



Research

The Work and Safety Net Effects of Expanding the Childless EITC

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EXECUTIVE SUMMARY

- House Speaker Paul Ryan’s plan to expand the Earned Income Tax Credit (EITC) for childless adults would lower the age limit from 25 to 21, double the phase-in and phase-out rates from 7.65 percent to 15.3 percent, and increase the maximum credit from \$503 to \$1,005.
- The proposal is projected to increase employment of childless adults by 8.3 million, where 4.6 million are single and 3.7 million are married.
- When compared to the current law, the proposal would give an additional \$1.3 billion to individuals in poverty while lifting 89,800 out of poverty. The program would also target an additional 2.2 million individuals below 150 percent of the poverty line giving them \$2.7 billion.
- The estimated budgetary costs for the proposal are \$8.3 billion for workers expected to enter the workforce and \$5.5 billion for workers currently in the workforce for a total budgetary cost of \$13.8 billion.

EXPANDING THE EITC FOR CHILDLESS ADULTS

After years of anemic economic growth and little real wage growth, many have become understandably frustrated with the U.S. labor market. Policymakers are particularly concerned about the well-being of those in poverty, as they are unable to obtain jobs with sufficient wages and hours to support their families. In response to this concern, progressive politicians and labor advocates have proposed to substantially increase the minimum wage. The Fight for \$15 movement, for instance, advocates that the minimum wage should be at least \$15 per hour. While these proposals are well intended, American Action Forum (AAF) research has consistently shown that proposals to raise the minimum wage often hurt those they intend to help by increasing joblessness among low-skilled workers and failing to deliver income gains to those who are actually in poverty.^[1]

An alternative solution for helping those in poverty is to expand the Earned Income Tax Credit (EITC). The EITC better targets families in need because it is based on family income, not hourly wage rate, and has been credited with keeping millions out of poverty.^[2] Moreover, instead of causing job losses, the EITC’s inherent work incentives likely increase employment. Due to the EITC’s successful track record, proposals to expand it have broad bipartisan appeal. In this paper, we analyze a popular proposal to expand the EITC for childless adults.

BACKGROUND

The EITC, first enacted under the Ford Administration in 1975, is an income subsidy provided through the tax code specifically targeted to low-income working families. The value of the credit received is a fixed percentage of family earnings; as earnings increase, so does the credit at a constant rate determined by the number of children. The credit hits a maximum value also determined by the number of children. The credit is then flat at the maximum value for a specific range of earnings and once earnings rise above that range, the credit reduces at a constant rate until the family phases out and no longer qualifies for the EITC. The phase out begins sooner for single filers than it does for married ones. In addition, the EITC is fully refundable, meaning that if the credit exceeds a family's tax liability, the family still receives the full credit. As a result, they receive the excess credit as a tax refund.[3]

The EITC has historically been successful as a tool for lifting low income families out of poverty. In 1997 and 1998, the EITC resulted in the removal of 4.3 million people from poverty according to the President's Council of Economic Advisers.[4] The EITC has also been relevant in its ability to increase the labor force participation as well. In a study by Kean and Moffitt (1998), increases in the EITC maximum credit as well as the number of Americans receiving the EITC between 1984 and 1996 are associated with a 10.37 percentage point increase in the labor force participation rate.[5] The EITC accomplishes this by raising the effective income earned while not requiring employers to pay more—as is the case with increasing the minimum wage. The previous expansions of the EITC were primarily directed towards families with children. As a result, a large portion of the gains made in the labor force participation and reductions in the poverty rate benefit families with children.

Meanwhile, the EITC falls short when it comes to helping those without children. While the maximum credit for an adult with one child was \$3,359 in 2015, the maximum credit for an adult with no children was only \$503. As a result, childless adults in poverty currently do not receive comparable assistance from the EITC and childless adults currently not working do not receive the same incentives to enter the labor force.

PROPOSALS TO EXPAND THE EITC FOR CHILDLESS ADULTS

Over the past few years, President Barack Obama[6] and House Speaker Paul Ryan[7] have made almost identical proposals for expanding the EITC for childless adults. First, both would lower the EITC's age limit from 25 to 21 so more young childless adults could benefit from the program. Second, both would effectively double the credit available for childless adults. Finally, both would expand the income range in which childless adults would receive the maximum credit. The only difference between the two proposals is that in addition to lowering the age required to receive the credit to 21, President Obama would raise the maximum eligible age from 64 to 66.

Table 1 illustrates Speaker Ryan's proposal to expand the EITC for childless adults compared to current law.

Table 1: EITC for Childless Adults in 2015

| Category | Current Law | | | Ryan Proposal | | |
|-----------------|-------------|-------------|----------|---------------|-------------|----------|
| | Lower Bound | Upper Bound | Rate/Cap | Lower Bound | Upper Bound | Rate/Cap |
| Age Restriction | 25 | 64 | N/A | 21 | 64 | N/A |
| Phase In | \$0 | \$6,570 | 7.65% | \$0 | \$6,570 | 15.3% |
| Cap | \$6,570 | \$8,220* | \$503 | \$6,570 | \$11,500* | \$1,005 |
| Phase Out | \$8,220* | \$14,790* | 7.65% | \$11,500* | \$18,070* | 15.3% |

*Add \$5,500 if married filing jointly

The Ryan proposal’s age range expansion is intended to capture the group of individuals who are least likely to have children and would stand to benefit from the EITC.

While Speaker Ryan’s proposal would keep the phase-in earnings range the same, his proposal would double the phase-in rate. Specifically, for the childless adults who made between \$0 and \$6,570 in a year, the credit they receive would double from 7.65 percent of their earnings to 15.3 percent of their earnings. Just like under current law, the proposed annual income range for childless adults to receive the maximum credit would begin at \$6,570.

Regarding the maximum credit, however, there are two key changes to current law. First, Speaker Ryan’s proposal would double the maximum credit childless adults could receive from \$503 to \$1,005. Second, the proposal would increase the maximum earnings level for receiving the maximum credit by \$3,280. This means the annual earnings range where single childless adults would receive the maximum credit would expand from \$6,570 – \$8,220 to \$6,570 – \$11,500. For those who are married and filing jointly, the annual earnings range for the maximum credit would expand from \$6,570 – \$13,720 to \$6,570 – \$17,000.

Finally, Speaker Ryan’s proposal would double the phase-out rate from 7.65 percent to 15.3 percent. As a result, the credit would completely phase out over the additional \$6,570 in earnings after the end of the maximum credit range. Since the proposal would increase the upper end of the maximum credit earnings range by \$3,280, the income level where the credit completely phases-out would increase by the same amount. As a result, the earnings levels where the credit would be completely phased-out (and where the adults would no longer be eligible for the credit) would increase from \$14,790 to \$18,070 for single adults and from \$20,290 to \$23,570 for those who are married.

The maximum annual amount an individual can earn under the proposal and still receive any amount of credit would increase to \$18,070 for single childless adults and to \$23,570 for married childless adults. Increasing the phase-out rate for childless workers is a potential disincentive to work additional hours. However, the 15.3

percent phase-out rate is still below the rates for families with children. The phase-out rate for families with one child is 15.98 percent, and for those with two or more it is 21.06 percent. Also, there is no definitive evidence that an increase in the phase-out rate reduces hours worked.

THE IMPACT OF EXPANDING THE EITC

In this section, we analyze the impact of Speaker Ryan's EITC proposal. In doing so, we use the Current Population Survey (CPS) March 2015 supplement to estimate the increase in the average credit among single and married childless adults, the number of people impacted by the change, and the total income benefit for childless adults.^[8] It is important to note that in this section we assume that employment and wage earnings characteristics remain unchanged among the impacted workers.

Average EITC Value

Table 2 compares the average credit received under current law to what would be received under the proposed law for single and married childless adults.

Table 2: Average EITC Value for Childless Adults

| Income Range | Current Law | | Proposal | | Difference | |
|------------------|-------------|---------|----------|---------|------------|---------|
| | Single | Married | Single | Married | Single | Married |
| Phase In | \$242 | \$253 | \$495 | \$507 | \$253 | \$255 |
| Cap | \$503 | \$503 | \$1,005 | \$1,005 | \$502 | \$502 |
| Phase Out | \$250 | \$211 | \$466 | \$507 | \$216 | \$296 |
| Weighted Average | \$274 | \$315 | \$607 | \$734 | \$333 | \$419 |

We estimate that under current law single childless adults only receive an EITC of \$274 and married childless adults only receive \$315 on average. Under the proposal, however, the average credit received by single and married childless adults would more than double. The credit would increase by \$333 to \$607 per year for single adults and it would increase by \$419 to \$734 for married adults.

Childless Adults Impacted

Speaker Ryan’s proposal would expand the number of childless adults eligible for the EITC in two ways. First, by lowering the age requirement threshold from 25 to 21, a large number of younger low income childless adults would become newly eligible for the EITC. Second, by raising the maximum annual earnings thresholds for receiving the credit from \$14,790 to \$18,070 for single adults and from \$20,290 to \$23,570 for married adults, people earning between the old and new maximum levels are newly eligible for the EITC.

Table 3 compares the number of childless adults who receive the EITC under current law to the number who would be eligible for it under the Speaker’s proposal.

Table 3: People Impacted (in millions)

| Marital Status | Current Law | Proposal | Difference |
|----------------|-------------|----------|------------|
| Single | 5.0 | 9.5 | 4.5 |
| Married | 3.7 | 4.4 | .7 |
| Total | 8.7 | 13.9 | 5.2 |

We estimate that under the proposal, 5.2 million more childless adults would become eligible for the EITC. As a result, the number of childless adults eligible for the EITC would increase from 8.7 million under current law to 13.9 million under the proposal. The proposal would expand the number of people receiving the EITC mainly by increasing the number of single adults eligible for the credit. 4.5 million of the additional childless adults eligible for the EITC would be single and the remaining 0.7 million would be married.

The Budgetary Cost of the Proposal

Speaker Ryan’s proposal increases the credits paid to childless adults by making more people eligible for the credit as well as increasing the value of the credit that is received. Table 4 compares the value of the credits paid to childless adults under current law to those that would be paid under the Speaker’s proposal.

Table 4: Total Budgetary Cost (in billions), Childless Adults

| Marital Status | Current Law | Proposal | Difference |
|----------------|-------------|----------|------------|
| Single | \$1.4 | \$5.8 | \$4.4 |
| Married | \$0.6 | \$1.6 | \$1.0 |
| Total | \$2.0 | \$7.4 | \$5.4 |

We estimate that the Speaker’s proposal would increase the credits paid to childless adults from just under \$2 billion under current law to \$7.4 billion under the proposal. This means that the government would spend an additional \$5.4 billion to expand the EITC for childless adults in the proposal outlined by Speaker Ryan. Again, most of the new benefits would go to single childless adults, who would receive an additional \$4.4 billion from the EITC.

EITC Expansion and Poverty

We find that the benefits of the Speaker’s proposal are well targeted for helping those at the lower end of the income distribution. Table 5 illustrates how many of those who would be impacted by this EITC expansion would be in poverty and how much of the additional spending would go to families in poverty.

Table 5: EITC Expansion and Poverty

| Poverty Level | People | | Cost | |
|-----------------------------------|-------------|------------------|---------------|------------------|
| | Number | Percent of Total | Number | Percent of Total |
| In Poverty | 0.9 million | 16.8% | \$1.3 billion | 24.5% |
| Below 150% of Poverty Line | 2.2 million | 42.7% | \$2.7 billion | 49.2% |

We find 16.8 percent of all 5.4 million childless adults who would be newly eligible for the EITC would be in poverty and 42.7 percent would have incomes below 150 percent of the poverty line. Meanwhile 24.5 percent of all the additional government expenditures would go to those in poverty and 49.2 percent would go to those with incomes less than 150 percent of the poverty line. This means that virtually half of the benefits of the Speaker’s proposal go to those with incomes less than 150 percent of the poverty line.

Moreover, we find that the number of childless adults that the proposal would keep out of poverty would be more than five times larger than the number that the current EITC keeps out of poverty. This is shown in Table 6.

Table 6: EITC and Keeping People Out of Poverty

| Option | People Kept Out of Poverty |
|-------------|----------------------------|
| Current Law | 20,300 |
| Proposal | 110,100 |
| Difference | 89,800 |

We estimate that under current law, the EITC only keeps about 20,300 childless adults out of poverty. Under Speaker Ryan’s proposal, however, the EITC would keep 110,100 childless adults out of poverty. In effect, the proposal would bring an additional 89,800 childless adults out of poverty.

THE EITC’S IMPACT ON EMPLOYMENT COULD INCREASE THE EFFECTIVENESS OF THIS PROPOSAL EVEN FURTHER

So far this analysis has been static, meaning that we have not assumed any employment implications from expanding the EITC. However, there is substantial evidence that expanding the EITC encourages more work and increases labor force participation. As a result, it increases employment. Sabia (2007) for instance found that a 10 percent increase in the EITC’s maximum credit is associated with a 1 to 1.5 percent increase in employment among single mothers.^[9] As a result, not only would expanding the EITC increase the benefit for childless adults currently with incomes in the affected ranges, but it would also likely benefit those who would find work and also become eligible for the credit.

Projected Employment Increase

In this section, we estimate the EITC expansion’s effect on employment based on Sabia’s findings. Since the proposed plan increases the maximum credit by 100 percent, we project the employment of childless individuals to increase by 10 percent. The proposed EITC expansion differs from the Sabia study by focusing primarily on childless individuals. As a result, the 10 percent increase in employment is used just to give us a rough estimate of the potential impact of the Speaker’s proposal.

In order to capture the number of individuals that the expansion could incentivize to work, we once again use the CPS March 2015 supplement to find the number of currently working, childless individuals within the proposed age limit. We then estimate the number of people that would join the workforce by applying 10 percent of this number, 83 million. This leaves us with approximately 8.3 million individuals entering the workforce where the average wage is \$9,717. Of the 8.3 million individuals entering the workforce, roughly 4.6 million would be single and 3.7 million would be married as shown in table 7.

Table 7: EITC and Projected Employment

| Marital Status | Projected Employment Increase (in millions) |
|----------------|---|
| Single | 4.6 |
| Married | 3.7 |
| Total | 8.3 |

Credit per Newly Working Person

Given the average estimated wage of these new workers is \$9,717 and the average family earnings of these individuals is \$1,394, we can expect the average individual to be at the credit cap and receive the maximum of \$1,005. Since the average individual’s income and family earnings fall within the cap limit for single and married individuals, we make the assumption that every individual that joins the workforce will receive the maximum credit. This gives us an upper limit of the potential costs of the program.

Budgetary Costs for New Workers and Existing Workers

The budgetary costs for the new workers would be \$8.3 billion. This number assumes that every individual eligible for EITC would participate and receive the maximum credit. Given the \$8.3 billion projected cost for new workers and \$5.5 billion cost for existing workers, the Speaker’s EITC expansion is projected to cost a total of \$13.8 billion dollars.

Table 8: Budgetary Costs (in billions)

| | |
|----------------------------------|--------|
| Total Costs for New Workers | \$8.3 |
| Total Costs for Existing Workers | \$5.5 |
| Total Budgetary Costs | \$13.8 |

Income Gained

In addition to budgetary cost of the plan, we must also factor in the additional income generated by the employment of those not currently working.. For existing workers, an EITC expansion is merely a transfer payment of roughly \$389 for each individual impacted. However, for the individuals motivated to work, there is the income received from the EITC as well as the additional income received through employment.

Once we calculate the average income gained for individuals entering the workforce, we find that those currently not earning an income from work would gain \$10,722 on average. This figure includes the credit as well as wages and salary. In order to find the wages and salary expected for these new workers, we found the average salary and wages of individuals currently working and within the constraints of the proposed EITC. We are then able to find that the total income gained for new workers would be \$88.8 billion. Adding this number to the \$5.5 billion in transfer payments for existing workers would produce a total income gained for childless adults of \$94.2 billion. This \$94.2 billion in income gained is 683 percent greater than the budgetary costs of implementing the Speaker's EITC expansion. The income gained is directly earned by childless low-income families that do not benefit from the current program.

Table 9: Income Gained

| | |
|--|----------------|
| Avg. Income Gained for New Workers | \$10,722 |
| Avg. Income Gained for Existing Workers | \$389 |
| Income Gained for New Workers | \$88.8 billion |
| Income Gained for existing workers | \$5.5 billion |
| Total Income Gained | \$94.2 billion |

CONCLUSION

The current EITC program does not provide sufficient assistance for childless adults compared to those with children. Expanding the EITC for childless adults has found bipartisan common ground where both Speaker Paul Ryan and President Barack Obama have produced EITC expansion plans with similar proposals. Expanding the EITC benefits the economy by lifting individuals out of poverty and providing incentives for those not currently employed to work, earn and produce. So long as an EITC expansion is coupled with pro-growth economic policies that encourage the job growth that these workers require, it is an effective way to target federal spending to those most in need.

[1] Douglas Holtz-Eakin & Ben Gitis, “Counterproductive: The Employment and Income Effects of Raising America’s Minimum Wage to \$12 and to \$15 per Hour,” American Action Forum & Manhattan Institute, <http://americanactionforum.org/research/counterproductive-the-employment-and-income-effects-of-raising-americas-min>

[2] Chuck Marr, Chye-Ching Huang, Arloc Sherman, & Brandon Debot, “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds,” Center on Budget and Policy Priorities, <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>

[3] “Taxation and the Family: What is the Earned Income Tax Credit?” Tax Policy Center, <http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm>

[4] “Good news for low income families: Expansions in the Earned Income Tax Credit and the minimum wage,” Council of Economic Advisers, December 1998, <http://clinton4.nara.gov/media/pdf/eitc.pdf>

[5] Keane, Michael, and Robert Moffitt, “A structural model of multiple welfare program participation and labor supply,” *International Economic Review* 39, 1998,

[6] “The President’s Proposal to Expand the Earned Income Tax Credit,” Executive Office of the President and U.S. Treasury Department, March 2014, https://www.whitehouse.gov/sites/default/files/docs/eitc_report.pdf

[7] Paul Ryan, “Expanding Opportunity in America,” House Budget Committee, July 2014, http://budget.house.gov/uploadedfiles/expanding_opportunity_in_america.pdf

[8] Current Population Survey, 2015 Annual Social and Economic Supplement, retrieved from National Bureau of Economic Research, <http://www.nber.org/data/current-population-survey-data.html>

[9] Joseph J. Sabia, “The Impact of Minimum Wage Increases on Single Mothers,” Employment Policies Institute, August 2007, <https://www.epionline.org/studies/r109/>