AFDC program *and* had no earnings subject to unemployment insurance taxes. For households that have *positive* earnings that are subject to UI, we find that between 55 and 69 percent of these units *underreport* their earnings to the welfare system. Almost all of this underreporting is due to households with wage earners reporting that they had none to the AFDC program.

Second, we tend to find substantial agreement between income reported to the IRS and earnings subject to UI. These two measures are approximately the same for between 64 and 83 percent of the households in our sample (Tables 8a through 9b). However, among those adults who filed tax returns, both the Adjusted Gross Income (AGI) and Line 7 Wage and Salary Earnings on these returns are more likely to *exceed*, rather than be less than, earnings subject to UI. Given that both the AGI and Line 7 income categories are more inclusive measures of household income than are wages subject to UI, this pattern is not surprising. For example, the reported AGI and/or Line 7, Wage and Salary earnings would include self-employment income or income from casual labor.

Because self-employment income could be overreported by households in order to qualify for an earned income tax credit, we also investigate the patterns of its reporting. In general, we find that only a small fraction of adults in our sample claimed any self-employment income on their tax returns (Tables 4a-4c). Between 4 and 6 percent of households on AFDC-FG claimed to have income from self-employment and the corresponding rate was approximately 11 percent for those on AFDC-U. Moreover, among those adults we classified as eligible for the EITC, the incidence of self-employment is even lower. However, we do find that among households that we classified as ineligible for the EITC, the incidence of self-employment income reported is much higher. Between 7 to 11 percent of AFDC-FG cases and 25 to 26 percent of AFDC-U cases reported having some self-employment income on their returns. The operational definitions of EITC eligibility used in our analysis are based on income measures that either are found to be underreported (i.e., reports to the AFDC program) or do not include self-employment income. These biases in our income measures provide another reason to suspect that our estimates of EITC eligibility and participation are *biased downward* and that our non-compliance rates are *biased upward* for the low-income population on welfare that we have analyzed.

There appear to be several conclusions one can draw, albeit tentatively, from the findings of this study about the role of the EITC and with the incentives that programs like AFDC and the EITC create for reporting and behavior. First, we find that a non-trivial proportion of households on AFDC were eligible for and claimed the earned income tax credit during the first half of the 1990s. In particular, we find that between 12 to 20 percent of the households in our sample on AFDC-FG and between 20 and 33 percent of those on the AFDC-U program actually received a earned income tax credit for years in which they were also receiving AFDC. While not huge, this

degree of overlap between the utilization of these two programs is not negligible. Furthermore, while the average annual credit received by households in our sample is small—between $166 to $381 per year for those on AFDC-FG and between $236 to $615 for those on AFDC-U—this amount increased from 1993 to 1994, amounting to between 5 to 12 percent of the average annual benefits these households received from the AFDC program. In short, this study documents an important, and non-negligible, overlap between the AFDC and EITC programs.

Our evidence on the EITC "involvement" of those on welfare also provides some encouragement that the provisions of the recently passed Personal Responsibility and Work Opportunities Act which seek to encourage greater work among this population may succeed. These findings are somewhat surprising for at least two reasons. First, California experienced a severe recession during this period; one would have expected that the employment opportunities of low-income adults would have been severely limited. Second, most previous studies have found that the rates of labor force participation among those on AFDC are very low. The basis for the latter conclusion is the incidence of labor market earnings reported to welfare departments by AFDC recipients. Our study documents, as have others, that these reports severely underreport such income. Moreover, we find that this underreporting is not simply attributable to the failure to report "off-the-books" earnings from casual labor, as suggested in a recent ethnographic study of welfare recipients by Kathryn Edin. In fact, we find that earnings from employment that is verifiable and readily documented are substantially underreported as well.

1. Introduction

The earned income tax credit (EITC) is a federal income tax credit available to working poor families. First adopted in 1975, the EITC was promoted as a way to relieve the burden of Social Security payroll taxes on low-wage working parents. The original EITC equaled 10 percent of earnings (which was also the combined employer and employee share of payroll taxes) up to a maximum credit of $400 for taxpayers with at least one child. In real terms, the EITC was roughly constant between 1975 and 1990, but the maximum credit has nearly tripled since 1990. In fiscal year 1998, the EITC is expected to cost the federal government $27.8 billion, making it the largest cash or near-cash program available to low-income families. As such, it has become a cornerstone of the nation's antipoverty efforts.

A family's EITC is determined both by the number of eligible children and by a family's earnings from work. There are three distinct income ranges relevant to the EITC: the phase-in, flat, and phase-out ranges (Figure 1). For taxpayers with one child in 1997, the phase-in range for family income is from zero to $6,500 and the credit is 34 percent of income. The flat range is from $6,500 to $11,930 and the credit is $2,210 (34 percent of $6,500). The phase-out range is income above $11,930 and the credit is the maximum of zero and $2,210 minus 15.98 cents for every dollar of income above $11,930. Families with two or more children are entitled to a larger credit ($3,656, or 40 percent of $9,140).[1] Table 1 summarizes EITC parameters for recent years, including those covered in our data. Unlike most credits and deductions in the federal individual income tax system, the EITC is refundable: if the amount of the credit exceeds what the family owes, the household receives a payment from the U.S. Treasury for the difference.

The effectiveness of the EITC in supporting the working poor depends, in part, on whether those who are eligible for the credit actually receive it. A family receives the EITC by filing a tax return; however, some families that do not have positive tax liabilities are not required to file tax returns. To the extent that low-income families, such as those who are on AFDC, do not file, the antipoverty effectiveness of the EITC is reduced, since families with incomes considerably less than the legal filing thresholds may be entitled to substantial EITC benefits.[2] Given the broad-based support for policies, such as the Personal Responsibility and Work Opportunities Act of 1996, which encourage the transition from welfare to work, it is of interest to examine the extent to which households that received cash assistance under the now defunct AFDC program were eligible for and claimed the EITC. Previous studies of welfare or the EITC provide little information about the proportion of "welfare" populations that qualify for or claim the EITC. For these reasons, the first goal of this study is to provide new, reliable information on the fraction of AFDC recipients that were eligible for and received the EITC during the early

[1] The credit for families with two or more children is phased out at a rate of 21.06 percent, starting at an income of $11,930.

[2] For the 1990 tax year, Scholz (1994) found that the EITC participation rates for the eligible population was between 80 and 86 percent. (Scholz (1994) used data from the Survey of Income and Program Participation, matched by Social Security number to individual income tax returns to calculate EITC eligibility and participation. The variation in Scholz's estimates of participation rates arises from different assumptions made in the calculation.) We note that the EITC participation rates are high compared to other public assistance programs. For example, the AFDC participation rate is estimated to be between 62 and 72 percent among those who are eligible for this program and the participation rate for the Food Stamp program is between 54 and 66 percent (Blank and Ruggles, 1993).

1990s.[3]

The second goal is to investigate non-compliance with EITC eligibility requirements.[4] Such non-compliance can take many forms. As noted above, a family's eligibility for the EITC depends on their earned income and the number of children for which they are responsible. Non-compliance can be with either of these criteria. Some examples include: (a) the parents of a child who file separate tax returns, each claiming the same child as a dependent; (b) taxpayers who claim non-existent children, neighbors' children, or nonresident nieces or nephews; and (c) taxpayers who misreport their earned income. Some of these cases may not reflect the intent to commit fraud, while others do. A recent study of the EITC for Tax Year 1994 conducted by the Internal Revenue Service found that $4.4 billion, or 25.8 percent of total EITC claims, exceeded the amount to which taxpayers were eligible. Evidence of such rates of non-compliance has lead House Ways and Means Chairman Bill Archer to conclude that the credit is "one of the most abused programs on the books."[5]

The IRS study of EITC non-compliance, and the previous ones conducted by the IRS, does not estimate rates of EITC non-compliance for filers who qualified for cash assistance programs, such as AFDC. Nothing is known about whether failure to comply with EITC eligibility requirements is higher or lower among households who received, or had recently received, AFDC. In this study, we focus on the rates of non-compliance among households on, or recently on, AFDC in California that claimed the credit. We emphasize that our estimates of noncompliance may be subject to biases arising from the income and presence-of-children measures used to estimate EITC eligibility.

In this study, we examine the incidence of EITC non-compliance, as well as of EITC eligibility and participation, using information from several alternative data sources. As described below, we make use of information from the administrative records of households on AFDC in four counties in California. These data are linked with information on the earnings for adults in these households from the state's unemployment insurance wage and salary system. In addition, we obtained information from the federal tax returns, including reported earnings and EITC claims, for those in our sample who filed tax returns. (The tax return information was obtained under an interagency agreement between the California Department of Social Services and the State of California Franchise Tax Board, the state's taxing authority.) We use such data to construct several alternative measures of EITC eligibility and participation for households we classify as being eligible and not eligible for an EITC.

Verifying whether or not families meet either of the two eligibility requirements for claiming the EITC with respect to earned income and dependent children is difficult, even when thorough audits of tax returns are performed. As we discuss below, limitations of the information

[3] Between the time the data for this study were collected and the research was conducted, the Aid to Families with Dependent Children (AFDC) program was eliminated and replaced by Temporary Assistance for Needy Families (TANF). Throughout the report the phrase "AFDC recipient" denotes members of an assistance unit under the former AFDC program.

[4] Throughout this study, we use the term "noncompliance" to refer to erroneous EITC claims caused by negligence, mistakes, confusion and fraud.

[5] *Wall Street Journal*, April 30, 1997, p. 1.

available to us from administrative records constrain our ability to determine a household's true EITC eligibility status and, thus, whether they are in compliance. To assess the robustness of our findings on eligibility and noncompliance, we examine the consistency, across the administrative data sources available to us, of the measures of earned income and the presence of dependent children and earned income. Specifically, we compare family size and number of adults recorded in AFDC case files with the number of dependents and adults claimed on tax returns. We also look across several data sources—self-reports of earned income to public assistance and to tax authorities, as well as employer-reported earnings recorded in the unemployment and disability (UI/DI) insurance system—to determine whether income is reported consistently to different authorities. Our objective is to ascertain the extent to which our measures of EITC non-compliance, as well as eligibility, are likely to be biased and the likely nature of these biases.

We investigate, in some detail, the extent to which the households in our sample report earnings from self-employment when filing tax returns for two reasons. The first concerns the potential biases in our estimates of EITC eligibility and non-compliance. To determine whether a sample household meets the EITC eligibility criteria, we are limited to using either household income reported to county welfare offices for purposes of benefit determination or annual wages and salaries for which employers pay unemployment insurance taxes. The latter measure of income does not include income from self-employment or exempted types of employment and, as will be discussed below, the former is only measured when households are on the AFDC rolls and, even then, is likely to understate the total earnings of adult members of the household, especially self-employment and casual labor income. Because self-employment income can be used to qualify for an EITC, our methods for determining EITC eligibility may understate the true rates and, as such, overstate EITC non-compliance. In order to get a sense of the magnitude of this bias, we examine the incidence of self-employment income reported on federal tax returns by adults in our sample households.

The second reason for examining the reporting of this type of income concerns the incentives the structure of the EITC program creates for misreporting this source of income. Adults may fraudulently claim higher levels of self-employment income so as to qualify for a higher credit. In a recent study of EITC reporting for the tax year 1994, the General Accounting Office found that the percentage of EITC recipients in the Phase-In range of the credit reported more profits from self-employment than did those taxpayers in either the Phase-Out and Flat ranges (13.7 percent versus 11.8 percent).[6] More generally, those who filed for the EITC had a higher incidence of self-employment income than did other individual taxpayers. In 1994, 15.2 percent of all EITC recipients reported self-employment income on Schedule C of their tax returns; this accounted for 7.3 percent of the total income reported by recipients.[7] In contrast, only 10.4 percent of all individual taxpayers reported any self-employment income in 1993 and it accounted for only 4.4 percent of the income they reported.[8] The higher rates of reporting of this source of income by low-income filers, relative to all individual filers, may reflect, in part, involvement of the former individuals in more "casual" forms of private contract work. However, it may also reflect fraudulent reporting, especially given the inherent difficulty of verifying the accuracy of the

[6] See GAO Briefing Report, *Earned Income Credit: Profile of Tax Year 1994 Credit Recipients*, June 1996, p. 38.

[7] See GAO Briefing Report, *Earned Income Credit: Profile of Tax Year 1994 Credit Recipients*, June 1996, p. 30.

[8] See GAO Report, *Tax Administration: Tax Compliance of Nonwage Earners*, August 1996, Figure 2, p 7.

reporting of this type of income.

The remainder of the report is organized as follows. Section 2 describes the data sources used in our analysis. In Section 3, we report on our findings for the related issues of EITC eligibility and participation for AFDC recipients in California. In section 4, we consider the coverage and comparability of income reports and presence of dependent children across the administrative data sources available to us for the families in our sample. The final section provides a brief summary and draws conclusions from our research.

2. The Data

All of the work described in this report exploits a unique dataset constructed through cooperative agreements with several agencies of the California state government and with UC-Data, a research data repository at the University of California-Berkeley. The core sample is drawn from four California counties that participated in the California Work Pays Demonstration Project (CWPDP), an evaluation of waivers granted by the federal government to the state's AFDC program. This demonstration project is overseen by the California Department of Social Services (CDSS), the agency that controls access to the CWPDP data. Data on the adults in the CWPDP households, or assistance units, were matched to administrative files to obtain quarterly wages and salary earned during 1993 and 1994 in jobs covered by unemployment and state disability insurance programs for all adults in these households; access to the latter data was obtained by CDSS under an interagency agreement with the California Employment Development Department (EDD) which maintains this information. We shall refer to this data set as the "UI/DI" or "EDD" wage or earnings data. A match for adults in the CWPDP was also performed with federal tax returns data for the tax years 1993 and 1994; access to this latter data was provided under a strict set of protocols negotiated by CDSS and the California Franchise Tax Board (FTB) to insure the confidentiality of the tax returns information of individuals.[9] We refer to the information from these matched tax returns as the "IRS" data. The linking was based on matching Social Security numbers of the CWPDP adults with those for EDD and IRS administrative records. Finally, while the resulting linked data provides a rich and unique set of data on income and tax credits, we have only a limited amount of demographic information for the household, which was drawn from AFDC and food stamp records.

In the following subsections, we provide more detailed descriptions of the sampling plan and structure of the data used in our analysis, and describe the data obtained from the UI/DI systems and the IRS databases.

2.1 The Baseline Sample for the EITC Project: Assistance Units in the California Work Pays Demonstration Project (*CWPDP*)

Beginning in 1992, California obtained a series of waivers from the U.S. Department of Health and Human Services to enact a number of changes to its AFDC program.[10] The impact of

[9] Under the arrangement, all linking and analysis of data involving or containing tax returns information was performed by FTB staff on FTB computers. Summary statistics from these analyses were all that was provided to the authors of this report.

[10] The following changes were enacted:

these waivers on program participation and costs to the federal government were evaluated under the CWPDP, which consisted of a sample of assistance units that were on AFDC at the time of their entry into the demonstration and that resided in one of four counties within the state: Alameda, Los Angeles, San Bernardino and San Joaquin. To monitor the impact of the waivers on these assistance units, information was extracted from the public assistance administrative records systems in these counties. The data from this source are referred to as the "CWAD" data, referring to the County Welfare Administrative Database. The CWAD contains monthly, case-level information on: (a) the number of adults and children in an assistance unit, (b) the unit's reported Gross Earned Income (GEI) used to determine their monthly AFDC payment[11] (except in San Joaquin); (c) the unit's GEI for purposes of determining their food stamp benefits;[12] and (d) their monthly AFDC payments. We focus our analysis of EITC eligibility, participation, and non-compliance rates for the population of welfare recipients in California from which our sample is drawn.

Eliminate the 100 hour (per month) work limitation for remaining eligible for AFDC-U: This change does not affect the eligibility for the AFDC Unemployed Parent program (AFDC-U), but does affect conditions under which one remains eligible. This change affected only AFDC-U cases; the rule was not in effect for AFDC-FG cases.

Remove time limit for $30 and 1/3 income disregard: This change became effective in July 1993. Prior law required that if AFDC recipients earned income after four months on AFDC, they were subject to a 100 percent benefit reduction rate (BRR). The new law removed the 4-month time limit and allowed eligible AFDC recipients to keep $30 plus one-third of their earnings.

Reduce Maximum Aid Payment: The maximum amount of AFDC cash aid was reduced by a total of 15 percent.

Implement of Cal-Learn program: This program encouraged pregnant teens and teen parents to stay in or return to school by providing child care, transportation, and other assistance, and by creating disincentives for bad grades or for dropping out of school.

Increase personal resource limits and allowance of savings accounts for education: This provision raised the limits on personal resources and automobile stock that AFDC recipients can hold and remain eligible for AFDC. It allows recipients to retain up to $5,000 per family in a restricted account to be used for a child's post secondary education, for down payment on a home, or for starting a business. These new rules do not apply to resources allowed at the time of eligibility determination, in which case the old rules still apply.

The California Alternative Assistance Program (CAAP): This provision enables AFDC-eligible persons to decline an AFDC cash grant, but still receive Medi-Cal (the Medicaid program in California) and child care assistance.

Change employment services programs: Several provisions were implemented to make California's Job Opportunities and Basic Skills (JOBS) training program and the Greater Avenues for Independence (GAIN) program more work-oriented.

[11] AFDC gross earned income is defined as the sum of gross income for all individuals in the assistance unit, where gross income for each individual is calculated as the sum of total earnings from wages and salaries, in-kind earned income, and net self-employment income (gross self-employment income less business expenses). Earned income is income received in cash or in kind as wages, salary, commissions or profit from activities such as businesses or farming, in which the recipient is engaged as a self-employed individual or as an employee, or income received as disability benefits. Exempt earned income *not* included in the AFDC computation are earnings of a child derived from participation in JTPA programs, all earnings of a child under 19 years of age who is either a full-time student or a half-time student not employed full-time, income from College Work Study Program, and the first $50 of any child or spousal support paid to the assistance unit.

[12] Food stamp gross earned income includes all wages and salaries of an employee, gross income from a self-employment enterprise excluding the cost of doing business, training allowances, payments to VISTA volunteers, JTPA earnings (unless earned by dependent under 19), and strikers' benefits.

To evaluate the impact of the provisions of California's AFDC program relative to its program prior to the enactments of the waivers, assistance units (or cases) included in the CWPDP were randomly assigned to either a control or treatment status. Control group cases received AFDC under the rules in place as of September 1992. The treatment group, along with AFDC recipients in the rest of the counties of California, was subject to the provisions granted under the waivers. Since the reforms were designed to increase the attractiveness of work among welfare recipients, one might expect to see differences in EITC eligibility between treatment and control cases. While this is a potentially interesting topic to examine, separate analyses of EITC eligibility, participation and compliance for treatment and controls groups are not presented in this report. Analysis of the impact of the waivers on EITC eligibility and participation is a potential subject for future investigation.

The four research counties for the CWPDP have distinct geography, populations, welfare caseloads, and welfare departments. Los Angeles and Alameda Counties contain major urban centers, and San Bernardino and San Joaquin counties are their neighboring rural areas. San Joaquin is located in the agricultural region known as the Central Valley, while San Bernardino is part of Southern California's desert region and is the largest in terms of land mass of the four counties. Los Angeles County has the largest population of any California county with nearly nine million residents in 1990. San Bernardino and Alameda Counties each have 1.2 to 1.5 million residents and San Joaquin has approximately 500,000 residents. Not surprisingly, Los Angeles County has the largest AFDC caseload, with more than 285,000 cases in 1992; the other three counties have caseloads in the 30,000-60,000 range with San Joaquin's caseload being the smallest. However, San Joaquin County had the highest percentage of its population on AFDC of all four counties in 1990. In addition, San Joaquin has a relatively high percentage of its caseload in the Unemployed Parent component of the AFDC program (20 percent) compared to the other three county caseloads (10 to 15 percent).

For purposes of assessing rates of EITC eligibility, participation and compliance with these data, we excluded some of the assistance units in the full CWPDP sample. In particular, we imposed the following exclusions to obtain our *analysis sample*:[13]

1. *Exclusion of all "late entering" adults from assistance units in our analysis sample:* Recall that data in the CWAD are maintained for members of the case at the time of sampling as well as for members who enter the case at a later time (for both Original and Replenishment Sample cases). As part of the CWPDP, these late entrants into a case were not submitted for a match to Base Wage File records and as such we cannot observe earnings information for them. Hence, we exclude these persons from our analysis.

2. *Exclusion of cases from analysis sample that were from San Joaquin County and members of the CWPDP treatment group:* Administrative problems in San Joaquin resulted in incomplete and inconsistent information for these cases.[14] We do use data on control group households

[13] When constructing a measure of the income of assistance units, we did not include any earnings of children, i.e., assistance unit members under the age of 18. Children are likely ineligible for the EITC; even if a child had earnings, that child is not eligible to claim the EITC if she is a qualifying child for EITC purposes of another person.

[14] See Becerra, *et al.* (1996) for a complete discussion of the problems with data for treatment group cases in San Joaquin county.

that reside in San Joaquin county.

3. *Exclusion of all "child-only" cases from our analysis sample:* We excluded all cases that were "child-only" cases that were eligible for AFDC.[15] In this type of assistance unit, the adults who live with the children are ineligible for AFDC, because the adults are undocumented workers or have been sanctioned out of the case for violating aid regulations. We eliminated these cases from our analysis because we do not have Base Wage File earnings or tax data for the adults in the household. Child only cases are quite prevalent in California; as such, this exclusion accounted for 23 to 39 percent of the full CWPDP sample.

4. *Exclusion of assistance units with three or more adult members:* The EITC statuses of these "complex" households are potentially interesting ones to study, since the scope for manipulating the reporting of family structure to qualify for the EITC are significantly higher for this group than for one- or two-parent only households, Nonetheless, we dropped them from our analysis sample because of inadequate information about relationships between these adults and the children in the unit that we will discuss below. We note that at the time of sampling into the CWPDP, up to 5 percent of the AFDC-U cases, but less than 1 percent of the AFDC-FG cases contained three or more adults.

Background characteristics for the assistance units in the resulting CWPDP Analysis Sample are provided in Tables 2a and 2b. (In the Appendix to this report, we compare the characteristics of these assistance units with those in the full CWPDP sample.) In the remainder of this report, the unit of analysis is the *case* or *assistance unit*. We also use sample weights in all estimates presented below, where the weights are constructed to reflect oversampling of certain types of AFDC cases (AFDC-U versus AFDC-FG cases) and the caseload that existed at the time a case was drawn into the sample.

An important feature of our analysis sample, as well as the full CWPDP sample, was the way assistance units from the caseloads in the four counties were drawn into the CWPDP. The CWPDP is comprised of two somewhat distinct samples. One sample of assistance units was drawn at the inception of the CWP Demonstration Project in October 1992; we shall refer to this sample as the "Original Sample." While representative of the caseload at a point-in-time, studies by Bane and Ellwood (1983), Ellwood (1986), and O'Neill, Bassi, Wolfe and Hannan (1984) have made clear that such samples are disproportionately made up of assistance units that are "welfare dependent." The second sample in the CWPDP consists of a random sample of assistance units that entered the AFDC caseload in 1993. We refer to this sample as the "Replenishment Sample."[16] Previous studies have found that a significant proportion of new entrants remain

[15] We define a child as being 18 years old or younger throughout the year. This age limit corresponds to the age of a qualifying child for EITC purposes. The range noted in the text arises from differences across our subsamples. Thirty-nine percent of the AFDC-FG cases in the 1993 Replenishment Sample are child-only cases while 23 percent of the AFDC-U cases in the 1992 sample were child-only.

[16] The Original Sample was randomly drawn from cases on aid in October 1992. The Replenishment Sample consists of assistance units that entered the AFDC caseload over the months from March to December 1993. Replenishment cases selected in March 1993 could not have received assistance in California in October or November 1992. Cases new to aid in December 1992, January 1993, or February 1993 were eligible to be drawn for the March 1993 sample. Replenishment cases selected in April 1993 through November 1993 could not have received assistance between December 1992 and the sampling month. Beginning in December 1993, a case was eligible for inclu-

on welfare for only a relatively short period of time.[17] Furthermore, a study of welfare dynamics[18] indicates that most new entrants exit from AFDC to employment. Thus, it is more likely that the typical assistance unit in the Replenishment Sample will be eligible for and claim the EITC in the years following their entry to the CWPDP than will a typical unit in the Original Sample. Because of these past findings concerning patterns of labor force participation rates of AFDC cases by their time-on-welfare, all of our analyses are conducted separately for these two samples throughout this Report.

Another important feature of our CWPDP analysis sample concerns the type of AFDC assistance units were receiving at the time they were drawn into the CWPDP. In particular, our analysis sample consists of two types of assistance units: (1) needy one-parent households with children who qualify for the basic AFDC program, which are referred to as "AFDC-FG" or "family group" cases, and (2) two-parent households who are needy because the principal earner has been unemployed and qualifies for the Unemployed Parents program and are referred to as the "AFDC-U" assistance units. In the analysis that follows, we report all results separately for AFDC-FG and AFDC-U units in our data for several reasons. First, in contrast to the eligibility for the AFDC-FG program, the principal earner in a household must have worked in the past in order to be eligible for the AFDC-U program.[19] Second, assistance units in the latter program usually have two adults present, whereas most households on the AFDC-FG program contain only one adult, the parent of the children in the unit. Given these differences, one would expect, *a priori*, to find differences in the incidence of work-related income across these two types of households and, thus, in their likelihood of being eligible for or participating in the EITC. Accordingly, we present separate estimates for AFDC-FG and AFDC-U units in all of the analyses that follow.

2.2 Matched Data from the Employee Development Department (EDD) Base Wage File

The state of California's Employment Development Department (EDD) maintains a Base Wage File containing quarterly wage and salary earnings of individuals working in jobs that are subject to the state's unemployment insurance (UI) and disability insurance[20] (DI) programs.[21] We were provided with wage data from EDD files for all of the adults in CWPDP households at

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sion in the Replenishment Sample if it had not received assistance at any time during the previous twelve months. New cases initiated in November 1992 are not represented in the initial or Replenishment Samples.

[17] For example, Bane and Ellwood (1983) estimate that 65 percent of new entrants leave the caseload in two years or fewer.

[18] See Gritz and MaCurdy (1992).

[19] To qualify for the AFDC-U program, the principal earner must: (a) have 6 or more quarters of work in any 13-calendar-quarter period ending within 1 year prior to application for assistance; or (b) have received or been eligible to receive unemployment compensation within 1 year prior to application for assistance. A quarter of work is a quarter in which an individual earns at least $50 or in which the individual participated in an authorized job training program.

[20] Disability Insurance is a state-mandated insurance plan in California that is financed through payroll deductions. Disability Insurance provides benefits to eligible workers who suffer loss of wages when they are unable to work because of non-work related illness, injury or pregnancy. Most California workers are covered by this program.

[21] The file generally includes individuals paid cash wages of more than $100 in a calendar quarter and domestic workers paid cash wages more than $750 in a calendar quarter.

the time they were sampled by UC-DATA. The matching was based on matches of Social Security numbers.

An employee's record in the Base Wage File is likely to be an accurate source of earnings information if the position is covered by UI/DI. The information in this file is provided by employers whose workers are covered by these social insurance programs. It would appear that they have little incentive to underreport their employees' earnings because the wage and salary base on which UI taxes are calculated is quite low and the employer does not pay additional UI taxes once an employee's earnings exceed this base. Furthermore, a self-policing mechanism ensures accuracy of employers' earnings reports, as they must be consistent with the employee's report if he or she applies for benefits under either the UI or DI program.

At the same time, the state's UI and DI systems do not cover all employment. The earnings of certain types of workers are exempted from UI/DI coverage, such as those for self-employed workers who do not elect UI/DI coverage; federal employees (military or civilian), nonprofit organization employees, railroad employees, students working for a school, college, or university; and casual labor paid less than $50 in a calendar quarter and working fewer than 24 days in that or the preceding quarter. As such, this measure, while easily verifiable and accurate, does not include all of the sources of income for which an earned income tax credit can be claimed.

2.3 Matched Data from Federal Income Tax Returns

The state of California's Franchise Tax Board, the state's taxing authority, attempted to match federal tax returns for all adult members of the assistance units in our CWPDP analysis sample. Again, this matching process used Social Security numbers as the match criteria.[22] Based on the results of this matching process, we determined which families (and its members) filed a federal tax return. For those that did, we obtained the following information for both the 1993 and 1994 tax years: (a) the filing status of filer (i.e., married, single, head-of-household); (b) the number of exemptions claimed by the filer; (c) the filer's Adjusted Gross Income (AGI), total Wage and Salary Income (reported on Line 7 of the IRS 1040 Form); (d) amounts of income by source (e.g., wages and salary, self-employment, etc.); and (e) whether the EITC was claimed and the amount of the credit granted.

2.4 The Economic Environment over the Study Period

The period over which we examine EITC eligibility and participation in California, 1993 and 1994, was far from typical. During the first half of the decade of the 1990s, the state of California economy experienced a fairly sharp recession, as did the rest of the nation. The growth rate of employment in all industries in 1991 was -2.69 percent compared to 2.65 percent in 1990. (See Figure 2.) Moreover, the severity of this recession varied across regions of the state and the four counties we examine in this study. For example, total employment declined by 5.68 percent in Los Angeles county in 1991, while, in this same year, total employment grew slightly in San

[22] The processing of all data involving tax returns data was conducted by the California Franchise Tax Board on their computers; under the agreement with the Board, neither the analysis team for this project nor employees of the California Department of Social Services were given direct access to any tax return data.

Bernardino county (0.86 percent). By 1993 and 1994, the California economy was recovering the 1991 recession, with employment *declining* at an annual rate of 0.52 percent in 1993 and *growing* at a rate of 1.26 percent in 1994. Again, while the recovery was occurring in all four counties used in our analysis over the period of our analysis, the strength of the recovery varied across them. While we do not attempt to systematically adjust our EITC eligibility and participation estimates, one must be cautious in generalizing from our estimates to other stages of a business cycle.

3. EITC Eligibility, Participation, and Non-Compliance

In this section, we examine the EITC eligibility, participation and non-compliance rates for our Analysis Sample of households on AFDC in California during the early 1990s. Examining the EITC eligibility and participation of this population is of interest, given the desire for policies to encourage the transition from welfare to work. Based on official national statistics on the share of the AFDC caseload that reported any earned income, it would appear that only a relatively small fraction of the AFDC caseload would qualify for an EITC. In 1994, 8.9 percent of all AFDC cases reported any earned income, which is 30 percent lower than the rate in 1980, with an average of $394 per month.[23] Among those households on the basic AFDC program covering single-parent households with children, the corresponding rate was somewhat lower, with 8.4 percent of such cases reporting some earned income which averaged $374 a month; among two-parent households on the AFDC-U program, the corresponding percentage was much higher (25.9 percent) with an average monthly amount of $471. Given that almost all AFDC households have children, these figures on earned income while on welfare would indicate very low rates of eligibility for EITC among those on welfare.

The above rates are based on what AFDC households report to the AFDC program for purposes of determining their monthly benefits. Several recent studies suggest that the actual percentage of AFDC recipients with earned income—and, thus, potentially eligible for an EITC—are much higher. Based on data from several waves of the Survey of Income and Program Participation (SIPP) during the 1980s, Spalter-Roth, *et al*. (1995) find that as many as 43 percent of female-headed households on AFDC households had worked for pay. In a study of single AFDC mothers in four sites (Chicago, Boston, San Antonio and Charleston, S.C.), Edin (1995) found that 46 percent of her sample earned income, which they did not report to AFDC authorities, where the vast majority of these cases (over 90 percent) either were working for cash or under a false identity in the informal economy.

While it is unclear whether the latter earnings would be reported to the IRS to claim an EITC, this evidence strongly suggests that the rates of *eligibility* for a credit may be much higher than suggested by official AFDC statistics. We now turn to the crucial question of how to measure the elements of the EITC eligibility criteria, namely, a household's annual income and presence of qualifying children.

[23] See *The Green Book* (1996), Table 8-28. Nationally, the percentage of AFDC households reporting any earned income has declined by almost 30 percent since the beginning of the 1980s, although these rates have grown somewhat since 1985.

3.1 Operational Definitions of EITC Eligibility Criteria

In Figure 3, we provide a schematic representation of the various "cells" in which we wish to classify assistance units with respect to their EITC eligibility and participation. The columns of Figure 3 split the sample into households eligible for and ineligible for the EITC, while the rows indicate a household's status with respect to filing a tax return and claiming the EITC. Our first objective is to determine EITC eligibility, i.e., the percentage of our sample who were in Cells I, II or III during a particular tax year. We then turn to determining the fraction of those eligible that participated, i.e., the ratio of assistance units in Cell I to those in Cells I, II or III.

As discussed in the Introduction, a household eligible for the EITC must have a qualifying child and income in a specified range.[24] With respect to qualifying children, they must: (1) be under age 19 at the end of the calendar year; (2) reside with the adult filer for more than half the year;[25] and (3) satisfy a relationship test.[26] With respect to income, one or more of the parents (or adults) in the household must have earned some income during the year to qualify for a credit.

While these criteria are relatively straightforward, their measurement is less so: limitations of our data complicate our ability to determine the EITC eligibility status of assistance units in our analysis sample. With respect to determining whether a household met the presence-of-qualifying-children requirement, the only source of information we have on children is that contained in the CWAD, and this information is less than ideal. This is because information about the family structure—including the number and ages of children—is only available for the months subsequent to entering the CWPDP in which the household is receiving AFDC benefits.[27] In the other months, we do not know for sure which, if any, children remain with the adult heading the unit. In short, the CWAD data do not allow us to unambiguously determine whether a household meets the presence-of-a-qualifying-child requirement for EITC eligibility. With respect to measuring income, recall that the two measures of income that are available to us are monthly GEI reports to the county welfare department for determining AFDC benefits and EDD wage and salary earnings, i.e., earnings from employment subject to UI and DI in California. Unfortunately, both of these measures are less than ideal for use in determining a household's EITC eligibility. As the evidence from the Spalter, *et al*. and Edin studies suggest, reports of GEI may understate a household's earnings. As we have already noted, earnings from EDD records do not include earnings from self-employment, even though such earnings can qualify for a credit. Fur-

[24] Filers with no children could claim the EITC in 1994. These persons are unlikely to be present in our dataset and are not relevant for our analysis.

[25] Persons under age 24 who are students, and persons any age who are permanently and totally disabled are also qualifying children for EITC purposes if they live with the filer for more than half the year. Our data do not provide information on these types of persons, however, they are unlikely to be an important part of our sample. Additionally, foster children are eligible for EITC purposes if they live with the filer for the entire year. Our data contain information about foster children, however, they represent a very small portion of our sample and, because of data limitations, we do not impose the requirement that they live with the foster parent for a full year.

[26] To satisfy the relationship requirement, the qualifying child must be a son, daughter, adopted child, grandchild, stepchild, or foster child of the taxpayer. Due to data limitations, we cannot identify relationships of household members and are unable to test the relationship requirement.

[27] We suspect that the CWAD information on children present for these months is fairly accurate, since this information is necessary to determine AFDC benefits.

thermore, low human capital workers may be in jobs that are not covered by the UI insurance system.

We deal with these measurement limitations in several ways. We investigate the consistency of these measures with information on exemptions claimed and earnings reported on tax returns for those assistance units that do file tax returns. The results of this latter investigation are presented in Section 5 below. We also construct several alternative operational criteria for classifying households as to their EITC eligibility status and use these to form corresponding estimates of EITC eligibility rates, as well as EITC participation and non-compliance rates. By examining the sensitivity of these estimated rates to the criteria used, we attempt to assess, in a limited way, the robustness of our conclusions about the importance of the EITC for welfare populations.

More precisely, we use the following *six* ways of combining information on income and presence-of-children to define a household's *EITC Eligibility*:

<u>*Criterion A*</u>*:* A household is eligible for EITC in a particular tax year if

(a) EDD Wage Earnings > 0 *and*
(b) it is assumed to meet qualifying child criteria in the tax year by virtue of having at least one child at the time it entered the CWPDP.

<u>*Criterion B*</u>*:* A household is eligible for EITC in a particular tax year if

(a) Max{GEI for AFDC; GEI for Food Stamps; EDD Wages} > 0 *and*
(b) it is assumed to meet qualifying child criteria in the tax year by virtue of having at least one child at the time it entered the CWPDP.

<u>*Criterion C*</u>*:* A household is eligible for EITC in a particular tax year if

(a) EDD Wage Earnings > 0 *and*
(b) it was on AFDC (and had at least one child in the AFDC assistance unit) for at least *one month* in that year.

<u>*Criterion D*</u>*:* A household is eligible for EITC in a particular tax year if

(a) Max{GEI for AFDC; GEI for Food Stamps; EDD Wages} > 0 *and*
(b) it was on AFDC (and had at least one child in the AFDC assistance unit) for at least *one month* in that year.

<u>*Criterion E*</u>*:* A household is eligible for EITC in a particular tax year if

(a) EDD Wage Earnings > 0 *and*
(b) it was on AFDC (and had at least one child in the AFDC assistance unit) for at least *six months* in that year.

<u>*Criterion F*</u>*:* A household is eligible for EITC in a particular tax year if

(a) Max{GEI for AFDC; GEI for Food Stamps; EDD Wages} > 0 *and*
(b) it was on AFDC (and had at least one child in the AFDC assistance unit) for at least *six months* in that year.

These measures differ in the stringency of the criteria used for income and presence of children. Some of these definitions, Criteria *A, C,* and *E,* have a *stricter* standard for meeting the income component of eligibility, requiring that at least one adult in the household had earnings subject to UI/DI, whereas the other measures, Criteria *B, D,* and *F,* allow a household to meet this component of eligibility if either EDD or earnings reported to the welfare department are positive. With respect to meeting the qualifying child component, the criteria vary with respect to the amount of "verified" evidence of a child being present during the tax year. We note that in this dimension, being able to verify that a child is present also "requires" that the household had to have spent an increasing proportion of the year on the AFDC caseload. Looking across these six criteria, it would appear that using *Criterion B* to define EITC eligibility will produce an *upper bound* for EITC eligibility rates as it the least stringent with respect to meeting both the income and presence-of-qualifying-children components of the eligibility requirements, while using *Criterion E* should produce a *lower bound* for these rates as it imposes the most restrictive standards for both components. Finally, we consider use of *Criterion A* for determining EITC eligibility to be our *intermediate* estimates of rates given that they are based on an income measure which we know to be accurately measured and on a measure of children that does not impose the link between subsequent AFDC receipt and eligibility that are inherent in the measures requiring verifiable evidence for the presence of children.

3.2 Estimates of Rates of Eligibility for the EITC

In Tables 3a and 3b, we summarize the range of estimates of EITC eligibility rates for the various samples, tax years, and types of assistance units for our CWPDP sample. Table 3a contains estimates for all assistance units in our Analysis Sample, regardless of whether the unit received any AFDC benefits in the particular tax year analyzed. Table 3b provides estimates for the subsamples of assistance units from our Analysis Sample which received AFDC benefits for at least one month during the particular tax year that is analyzed. Thus the eligibility (as well as participation and compliance) rates presented in Table 3b are estimates for a population of *current* AFDC recipients, while those in Table 3a are for a population of households which *have recently been* on AFDC. In each of these tables, we provide lower and upper bound estimates of rates of EITC eligibility as well as those based on our intermediate criterion (Criterion A).

Several conclusions emerge from an examination of the estimates of eligibility rates in these two tables. First, regardless of the criteria used, we estimate that sizable fractions of the households either on or recently on AFDC would be eligible for the EITC. Even the lowest rate we estimate—for AFDC-FG, regardless of their AFDC receipt status in the tax year—indicates that 21.5 percent of the units appear to be eligible for a credit. Using Criterion A, the criterion most easily defended with our available data, we estimate that EITC eligibility rates range from between 26 to 43 percent of assistance units. Note that these rates are based solely on finding EDD earnings for adults in these households, since the criterion for children, in essence, plays no role. As such, these rates indicate that substantially higher percentages of AFDC households in California have earned income compared to what would be predicted based on estimates of rates of labor market earnings reported by AFDC recipients nationally. (Recall that those rates indicated that only 8.4 percent of single-parent AFDC recipients reported any income to welfare departments in 1994.) In fact, based on our upper bound estimates, these rates may be as much as 57 percent of AFDC-U recipients. In short, our estimates suggest that a non-trivial share of households on, or recently on, AFDC have verifiable earnings and, as such, appear to be eligible

for receiving some assistance under the EITC program. This evidence has implications for the potential role the EITC program has for mitigating some of the impacts of the reductions in financial assistance under TANF.

Second, we find that larger shares of assistance units on AFDC-U are eligible to receive an EITC than is the case for households under AFDC-FG program. Using Criterion A, we find that between 30 and 43 percent of AFDC-U households may be eligible for an EITC, with the rate possibly being as high as 57 percent. It is not surprising that eligibility rates for AFDC-U households are generally higher than rates for AFDC-FG households since at least one adult in an AFDC-U household is likely to have earnings at some point in the year.

Third, we find that lower eligibility rates for households in our Original Sample compared to those in our Replenishment sample. (The higher estimates for each group are seen in 1994 tax year eligibility for households in the Replenishment Sample.) Recall that longer-term AFDC recipients who typically do not work dominate the Original Sample.

Fourth, a comparison of the eligibility rates in Table 3b with those in Table 3a indicate that the above conclusions about EITC eligibility apply to households who *were on AFDC* for some time during the various tax years. As such, these findings indicate that a sizable share of our households are in line to participate in both the AFDC and EITC programs and suggest that gaining a better understanding of the interactions between the two, and their consequences of encouraging work and reducing dependence on cash assistance, is worth exploring. We discuss the actual extent of joint participation in these two programs when we discuss EITC participation below.

Before concluding our discussion of EITC eligibility rates, we briefly consider the likely ways in which our estimates are biased. As discussed earlier, it is likely that eligibility rate estimates are biased *downward* because we do not have precise information about self-employment income or Social Security numbers used to match program administrative data with tax returns. For example, we may misclassify a self-employed person as ineligible for the EITC because the Base Wage File does not include earnings of self-employed persons.[28] We have independent information from the tax return data on the presence of self-employment income. As we shall discuss later in this report, the incidence of reporting self-employment income reported to tax authorities among this population is very low, although we do find slightly higher rates of self-employment income for those in this population that we classify as ineligible. We might also classify a tax-filing unit as ineligible for the EITC due to lack of dependents in the program administrative data. This person could rightfully claim the EITC, yet we would classify her as an ineligible participant. However, the range of assumptions used for presence of children has to provide an upper bound for eligibility rates, since, under two of the eligibility criteria we use, we assume all units have a qualifying child for the EITC. Hence, it does not appear that this source of misclassification is likely to impart much downward bias in our estimates of eligibility rates.

[28] Our estimates of EITC eligibility may be biased downward biased because we do not find a match with EDD unemployment insurance data. We discuss the coverage of EDD data in the report's section on coverage and compatibility across datasets.

3.3 Estimates of EITC Participation Rates and Amount of Credits Received

Based on our alternative operational criteria for determining EITC eligibility, we examine the proportion of assistance units who had an adult who claimed the EITC on their tax returns. More precisely, the EITC participation rate is defined to be the number of eligible filers who claim the credit as a fraction of all eligible persons in the population, *whether or not they file a tax return*.[29] Estimates of these rates are also found in Tables 3a and 3b.[30]

Several broad conclusions emerge from an examination of our estimates of rates of EITC participation for households in the CWPDP. First, we find that between 42 and 84 percent of eligible households in our Analysis Sample actually claimed a credit (see Tables 3a and 3b). These rates vary by the criteria used to determine eligibility, by the type of AFDC assistance and by sample (Original versus Replenishment). (As can be seen from the percentages of all households who filed tax returns given in Tables 3a and 3b, failure of "eligible" households to participate generally results from their failure to file a tax return.) Second, as with rates of eligibility, we find systematic differences in participation rates by type of assistance, sample and tax year. Participation rates were generally higher for AFDC-U than for AFDC-FG households, ranging from 57 to 84 percent for AFDC-U households and from 42 to 54 percent for AFDC-FG households. We also find that EITC participation is higher for households in our Replenishment samples as compared to those in our Original samples. It is also the case that EITC participation rates for AFDC-FG households in the Original Sample increased slightly over the two years, from around 47 to 50 percent. However, participation rates for AFDC-U households in the Original Sample fell slightly over the two years, from 67 to 65 percent (Table 3a). Finally, we find little difference in the rates of EITC participation, associated with our various eligibility criteria, across our full Analysis Sample (Table 3a) and those households in this sample that were on AFDC for at least part of the tax year analyzed (Table 3b).

The estimated participation rates for this welfare population presented in Tables 3a and 3b are lower than previous estimates for the entire population. For example, Scholz (1994) found that between 80 and 86 percent of all those individuals in the U.S. that were eligible for the EITC participated in the program during the latter part of the 1980s. Furthermore, the failure of households in our welfare-based sample, who appear to be eligible for a credit, to file for it, substantially lowers the share of the sample that actually receives assistance from this program. Using our upper and lower bounds, as well as intermediate, estimates of EITC eligibility and participation rates, our results imply that only between 10 and 24 percent of households on, or recently on, the AFDC-FG program in California actually claimed a credit; the corresponding rates for

[29] We calculate this rate by dividing Cell I by Cells I+II+III in Figure 3.

[30] We also examined a slightly different way of calculating the EITC participation rate, which reflects the possible taxpayer response to an IRS notification policy during 1993 and 1994. Specifically, the IRS does not automatically compute and award the credit to eligible nonparticipants (Cell II in Figure 3). Instead, a notice is sent informing the filers they might be eligible for the EITC if they file amended returns. Thus, two estimates of the participation rate are needed to reflect the IRS policy for notifying possible EITC recipients. The first measure (the number of eligible claimants divided by all eligible persons in the population) assumes that none of the eligible nonparticipants submitted amended returns in response to the IRS notice. The second measure assumes that all eligible nonparticipants respond to the IRS notification, file amended returns, and receive the credit. We focus in this report on the first measure of participation, but acknowledge that it is the lower bound of a participation rate. The rates based on this second method do not differ much from those presented in Tables 3a and 3b.

households on the AFDC-U program are almost twice as high, ranging from 16 to 46 percent.

There are several possible reasons why apparently-eligible AFDC recipients did not file tax returns and claim an EITC. It may be that our estimates of the rates of eligibility are wrong and many of these households do not file because they are not eligible; presumably, this was because they did not meet the presence-of-a-qualifying-child criteria, since we use a verifiable measure of income—wage earnings from EDD—to determine the income component of eligibility.

Alternatively, it may be that the size of the credit to which they are entitled is not sufficient to induce them to file a return. Most of the households in our sample have earnings in the Phase-In range of the EITC. In this range, the lower a household's earnings the lower the credit they can claim. We record, in Tables 4a, 4b and 4c, a number of characteristics about the earnings and AFDC receipt of our various samples.[31] Among the households we classify as eligible for the EITC, average EDD earnings are consistently lower for households who do not file tax returns. Average annual EDD wage earnings for these households range from $1,893 to $4,417, while EDD earnings for EITC-eligible households that file tax returns range from $4,484 to $9,680. Furthermore, in 1993 we find that the vast majority of EITC claimants from our Original Sample that we classified as being eligible for the credit in our sample of current, or recent, AFDC recipients had Adjusted Gross Incomes (AGI) which put them in the Phase-In range of the EITC program (see column (i) in Table 4a). In 1994, we find that a slightly lower fraction of eligible claimants had income in the Phase-In range, with movement into the Phase-Out ranges for both AFDC-FG and AFDC-U households. While a majority of AFDC-U households in the Replenishment Sample that were eligible for a credit had an AGI in the Phase-In region of the program (50 percent in Table 4c), AFDC-FG households were more evenly distributed across the Phase-In, Flat and Phase-Out regions of the program in 1994.

For those households that do claim the EITC, and are eligible for it, we find that the credit they actually receive varies from $908 to $1,534 depending upon the tax year and sample considered. (The latter estimates are displayed in column (i) of Tables 4a through 4c.) Compared to what they received from the AFDC program, the average credit households in the Original Sample received was 20 percent of their annual AFDC benefits among AFDC-FG households and 14 percent for AFDC-U households in 1993. For households in this sample, this ratio increased to 28 percent for those on AFDC-FG and 21 percent on AFDC-U in 1994. Among households in the Replenishment Sample, this same ratio was 44 percent for AFDC-FG households and 32 percent for those on AFDC-U in 1994. The higher ratios of credits received to AFDC benefits in 1994, compared to those in 1993, presumably reflect the increased generosity of the EITC program (see Table 1) and the improvement in the California economy (see Figure 2). We find that the average credit in 1993 was higher for AFDC-FG households compared to those on the AFDC-U program, although this ordering is reversed in 1994.

[31] The statistics reported in Tables 4a through 4c are based on data for the entire Analysis Sample. While not presented, the corresponding estimates for the households who were on AFDC at least part of the tax years do not differ greatly from those in the above tables. Also note that Tables 4a through 4c are based on using Criterion A to determine whether households were eligible for an EITC.

Based on the classification scheme presented in Figure 1, we also examined the AFDC payments received, EDD earnings and information from tax returns for 5 additional groups of households:

(ii) EITC-Eligibles, who did not claim the EITC;

(iii) EITC-Eligibles who did not file a tax return (or, more accurately we did not find a match for them with the IRS data on returns in California and surrounding states);

(iv) EITC-Ineligibles, who did claim the EITC;

(v) EITC-Ineligibles who did not claim the credit; and

(vi) EITC-Ineligibles who did not file a tax return.

Estimates for these groups are also found in Tables 4a through 4c. (The above numbering of groups corresponds to that for the columns in these tables.) While we postpone a discussion of the non-compliance aspects of the outcomes for Group (iv) until the following subsection, it is of interest to compare the differences in earnings, welfare benefits and tax return information for the remaining groups. Several patterns emerge. (We caution that the sample sizes for groups (ii) and (v) are typically very small.) With respect to the amount of AFDC received in a tax year, we find that groups which did not file tax returns, regardless of their EITC-eligibility status, typically received more in AFDC benefits than households in the other four groups. This pattern may reflect that households in these groups were either less able to generate earnings or, especially for those in Group (iii), that they perceived they might jeopardize the receipt of their AFDC benefits if they filed tax returns so as to claim the EITC, and, possibly, have to pay taxes on their earnings. There does not appear to be substantial differences in the AFDC benefits received across the remaining groups (compare columns (i), (ii), (iv) and (v)). The only exception to this pattern is for ineligible non-participants in our Replenishment Sample (column (v) in Table 4c) who received less in AFDC during the 1994 tax year and spent of that year on AFDC than did the other groups.

Among those groups that filed tax returns—Groups (i), (ii), (iv) and (v)—households in non-participant groups typically had substantially higher earnings than did households in the EITC participant groups. While the shares of our sample in either of the non-participant groups are typically small, it appears that households in these two groups, especially those in Group (v), often earned enough income so as not to qualify for a credit. For example, among Group (iv) households in the Original Sample in 1993 (column (v) in Table 4a) only 32 and 38 percent of AFDC-FG and AFDC-U households, respectively, had incomes below the EITC maximum income threshold.

Finally, we find that for households who were classified as being eligible for the EITC—Groups (i) and (ii)—households that claimed the EITC were more likely to use a paid tax preparer than were households who did not claim a credit. One would expect that paid preparers have a greater knowledge of the IRS rules, including those for the EITC. Furthermore, such returns are more likely to be filed electronically with the IRS than are ones filed in paper form and electronically filed returns have a shorter waiting time to receive a refund, including a tax credit. We note that among households that we classified as ineligible for a credit—Groups (iv) and

(v)—there is no clear pattern in the propensity for EITC claimants and non-claimants to use a paid tax preparer across our various samples, types of AFDC assistance, and tax years.[32]

3.4 Estimates of Rates of EITC Noncompliance

In the last three columns of Tables 3a and 3b, we present estimates of EITC non-compliance rates for our alternative samples, AFDC programs and tax years. Recall from the Introduction that recent evidence gathered by the IRS and GAO have raised serious concerns about the incidence of noncompliance associated with the EITC.[33] The most recent study of returns filed in 1995 for the 1994 tax year found that 25.8 percent of EITC claims exceeded the amount for which taxpayers were eligible and the corresponding rate was almost 33 percent based on an IRS study conducted for 1988 tax returns. Based on our data for households who are on, or have recently been on, AFDC in California, we find rates that are quite similar to those found in these previous studies for the nation as a whole. We estimate that between 17 and 57 percent of the AFDC-FG households in our sample that claimed an EITC were not eligible for it and that the corresponding range for AFDC-U households was between 9 and 45 percent. Using Criterion A for determining a household's EITC eligibility status, our estimates of noncompliance rates are around 25 percent. Furthermore, we find little evidence these rates vary much by AFDC type (AFDC-FG vs. AFDC-U) or by how long the household was on welfare (Original vs. Replenishment samples).

While our intermediate estimates of EITC noncompliance suggest that the incidence of this problem among a low-income, welfare population that claimed the EITC is not substantially higher than has been found for all EITC claimants in the nation, regardless of their participation in AFDC, it is important to emphasize the potential for bias in our estimates. Such bias would arise due to misclassification of households with respect to EITC eligibility status. With respect to the income component of EITC eligibility, we have noted that all of our eligibility criteria are biased toward understating income. This is because households are likely to understate their income to county welfare departments; furthermore, our other measure, based on earnings subject to California's UI and DI programs, undercounts self-employment income and income earned in jobs not covered by the UI insurance system. These shortcomings of our income measures would suggest that we are likely to *understate* a household's earnings from either EDD or reported Gross Earned Income (GEI) used for either AFDC or food stamp benefit determination. As such, it would appear that we are more likely to classify too many households as ineligible for EITC, at least based on meeting the income criteria of EITC eligibility.

There is a bias to the extent we classify households with self-employment income (and no wage income) as ineligible for the EITC. Based on our analysis of those who file tax returns in our samples, we find that very few claim this source of income (Schedule C income) on their returns. Not surprisingly, the highest percentages are seen in the category of ineligible EITC participants, i.e., Group (iv). As recorded in Tables 4a through 4c, between 9 and 15 percent of ineligible participant AFDC-FG households claimed self-employment income on their tax returns

[32] Preparer usage is highest among AFDC-U households in the Replenishment Sample. In particular, 79 percent of ineligible participants in this group used preparers.

[33] Both the chair of the U.S. House Ways and Means and Senate Finance Committees have recently held hearings on this issue.

while among ineligible participant AFDC-U households between 29 and 37 percent claimed it. The incidence of self-employment income in the other groups who filed returns—Groups (i), (ii), and (v)—is very low, never exceeding 10 percent of filers in a particular group. However, because few households are classified as being in the Ineligible, non-participant group (see the "% of Sample in Category" entry for column (v) in Tables 4a through 4c), the biases in our estimate EITC eligibility and noncompliance rates due to failing to count self-employment income correctly would be minimal. For example, if we reclassified all of ineligible, non-participant households with self-employment income to be eligible for the EITC—and used the same measures for qualifying children as in Criterion A—we would increase each of the "intermediate" estimates of EITC eligibility by 1 to 2 percentage points and reduce the corresponding noncompliance rates by between 2 to 3 percentage points. Thus, our eligibility and non-compliance rates do not appear to be terribly vulnerable to the failure to measure self-employment income, at least for our sample of current, or recent, AFDC recipients.

With respect to the presence-of-a-qualifying-child component, we have noted that our data are less than ideal, given that we must rely on evidence from county welfare records to identify children. Such counts of children present for purposes of determining AFDC benefits may, themselves, be subject to overreporting as households seek to increase the amount of the AFDC benefits. Furthermore, we have no information about whether the head of a household has a "qualifying" child in the household during months when the household is not on welfare. Finally, we have no other way of determining whether children are present other than using information from the welfare department records.

4. Comparability of Family Structure and Income Across Data Sources

In an effort to determine their reliability, we investigate the consistency of our various data sources on income and presence of children in households in this section. We begin by presenting comparisons of measures of the presence and number of children in AFDC households with the number of exemptions claimed in tax returns. As the discussion at the end of the previous section indicates, one of the problems with our analysis of EITC eligibility and noncompliance appears to be our difficulty in accurately measuring the presence of a qualifying child with the data we have from various administrative records systems. Clearly, this limitation chastens us from making strong claims about the robustness of our findings, especially with respect to rates of noncompliance. Furthermore, it is clear, especially with respect to measuring the qualifying child component of EITC eligibility, that we cannot completely resolve this issue with the data we have at hand. Nonetheless, we can examine the *consistency* of the measures across the data sources available to us in order to gain some sense of the *internal validity* of our findings. Accordingly, in this final section of our report, we present several comparisons of the information about children, and family structure in general, across our various data sources.

We also present comparisons of the income measures for the households in our sample from these various sources. Such a comparison provides us with a sense of the internal consistency of the measurement of income for disadvantaged households. Furthermore, such comparisons are of particular interest for learning more about the population from which our sample is drawn. This is especially true as federal and state governments attempt to redesign social programs to encourage work and minimize dependence on cash assistance. Such comparisons can help to improve our measurement of income and minimize potential misreporting and fraud. Ex-

amining income reporting for this population is of particular interest in the context of the AFDC and EITC programs because of the potentially conflicting incentives associated with these two programs. The AFDC program would appear to have encouraged households to underreport their wage and salary earnings while the EITC program gives households the opposite incentive in the Phase-In range of the credit. As such, measuring how the same households "report" to either administrative authority is of particular interest.

4.1 Household Size Comparisons

We employ two approaches for comparing family size reported to transfer and tax authorities. First, we compare the number of children age 18 and younger in the households in our sample. Recall that information on family composition is derived from AFDC case records and is subject to the problem that we do not know family composition during periods when these units are not receiving benefits. Nonetheless, we compare the resulting data on family composition from this source with the number of dependents claimed by the household on its tax return. More precisely, we estimate household size using monthly data on the number of AFDC-eligible children in a household from CWAD records. We identify the maximum number of eligible children in any one month of the year and compare this with the number of exemptions the household claims on its tax return(s). This comparison gives one measure of the degree to which household size differs across and tax and transfer records.[34]

Table 5a shows cross-tabulations of the number of children in an AFDC-FG household by the number of exemptions claimed on the household's tax return(s). In this table, we present these comparisons both for the Original Sample and for the Replenishment Sample. Table 5b shows similar information for AFDC-U households. As shown in the second to last columns of Tables 5a and 5b, the numbers of children reported to transfer and tax authorities are consistent across 57 to 65 percent of AFDC-FG households, and 74 to 80 percent of AFDC-U households. We observe the high estimate for AFDC-FG households in tax year 1993 and the low estimate in 1994, both for the Original Sample. For AFDC-U cases, however, around 75 percent of the reports between the two data sources agree in both 1993 and 1994 for the Original Sample. Lower match rates between AFDC records and exemptions for AFDC-FG households compared to AFDC-U households are not particularly surprising: the absent parent or other guardian may rightfully claim the child as a dependent for tax purposes. We do not see a consistent pattern of over- or under-reporting of family responsibilities to either tax or transfer authorities.

Another way of assessing the accuracy of the measures of the presence of children available in the CWAD data is to examine how a household's status as an AFDC-FG or AFDC-U case compares with the type of tax return(s) filed by adults in the household. Throughout a year, a household may maintain its designation as an AFDC-FG or AFDC-U case, switch from AFDC-FG to AFDC-U or vice versa, or switch to another type of assistance. We compare these classifications with the filing status reported on the household's tax return. Most AFDC-FG households

[34] We first adjust the number of exemptions to account for adults in the household. For example, we subtract one for a return with Head of Household filing status, and subtract two for a return with Joint filing status. The comparison of children in the AFDC case unit with the adjusted exemption count is admittedly a very rough comparison of household membership. Dependents for tax purposes do not necessarily reside with the filer. Furthermore, our data do not contain information on relationships among household members.

that file tax returns are likely to use the Head of Household filing status, whereas most AFDC-U households are likely to use the Married filing status. Noticeable departures from these expected patterns may indicate purposeful misreporting of household composition to tax or transfer authorities.

Table 6a presents comparisons of AFDC case status to type of tax return filed by the household, for households that entered the sample as AFDC-FG cases. Table 6b displays similar information for households that entered the sample as AFDC-U cases. First, we comment on tax return filing rates for these types of households. Filing rates are highest for households that move from AFDC to another type of assistance by the end of the year. Additionally, households that are AFDC-U households at the end of the year, no matter whether they were AFDC-U or AFDC-FG when drawn into the sample, generally have higher filing rates than those households that switched to or continued as AFDC-FG cases. Finally, Replenishment households that were AFDC-U households when drawn into the sample have higher overall filing rates than those in the Original Sample for all types of cases.

Of AFDC-FG households that remain AFDC-FG throughout the year and that file returns, most—between 62 and 68 percent—file as Heads of Household. The next most frequent filing status observed among this group is the Married status (*not* Married Filing Separately), then Single. These AFDC-FG households that use the Married filing status may or may not be reporting different family structure to tax and transfer authorities: we know that some women in AFDC-FG households are married or separated and thus filing a tax return using the Married filing status does not necessarily indicate fraudulent behavior.

The majority of households that entered the sample as AFDC-FG and moved to AFDC-U by the end of the year use the Married filing status, though many file as Heads of Household. Not surprisingly, almost all households that entered the sample and remain as AFDC-U and that file tax returns use the Married filing status. Most AFDC-U households that move to AFDC-FG or other case statuses file as Married or Head of Household, though we do see some filing as Single. Overall, these rough comparisons do not highlight large differences in reporting of family structure to tax and welfare authorities.

4.2 Match Rates and Income Comparisons

The linked administrative records from AFDC files and the Base Wage File, together with individual tax returns, provide a unique opportunity to examine match rates and consistency of income reports, and to determine whether reports of income to the various sources are consistent with incentives. We know that incentives exist to underreport income to transfer authorities to maximize benefits, to overreport income to tax authorities in the phase-in range of the EITC, and to underreport income to tax authorities in the phase-out range of the credit. There are fewer incentives for employers to misreport earnings to the UI/DI system, as discussed in Section 2 of this report, so employer-reported income in the Base Wage File can be used as the basis of comparisons to AFDC income reports and tax records.

4.2.1 Wage Earnings from EDD Base Wage File versus AFDC Gross Earned Income in the CWAD File [35]

We begin by describing the matching process used to find the adults from our CWPDP Analysis Sample in the EDD Base Wage File. The latter file contains quarterly wage information for individuals who worked in jobs in California that are covered by the UI and DI system over the period from 1984 through 1994. We first ascertained whether the adults in the CWPDP sample had a record in the EDD Base Wage File for any quarter in this span of years, where this match was based on Social Security numbers. Note that an "EDD Match" would occur even if an adult in our sample worked in the UI/DI covered sector at some point during this period but did not work at all in 1993 or 1994, or did not work in a covered job in those two years. In either case, the adult would have an EDD Match but their EDD wage earnings would be recorded as zero during the particular year. Conditional on a match with the EDD data, we obtain a measure of a household's annual earnings by aggregating Base Wage File quarterly income reports for all adults in the household.

We note that earnings information is available in the Base Wage File regardless of whether the adult or household is eligible for AFDC in any particular month, quarter, or year. No record of the household's earnings is available in the CWPDP analysis file, however, during months the household is ineligible for AFDC. Thus, simply comparing a household's annual earnings in the Base Wage File with the sum of monthly earnings in its AFDC case file, regardless of the number of months of AFDC eligibility, is not a meaningful comparison.

To accurately assess the variations between income in the Base Wage File and in AFDC records, we must impose a sample restriction and use only those households that are eligible for AFDC during all twelve months of the year. We group income into $2,500 dollar increments. Even though this is quite a wide band of income, we expect to see some discrepancies in income reports across the different data sources due to the slightly different measures of income that each dataset uses, and to the coverage and reporting issues, discussed in previous sections of this report.

Match rates for adults from the CWPDP Analysis Sample in the EDD Base Wage File were quite high, for both AFDC-FG and AFDC-U households: We obtained matches to Base Wage File records for 78 percent of adults in AFDC-FG households and 75 percent of adults in AFDC-U households. While these rates are high, it is important to keep in mind that a match does not indicate earnings in a particular year, and that the sample submitted for a match is a restricted sample (see the Appendix).

Table 7a presents comparisons of income reports from the EDD Base Wage File and reported AFDC Gross Earned Income (GEI) for AFDC-FG households obtained from the CWAD. Yearly comparisons are presented for the Original Sample and for the Replenishment Sample. Table 7b shows similar information for AFDC-U households. Between 66 to 75 percent of AFDC-FG households and 49 to 65 percent of AFDC-U households in the restricted sample

[35] We also compared Base Wage File earnings with earnings reported for food stamp eligibility determination. The reporting patterns of food stamp income were quite similar to reports of income for AFDC eligibility determination. We present findings only on the comparison of Base Wage File and AFDC gross earned income.

show zero earnings in the Base Wage File and zero income in AFDC administrative records.

The cases of interest for our purposes, however, are the ones in which an adult in a household has positive earnings in the Base Wage File but has *underreported* GEI to AFDC. Conditional on having positive income in the Base Wage File in a given year, we find that 55 to 69 percent of AFDC-FG households and 36 to 41 percent of AFDC-U households appear to underreport income to AFDC authorities. These estimates reflect a conservative estimate of underreporting to AFDC authorities for three reasons. First, some households have positive earnings in the Base Wage File but have a missing value recorded for AFDC Gross Earned Income in the AFDC case files. We attribute this to administrative error (since the records show the household eligible for AFDC), not to purposeful underreporting by the household. Second, the AFDC income measure may include income for other persons in the household for whom we do not have access to Base Wage File earnings records. Finally, as discussed in Section 2, AFDC GEI is a more inclusive measure of income than earnings in the Base Wage File. Nonetheless, the evidence summarized in Tables 7a and 7b seems to clearly indicate that households on AFDC underreport their income to county welfare departments, even earnings that are readily verifiable.

4.2.2 Wage Earnings from EDD Base Wage File versus Income data from Tax Returns for Our Analysis Sample

The California Franchise Tax Board matched records from the Base Wage File with federal tax returns from 1993 and 1994. Most people who have no earnings in the Base Wage File are not likely to file tax returns. Some with zero earnings will file returns, however, if they are self-employed or work in sectors that are not covered by UI/DI. Even still, families that have earnings but do not have positive tax liabilities are not required to file tax returns. A married couple, for example, is not required to file if their income is below the standard deduction and two exemptions ($12,200 in 1997), regardless of how many children they have. Other families may be required to file, but choose not to do so.

Given matches, we also compare aggregate quarterly earnings in the Base Wage File to two items on tax returns: wage and salary earnings reported on Line 7 of an individual's 1040 form and their Adjusted Gross Income (AGI, reported on line 31 of the 1040 form). We would expect earnings in the Base Wage File and Line 7 Wage and Salary earnings to correspond quite closely because they are essentially the same measure of income. Similarly, Base Wage File earnings and AGI should not differ greatly because the additions and adjustments to income that affect AGI are not likely to be heavily used by persons in our sample.[36]

Examining the match rates for filing tax returns with those assistance units in our CWAD subsample, we find that between 22 to 33 percent of AFDC-FG households and 31 to 49 percent of AFDC-U households in our sample filed tax returns (see Tables 3a and 3b). Match rates between adults in the CWPDP Analysis File and federal tax returns were higher for AFDC-U households than AFDC-FG households, higher in 1994 than in 1993 for households in the Original Sample, and higher for both AFDC-U and AFDC-FG households in the Replenishment Sample compared to AFDC-U and AFDC-FG households in the Original Sample. We find that 22

[36] Examples of these additions and adjustments to income include dividend income, alimony, capital gains, and IRA and Keogh deductions.

percent of AFDC-FG households and 31 percent of AFDC-U households in the Original Sample filed returns in 1993. The filing rates for these samples increased to 31 and 37 percent, respectively, in tax year 1994. In the Replenishment Sample, 33 percent of AFDC-FG households and 49 percent of AFDC-U households filed returns in 1994.

Tables 8a and 8b display summary statistics for income comparisons for AFDC-FG and AFDC-U households, respectively, of income in the EDD Base Wage File and income reported as AGI on the federal tax return. Tables 9a and 9b show similar information for comparisons of EDD Base Wage File earnings and Line 7 Wage and Salary income on the federal tax return. Comparisons of earnings in the Base Wage File to tax return data show, as we expect, that most households with zero earnings in the Base Wage File do not file tax returns. Conditional on having positive earnings in the Base Wage File, we find very low rates of underreporting of income to tax authorities. Only 3 to 6 percent of AFDC-FG and AFDC-U households report lower AGI than we find in the Base Wage File. Similarly, only 4 to 5 percent of AFDC-FG and AFDC-U households in the restricted sample report lower Line 7 earnings than we detect in Base Wage File records. Tables 8a through 9b highlight another one important aspect of EITC participation: most households that have positive earnings but do not file returns (and thus do not claim the EITC) have *very low* earnings ($2,500 or less). We observe these households on the "no tax return" rows under AGI and Line 7 comparisons.

5. Conclusion

There appear to be several conclusions one can draw, albeit tentatively, from the findings of this study about the role of the EITC and with the incentives that programs like AFDC and the EITC create for reporting and behavior. First, we find that a non-trivial proportion of households on AFDC were eligible for and claimed the earned income tax credit during the first half of the 1990s. In particular, we find that between 12 to 20 percent of the households in our sample on AFDC-FG and between 20 and 33 percent of those on the AFDC-U program actually received a earned income tax credit for years in which they were also receiving AFDC. While not huge, this degree of overlap between the utilization of these two programs is not negligible. Furthermore, while the average annual credit received by households in our sample is small—between $166 to $381 per year for those on AFDC-FG and between $236 to $615 for those on AFDC-U—this amount increased from 1993 to 1994, amounting to between 5 to 12 percent of the average annual benefits these households received from the AFDC program. In short, this study documents an important, and non-negligible, overlap between the AFDC and EITC programs.

Our evidence on the EITC "involvement" of those on welfare also provides some encouragement that the provisions of the recently passed Personal Responsibility and Work Opportunities Act which seek to encourage greater work among this population may succeed. These findings are somewhat surprising for at least two reasons. First, California experienced a severe recession during this period; one would have expected that the employment opportunities of low-income adults would have been severely limited. Second, most previous studies have found that the rates of labor force participation among those on AFDC are very low. The basis for the latter conclusion is the incidence of labor market earnings reported to welfare departments by AFDC recipients. Our study documents, as have others, that these reports severely underreport such income. Moreover, we find that this underreporting is not simply attributable to the failure to report "off-the-books" earnings from casual labor, as suggested in a recent ethnographic study of

welfare recipients by Kathryn Edin. In fact, we find that earnings from employment that is verifiable and readily documented are substantially underreported as well.

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Figure 1

Earned Income Tax Credit: 1995

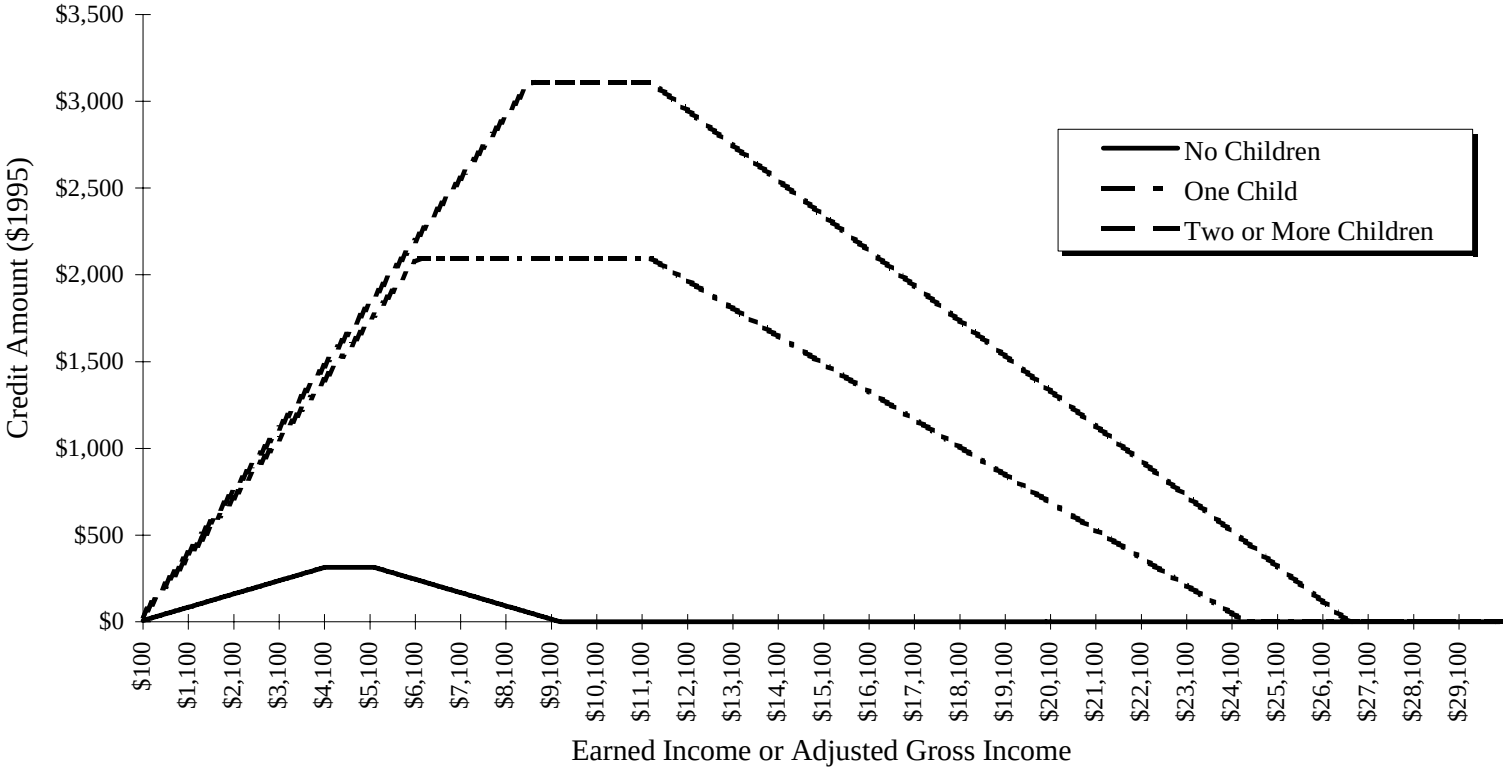

Figure 2

Annual Growth Rates in Employment: All Industries, 1986-1994

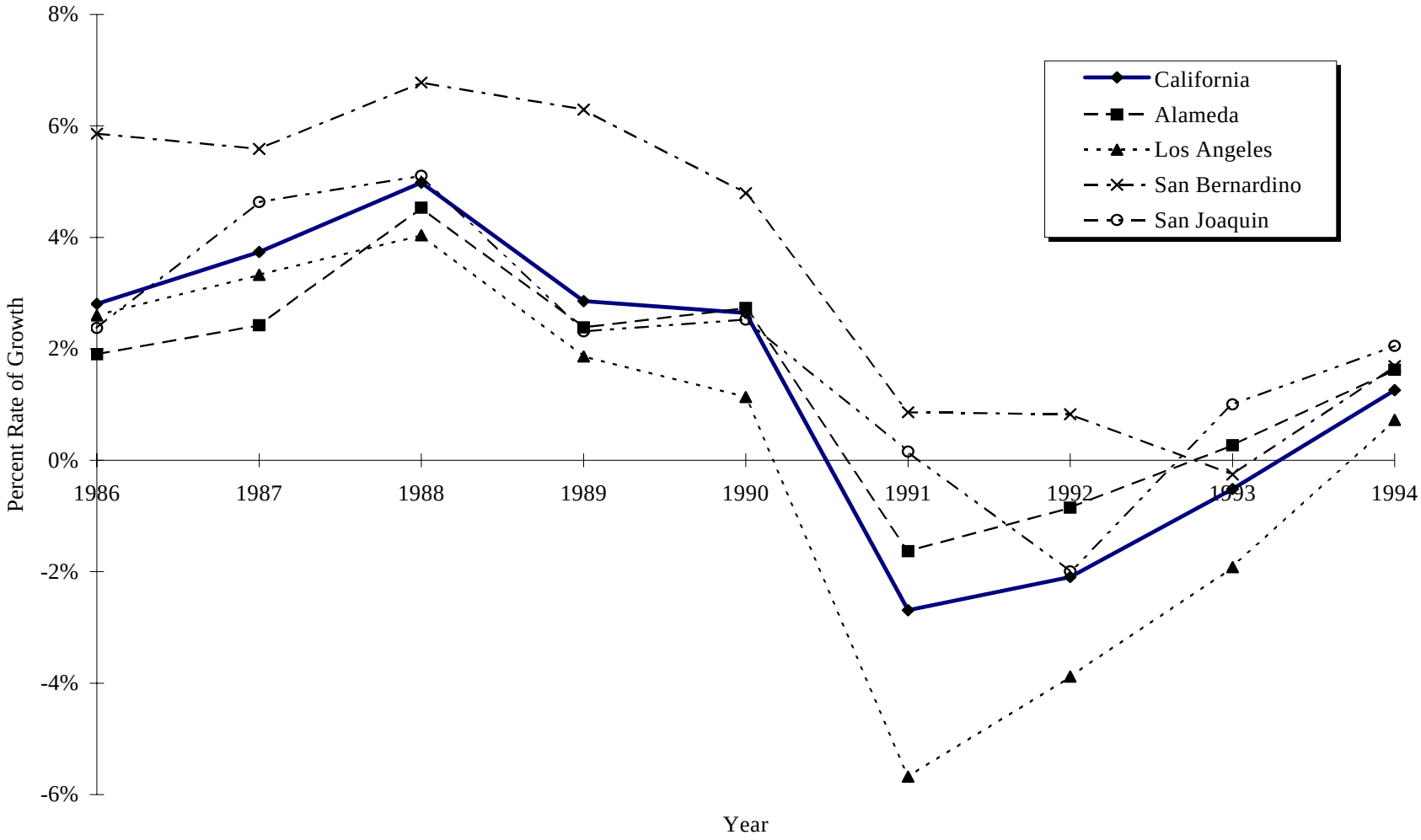

Figure 3
Schematic Representation of Classification of Assistance Units with Respect to EITC Eligibility and Participation

Tax Return and EITC Filing Status	*Meets Candidate Criteria Used for EITC Eligibility*	*Does Not Meet Candidate Criteria Used for EITC Eligibility*
Tax Return found for Head(s) of AU and EITC claimed	**Cell I:** Eligible participant	**Cell IV:** Ineligible participant
Tax Return found for Head(s) of AU and EITC not claimed	**Cell II:** Eligible non-participant	**Cell V:** Ineligible non-participant
No Tax Return found for Head(s) of AU	**Cell III:** Eligible non-participant	**Cell VI:** Ineligible non-participant

Table 1
EITC Program Parameters, Selected Years (dollar amounts unadjusted for inflation)

Year	Credit Rate	Flat Region		Maximum Credit	Phase-out Region	
		Beginning	Ending		Phase-out Credit	Income
1993						
1 child	18.5%	$7,750	$12,200	$1,434	13.21%	$23,050
2+ kids	19.5%	$7,750	$12,200	$1,511	13.93%	$23,050
Young child[1]	5.0%	$7,750	$12,200	$388	3.57%	$23,050
Health credit[2]	6.0%	$7,750	$12,200	$465	4.285%	$23,050
1994						
1 child	26.3%	$7,750	$11,000	$2,038	15.98%	$23,755
2+ Kids	30.0%	$8,425	$11,000	$2,528	17.68%	$25,296
No child	7.65%	$4,000	$5,000	$306	7.65%	$9,000
1997						
1 child	34.0%	$6,500	$11,930	$2,210	15.98%	$25,760
2+ kids	40.0%	$9,140	$11,930	$3,656	21.06%	$29,290
No child	7.65%	$4,340	$5,430	$332	7.65%	$9,770

Source: Green Book 1996, and Office of Tax Policy, U.S. Treasury Department.

Table 2a
Background Characteristics for CWPDP Analysis Sample
Original Sample, Measured in Tax Year 1993

Variables	County				
	Alameda	*Los Angeles*	*San Bernardino*	*San Joaquin*	*Four Counties*
AFDC-FG Cases					
Race:					
White	0.18	0.19	0.47	0.41	0.24
Black	0.61	0.41	0.22	0.12	0.39
Hispanic	0.10	0.33	0.28	0.23	0.29
Asian	0.11	0.07	0.03	0.23	0.07
Gender: (fraction male)	0.07	0.09	0.09	0.14	0.09
Numbers of Adults in AU:					
1	0.98	0.94	0.93	0.95	0.94
2	0.02	0.06	0.07	0.05	0.06
Numbers of Children in AU:					
0	0.03	0.01	0.02	0.02	0.02
1	0.41	0.39	0.33	0.33	0.38
2	0.30	0.30	0.33	0.32	0.30
3+	0.25	0.30	0.31	0.34	0.30
No. of Adults with EDD Earnings:					
0	0.69	0.75	0.73	0.71	0.74
1	0.30	0.25	0.26	0.29	0.26
2	0.01	0.00	0.01	0.01	0.00
No. of Assistance Units	1,584	2,329	1,567	556	6,036
AFDC-U Cases					
Race:					
White	0.28	0.47	0.52	0.31	0.46
Black	0.12	0.05	0.09	0.04	0.06
Hispanic	0.07	0.23	0.28	0.12	0.22
Asian	0.51	0.25	0.09	0.51	0.25
Gender: (Fraction Male)	0.49	0.49	0.48	0.49	0.49
Numbers of Adults in AU:					
1	0.08	0.19	0.16	0.07	0.17
2	0.92	0.81	0.84	0.93	0.83
Numbers of Children in AU:					
0	0.03	0.00	0.02	0.00	0.01
1	0.15	0.18	0.16	0.13	0.17
2	0.26	0.41	0.29	0.22	0.37
3+	0.55	0.40	0.53	0.65	0.45
No. of Adults with EDD Earnings:					
0	0.76	0.71	0.62	0.62	0.69
1	0.20	0.25	0.30	0.31	0.26
2	0.04	0.04	0.08	0.06	0.05
No. of Assistance Units	750	1,308	766	221	3,045

Table 2b
Background Characteristics for CWPDP Analysis Sample
Replenishment Sample, Measured in Tax Year 1994

Variables	County				
	Alameda	*Los Angeles*	*San Bernardino*	*San Joaquin*	*Four Counties*
AFDC-FG Cases					
Race:					
White	0.28	0.30	0.48	0.54	0.35
Black	0.45	0.20	0.18	0.14	0.21
Hispanic	0.15	0.44	0.31	0.20	0.38
Asian	0.12	0.04	0.01	0.10	0.04
Gender: (fraction male)	0.07	0.07	0.15	0.13	0.09
Numbers of Adults in AU:					
1	0.94	0.97	0.94	0.95	0.96
2	0.06	0.03	0.06	0.05	0.04
Numbers of Children in AU:					
0	0.27	0.24	0.27	0.37	0.25
1	0.35	0.47	0.36	0.37	0.43
2	0.25	0.18	0.22	0.15	0.20
3+	0.12	0.11	0.15	0.10	0.12
No. of Adults with EDD Earnings:					
0	0.50	0.66	0.60	0.49	0.63
1	0.47	0.34	0.40	0.47	0.36
2	0.02	0.00	0.00	0.03	0.01
No. of Assistance Units	139	232	253	46	670
AFDC-U Cases					
Race:					
White	0.29	0.28	0.49	0.30	0.34
Black	0.17	0.06	0.07	.	0.07
Hispanic	0.25	0.52	0.37	0.53	0.47
Asian	0.29	0.14	0.06	0.15	0.13
Gender: (Fraction Male)	0.49	0.51	0.50	0.48	0.51
Numbers of Adults in AU:					
1	0.30	0.54	0.40	0.26	0.49
2	0.70	0.46	0.60	0.74	0.51
Numbers of Children in AU:					
0	0.24	0.20	0.26	0.58	0.23
1	0.25	0.29	0.20	0.02	0.26
2	0.44	0.33	0.25	0.15	0.31
3+	0.08	0.18	0.29	0.24	0.21
No. of Adults with EDD Earnings:					
0	0.55	0.59	0.38	0.20	0.52
1	0.36	0.35	0.47	0.53	0.39
2	0.09	0.06	0.15	0.28	0.09
No. of Assistance Units	83	215	219	35	552

Table 3a
EITC Eligibility, Participation and Non-Compliance Rates: Lower and Upper Bound and "Intermediate" Estimates
AFDC-FG and AFDC-U Households, Tax Years 1993 and 1994
(All Households in Sample, including those who went off AFDC)

Sample	EITC Eligibility Rate			% with Tax Return	EITC Participation Rate[1]			EITC Non-Compliance Rate[2]		
	Lower Bound	*Intermediate Estimate*	*Upper Bound*		*Lower Bound*	*Intermediate Estimate*	*Upper Bound*	*Lower Bound*	*Intermediate Estimate*	*Upper Bound*
AFDC-FG Households:										
Original Sample, Tax Year 1993	21.97[e]	26.02[a]	29.05[b]	22.46	42.21[f]	46.73[a]	46.73[a]	22.19[b]	26.48[a]	40.58[e]
Original Sample, Tax Year 1994	23.22[e]	33.23[a]	37.17[b]	30.52	44.55[f]	49.83[a]	49.83[a]	17.85[b]	23.40[a]	49.53[e]
Replenishment Sample, Tax Year 1994	21.56[e]	36.08[a]	40.94[b]	32.93	47.56[f]	54.19[a]	54.36[c]	23.05[b]	27.08[a]	57.49[e]
AFDC-U Households:										
Original Sample, Tax Year 1993	25.64[e]	29.56[a]	37.71[b]	30.59	61.39[f]	67.46[a]	67.59[c]	11.89[b]	25.46[a]	36.15[e]
Original Sample, Tax Year 1994	25.90[e]	35.03[a]	44.23[b]	36.57	59.66[f]	64.77[a]	65.29[e]	11.86[b]	25.09[a]	44.15[e]
Replenishment Sample, Tax Year 1994	27.56[e]	41.17[a]	52.99[b]	49.04	71.86[b]	76.85[a]	83.82[e]	9.59[b]	24.88[a]	45.14[e]

Notes:

1. Participation rate is the percentage of "eligible" assistance units who claimed the EITC, where eligibility definition is noted for each entry.
2. Non-compliance rate is the percentage of assistance units that claimed the EITC who did not meet the eligibility definition, where the definition is noted for each entry.

EITC Eligibility Criteria Definitions:

Criteria	*Income Source*	*Child Eligible for AFDC*
Criterion A	UI/DI Wage Earnings > 0	0+ months during year
Criterion B	Max{UI/DI, Food Stamp AGI, AFDC AGI} > 0	0+ months during year
Criterion C	UI/DI Wage Earnings > 0	1+ months during year
Criterion D	Max{UI/DI, Food Stamp AGI, AFDC AGI} > 0	1+ months during year
Criterion E	UI/DI Wage Earnings > 0	6+ months during year
Criterion F	Max{UI/DI, Food Stamp AGI, AFDC AGI} > 0	6+ months during year

Table 3b
EITC Eligibility, Participation and Non-Compliance Rates: Lower and Upper Bound and "Intermediate" Estimates
AFDC-FG and AFDC-U Households, Tax Years 1993 and 1994
(Households on AFDC for at least one month in Tax Year)

Sample	**EITC Eligibility Rate**			**% with Tax Return**	**EITC Participation Rate[1]**			**EITC Non-Compliance Rate[2]**		
	Lower Bound	*Intermediate Estimate*	*Upper Bound*		*Lower Bound*	*Intermediate Estimate*	*Upper Bound*	*Lower Bound*	*Intermediate Estimate*	*Upper Bound*
AFDC-FG Households:										
Original Sample, Tax Year 1993	22.46[e]	25.87[a]	28.96[b]	22.22	42.45[f]	46.85[a]	46.85[a]	22.52[d]	26.81[a]	39.17[e]
Original Sample, Tax Year 1994	28.29[e]	31.90[a]	36.78[b]	27.53	45.68[f]	48.68[a]	48.68[a]	17.06[b]	24.28[a]	33.84[e]
Replenishment Sample, Tax Year 1994	28.43[e]	37.73[a]	44.15[b]	34.39	47.67[f]	53.51[a]	54.36[c]	23.03[b]	28.10[a]	46.35[e]
AFDC-U Households:										
Original Sample, Tax Year 1993	28.13[e]	31.48[a]	39.54[b]	31.98	58.98[f]	64.04[a]	64.04[c,a]	11.12[b]	24.49[a]	33.67[e]
Original Sample, Tax Year 1994	34.57[e]	37.98[a]	47.91[b]	38.01	57.28[f]	61.53[a]	61.53[a]	8.88[b]	23.10[a]	30.44[e]
Replenishment Sample, Tax Year 1994	36.43[e]	42.61[a]	57.20[d,b]	52.39	71.91[d,b]	77.96[a]	80.70[e]	8.44[b]	26.05[a]	34.54[e]

Notes:

1. Participation rate is the percentage of "eligible" assistance units who claimed the EITC, where eligibility definition is noted for each entry.
2. Non-compliance rate is the percentage of assistance units that claimed the EITC who did not meet the eligibility definition, where the definition is noted for each entry.

EITC Eligibility Criteria Definitions:

Criteria	*Income Source*	*Child Eligible for AFDC*
Criterion A	UI/DI Wage Earnings > 0	0+ months during year
Criterion B	Max{UI/DI, Food Stamp AGI, AFDC AGI} > 0	0+ months during year
Criterion C	UI/DI Wage Earnings > 0	1+ months during year
Criterion D	Max{UI/DI, Food Stamp AGI, AFDC AGI} > 0	1+ months during year
Criterion E	UI/DI Wage Earnings > 0	6+ months during year
Criterion F	Max{UI/DI, Food Stamp AGI, AFDC AGI} > 0	6+ months during year

Table 4a
AFDC and Tax Return Outcomes, By Status of Tax Match, Eligibility, and EITC Participation
Original Sample; Tax Year 1993[a]

Characteristic	*EITC-Eligible:*			*EITC-Ineligible:*			*All Households*
	EITC Participants (i)	*EITC Non-Participants* (ii)	*Did Not Have IRS Match* (iii)	*EITC Participants* (iv)	*EITC Non-Participants* (v)	*Did Not Have IRS Match* (vi)	
AFDC-FG Cases:							
% of Sample in Category:	12.16	2.81	11.05	4.38	3.11	66.49	100.00
Months on AFDC During Year:							
0	0.01	0.02	0.01	0.01	0.02	0.01	0.01
1 to 4	0.18	0.17	0.07	0.08	0.23	0.06	0.08
5 to 8	0.11	0.09	0.10	0.14	0.07	0.06	0.08
9 to 12	0.70	0.72	0.83	0.78	0.69	0.87	0.83
Annual AFDC Benefits Received:	$4,888	$5,130	$6,198	$6,447	$5,444	$6,824	$6,412
Average EDD Wage Earnings:	$6,573	$4,484	$1,893	$556	$2,064	$29	$1,242
Tax Filing Status:							
Single	0.08	0.63		0.03	0.09		0.07[b]
Married but Filed Separately	0.00	0.02		0.01	0.08		0.00[b]
Married	0.10	0.23		0.37	0.58		0.17[b]
Head of Household	0.81	0.12		0.59	0.25		0.75[b]
Tax Preparer:							
Was Tax Preparer Used?	0.54	0.52		0.58	0.46		0.55[b]
Adjusted Gross Income:	$7,676	$11,320		$9,179	$23,306		$2,378
Line 7, Wages and Salary:	$7,325	$10,195		$8,276	$20,890		$2,189
AGI income in EITC Range:							
Phase-In	0.59	0.60		0.46	0.17		0.56[b]
Flat	0.24	0.13		0.23	0.04		0.24[b]
Phase-Out	0.18	0.06		0.29	0.11		0.21[b]
Self-Employment Income:							
Fraction who Reported Any	0.03	0.02		0.13	0.09		0.06[b]
Was Tax Preparer Used?	0.58	1.00		0.73	0.57		0.62[b]
Ave Amt	$5,225	$11,370		$4,345	$8,726		$4,992[b]
EITC Received:	$988			$1,058			$166
AFDC-U Cases:							
% of Sample in Category:	19.94	1.90	7.72	6.81	1.94	61.69	100.00
Months on AFDC During Year:							
0	0.01	0.00	0.00	0.00	0.03	0.00	0.00
1 to 4	0.11	0.10	0.08	0.13	0.31	0.04	0.07
5 to 8	0.11	0.16	0.10	0.04	0.17	0.03	0.06
9 to 12	0.77	0.74	0.82	0.83	0.49	0.92	0.86
Annual AFDC Benefits Received:	$6,683	$6,523	$7,606	$7,322	$4,971	$8,895	$8,126
Average EDD Wage Earnings:	$5,936	$6,302	$2,277	$1,852	$8,667	$30	$1,792
Tax Filing Status:							
Single	0.01	0.32		0.01	0.06		0.03[b]
Married but Filed Separately	0.00	0.20		0.00	0.10		0.02[b]
Married	0.87	0.44		0.89	0.77		0.84[b]
Head of Household	0.11	0.05		0.09	0.06		0.10[b]
Tax Preparer:							
Was Tax Preparer Used?	0.59	0.37		0.64	0.51		0.58[b]
Adjusted Gross Income:	$7,118	$11,032		$7,522	$23,385		$2,595
Line 7, Wages and Salary:	$6,489	$9,848		$5,694	$22,781		$2,311
AGI income in EITC Range:							
Phase-In	0.66	0.61		0.67	0.27		0.63[b]
Flat	0.20	0.20		0.16	0.00		0.18[b]
Phase-Out	0.14	0.07		0.17	0.11		0.14[b]
Self-Employment Income:							
Fraction who Reported Any	0.06	0.09		0.29	0.10		0.12[b]
Was Tax Preparer Used?	0.63	1.00		0.73	0.36		0.66[b]
Ave Amt	$5,043	$5,581		$4,945	$1,936		$4,858[b]
EITC Received:	$908			$814			$236

Notes: a. EITC Eligibility Criterion A used.
b. Averages for those households which filed a tax return.

Table 4b
AFDC and Tax Return Outcomes, By Status of Tax Match, Eligibility, and EITC Participation
Original Sample; Tax Year 1994[a]

Characteristic	*EITC-Eligible:* *EITC Participants* (i)	*EITC Non-Participants* (ii)	*Did Not Have IRS Match* (iii)	*EITC-Ineligible:* *EITC Participants* (iv)	*EITC Non-Participants* (v)	*Did Not Have IRS Match* (vi)	*All Households*
AFDC-FG Cases:							
% of Sample in Category:	16.56	4.45	12.22	5.06	4.45	57.25	100.00
Months on AFDC During Year:							
0	0.05	0.06	0.03	0.02	0.05	0.01	0.02
1 to 4	0.17	0.16	0.10	0.12	0.21	0.10	0.12
5 to 8	0.15	0.20	0.11	0.15	0.13	0.10	0.12
9 to 12	0.63	0.57	0.75	0.71	0.61	0.79	0.74
Annual AFDC Benefits Received:	$4,568	$4,564	$5,728	$5,630	$4,732	$6,321	$5,774
Average EDD Wage Earnings:	$7,248	$5,393	$2,387	$1,367	$2,797	$101	$1,983
Tax Filing Status:							
Single	0.13	0.49		0.07	0.08		0.17[b]
Married but Filed Separately	0.00	0.04		0.00	0.07		0.02[b]
Married	0.12	0.28		0.37	0.47		0.24[b]
Head of Household	0.75	0.18		0.56	0.38		0.58[b]
Tax Preparer:							
Was Tax Preparer Used?	0.56	0.48		0.57	0.62		0.56[b]
Adjusted Gross Income:	$9,312	$16,857		$10,772	$33,737		$4,339
Line 7, Wages and Salary:	$8,966	$16,137		$9,684	$32,695		$4,148
AGI income in EITC Range:							
Phase-In	0.53	0.45		0.42	0.05		0.50[b]
Flat	0.12	0.06		0.10	0.02		0.11[b]
Phase-Out	0.34	0.13		0.46	0.17		0.37[b]
Self-Employment Income:							
Fraction who Reported Any	0.03	0.03		0.15	0.07		0.06[b]
Was Tax Preparer Used?	0.78	1.00		0.69	0.94		0.82[b]
Ave Amt	$4,690	$4,651		$5,364	$9,715		$5,529[b]
EITC Received:	$1,294			$1,282			$279
AFDC-U Cases:							
% of Sample in Category:	22.69	2.59	9.75	7.60	3.69	53.68	100.00
Months on AFDC During Year:							
0	0.06	0.08	0.03	0.01	0.04	0.01	0.03
1 to 4	0.13	0.17	0.13	0.14	0.24	0.07	0.10
5 to 8	0.11	0.12	0.14	0.12	0.20	0.06	0.09
9 to 12	0.70	0.62	0.71	0.72	0.51	0.86	0.78
Annual AFDC Benefits Received:	$6,292	$5,350	$6,908	$6,897	$5,291	$8,426	$7,482
Average EDD Wage Earnings:	$6,620	$9,308	$3,446	$3,148	$11,709	$214	$2,865
Tax Filing Status:							
Single	0.04	0.27		0.02	0.07		0.06[b]
Married but Filed Separately	0.00	0.13		0.00	0.06		0.02[b]
Married	0.81	0.44		0.83	0.77		0.78[b]
Head of Household	0.15	0.16		0.15	0.10		0.15[b]
Tax Preparer:							
Was Tax Preparer Used?	0.60	0.67		0.67	0.58		0.62[b]
Adjusted Gross Income:	$8,042	$23,622		$8,471	$31,255		$4,234
Line 7, Wages and Salary:	$7,545	$20,766		$6,352	$29,148		$3,808
AGI income in EITC Range:							
Phase-In	0.65	0.28		0.66	0.09		0.65[b]
Flat	0.10	0.08		0.09	0.02		0.10[b]
Phase-Out	0.25	0.18		0.23	0.08		0.24[b]
Self-Employment Income:							
Fraction who Reported Any	0.06	0.07		0.30	0.06		0.11[b]
Was Tax Preparer Used?	0.79	1.00		0.72	0.70		0.78[b]
Ave Amt	$4,259	$10,740		$5,290	$13,486		$5,864[b]
EITC Received:	$1,320			$1,249			$394

Notes: a. EITC Eligibility Criterion A used.
b. Averages for those households which filed a tax return.

Table 4c
AFDC and Tax Return Outcomes, By Status of Tax Match, Eligibility, and EITC Participation
Replenishment Sample; Tax Year 1994[a]

Characteristic	*EITC-Eligible:*			*EITC-Ineligible:*			*All Households*
	EITC Participants (i)	*EITC Non-Participants* (ii)	*Did Not Have IRS Match* (iii)	*EITC Participants* (iv)	*EITC Non-Participants* (v)	*Did Not Have IRS Match* (vi)	
AFDC-FG Cases:							
% of Sample in Category:	19.55	3.22	13.31	7.26	2.90	53.76	
Months on AFDC During Year:							
0	0.08	0.11	0.17	0.11	0.05	0.12	0.12
1 to 4	0.28	0.17	0.19	0.07	0.17	0.18	0.19
5 to 8	0.22	0.16	0.09	0.10	0.15	0.12	0.14
9 to 12	0.43	0.55	0.55	0.71	0.63	0.58	0.56
Annual AFDC Benefits Received:	$3,270	$4,147	$3,951	$4,901	$4,619	$4,544	$4,231
Average EDD Wage Earnings:	$9,680	$5,804	$4,048	$601	$3,650	$186	$2,868
Tax Filing Status:							
Single	0.08	0.39		0.12	0.06		0.12[b]
Married but Filed Separately	0.00	0.00		0.00	0.05		0.00[b]
Married	0.17	0.28		0.55	0.57		0.30[b]
Head of Household	0.75	0.33		0.34	0.32		0.58[b]
Tax Preparer:							
Was Tax Preparer Used?	0.63	0.40		0.38	0.55		0.55[b]
Adjusted Gross Income:	$10,611	$18,317		$11,872	$28,127		$4,342
Line 7, Wages and Salary:	$10,265	$17,746		$10,482	$27,644		$4,141
AGI income in EITC Range:							
Phase-In	0.34	0.40		0.32	0.10		0.32[b]
Flat	0.24	0.08		0.19	0.00		0.19[b]
Phase-Out	0.41	0.10		0.49	0.10		0.37[b]
Self-Employment Income:							
Fraction who Reported Any	0.02	0.00		0.09	0.05		0.04[b]
Was Tax Preparer Used?	0.14			0.36	0.00		0.16[b]
Ave Amt	$3,250	$0		$2,462	$1,680		$2,620[b]
EITC Received:	$1,444			$1,364			$381
AFDC-U Cases:							
% of Sample in Category:	31.64	1.59	7.94	10.48	5.33	43.02	
Months on AFDC During Year:							
0	0.10	0.00	0.20	0.13	0.07	0.14	0.13
1 to 4	0.10	0.50	0.15	0.06	0.53	0.13	0.14
5 to 8	0.13	0.20	0.28	0.13	0.20	0.09	0.13
9 to 12	0.67	0.29	0.38	0.67	0.19	0.64	0.60
Annual AFDC Benefits Received:	$4,835	$3,402	$4,148	$5,359	$2,714	$5,641	$5,046
Average EDD Wage Earnings:	$7,643	$8,265	$4,417	$3,544	$23,544	$1,422	$5,138
Tax Filing Status:							
Single	0.02	0.24		0.00	0.00		0.02[b]
Married but Filed Separately	0.00	0.29		0.00	0.04		0.01[b]
Married	0.84	0.47		0.89	0.92		0.85[b]
Head of Household	0.14	0.00		0.11	0.03		0.12[b]
Tax Preparer:							
Was Tax Preparer Used?	0.64	0.77		0.79	0.71		0.68[b]
Adjusted Gross Income:	$9,600	$25,865		$10,448	$34,087		$6,360
Line 7, Wages and Salary:	$8,677	$17,138		$8,449	$31,847		$5,601
AGI income in EITC Range:							
Phase-In	0.50	0.24		0.69	0.04		0.48[b]
Flat	0.12	0.00		0.06	0.00		0.09[b]
Phase-Out	0.37	0.31		0.24	0.03		0.30[b]
Self-Employment Income:							
Fraction who Reported Any	0.04	0.00		0.37	0.04		0.11[b]
Was Tax Preparer Used?	0.69			0.84	0.33		0.66[b]
Ave Amt	$4,781	$0		$4,488	$5,882		$4,683[b]
EITC Received:	$1,534			$1,238			$615

Notes: a. EITC Eligibility Criterion A used.
b. Averages for those households which filed a tax return.

Table 5a
Number of Children in AFDC Assistance Units vs. Number of Exemptions Claimed on Tax Returns
AFDC-FG Households

	Number of Children in AFDC Assistance Unit						Percentage of Sample for which:		
Exemptions	**1**	**2**	**3**	**4**	**5**	***Total %***	AFDC < Exmptns.	AFDC = Exmptns.	AFDC > Exmptns.
Original Sample, Tax Year 1993									
0	5.02	1.96	1.17	0.42	0.40	8.97			
1	30.22	4.00	2.35	0.95	0.12	37.64			
2	4.06	18.67	4.64	0.51	0.64	28.52			
3	1.31	2.26	9.03	0.67	0.25	13.52			
4	0.30	0.43	0.46	2.98	0.07	4.24			
5	0.07	0.19	0.47	0.84	0.94	2.51			
Total %	40.98	27.51	18.12	6.37	2.42	95.40	10.89	64.82	24.29
Original Sample, Tax Year 1994									
0	4.67	2.61	0.96	0.23	0.22	8.69			
1	18.53	3.81	1.07	0.40	0.41	24.22			
2	5.22	14.03	2.08	1.18	0.36	22.87			
3	1.95	2.41	6.15	0.49	0.14	11.14			
4	0.52	0.85	0.58	1.92	0.06	3.93			
5	0.34	0.30	0.17	0.65	0.73	2.19			
Total %	31.23	24.01	11.01	4.87	1.92	73.04	17.78	56.63	25.59
Replenishment Sample, Tax Year 1994									
0	2.34	1.43	0.48			4.25			
1	28.90	4.87		0.46		34.23			
2	10.27	11.57	3.49			25.33			
3	3.12	0.56	4.09	0.21		7.98			
4	2.39			2.61	1.46	6.46			
5	0.16		0.17			0.33			
Total %	47.18	18.43	8.23	3.28	1.46	78.58	21.21	60.04	18.76

Table 5b
Number of Children in AFDC Assistance Units vs. Number of Exemptions Claimed on Tax Returns
AFDC-U Households

	Number of Children in AFDC Assistance Unit						Percentage of Sample for which:		
Exemptions	**1**	**2**	**3**	**4**	**5**	***Total %***	AFDC < Exmptns.	AFDC = Exmptns.	AFDC > Exmptns.
Original Sample, Tax Year 1993									
0	2.08	1.11	0.87	0.54	0.22	4.82			
1	13.12	2.08	0.43	0.17	0.09	15.89			
2	3.30	26.64	2.23	1.30	0.28	33.75			
3	0.48	2.67	19.85	0.91	0.30	24.21			
4	0.13	0.26	2.47	10.43	0.78	14.07			
5			0.22	0.95	4.43	5.60			
Total %	19.11	32.76	26.07	14.30	6.10	98.34	10.66	75.73	13.62
Original Sample, Tax Year 1994									
0	1.95	1.73	0.93	0.43	0.10	5.14			
1	8.56	2.04	0.33	0.19	0.23	11.35			
2	2.45	25.58	1.50	1.28	0.16	30.97			
3	0.62	2.10	14.47	0.74	0.74	18.67			
4	0.19	0.43	1.23	7.04	0.66	9.55			
5	0.02	0.23	0.16	0.70	3.66	4.77			
Total %	13.79	32.11	18.62	10.38	5.55	80.45	10.11	73.72	16.17
Replenishment Sample, Tax Year 1994									
0	1.15	0.62		0.60		2.37			
1	16.08	0.41	0.31			16.80			
2	4.04	30.74	1.32		0.30	36.40			
3	1.97	1.11	8.89	0.50	0.31	12.78			
4		0.47	1.40	5.79	0.30	7.96			
5		0.95			2.65	3.60			
Total %	23.24	34.30	11.92	6.89	3.56	79.91	12.44	80.28	7.28

Table 6a
Comparisons of AFDC Assistance Status and Tax Return Filing Status at End of Year for Adults in AFDC-FG Households at Time of Sampling

Beginning and Ending AFDC Case Statuses	Fraction Who Filed Tax Return	Tax Return Filing Status			
		Single	*Married but Filed Separate Returns*	*Married*	*Head of Household*
Original Sample, Tax Year 1993:					
AFDC-FG → AFDC-FG (N = 4,707)[a]	0.179	0.133	0.021	0.206	0.638
AFDC-FG → Other Aid (N = 1,285)[a]	0.377	0.124	0.006	0.271	0.594
AFDC-FG → AFDC-U (N = 118)[a]	0.269	0.029	0.000	0.641	0.329
Original Sample, Tax Year 1994:					
AFDC-FG → AFDC-FG (N = 4,017)[a]	0.228	0.131	0.012	0.180	0.676
AFDC-FG → Other Aid (N = 2,250)[a]	0.430	0.178	0.018	0.275	0.529
AFDC-FG → AFDC-U (N = 1,53)[a]	0.237	0.086	0.000	0.682	0.232
Replenishment Sample, Tax Year 1994:					
AFDC-FG → AFDC-FG (N = 377)[a]	0.276	0.139	0.009	0.232	0.620
AFDC-FG → Other Aid (N = 297)[a]	0.412	0.096	0.000	0.327	0.577
AFDC-FG → AFDC-U (N = 27)[a]	0.258	0.038	0.000	0.962	0.000

Note: a. Unweighted sample sizes

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Table 6b
Comparisons of AFDC Assistance Status and Tax Return Filing Status for Adults in AFDC-U Households at Time of Sampling

Beginning and Ending AFDC Case Statuses	Fraction Who Filed Tax Return	Tax Return Filing Status			
		Single	*Married but Filed Separate Returns*	*Married*	*Head of Household*
Original Sample, Tax Year 1993:					
AFDC-U → AFDC-FG (N = 315)[a]	0.240	0.057	0.057	0.584	0.301
AFDC-U → Other Aid (N = 999)[a]	0.447	0.048	0.030	0.761	0.157
AFDC-U → AFDC-U (N = 4,272)[a]	0.268	0.019	0.007	0.906	0.065
Original Sample, Tax Year 1994:					
AFDC-U → AFDC-FG (N = 461)[a]	0.251	0.138	0.057	0.369	0.435
AFDC-U → Other Aid (N = 1,597)[a]	0.454	0.083	0.019	0.700	0.197
AFDC-U → AFDC-U (N = 3,177)[a]	0.319	0.015	0.003	0.909	0.072
Replenishment Sample, Tax Year 1994:					
AFDC-U → AFDC-FG (N = 55)[a]	0.310	0.113	0.120	0.434	0.334
AFDC-U → Other Aid (N = 436)[a]	0.494	0.011	0.021	0.776	0.192
AFDC-U → AFDC-U (N = 387)[a]	0.503	0.019	0.000	0.942	0.039

Note: a. Unweighted sample sizes

T able 7a
Comparisons of Gross Earned Income (GEI) Reported to AFDC vs. Wage Earnings Based on EDD (UI/DI) Records
AFDC-FG Households

Household's GEI Reported to AFDC	EDD Wage Earnings												
	$0	$0 - $2.5K	$2.5 - $5K	$5 - $7.5K	$7.5 - $10K	$10K - $12.5K	$12.5K - $15K	$15K - $17.5K	$17.5K - $20K	$20K - $22.5K	$22.5K - $25K	*Totals*	
Original Sample, Tax Year 1993													
Missing	1.58	0.30	0.09	0.05	0.03							2.05	
$0	74.60	8.61	1.87	1.03	0.70	0.35	0.15	0.16	0.09	0.03		87.59	
$0 - $2.5K	2.18	3.74	0.51	0.07	0.06	0.01	0.08	0.02				6.67	Percentage of Assistance Units where:
$2.5 - $5K	0.40	0.38	1.27	0.30	0.04	0.02	0.04					2.45	AFDC GEI < EDD: 14.93
$5 - $7.5K	0.13	0.05	0.12	0.31	0.11	0.06						0.78	**AFDC GEI = EDD: 81.64**
$7.5 - $10K	0.02	0.04		0.02	0.13	0.15						0.36	AFDC GEI > EDD: 3.43
$10K - $12.5K	0.05		0.02		0.02							0.09	**AFDC GEI < EDD, for EDD > 0 AUs: 68.73**
$12.5K - $15K							0.02					0.02	
$15K - $17.5K												0.00	
$17.5K - $20K												0.00	
$20K - $22.5K												0.00	
$22.5K - $25K												0.00	
Totals	78.96	13.12	3.88	1.78	1.09	0.59	0.29	0.18	0.09	0.03	0.00	100.00	
Original Sample, Tax Year 1994													
Missing	2.12	0.54	0.18	0.11	0.13		0.05	0.01		0.05	0.01	3.20	
$0	65.89	9.97	2.07	1.38	0.84	0.37	0.11	0.01	0.12	0.15	0.05	80.96	
$0 - $2.5K	3.39	4.79	1.49	0.44	0.11	0.09	0.07		0.06			10.44	Percentage of Assistance Units where:
$2.5 - $5K	0.72	0.44	1.60	0.26	0.02	0.09	0.09	0.05				3.27	AFDC GEI < EDD: 19.26
$5 - $7.5K	0.14	0.15	0.25	0.57	0.05	0.15		0.05				1.36	**AFDC GEI = EDD: 75.30**
$7.5 - $10K	0.05			0.14	0.20	0.03						0.42	AFDC GEI > EDD: 5.44
$10K - $12.5K	0.08	0.06				0.11	0.05			0.02		0.32	**AFDC GEI < EDD, for EDD > 0 AUs: 65.88**
$12.5K - $15K							0.02					0.02	
$15K - $17.5K								0.02				0.02	
$17.5K - $20K		0.02										0.02	
$20K - $22.5K												0.00	
$22.5K - $25K												0.00	
Totals	72.39	15.97	5.59	2.90	1.35	0.84	0.39	0.14	0.18	0.22	0.06	100.00	
Replenishment Sample, Tax Year 1994													
Missing	0.90	0.24	0.19									1.33	
$0	65.65	8.41	3.31	0.29		1.50		0.15			0.29	79.60	
$0 - $2.5K	3.34	5.23	0.36	0.33	0.12	0.29						9.67	Percentage of Assistance Units where:
$2.5 - $5K	0.91	1.01	2.30									4.22	AFDC GEI < EDD: 15.68
$5 - $7.5K	1.17		0.60	0.57	0.20							2.54	**AFDC GEI = EDD: 76.68**
$7.5 - $10K	0.29				2.03							2.32	AFDC GEI > EDD: 7.64
$10K - $12.5K												0.00	**AFDC GEI < EDD, for EDD > 0 AUs: 54.97**
$12.5K - $15K						0.32						0.32	
$15K - $17.5K												0.00	
$17.5K - $20K												0.00	
$20K - $22.5K												0.00	
$22.5K - $25K												0.00	
Totals	72.26	14.89	6.76	1.19	2.35	2.11	0.00	0.15	0.00	0.00	0.29	100.00	

Table 7b
Comparisons of Gross Earned Income (GEI) Reported to AFDC vs. Wage Earnings Based on EDD (UI/DI) Records
AFDC-U Households

Household's GEI Reported to AFDC	EDD Wage Earnings												
	$0	$0 - $2.5K	$2.5 - $5K	$5 - $7.5K	$7.5 - $10K	$10K - $12.5K	$12.5K - $15K	$15K - $17.5K	$17.5K - $20K	$20K - $22.5K	$22.5K - $25K	*Totals*	
Original Sample, Tax Year 1993													
Missing	1.94	0.43	0.28	0.03	0.07	0.02		0.02				2.79	
$0	65.04	4.03	0.64	0.49	0.41	0.49	0.02	0.12	0.13	0.07		71.44	
$0 - $2.5K	5.15	4.49	1.10	0.10			0.08					10.92	Percentage of Assistance Units where:
$2.5 - $5K	3.03	1.23	6.65	0.84	0.10		0.03		0.02			11.90	AFDC GEI < EDD: 9.70
$5 - $7.5K	0.72	0.02	0.43	0.97	0.07							2.21	**AFDC GEI = EDD: 79.63**
$7.5 - $10K					0.31	0.10						0.41	AFDC GEI > EDD: 10.66
$10K - $12.5K				0.07		0.13						0.20	**AFDC GEI < EDD, for EDD > 0 AUs: 36.65**
$12.5K - $15K												0.00	
$15K - $17.5K												0.00	
$17.5K - $20K												0.00	
$20K - $22.5K												0.00	
$22.5K - $25K												0.00	
Totals	75.88	10.20	9.10	2.50	0.96	0.74	0.13	0.14	0.15	0.07	0.00	100.00	
Original Sample, Tax Year 1994													
Missing	2.31	0.74	0.28	0.04	0.02	0.04					0.02	3.45	
$0	56.66	3.85	1.16	0.52	0.40	0.30	0.40	0.16	0.16	0.14	0.12	63.87	
$0 - $2.5K	7.18	5.60	1.44	0.38	0.14	0.08						14.82	Percentage of Assistance Units where:
$2.5 - $5K	3.53	1.93	6.96	0.60		0.12	0.04	0.08			0.02	13.28	AFDC GEI < EDD: 11.80
$5 - $7.5K	0.62	0.08	0.44	1.58	0.22	0.08						3.02	**AFDC GEI = EDD: 74.06**
$7.5 - $10K				0.24	0.56	0.10						0.90	AFDC GEI > EDD: 14.14
$10K - $12.5K	0.04				0.04	0.10		0.08			0.04	0.30	**AFDC GEI < EDD, for EDD > 0 AUs: 35.84**
$12.5K - $15K							0.08					0.08	
$15K - $17.5K												0.00	
$17.5K - $20K												0.00	
$20K - $22.5K												0.00	
$22.5K - $25K												0.00	
Totals	70.34	12.20	10.28	3.36	1.38	0.82	0.52	0.32	0.16	0.14	0.20	100.00	
Replenishment Sample, Tax Year 1994													
Missing	0.39		0.24		0.09							0.72	
$0	49.19	1.60	1.81	0.52			0.32	1.02				54.46	
$0 - $2.5K	4.95	6.63	2.44									14.02	Percentage of Assistance Units where:
$2.5 - $5K	6.37	3.59	5.23	1.66			1.02					17.87	AFDC GEI < EDD: 14.91
$5 - $7.5K	2.20	1.42	0.15	0.71	1.14							5.62	**AFDC GEI = EDD: 64.75**
$7.5 - $10K	1.26		0.41		1.14	2.41	0.32					5.54	AFDC GEI > EDD: 20.35
$10K - $12.5K						1.47	0.32					1.79	**AFDC GEI < EDD, for EDD > 0 AUs: 40.91**
$12.5K - $15K												0.00	
$15K - $17.5K												0.00	
$17.5K - $20K												0.00	
$20K - $22.5K												0.00	
$22.5K - $25K												0.00	
Totals	64.36	13.24	10.28	2.89	2.37	3.88	1.98	1.02	0.00	0.00	0.00	100.00	

Table 8a
Comparisons of Adjusted Gross Income (AGI) on Federal Tax Returns vs. Wage Earnings Based on EDD (UI/DI) Records
AFDC-FG Households

Amount Reported as AGI on Tax Returns	EDD Wage Earnings												
	$0	$0 - $2.5K	$2.5 - $5K	$5 - $7.5K	$7.5 - $10K	$10K - $12.5K	$12.5K - $15K	$15K - $17.5K	$17.5K - $20K	$20K - $22.5K	$22.5K - $25K	*Totals*	
Original Sample, Tax Year 1993													
No Tax Return	66.55	8.67	1.48	0.53	0.39	0.08	0.14	0.06	0.01	0.01	0.04	77.96	
$0	0.28	0.01										0.29	
$0 - $2.5K	0.76	2.27	0.14	0.01	0.01							3.19	Percentage of Assistance Units where:
$2.5 - $5K	0.71	0.66	2.45	0.15	0.06					0.01		4.04	IRS AGI < EDD: 12.61
$5 - $7.5K	1.01	0.33	0.45	1.70	0.04	0.03	0.07	0.02				3.65	**IRS AGI = EDD: 78.59**
$7.5 - $10K	0.81	0.18	0.11	0.29	1.25	0.08	0.04	0.04	0.02			2.82	IRS AGI > EDD: 8.80
$10K - $12.5K	0.42	0.12		0.09	0.20	1.09	0.01		0.01			1.94	**AGI < EDD, for EDD > 0 AUs: 3.39**
$12.5K - $15K	0.56	0.10		0.02	0.04	0.08	0.43	0.08			0.00	1.31	**EDD < AGI, for AGI > 0 AUs: 40.47**
$15K - $17.5K	0.13	0.09	0.06		0.03		0.04	0.43				0.78	
$17.5K - $20K	0.40	0.08	0.01	0.05		0.02	0.01	0.03	0.29	0.03		0.92	
$20K - $22.5K	0.23	0.01	0.02							0.18	0.08	0.52	
$22.5K - $25K	0.40	0.06	0.00						0.01		0.04	0.51	
Totals	72.26	12.58	4.72	2.84	2.02	1.38	0.74	0.66	0.34	0.23	0.16	97.93	
Original Sample, Tax Year 1994													
No Tax Return	57.35	9.08	1.92	0.91	0.45	0.25	0.11	0.07	0.07	0.04	0.10	70.35	
$0	0.04	0.06										0.10	
$0 - $2.5K	0.78	2.71	0.13	0.04	0.03	0.04				0.01		3.74	Percentage of Assistance Units where:
$2.5 - $5K	0.69	0.56	3.04	0.12	0.04	0.03	0.03					4.51	IRS AGI < EDD: 15.14
$5 - $7.5K	0.71	0.22	0.32	2.15	0.18	0.12	0.05	0.04		0.01		3.80	**IRS AGI = EDD: 74.20**
$7.5 - $10K	0.57	0.25	0.19	0.18	1.24	0.11	0.01	0.01				2.56	IRS AGI > EDD: 10.66
$10K - $12.5K	0.51	0.15	0.06	0.10	0.17	1.43	0.14	0.01		0.01	0.04	2.62	**AGI < EDD, for EDD > 0 AUs: 3.92**
$12.5K - $15K	0.67	0.25	0.07	0.06	0.09	0.07	1.04	0.05	0.01			2.31	**EDD < AGI, for AGI > 0 AUs: 36.06**
$15K - $17.5K	0.50	0.18	0.10	0.01		0.07	0.10	0.57	0.05	0.03		1.61	
$17.5K - $20K	0.61	0.18	0.01	0.07		0.04	0.06	0.11	0.59	0.02	0.01	1.70	
$20K - $22.5K	0.48	0.04	0.04	0.00	0.03	0.03	0.03	0.07	0.01	0.36	0.01	1.10	
$22.5K - $25K	0.34	0.30	0.05	0.02	0.00		0.01				0.23	0.95	
Totals	63.25	13.98	5.93	3.66	2.23	2.19	1.58	0.93	0.73	0.48	0.39	95.35	
Replenishment Sample, Tax Year 1994													
No Tax Return	53.59	8.62	1.81	1.03	0.37	0.27	0.12		0.77		0.56	67.14	
$0	0.13	0.13										0.26	
$0 - $2.5K	0.55	1.88										2.43	Percentage of Assistance Units where:
$2.5 - $5K	0.18	0.66	2.43	0.07								3.34	IRS AGI < EDD: 15.69
$5 - $7.5K	1.58	0.29	0.49	1.02	0.03							3.41	**IRS AGI = EDD: 71.31**
$7.5 - $10K	1.07	0.09		0.84	2.65	0.89						5.54	IRS AGI > EDD: 13.00
$10K - $12.5K	0.99			0.35	0.23	2.15					0.22	3.94	**AGI < EDD, for EDD > 0 AUs: 4.12**
$12.5K - $15K	0.31		0.02	0.32	0.09	0.15	0.86	0.19				1.94	**EDD < AGI, for AGI > 0 AUs: 39.88**
$15K - $17.5K	1.31	0.05		0.06			0.57	1.74	0.06			3.79	
$17.5K - $20K	1.02	0.05						0.08	0.76			1.91	
$20K - $22.5K	0.60	0.17	0.04						0.12	1.02		1.95	
$22.5K - $25K	0.08		0.06							0.13	0.60	0.87	
Totals	61.41	11.94	4.85	3.69	3.37	3.46	1.55	2.01	1.71	1.15	1.38	96.52	

Table 8b
Comparisons of Adjusted Gross Income (AGI) on Federal Tax Returns vs. Wage Earnings Based on EDD (UI/DI) Records
AFDC-U Households

Amount Reported as AGI on Tax Returns	EDD Wage Earnings												
	$0	$0 - $2.5K	$2.5 - $5K	$5 - $7.5K	$7.5 - $10K	$10K - $12.5K	$12.5K - $15K	$15K - $17.5K	$17.5K - $20K	$20K - $22.5K	$22.5K - $25K	*Totals*	
Original Sample, Tax Year 1993													
No Tax Return	61.96	5.93	1.07	0.40	0.18	0.18	0.09	0.22	0.01	0.08	0.05	70.17	
$0	0.08	0.01		0.01								0.10	
$0 - $2.5K	1.98	3.00	0.01	0.03	0.03	0.01			0.03			5.09	Percentage of Assistance Units where:
$2.5 - $5K	2.11	0.97	6.60	0.10	0.01	0.01			0.01			9.81	IRS AGI < EDD: 9.26
$5 - $7.5K	0.84	0.16	0.51	2.20	0.05	0.01	0.05	0.03				3.85	**IRS AGI = EDD: 78.39**
$7.5 - $10K	0.45	0.25	0.34	0.44	1.23	0.16			0.05			2.92	IRS AGI > EDD: 12.05
$10K - $12.5K	0.78	0.12	0.14	0.19	0.32	1.29	0.14	0.03	0.05		0.05	3.11	**AGI < EDD, for EDD > 0 AUs: 3.97**
$12.5K - $15K	0.22	0.06	0.08	0.10	0.03	0.21	0.36	0.03	0.03			1.12	**EDD < AGI, for AGI > 0 AUs: 40.53**
$15K - $17.5K	0.09			0.14		0.05	0.12	0.14	0.01	0.03	0.12	0.70	
$17.5K - $20K	0.30		0.06		0.13		0.03	0.10	0.30	0.09		1.01	
$20K - $22.5K	0.12					0.01	0.03	0.03	0.12	0.19	0.04	0.54	
$22.5K - $25K	0.10			0.05	0.03			0.04		0.05	0.08	0.35	
Totals	69.03	10.50	8.81	3.66	2.01	1.93	0.82	0.62	0.61	0.44	0.34	98.77	
Original Sample, Tax Year 1994													
No Tax Return	54.17	6.30	1.76	0.71	0.38	0.35	0.18	0.03	0.11	0.18	0.28	64.45	
$0	0.10											0.10	
$0 - $2.5K	1.71	3.07	0.11	0.07	0.03				0.03			5.02	Percentage of Assistance Units where:
$2.5 - $5K	2.22	1.10	6.20	0.22	0.08		0.03				0.01	9.86	IRS AGI < EDD: 12.31
$5 - $7.5K	0.97	0.56	0.60	2.20	0.05	0.11	0.01	0.03			0.01	4.54	**IRS AGI = EDD: 74.03**
$7.5 - $10K	0.80	0.25	0.23	0.36	1.35	0.05	0.04				0.01	3.09	IRS AGI > EDD: 13.66
$10K - $12.5K	0.58	0.10	0.18	0.25	0.37	1.08	0.15	0.03	0.03	0.03	0.03	2.83	**AGI < EDD, for EDD > 0 AUs: 4.02**
$12.5K - $15K	0.53	0.01	0.04	0.05	0.16	0.21	0.82	0.05		0.03	0.05	1.95	**EDD < AGI, for AGI > 0 AUs: 38.53**
$15K - $17.5K	0.18	0.01			0.12	0.08	0.12	0.71	0.05		0.01	1.28	
$17.5K - $20K	0.16	0.05	0.18	0.05	0.03	0.05		0.18	0.53	0.11		1.34	
$20K - $22.5K	0.14	0.05							0.11	0.43	0.08	0.81	
$22.5K - $25K	0.17	0.03	0.03				0.03	0.05		0.01	0.40	0.72	
Totals	61.73	11.53	9.33	3.91	2.57	1.93	1.38	1.08	0.86	0.79	0.88	95.99	
Replenishment Sample, Tax Year 1994													
No Tax Return	41.78	4.85	1.16	0.66	0.14	0.15	0.26	0.18	0.19		0.35	49.72	
$0	0.07											0.07	
$0 - $2.5K	1.84	1.93	0.22									3.99	Percentage of Assistance Units where:
$2.5 - $5K	2.82	1.96	4.25	0.35	0.19		0.13					9.70	IRS AGI < EDD: 11.77
$5 - $7.5K	1.98	1.44	1.56	2.27	0.31		0.51					8.07	**IRS AGI = EDD: 64.71**
$7.5 - $10K	1.04	0.07	0.48	0.14	1.38		0.13		0.07			3.31	IRS AGI > EDD: 23.51
$10K - $12.5K	0.33	0.18	0.15	0.75	0.44	3.31	0.14		0.07		0.15	5.52	**AGI < EDD, for EDD > 0 AUs: 6.12**
$12.5K - $15K	0.82	0.40	0.15	0.58	0.02	0.87	1.55	0.29				4.68	**EDD < AGI, for AGI > 0 AUs: 46.83**
$15K - $17.5K	0.30	0.35		0.26	0.07			1.56	0.02	0.07		2.63	
$17.5K - $20K	0.22	0.17		0.07	0.17	0.08		0.03	1.21			1.95	
$20K - $22.5K	0.19	0.69				0.21			0.29	0.42	0.29	2.09	
$22.5K - $25K	0.54									0.07	0.07	0.68	
Totals	51.93	12.04	7.97	5.08	2.72	4.62	2.72	2.06	1.85	0.56	0.86	92.41	

Table 9a
Comparisons of Taxable Wage and Salary Income (Line 7 Income on Tax Returns) vs. Wage Earnings Based on EDD (UI/DI) Records
AFDC-FG Households

Amount Reported on Line 7 of Tax Returns	EDD Wage Earnings												
	$0	$0 - $2.5K	$2.5 - $5K	$5 - $7.5K	$7.5 - $10K	$10K - $12.5K	$12.5K - $15K	$15K - $17.5K	$17.5K - $20K	$20K - $22.5K	$22.5K - $25K	*Totals*	
Original Sample, Tax Year 1993													
No Tax Return	66.48	8.67	1.48	0.53	0.39	0.08	0.14	0.06	0.01	0.01	0.04	77.89	
$0	1.22	0.10	0.04								0.01	1.37	
$0 - $2.5K	0.76	2.66	0.14	0.01	0.01				0.01			3.59	Percentage of Assistance Units where:
$2.5 - $5K	0.52	0.48	2.65	0.18	0.06					0.01		3.90	Line 7 W&S < EDD: 12.79
$5 - $7.5K	0.67	0.19	0.26	1.84	0.04	0.06	0.07	0.02				3.15	**Line 7 W&S = EDD: 80.23**
$7.5 - $10K	0.73	0.10	0.06	0.20	1.33	0.08	0.04	0.04	0.02			2.60	Line 7 W&S > EDD: 6.99
$10K - $12.5K	0.41	0.06		0.02	0.13	1.17	0.01		0.01		0.00	1.81	**AGI < EDD, for EDD > 0 AUs: 4.13**
$12.5K - $15K	0.45	0.13		0.01	0.04	0.04	0.46	0.08				1.21	**EDD < Line 7, for Line 7 > 0 AUs: 33.70**
$15K - $17.5K	0.16	0.06	0.07		0.03		0.01	0.43				0.76	
$17.5K - $20K	0.39	0.09	0.00	0.05		0.01	0.01	0.03	0.28	0.03		0.89	
$20K - $22.5K	0.26	0.02	0.02							0.18	0.07	0.55	
$22.5K - $25K	0.32	0.06	0.00						0.01		0.05	0.44	
Totals	72.37	12.62	4.72	2.84	2.03	1.44	0.74	0.66	0.34	0.23	0.17	98.16	
Original Sample, Tax Year 1994													
No Tax Return	57.31	9.04	1.92	0.91	0.45	0.25	0.11	0.07	0.07	0.04	0.10	70.27	
$0	0.81	0.12	0.04	0.03								1.00	
$0 - $2.5K	0.78	3.01	0.15	0.04	0.01	0.04				0.01		4.04	Percentage of Assistance Units where:
$2.5 - $5K	0.53	0.43	3.27	0.12	0.07	0.03	0.03					4.48	Line 7 W&S < EDD: 13.52
$5 - $7.5K	0.60	0.23	0.15	2.21	0.19	0.12	0.07	0.04		0.01		3.62	**Line 7 W&S = EDD: 77.25**
$7.5 - $10K	0.31	0.15	0.09	0.13	1.30	0.16		0.01				2.15	Line 7 W&S > EDD: 9.23
$10K - $12.5K	0.54	0.15	0.08	0.07	0.09	1.45	0.17	0.00		0.01	0.04	2.60	**AGI < EDD, for EDD > 0 AUs: 4.69**
$12.5K - $15K	0.69	0.27	0.04	0.06	0.09	0.03	1.05	0.07	0.01			2.31	**EDD < Line 7, for Line 7 > 0 AUs: 30.00**
$15K - $17.5K	0.43	0.15	0.08	0.01		0.07	0.10	0.65	0.06	0.03		1.58	
$17.5K - $20K	0.58	0.15	0.02	0.08		0.04	0.06	0.03	0.58	0.02	0.01	1.57	
$20K - $22.5K	0.53	0.08	0.03	0.03	0.03	0.00		0.07	0.01	0.36	0.01	1.15	
$22.5K - $25K	0.21	0.27	0.05	0.01	0.00						0.23	0.77	
Totals	63.32	14.05	5.92	3.70	2.23	2.19	1.59	0.94	0.73	0.48	0.39	95.54	
Replenishment Sample, Tax Year 1994													
No Tax Return	53.59	8.62	1.81	1.03	0.37	0.27	0.12		0.77		0.56	67.14	
$0	0.88	0.05										0.93	
$0 - $2.5K	0.47	2.26	0.13									2.86	Percentage of Assistance Units where:
$2.5 - $5K	0.03	0.49	2.57	0.07	0.01							3.17	Line 7 W&S < EDD: 15.62
$5 - $7.5K	1.22	0.29	0.23	1.96	0.01							3.71	**Line 7 W&S = EDD: 73.49**
$7.5 - $10K	1.23			0.18	2.68	0.89						4.98	Line 7 W&S > EDD: 10.89
$10K - $12.5K	0.68			0.06	0.21	2.15					0.22	3.32	**AGI < EDD, for EDD > 0 AUs: 4.28**
$12.5K - $15K	1.31		0.02	0.32	0.09	0.15	0.86	0.19				2.94	**EDD < Line 7, for Line 7 > 0 AUs: 34.10**
$15K - $17.5K	0.88	0.05		0.06			0.57	1.82	0.06			3.44	
$17.5K - $20K	1.02								0.88			1.90	
$20K - $22.5K		0.17	0.04							1.15		1.36	
$22.5K - $25K	0.62		0.06				0.13				0.60	1.41	
Totals	61.93	11.93	4.86	3.68	3.37	3.46	1.68	2.01	1.71	1.15	1.38	97.16	

Table 9b
Comparisons of Taxable Wage and Salary Income (Line 7 Income on Tax Returns) vs. Wage Earnings Based on EDD (UI/DI) Records
AFDC-U Households

Amount Reported on Line 7 of Tax Returns	EDD Wage Earnings												
	$0	$0 - $2.5K	$2.5 - $5K	$5 - $7.5K	$7.5 - $10K	$10K - $12.5K	$12.5K - $15K	$15K - $17.5K	$17.5K - $20K	$20K - $22.5K	$22.5K - $25K	*Totals*	
Original Sample, Tax Year 1993													
No Tax Return	61.92	5.93	1.07	0.40	0.18	0.18	0.09	0.22	0.01	0.08	0.05	70.13	
$0	2.42	0.17	0.12						0.01			2.72	
$0 - $2.5K	1.42	3.28	0.05	0.04	0.06	0.01			0.03			4.89	Percentage of Assistance Units where:
$2.5 - $5K	1.49	0.83	7.08	0.13		0.01						9.54	Line 7 W&S < EDD: 9.87
$5 - $7.5K	0.30	0.10	0.20	2.69	0.05	0.08	0.05	0.03				3.50	**Line 7 W&S = EDD: 82.85**
$7.5 - $10K	0.35	0.13	0.21	0.13	1.44	0.10			0.06			2.42	Line 7 W&S > EDD: 7.28
$10K - $12.5K	0.47	0.05	0.09	0.09	0.19	1.48	0.09	0.03	0.04		0.05	2.58	**AGI < EDD, for EDD > 0 AUs: 4.93**
$12.5K - $15K	0.08	0.01		0.05		0.06	0.52	0.03				0.75	**EDD < Line 7, for Line 7 > 0 AUs: 26.83**
$15K - $17.5K	0.09			0.09			0.06	0.21	0.01	0.03	0.12	0.61	
$17.5K - $20K	0.26				0.08			0.06	0.43	0.09		0.92	
$20K - $22.5K	0.14					0.01			0.01	0.22	0.04	0.42	
$22.5K - $25K	0.05			0.05				0.01		0.03	0.10	0.24	
Totals	68.99	10.50	8.82	3.67	2.00	1.93	0.81	0.59	0.60	0.45	0.36	98.72	
Original Sample, Tax Year 1994													
No Tax Return	54.11	6.30	1.76	0.71	0.38	0.35	0.18	0.03	0.11	0.18	0.28	64.39	
$0	2.72	0.15										2.87	
$0 - $2.5K	1.39	3.31	0.16	0.11	0.03				0.03			5.03	Percentage of Assistance Units where:
$2.5 - $5K	1.34	1.04	6.64	0.21	0.08		0.03				0.01	9.35	Line 7 W&S < EDD: 12.81
$5 - $7.5K	0.61	0.47	0.38	2.49	0.12	0.11	0.01	0.03			0.01	4.23	**Line 7 W&S = EDD: 77.97**
$7.5 - $10K	0.27	0.12	0.10	0.19	1.63	0.05	0.04			0.03	0.01	2.44	Line 7 W&S > EDD: 9.21
$10K - $12.5K	0.44	0.03	0.08	0.18	0.29	1.15	0.32	0.08	0.03		0.05	2.65	**AGI < EDD, for EDD > 0 AUs: 5.42**
$12.5K - $15K	0.41	0.01	0.01		0.07	0.15	0.73	0.07		0.03	0.03	1.51	**EDD < Line 7, for Line 7 > 0 AUs: 28.14**
$15K - $17.5K	0.16	0.01	0.05		0.01	0.12	0.05	0.84	0.05	0.05	0.01	1.35	
$17.5K - $20K	0.08	0.05	0.11	0.05	0.03			0.04	0.62	0.05		1.03	
$20K - $22.5K	0.16	0.05					0.03		0.04	0.43	0.08	0.79	
$22.5K - $25K	0.14	0.03	0.03					0.05		0.01	0.49	0.75	
Totals	61.83	11.57	9.32	3.94	2.64	1.93	1.39	1.14	0.88	0.78	0.97	96.39	
Replenishment Sample, Tax Year 1994													
No Tax Return	41.63	4.85	1.16	0.66	0.14	0.15	0.26	0.18	0.19		0.35	49.57	
$0	3.82											3.82	
$0 - $2.5K	1.39	3.30	0.29									4.98	Percentage of Assistance Units where:
$2.5 - $5K	2.19	2.02	5.25	0.35	0.19		0.13			0.07		10.20	Line 7 W&S < EDD: 11.06
$5 - $7.5K	0.36	0.91	0.63	3.68	0.31							5.89	**Line 7 W&S = EDD: 73.85**
$7.5 - $10K	0.52		0.48	0.06	2.02		0.13		0.07			3.28	Line 7 W&S > EDD: 15.08
$10K - $12.5K	0.16	0.18			0.07	4.02	0.14		0.07		0.15	4.79	**AGI < EDD, for EDD > 0 AUs: 4.92**
$12.5K - $15K	0.82	0.40	0.15	0.51		0.18	2.06	0.15				4.27	**EDD < Line 7, for Line 7 > 0 AUs: 32.36**
$15K - $17.5K	0.15	0.21		0.26		0.28		1.27	0.02			2.19	
$17.5K - $20K	0.31	0.17		0.07				0.47	1.21			2.23	
$20K - $22.5K	0.19								0.29	0.42	0.29	1.19	
$22.5K - $25K	0.54									0.07	0.07	0.68	
Totals	52.08	12.04	7.96	5.59	2.73	4.63	2.72	2.07	1.85	0.56	0.86	93.09	

APPENDIX
Further Comparison of the Sample Characteristics of the Full CWAD Sample and the Subsample Used in our Analysis

In this Appendix, we briefly compare the sample characteristics of the entire sample of assistance units used in the California Work Pays Demonstration Project (CWPDP)—i.e., the sample that comprises the County Welfare Administrative Database (CWAD)—with the subsample we used in our analysis of EITC eligibility, participation and compliance rates. See Section 2.1 for a discussion of the selections we performed on the full CWAD sample to reach our analysis sample.

Characteristics of Full CWAD Sample:

Table A1 shows characteristics of the CWAD sample, by county and for the total sample, for the original (October 1992) sample.[37] Table A2 shows similar information for the Replenishment Sample. The Original Sample consists of 22,074 persons in 8,316 AFDC-FG cases and 16,005 persons in 3,975 AFDC-U cases. The Replenishment Sample contains 1,914 persons in 1,005 AFDC-FG cases and 2,223 persons in 845 AFDC-U cases. Most AFDC-FG cases in each sample have one adult and one or two children, while most AFDC-U cases in the Original Sample have two adults and two or more children. Child-only cases make up just over 30 percent of AFDC-FG cases and 23 percent of AFDC-U cases in the Original Sample, but almost 40 percent of AFDC-FG and AFDC-U cases in the Replenishment Sample.[38]

In the Original Sample, about 41 percent of persons in AFDC-FG cases are Hispanic, 34 percent black, 19 percent white, and 6 percent Asian. Hispanics and whites constitute somewhat higher percentages of AFDC-FG cases in the Replenishment Sample. Persons in AFDC-U cases from the Original Sample are 33 percent Hispanic, 6 percent black, 35 percent white, and 26 percent Asian. Over 55 percent of the AFDC-U Replenishment Sample are Hispanic. In addition to racial composition differences among the original and replacement samples across AFDC-FG and AFDC-U cases, racial composition varies among the four counties and within counties by type of AFDC case. For example, 60 percent of persons in the Alameda AFDC-FG Original Sample are black, and over 40 percent of persons in the San Bernardino AFDC-FG original and Replenishment Samples are white.

Base Wage File matches were found for just over half of the adults, though about 80 percent of adults in AFDC-FG cases and 70 to 75 percent of adults in AFDC-U cases have zero earnings recorded in the Base Wage File during the year.[39]

Characteristics of Our Analysis Sample:

Table 2a shows characteristics of the Original Sample, by county and for the total sample,

[37] The descriptive statistics reported here reflect case composition at the time of sampling, and do not reflect case composition over time. Additionally, we dropped treatment cases in San Joaquin county prior to examining baseline statistics, for reasons described in Section 2.1 of this report.

[38] Percentages reported in this Appendix are based on weighted sample data.

[39] The year refers to 1993 for Original Sample members, and 1994 for Replenishment Sample.

after we impose the restrictions described in Section 2.1. Table 2b shows similar information for the Replenishment Sample. The restricted Original Sample now has 6,356 adults in 6,036 AFDC-FG cases and 5,651 adults in 3,045 AFDC-U cases.[40] The Replenishment Sample contains 709 adults in 670 AFDC-FG cases and 890 adults in 552 AFDC-U cases. All AFDC-FG and AFDC-U cases have either one or two adults, due to the sample restrictions, with one adult in over 93 percent of AFDC-FG cases and two adults in 83 percent of the AFDC-U Original Sample and just over 51 percent of the AFDC-U Replenishment Sample.

The effects of our sample restrictions on racial composition generally seem to reduce the percentage of Hispanics across samples. This result may be expected due to our screening of child-only cases, in which Hispanics may be represented disproportionately. In the restricted Original Sample, about 29 percent of persons in AFDC-FG cases are Hispanic, 39 percent Black, 24 percent white, and 7 percent Asian. Restricted Replenishment Sample AFDC-FG cases consist of 38 percent Hispanic, 21 percent black, 35 percent white, and 4 percent Asian. Persons in AFDC-U cases from the restricted Original Sample are 22 percent Hispanic, 6 percent black, 46 percent white, and 25 percent Asian. Hispanics now account for about 47 percent of the restricted AFDC-U Replenishment Sample.

Matches to Base Wage File records were located for 76 percent of AFDC-FG adults and about 70 percent of AFDC-U adults in the restricted Original Sample, and for over 80 percent of adults in the restricted Replenishment Sample. About 70 percent of adults in the restricted Original Sample have zero earnings recorded in the Base Wage File during the year. Just over 60 percent of AFDC-FG adults and 50 percent of AFDC-U adults in the restricted Replenishment Sample show zero earnings during the year.

[40] Numbers of cases in the analysis sample do not necessarily reflect percentage reductions for child-only and other cases from the number of cases in the CWAD baseline sample because percentages are based on weighted sample data.

Table A1
Characteristics of Full CWPDP Sample, before Exclusions
Original Sample, Tax Year 1993

Variables	County				
	Alameda	*Los Angeles*	*San Bernardino*	*San Joaquin*	*Four Counties*
AFDC-FG Cases					
Race:					
White	0.15	0.13	0.41	0.35	0.19
Black	0.60	0.33	0.22	0.12	0.34
Hispanic	0.12	0.47	0.34	0.24	0.41
Asian	0.11	0.06	0.02	0.28	0.06
Gender: (fraction male)	0.37	0.40	0.39	0.40	0.39
Number of Adults in AU:					
0	0.18	0.38	0.19	0.18	0.33
1	0.80	0.58	0.76	0.77	0.63
2	0.02	0.04	0.05	0.04	0.04
3+	0.00	0.00	0.00	0.00	0.00
Number of Children in AU:					
0	0.03	0.01	0.02	0.01	0.01
1	0.44	0.40	0.35	0.35	0.39
2	0.29	0.31	0.33	0.31	0.31
3+	0.23	0.29	0.30	0.33	0.28
No. of Adults with EDD Earnings:					
0	0.75	0.84	0.78	0.76	0.82
1	0.24	0.16	0.21	0.23	0.18
2	0.01	0.00	0.01	0.01	0.00
No. of Assistance Units	1,942	3,762	1,929	683	8,316
AFDC-U Cases					
Race:					
White	0.26	0.34	0.45	0.22	0.35
Black	0.11	0.04	0.10	0.03	0.06
Hispanic	0.09	0.37	0.34	0.13	0.33
Asian	0.53	0.24	0.11	0.62	0.25
Gender: (Fraction Male)	0.50	0.51	0.49	0.51	0.51
Number of Adults in AU:					
0	0.06	0.28	0.14	0.05	0.23
1	0.07	0.12	0.13	0.06	0.12
2	0.81	0.55	0.70	0.81	0.60
3+	0.05	0.05	0.03	0.08	0.05
Number of Children in AU:					
0	0.04	0.01	0.02	0.00	0.01
1	0.16	0.21	0.16	0.14	0.20
2	0.26	0.38	0.29	0.23	0.35
3+	0.55	0.40	0.53	0.62	0.44
No. of Adults with EDD Earnings:					
0	0.76	0.77	0.66	0.63	0.75
1	0.20	0.20	0.26	0.30	0.21
2	0.04	0.03	0.08	0.06	0.04
No. of Assistance Units	849	1,951	922	253	3,975

Table A2
Characteristics of Full CWPDP Sample, before Exclusions
Replenishment Sample, Tax Year 1994

Variables	County				
	Alameda	*Los Angeles*	*San Bernardino*	*San Joaquin*	*Four Counties*
AFDC-FG Cases					
Race:					
White	0.25	0.24	0.47	0.47	0.30
Black	0.43	0.16	0.18	0.14	0.18
Hispanic	0.21	0.54	0.33	0.30	0.46
Asian	0.10	0.02	0.01	0.07	0.03
Gender: (fraction male)	0.29	0.35	0.36	0.34	0.35
Number of Adults in AU:					
0	0.27	0.44	0.28	0.24	0.39
1	0.68	0.55	0.68	0.72	0.59
2	0.05	0.01	0.04	0.04	0.02
3+	0.00	0.00	0.00	0.00	0.00
Number of Children in AU:					
0	0.25	0.28	0.29	0.43	0.28
1	0.41	0.43	0.36	0.31	0.41
2	0.23	0.18	0.20	0.13	0.18
3+	0.11	0.12	0.14	0.12	0.12
No. of Adults with EDD Earnings:					
0	0.64	0.81	0.71	0.62	0.78
1	0.34	0.19	0.29	0.36	0.22
2	0.02	0.00	0.00	0.02	0.00
No. of Assistance Units	187	420	339	59	1,005
AFDC-U Cases					
Race:					
White	0.28	0.21	0.45	0.32	0.27
Black	0.13	0.05	0.06	0.00	0.05
Hispanic	0.30	0.63	0.43	0.56	0.56
Asian	0.29	0.11	0.05	0.11	0.10
Gender: (Fraction Male)	0.49	0.52	0.51	0.44	0.52
Number of Adults in AU:					
0	0.23	0.43	0.21	0.10	0.37
1	0.22	0.29	0.31	0.22	0.29
2	0.52	0.25	0.47	0.64	0.31
3+	0.02	0.03	0.01	0.03	0.03
Number of Children in AU:					
0	0.22	0.25	0.24	0.56	0.25
1	0.27	0.26	0.22	0.05	0.25
2	0.38	0.30	0.26	0.15	0.29
3+	0.13	0.19	0.29	0.25	0.21
No. of Adults with EDD Earnings:					
0	0.65	0.76	0.51	0.27	0.70
1	0.28	0.20	0.37	0.46	0.24
2	0.07	0.04	0.12	0.24	0.06
No. of Assistance Units	112	403	287	43	845