Double-Claimed Dependents: A Declining Issue for U.S. Taxes

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Dependents claimed on tax returns can increase tax credits. This incentive leads some dependents to be claimed by multiple tax filers, or double-claimed, although each should be claimed only once. Despite increasing dependent tax benefits over the last two decades, the annual number of double-claimed dependents decreased by one million, an 80 percent decline. This resulted from the rise in electronically filed returns, for which double-claiming causes automatic IRS rejections. The decrease in double-claimed dependents avoids over 50,000 annual audits and reduces annual tax credit payments by about $3 billion. The IRS, however, will stop the automatic rejection of double-claimed e-file returns this year.

JEL: H24, H26, J12, J13
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A detailed data spreadsheet is at https://davidsplinter.com/DoubleClaimedDeps.xlsx

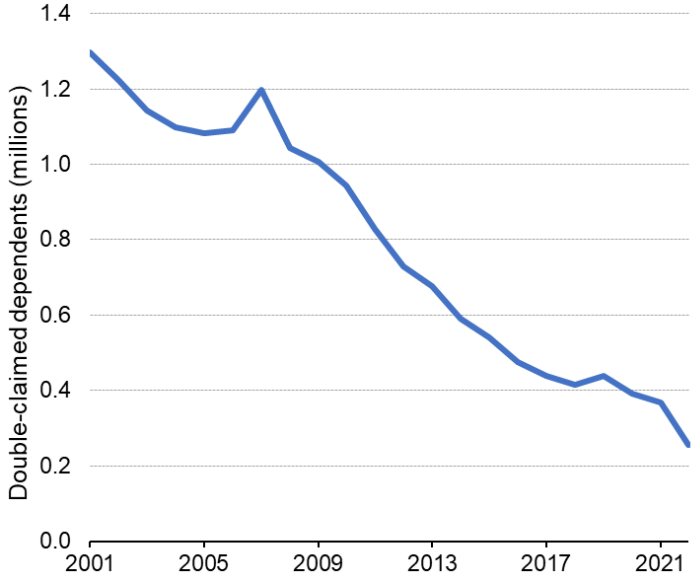
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While recent discussions have focused on IRS deficiencies, this paper presents an unrecognized success over the last two decades. Using population tax data between 2001 and 2022, we document a large decline in the number of dependents claimed by more than one tax filer, or double-claimed dependents. This is an important, but ignored, increase in tax compliance that we argue highlights a benefit from the widespread adoption of electronic filing (e-filing). This compliance benefit results from the IRS automatically rejecting e-filed returns attempting to double-claim a dependent, forcing the taxpayer to file by paper or to drop the dependent for the e-filed return to be accepted. This year, however, the IRS will change this longstanding policy and start allowing e-filed returns to double-claim dependents, potentially reversing this source of increased tax compliance.

Double-claiming of dependents is unsurprising given the complexity of dependent claiming rules and the large tax benefits at stake. In 2022, claiming one child could increase a filer's combined earned income and child tax credits by over $5,000. Moreover, expansions in these credits between 2001 and 2022 increased the tax benefits from claiming dependents.[1] Despite these increasing incentives, the annual number of double-claimed dependents decreased from 1.3 to 0.3 million, a decline of one million overclaims (Figure 1).

Figure 1: Double-claimed dependents (millions), 2001–2022



Source: Authors' calculations using population tax data.

[1] Between 2001 and 2018, the child tax credit expanded from $600 to $2,000. Also, nearly 90% of double-claimed dependents are under 18 years old and thus qualifying children for the EITC. Stimulus payments claimed on 2007 tax returns increased with claimed children (Splinter 2023), perhaps contributing to that year's jump in double-claiming.

This paper makes several contributions. Most importantly, this is the first paper, of which we are aware, documenting the issue of double-claimed dependents. We argue that this is an important source of tax noncompliance. Moreover, we discuss how the IRS addresses double-claiming with notices (in many instances) and audits (for 14% of double-claiming cases). We also consider how some taxpayers respond to IRS notices by amending their tax returns (for 8% of double-claiming cases) or respond to incentives by repeatedly double-claiming the same dependent over many years (we find 7% of these dependents were still double-claimed after five years).

Second, we show a large decrease in the number of double-claimed dependents, which most likely resulted from the rise in e-filing. The decline in double-claiming also resulted in large fiscal savings from reduced "double" tax credits—simultaneous credits for the same dependent. Our estimates suggest the decline in double-claimed dependents reduced double tax credits by $2.5 billion to $4 billion annually and avoided 50,000 to 70,000 annual audits. The latter effect is large because, compared to all filers, audit rates are about nine times higher among returns with double-claimed dependents. These indirect benefits of e-filing have not been previously documented.

Third, double-claimed dependents illustrate how tax complexity causes issues. In this case, complexity results from the detailed eligibility rules for claiming dependents, seen in Internal Revenue Code section 152 and IRS Publication 17. These rules can be especially complex for multi-generational households and cohabiting unmarried parents (Holtzblatt and McCubbin 2003; Splinter, Larrimore, and Mortenson 2017; Leibel, Lin, and McCubbin 2020; Goldin and Jurow Kleiman 2022; Michelmore and Pilkauskas 2022). Our findings suggest unmarried parents and non-parent relatives account for most double-claimed dependent claims. About one-third of double-claiming involves two parents who were never married. Nearly half of double-claiming involves one filer who was not a parent.

Fourth, our findings may help explain the opposite movements of compliance rates and audit rates. This counterintuitive pattern occurred between the late 2000s and mid-2010s, when the voluntary compliance rate increased three percentage points, but audit rates decreased by nearly half.[2] This opposite movement of compliance and audit rates presents a puzzle that e-file rejections may help resolve. E-filed returns are rejected for many reasons besides just double-claimed dependents. In 2009, for example, there were 1.3 million returns rejected for double-claimed dependents, but there were 24.0 million rejected for other reasons (Framinan, Hatton, and Silvia 2011). Therefore, the growth of e-filing and the resulting rejections may have had broad implications for tax compliance.

[2] These IRS tax gap estimates are after the effects of e-filing rejections but before late payments and enforcement. Over this period, voluntary compliance rates increased from 82 to 85 percent and audit rates decreased from 1.1 percent to 0.6 percent (Gorman, McGuire, and Splinter 2024). While estimates of earned income tax credit over-payments were relatively steady over this period, those estimates are based on audit studies only considering one tax return at a time and therefore do not consider double-claimed dependents. Due to this methodological limitation, the decline in double-claimed dependents is not reflected in estimated tax credit overpayments or the tax gap.

Fifth, our findings also have implications regarding the efficient use of IRS resources. While prior research has estimated rates-of-return for audits (Holtzblatt and McGuire 2020; Boning et al. 2024), other IRS policies can have high rates-of-return. For the IRS, the essentially costless rejection of e-filed returns double-claiming dependents suggests a nearly infinite rate-of-return of this policy.[3] Besides improving compliance, e-file rejections could also reduce the need for certain enforcement activities and allow a reallocation of enforcement resources (e.g., towards more audits).

Finally, this paper discusses how a new IRS policy may reverse the patterns described here. Despite the apparent success of e-filed returns with double-claimed dependents being automatically rejected, starting in the 2025 filing season, the IRS is partially reversing this policy. IRS (2024) explained that this change will accelerate tax refunds, as the current policy of making double-claiming returns paper-file delays tax credit receipt. The IRS will now accept those e-filed returns if they include the taxpayer's identity protection personal identification number, a six-digit number known only to taxpayers and the IRS.[4] While this identity requirement can limit identity theft, that does not appear to be the main source of double-claimed dependents.[5] Instead, double-claiming often results from two family members or caretakers claiming the same child. Thus, this policy change will likely result in double-claiming increases, and our estimates can help inform the degree to which that will occur. For example, in 2022 there were 0.8 million unique taxpayers with e-file rejections due to double-claimed dependents, suggesting this policy change could undo most of the last two decades of decreases in double-claiming and the associated tax credit savings of about $3 billion.

Our study has several limitations. While we emphasize that the decline in double-claiming reduced noncompliance, it was accompanied by a tradeoff. This tradeoff was between (1) reduced noncompliance from incorrect claimants filing second, being automatically rejected, and then not paper-filing to claim the dependent and (2) reduced dependent claiming and tax credit take-up due to correct claimants dropping their double-claimed dependents to e-file. We cannot determine the degree to which the first effect was offset by the second effect because the IRS only audits a small share of double-claims and has no registry linking each dependent to a claimant.[6] In summary, not all the decline in double-claiming necessarily represents a fall in

[3] Algorithms can have infinite marginal returns because of costless scaling (Ludwig, Mullainathan, and Rambachan 2024). E-file rejects, however, cause non-compliance if rejected returns are not resubmitted (Framinan, Hatton, and Silvia 2011) and a modest increase in paper-filing costs, although those costs are far outweighed by saved tax credit payments.

[4] Alternatively, this change may be part of using IRS funding increases in the 2022 Inflation Reduction Act to expand paperless interactions with taxpayers (IRS 2023; www.irs.gov/newsroom/irs-launches-paperless-processing-initiative).

[5] Identity theft would be indicated by many different tax returns claiming the same dependent, which is rare, as the average number of times a dependent is claimed (if more than one) is only 2.03.

[6] An example of a child-taxpayer registry system was "presumptive eligibility" for advance child tax credits in the President's 2025 Budget Proposal, which would link newborns with parents and establish procedures for reallocating children to different caretakers (Joint Committee on Taxation 2024). The IRS can identify parents from Social Security Administration data for relationship tests and also use child support data (McCubbin 2000).

noncompliance. We expect, however, that most of the decline was from noncompliance because for correct claimants there is a modest burden from paper-filing relative to the large tax benefit from claiming a dependent.

In the following sections, we first describe how dependents are double-claimed and how the IRS responds. Second, we argue that the double-claiming decline was predominantly driven by the rise in e-filed returns. Third, we estimate its effect on tax credits and consider the effects of amended returns and frequency of repeat double-claiming. Finally, we present evidence from audits and then conclude.

I. IRS treatment of double-claimed dependents

A dependent is a qualifying child or relative who relies on the tax filer for financial support, among other requirements. A dependent's tax benefits should only be claimed on one tax return in any given year. Tie-breaker rules for qualifying children usually prioritize the filer who is the parent of the dependent, the filer with whom the child resided the longest that year, and the filer with the highest income. Through filing season 2024, if a dependent has already been claimed, and another filer attempts to claim the same dependent in the same tax year with an e-filed return, the second return will be rejected. An error message specifies which dependent caused the rejection due to already being claimed on another return.[7] If the filer believes she is eligible to claim the dependent, she must paper-file her return. This is the source of double-claimed dependents. We refer to "double-claiming" because more than two filers rarely claim these dependents.[8]

When a dependent is double-claimed, the initial filer and the second filer both receive tax benefits for that dependent. The IRS is unaware which filer is entitled to claim the dependent. This lack of ex-ante knowledge regarding the correct claimant is likely why the IRS cannot make math error corrections to disallow double-claimed dependents after a return has been accepted. In contrast, the IRS can use math error correction to automatically disallow a child tax credit if the filer fails to provide the child's correct taxpayer identification number (Government Accountability Office 2009).

After a double-claim occurs, the IRS may send a CP87A notice to both filers. The notice asks the filer to check the dependent's taxpayer identification number and the rules for claiming dependents. It does not disclose the identity of the other filer claiming the same dependent. After receiving the notice, if the filer still thinks he is entitled to claim the dependent, he does nothing. Otherwise, if the filer determines he is

[7] Since 2010, individual tax returns (Forms 1040) are part of the IRS Modernized e-File system and have immediate rejections and error messages. E-filed returns with double-claimed dependents appear to have always been rejected.

[8] Our analysis excludes dependent-filer double-claiming: individuals filing a return saying they are not a dependent elsewhere (allowing for a personal exemption or larger standard deduction) while also being claimed as a dependent on another return.

not entitled to claim the dependent, he may then self-correct his tax return by filing an amended return (Form 1040-X) that removes the dependent and associated tax benefits. We estimate that an average of 8% of double-claiming cases result in amended returns. These steps do not constitute an audit. However, if neither filer removes the double-claimed dependent then an audit may begin.[9] As discussed in Section IV, about 14% of double-claiming cases result in audits, and 7% of double-claiming filers are audited because only one of the pair of filers is usually audited.

When an audit begins, the IRS sends a letter directing a double-claiming filer to provide proof of entitlement to claim the dependent with supporting documents, as listed in Form 886-H-DEP. To show that the filer and dependent lived together for more than half the year, these documents could include school, medical, daycare, or social service records. For divorced or separated couples who have an agreement about who can claim a dependent, these documents could include a divorce decree or separation agreement. After the response deadline, the IRS may decide whether the filer can claim the dependent and adjust the filer's taxes and possibly assess penalties and interest. We find that, among those audited, this entire process often takes just over one year. To help prevent future issues, filers may submit Form 8332 to release claims to a dependent or re-claim a dependent. This form can codify agreements between competing dependent claimants, such as unmarried or divorced parents agreeing to alternate who claims a child each year.

II. Reasons for decreased double-claiming

The decrease in double-claimed dependents is highly correlated with falling paper-filing rates (i.e., rising e-file rates). E-filing can limit double-claiming for multiple reasons. E-filers rejected due to double-claiming may be unaware that paper-filing allows them to double-claim a dependent. Furthermore, e-file rejection messages from the IRS may intimidate filers or suggest further scrutiny from the IRS. We consider falling divorce rates but find they can explain little of the decrease in double-claiming. Finally, we show that e-filing rejection patterns are consistent with e-filing being associated with the decline in double-claimed dependents.

This analysis has some limitations. There is no distinct policy change in the period analyzed that would allow for clear causal identification of why double-claiming declined. Additionally, the discussion here only considers changes in four factors: double-claiming rates, e-filing rates, divorce rates, and e-file rejections due to double-claimed dependents. Some other factors were relatively constant or had no clear pattern, like the share of double-claiming filers amending returns or subject to audits.

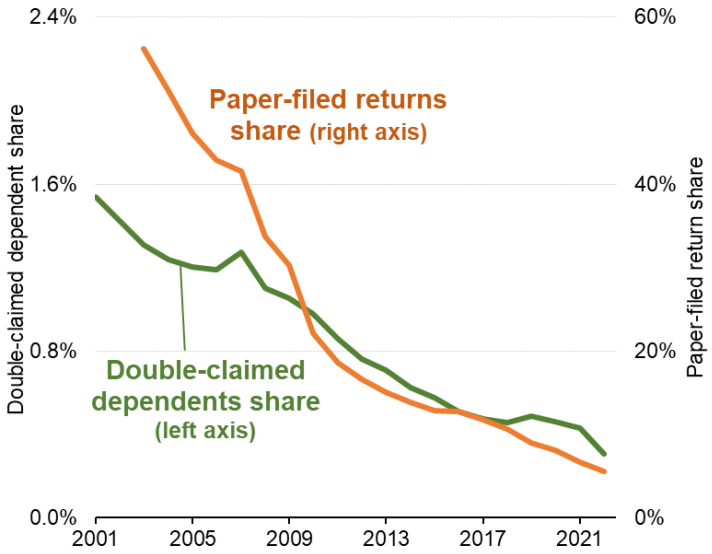
[9] IRS guidance from www.irs.gov/identity-theft-fraud-scams/identity-theft-dependents and www.irs.gov/individuals/understanding-your-cp87a-notice, accessed May 24, 2024.

A. Falling paper-filing rates (rising e-file rates)

The share of all individual tax returns filed by paper fell from 56% to 6% between tax years 2003 and 2022. In Figure 2, the double-claiming and paper-filing rates decline together, where levels have a correlation of 0.95. The correlation was slightly lower (0.88) before 2010, when paper-filing was more widespread and many e-filed returns were from paid preparers, who may have been more likely to know that paper-filing circumvents e-file rejection. The double-claiming and paper-filing rate correlation is stronger (0.97) since 2010, when the IRS stopped mailing paper-filing packages to residences and paper-filing was less common. As filers became increasingly dependent on electronic filing, paper-filing a return to double-claim a dependent indicated that the taxpayer had knowledge of the opportunity to double-claim by paper-filing and was willing to put in the (small) additional effort to paper-file. Moreover, e-file rejection error messages could disproportionately deter taxpayers incorrectly claiming a dependent or claiming a dependent for whom the claim was less clear, especially among non-parents.

Overall, the e-file rejection policy can be viewed as a mixture of "nudges" based on information availability (knowing about the option to paper-file to double-claim), taxpayer costs (filing by paper and delayed refunds), and noisy enforcement signals (from e-filing rejection messages). Some of the decline in double-claiming likely resulted from legitimate claimants dropping dependents. However, the nudges described above—combined with the modest paper-filing burdens among legitimate claimants relative to the large tax benefits from claiming an additional dependent—suggest that the decline in double-claiming was disproportionately from reduced noncompliance.

Figure 2: Double-claiming and paper-filing rates



Notes: Divorce rates are the number of divorces and annulments divided by the total population.
We only report double-claiming since 2001 and paper-filing rates since 2003 because of issues with earlier data.
Source: Authors' calculations using population tax data.

B. Small impact from falling divorce rates

Divorces contribute to double-claiming of dependents when former spouses both claim their children. Thus, the number of divorces decreasing over the last two decades may have contributed to the double-claiming decline. Between 2001 and 2022, annual divorce rates fell from 0.40% to 0.24% of the total population, meaning divorce and double-claiming rates decline together.[10] Despite this contemporaneous decline, only a small share of double-claiming was among filers who may have divorced. About 14% of the 2001 cases of double-claimed dependents were among divorced couples—i.e., filers married anytime in the prior five years, the earliest the data allows. This suggests falling divorce rates may explain only around one-seventh of the decrease in double-claiming.

The small impact of divorce rates is because there are other situations where two filers try to claim the same dependent. While about one-quarter of recent double-claiming was by two parents who were ever married, about one-third of double-claiming was by two parents who were *never* married.[11] The remaining double-claiming (nearly half) was where one filer was not a parent, such as a grandparent. We find that about one-tenth of double-claiming filers live at the same address, which can occur with unmarried cohabiting parents or multi-generational households (Splinter, Larrimore, and Mortenson 2017).[12] Within this small group, decreasing teenage pregnancy rates may contribute to declining double-claiming because of less claiming confusion between a child's mother and grandparents.

C. Increases in e-file rejections from double-claiming

We observe relatively stable numbers of e-file rejections from double-claimed dependents. Between 2009 and 2022, e-file rejections from double-claiming increased from 1.3 million to 1.5 million. When accounting for filers who e-file with double-claimed dependents more than once, we observe 0.8 million distinct filer e-file rejections in both 2011 and 2022 (appendix Figure A1). The rejection rates as a share of dependents increased from 0.9% to 1.0%. Note that this analysis starts with the earliest year we observe e-filing rejection data, and we ignore the temporary pandemic-era surge in rejections likely related to stimulus checks. Overall, the relatively stable pattern of rejections suggests that without the growth in e-filing and associated rejections, successful double-claiming may have persisted near the levels from the early 2000s. For purposes of calculating avoided tax credit payments in the next section, we assume a constant counterfactual double-claiming rate.

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[10] Estimates from CDC/NCHS National Vital Statistics System: www.cdc.gov/nchs/data/dvs/marriage-divorce/national-marriage-divorce-rates-00-22.pdf (accessed May 24, 2024).

[11] Due to data limitations, parents include all opposite-sex double-claiming filers aged within ten years of one another.

[12] Ackerman, Holtzblatt, and Masken (2009, p. 200) note that "simplifying the tie breaker rules [in 2008] for all child-related tax benefits—while at the same time requiring only one taxpayer to claim a given child—made it easier for families to game and allocate children among family members so as to maximize tax benefits received by the household."

III. Double tax credits and repeat double-claiming

Double-claimed dependents can result in double tax credits—simultaneous tax credits made for the same dependent. Only one filer may claim a given tax benefit for a given dependent each year, which means double-claiming contributes to tax noncompliance. Given that over three-quarters of double-claimed dependents are qualifying children for the CTC and half of double-claiming filers claim the earned income tax credit, the fall in double-claiming reduced annual payments of refundable tax credits by $2.5 billion to $4 billion. But not all double-claiming filers keep these tax benefits. Some amend their returns or are subject to IRS enforcement activity.

A. Reversed double tax credits: Amended returns and IRS enforcement

Filers may amend their tax returns to remove the double-claimed dependent.[13] We estimate that amended returns resolve about 8% of cases of double-claimed dependents. This suggests only a small share of double-claiming filers drop the dependent upon receiving an initial notice from the IRS or a direct complaint from the other filer. Still, the amending rate among double-claiming returns is more than five times that of all returns, considering that only one filer per double-claimed dependent should amend (Figure A1). In addition to amending, the IRS removed some double-claimed dependents through audits. About 14% of double-claimed dependents resulted in one or both double-claiming filers being audited. We expect these are mostly correspondence audits due to the limited verification information requested, as described above. The combined effects from amended returns and IRS audits suggest that about one-fifth of double tax credits may have been reversed after IRS action (although not all tax credits are repaid due to outstanding collections).

B. Reduction in double tax credits since 2001

To estimate the effect of declining double-claiming on tax liabilities, we focus on the largest relevant tax credits because four-fifths of double-claiming filers had incomes below $40,000, meaning personal exemptions and other tax effects were small. In 2001, initial earned income tax credits (EITCs) and child tax credits (CTCs) among double-claiming filers were $5.7 billion (all estimated values here are 2024 dollars). This suggests double tax credits totaled $2.6 billion, after accounting for two filers and a 7% cutback to account for recovered credits from amendments and audits. In 2022, this

[13] Only returns that are accepted by the IRS for processing can be amended. Amending does not refer to a rejected e-file return that is accepted after the taxpayer removes the double-claimed dependent and resubmits, as the initial rejected submission was never accepted.

approach suggests double tax credits of $0.8 billion. Ignoring policy changes, this suggests falling double tax credit rates reduced credit payments by $1.8 billion. To isolate the impact of the decline in double-claiming, we control for CTC policy changes. Between 2001 and 2022, the nominal CTC increased by 3.3 times (from $600 to $2,000), and the maximum nominal refundable CTC increased by 2.5 times (from $600 to $1,500) while its earned income phase-in became much more generous (the initial phase-in threshold fell from $10,000 to $2,500 and the phase-in rate increased from 10% to 15%). To simplify the counterfactual policy-invariant analysis, we triple initial-year nominal CTCs. This suggests falling double tax credit rates reduced tax credit payments by $2.5 billion.[14] A more straightforward approach is to apply the average $4,000 of EITCs and CTCs per double-claimed dependent in 2022 to the decline of one million double-claimed dependents, suggesting up to $4 billion of reduced double tax credit payments.

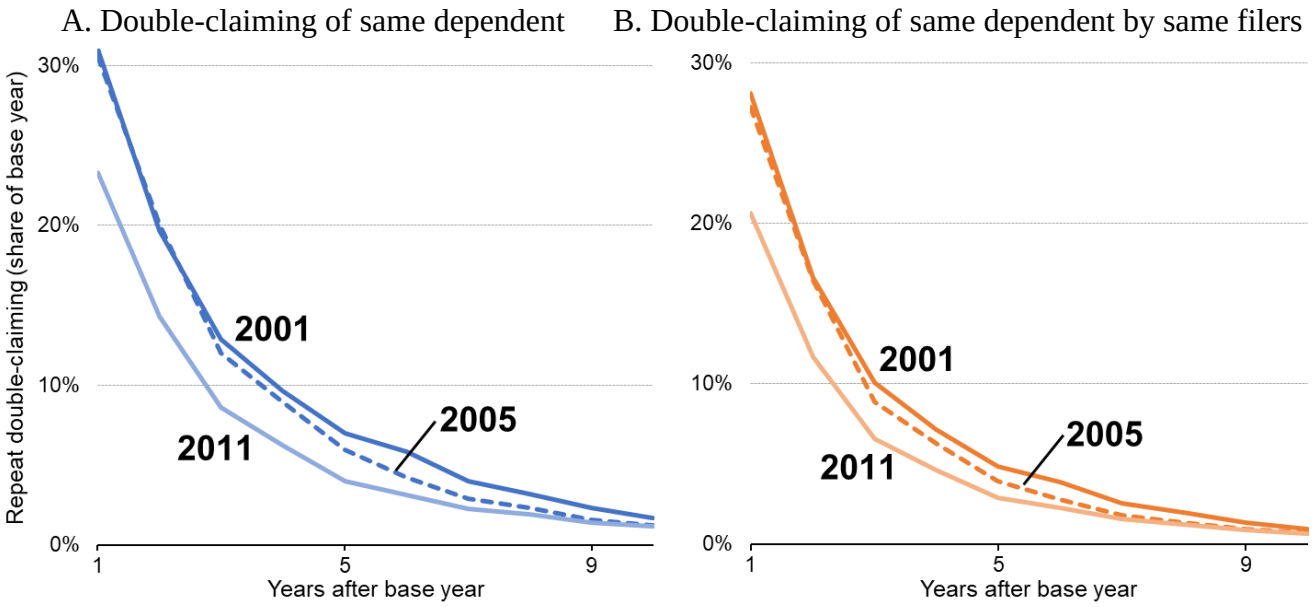
C. Repeat double-claimed dependents

Many double-claimed dependents are repeatedly double-claimed from one year to the next. To estimate repeat double-claiming, we follow double-claimed dependents in a base year over subsequent years. For example, among 2001 double-claimed dependents, 31% were also double-claimed the following year and 7% were still double-claimed after five years (Figure 3A).[15] After the first year, repeat double-claiming rates decrease about one-third each year, implying a decay rate of about one-third. The levels and patterns are only slightly lower when restricting repeat double-claiming to the same primary filers (Figure 3B), meaning the same pair of filers keep double-claiming the same dependent. When following double-claiming filers (rather than dependents), the results are the same, suggesting repeat double-claiming is caused by dependents contested by the same two filers.

[14] The calculations are: [$5.7 billion ÷ 2 • (1 – 0.07)] – [$2.1 billion ÷ 2 • (1 – 0.16)] = $2.6 billion – $0.9 billion = $1.8 billion; [($1.1 billion • 3 + $4 billion) ÷ 2 • (1 – 0.07)] – [$2.1 billion ÷ 2 • (1 – 0.16)] = $3.4 billion – $0.9 billion = $2.5 billion. We divide by two because only one filer among the double-claiming pair is affected and the 7% and 16% adjustments remove effects from amending and audited returns. Note that these estimates do not control for some households that avoid double-claiming while still increasing tax credits by strategically switching a dependent across filers (Splinter, Larrimore, and Mortenson 2017), especially after audits (Guyton et al. 2024).

[15] In these estimates, the base-year double-claimed dependents include some dependents who were already repeat double-claimed in the base year. About one-third of double-claiming filers who do not repeat double-claim the following year do not even file a return, suggesting they had volatile incomes or were filing primarily to claim a dependent-based refundable tax credit, like the EITC or CTC.

Figure 3: Repeat double-claiming of the same dependent



Source: Authors' calculations using population tax data.

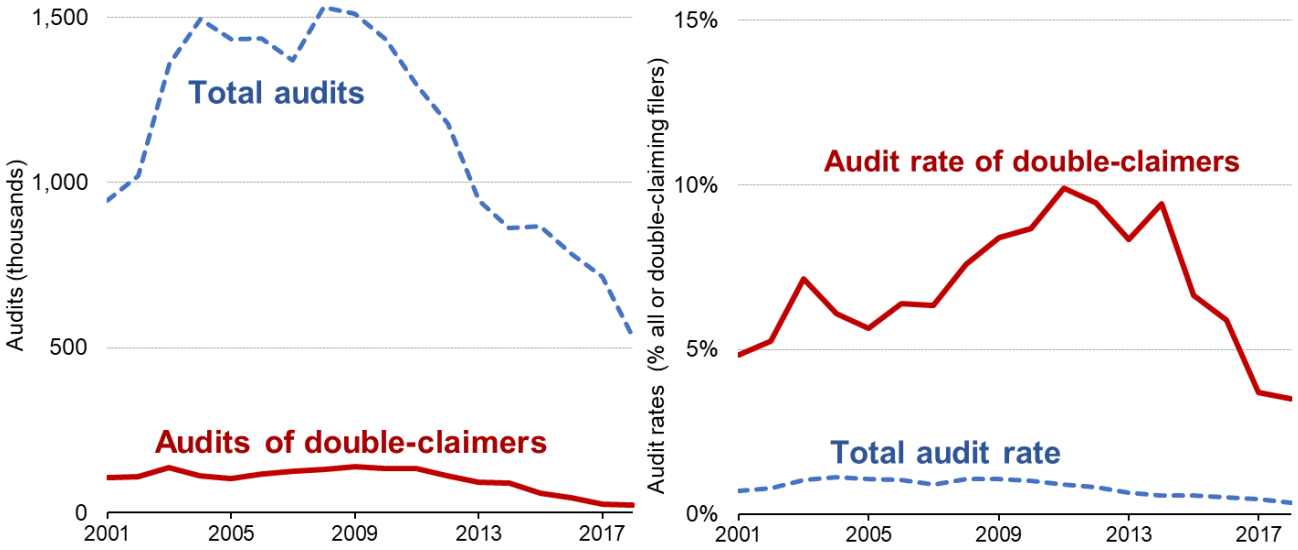
The annual decay rate in repeat double-claiming (after the first year) of about one-third is only slightly higher than the share of double claims reversed due to IRS interventions of about one-fifth. This suggests double claiming and double tax credits may be repeated for several years until the IRS intervenes. This highlights the importance of both IRS interventions (with notices and audits) and the decline in *initial* double-claiming (with e-file rejections) as important ways to limit double tax credits. Again, we believe the decline in initial double-claiming largely resulted from the rise of e-filing and the policy of automatically rejecting e-filed returns with double-claimed dependents.

IV. Audits of double-claiming filers

If a double-claimed dependent was not dropped by a filer with an amended return, the IRS may start an audit to determine which filer can claim the dependent. Only one of the double-claiming filers is usually audited, although both are audited for one to two percent of double-claiming cases. Audits do not appear associated with which double-claimed return was filed first or second. We find that audit rates roughly double the second year a dependent is double-claimed, which is consistent with our analysis above regarding repeat double-claiming. Among double-claiming filers, the audit typically ends just over one year (median of 15 months) after the date the second double-claiming return is received. The IRS usually adjusts the taxes of the filer losing the dependent.

Figure 4: Audits, overall and among double-claiming filers, tax years 2001–2018

A. Audit counts (thousands) B. Audit rates (% filers or double-claiming filers)



Notes: Audits are shown through tax year 2018 because tax year 2019 audits may have been slowed by Covid-related issues, and it can take several years for audits to be completed. Audits counts only include closed examinations and are by the tax year of the return (not fiscal year of the examination). *Source:* Authors' calculations using population tax data.

The number of annual audits among double-claiming filers decreased by about 80,000 over the last two decades. The number of all annual audits also decreased over the last two decades, as seen in Figure 4A. Double-claiming audit rates (DCARs), however, followed an inverted U-shape, as seen in Figure 4B. Between 2001 and 2011, DCARs increased from 5% to 10%, as the total number of double-claiming audits was steady, but the number of double-claiming filers decreased by about half. Between 2011 and 2018, DCARs fell by more than half (from 10% to 4%) in tandem with overall audit rate decreases (from 0.9% to 0.3%). To estimate the impact of the decline in double-claiming on the number of double-claimed audits, we control for the modest decrease in DCARs. When adjusting the 2001 number of double-claimed audits by the 2018 DCAR, annual audits among double-claiming filers decreased by 53,000. When adjusting the 2018 number of double-claimed audits by the 2001 DCAR, annual audits among double-claiming filers decreased by 73,000. Finally, note that relative to all filers, double-claiming filers are about nine times as likely to be audited.

V. Discussion

Each dependent should be claimed on only one tax return each year. But claiming dependents can lower tax burdens and increase tax credits. These incentives can lead some dependents to be claimed by more than one tax filer, making them double-claimed

dependents. This double-claiming contributes to tax noncompliance. For example, over half of estimated improper EITC payments resulted from filers inappropriately claiming a child, usually because the child did not reside with the tax filer (Internal Revenue Service 2014). While this has been a perennial issue for tax compliance, this paper focuses on a bright spot: the decline in double-claimed dependents.[16]

Double-claimed dependents have not been previously discussed in the literature. Hence, this paper reveals an important source of tax noncompliance, a large decrease in this form of noncompliance, and an unrecognized benefit of e-filing. Additionally, we suggest that rising e-filing rates may help resolve the puzzle of compliance rates increasing despite audit rates falling.

We argue that most of the one-million-dependent decline in double-claiming was from the rise in e-filed returns. This is because through filing year 2024 the IRS has automatically rejected e-filed returns if they included double-claimed dependents. We estimate that these rejections avoid tens of thousands of annual audits and reduce annual tax credit payments by about $2.5 billion to $4 billion. The nearly costless rejection of e-filed returns double-claiming dependents suggests a very high rate-of-return of this policy. However, starting this year, the IRS is reversing the policy described in this paper by allowing double-claimed dependents on e-filed returns. This will likely increase noncompliance.

Tax credits being paid twice for the same child due to double-claiming is an inefficiency from imperfect targeting that fits Okun's leaky bucket metaphor, where transfers from taxpayers can fail to reach targeted recipients or cause behavioral responses (i.e., noncompliance). The gradual decline in double-claiming over the last two decades resulted in a closing of this leak. However, the IRS is changing the longstanding policy studied in this paper. By allowing double-claimed dependents on e-filed returns, the IRS may re-open the leak that was gradually closed with rejections of e-filed double-claims. Our estimates provide an upper bound of the degree to which this policy change will increase double-claims and double tax credit payments.

[16] While estimated EITC overpayment rates were relatively steady over this period, those estimates are based on audit studies that only consider one tax return at a time and therefore do not consider double-claimed dependents.

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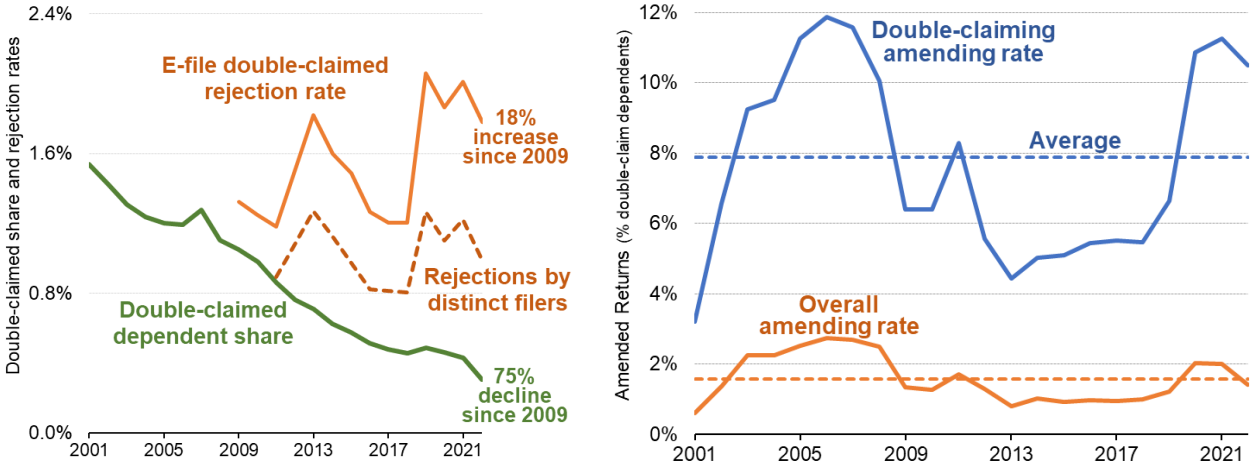
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Appendix

Figure A1: E-file rejection and amended return rates, 2001–2022

A. E-file double-claimed rejection rates (% dependents) B. Amended return rates



Notes: Panel A: The comparison in the text avoids using tax years 2019–2021, for which elevated rejection rates may have resulted from stimulus check policies (as 2019 returns were used to determine most 2020 stimulus checks). Rejection rates for 2010 and 2012 are interpolated. Analogous rejections by distinct filers were not available for 2009. Panel B: The solid blue line shows the number of amended returns divided by the number of double-claimed dependents, where both double-claiming filers are considered but usually only one amends. Amending rates fluctuated with incentives. In 2001, amending rates were low when the CTC first became refundable. In 2008, there was a sharp increase in e-filing and the amending rate fell. In 2020 and 2021, the amending rate increased when dependents were temporarily more valuable due to stimulus and expanded CTCs. *Source:* Authors' calculations using population tax data and Framinan, Hatton, and Silvia (2011).