

A Bipartisan Way to Make Work Pay for Low-Wage Workers: Boosting the Earned Income Tax Credit for Workers Without Dependent Children

MDRC is dedicated to learning what works to improve the well-being of low-income people. Through our research, we seek to enhance the effectiveness of social and education policies and programs. As part of our “Looking Forward” series, we provide policymakers with memos that suggest ways to make progress on critical issues.

Bottom Line

The most successful antipoverty program in the United States — the Earned Income Tax Credit (EITC) — is predicated on work and raises over six million Americans out of poverty each year, including more than three million children. However, because it largely targets workers with dependent children, millions of low-wage single adults (some of whom have children but not custody of them) receive very little support. Early results from an ongoing demonstration, Paycheck Plus, suggest that expanding the EITC for singles, an idea that has bipartisan support in Washington, is feasible and can modestly increase employment and income while reducing poverty.

What Do We Know About the Value of the EITC?

The EITC encourages and rewards work.

The EITC supplements each dollar that a low-wage worker earns up to a certain limit, providing incentives for the unemployed and welfare recipients to work and for low-wage workers to work more hours. A strong body

of evidence demonstrates that work-based earnings supplements such as the EITC boost employment and earnings while increasing work effort.

The EITC reduces poverty.

In 2015, the EITC lifted about 6.5 million people out of poverty, including about 3.3 million children. The number of poor children would have been more than one-quarter higher without the EITC. The credit reduced the severity of poverty for another 21.2 million people, including 7.7 million children. Workers in cities, small towns, and rural areas all benefit from the EITC.

EITC payments support important investments by families.

Research indicates that families use the EITC to pay for necessities, repair homes, maintain vehicles that are needed to commute to work, and in some cases, obtain additional education or training to boost their employment prospects and earning power.

However, workers without dependent children receive little support from the EITC.

In 2016, the EITC for workers without dependent chil-

dren provided a maximum credit of \$506 and was reduced to \$0 once earnings reached \$14,880. (In contrast, the maximum annual credit for an adult with two dependent children was \$5,572.)

Why Increase the EITC for Single Adults Without Dependent Children?

The success of the EITC at encouraging work and increasing incomes raises the question of why its expansion has lagged so much for adults without children. This group makes up a significant fraction of low-wage, low-skilled workers, who have faced similar labor-market conditions as have workers with children, characterized by several decades of falling real wages. In fact, because a disproportionate number are men, they have faced tougher conditions in many cases. Wages and employment rates have fallen the most for less-skilled men. Many of these men are also parents who do not have custody of their children and whose role in providing for their nonresident children is not recognized by the tax system.

Results from the Paycheck Plus Demonstration in New York City and Atlanta

The Paycheck Plus demonstration offers up to \$2,000 a year for three years to single workers with earnings of up to \$30,000 per year. The maximum payment is made to those with earnings between \$6,667 and \$18,000. The pilot test in New York City enrolled 6,000 participants and the one in Atlanta includes 4,000, split evenly between a program group who can receive the expanded credit and a control group who cannot. The New York City sample has been able to receive the credit for three years (tax years 2014-2016), and the Atlanta participants will receive their first payments for tax year 2016. Findings from the first two years in New York City, which will be released this summer, include:

- **Paycheck Plus has increased incomes and employment.** Most people in the Paycheck Plus group who had earnings in the eligible range applied for and received the expanded credit. About 65 percent of eligible individuals received the credit in Year 1 and 57 percent in Year 2. The average amount paid was about \$1,400 in each year. The program also led to a small increase in employment in Year 2, with a substantial effect on employment among women.

- **Paycheck Plus increased child support payments from parents who do not have custody.** Paycheck Plus recipients paid an average of \$54 per month more in child support than individuals in the control group — a 39 percent increase.
- **Paycheck Plus increased rates of filing taxes, led to large increases in the use of free tax preparation at Volunteer Income Tax Assistance sites, and modestly boosted receipt of the federal EITC.**

What's Next?

In 2017, Paycheck Plus is in its last year of making payouts in New York, providing a test in a labor market with a high minimum wage. In Atlanta, a city with a lower minimum wage and lower average wages, participants are receiving their first payments after a robust outreach and marketing effort. Interim findings from Atlanta will be published in 2018. The project is also fielding surveys in both cities that will capture important effects on income, poverty, and well-being. The final reports, scheduled for 2018 for New York and 2020 for Atlanta, will use data from the surveys and longer-term data on taxes and earnings to capture the full effects of Paycheck Plus.

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