

# VITA at Colgate:

- In the last 15 years, EITC has expanded into the most important government cash program for low income families with children.
- The EITC has relatively wide ranging support because it is shown to transfer resources to low income families while promoting work.
- Review features of the EITC and discuss the implications of hypothetical changes to the program.

- Brief history of welfare reform
- Operation of the EITC
- Why is there (relatively) broad support for the EITC?
- Expected effects of possible reforms to EITC
- What our clients in central NY look like

- Cash programs:
  - Welfare
  - EITC
  - Energy assistance (HEAP)
  
- Non-cash programs:
  - Food stamps (SNAP)
  - Medicaid

- Previously AFDC (Aid to Families of Dep Children)
- Clinton – ‘Welfare to Work’ in 1996:

## Personal Responsibility & Work Opportunity Act of 1996 (PRWOA96)

### Four goals:

1. End dependence of needy parents upon government benefits by promoting job preparation, work, and marriage;
2. Aid needy families so that children may be cared for in their homes or those of relatives;
3. Prevent and reduce out-of-wedlock pregnancies and establish goals for preventing and reducing their incidence;
4. Encourage formation and maintenance of two-parent families

# Implications of welfare reform

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- Started in 1975 as modest “work bonus”; made permanent in 1978
- Substantial expansions have taken place:
  - 1986 Tax Reform Act: general expansion and indexed for inflation
  - 1990 OBRA: general expansion and added separate schedule for families with 2 or more children
  - 1993 OBRA: general expansion (larger expansion for families with 2 or more children) and added EITC for childless filers
- Many states now offer “add on” EITCs
  - In 2008, 26 states had EITCs
  - NY: 30% of Federal credit

- Refundable tax credit for working, low-income tax filers with children (much smaller credit for childless)
- Credit available to childless, single parent and two parent families.
- The value of the credit varies with earned income and number of children—with larger credit amounts for families with children
  - The average credit in 2010 was \$2,805
- Total cost of the EITC is \$78 billion (compared to \$26 billion for TANF and \$77 billion for food stamps) making it the largest cash or near cash program for low income families in the US (2011 data).





# EITC Eligibility and Payments

- Credit amount depends on *family earnings* and *number of children*:
  - Phase-in: credit is flat percentage of earned income
  - Flat range: receive maximum credit
  - Phase-out: credit is phased out at a flat rate

# EITC Benefit Structure, Single mothers in 2007



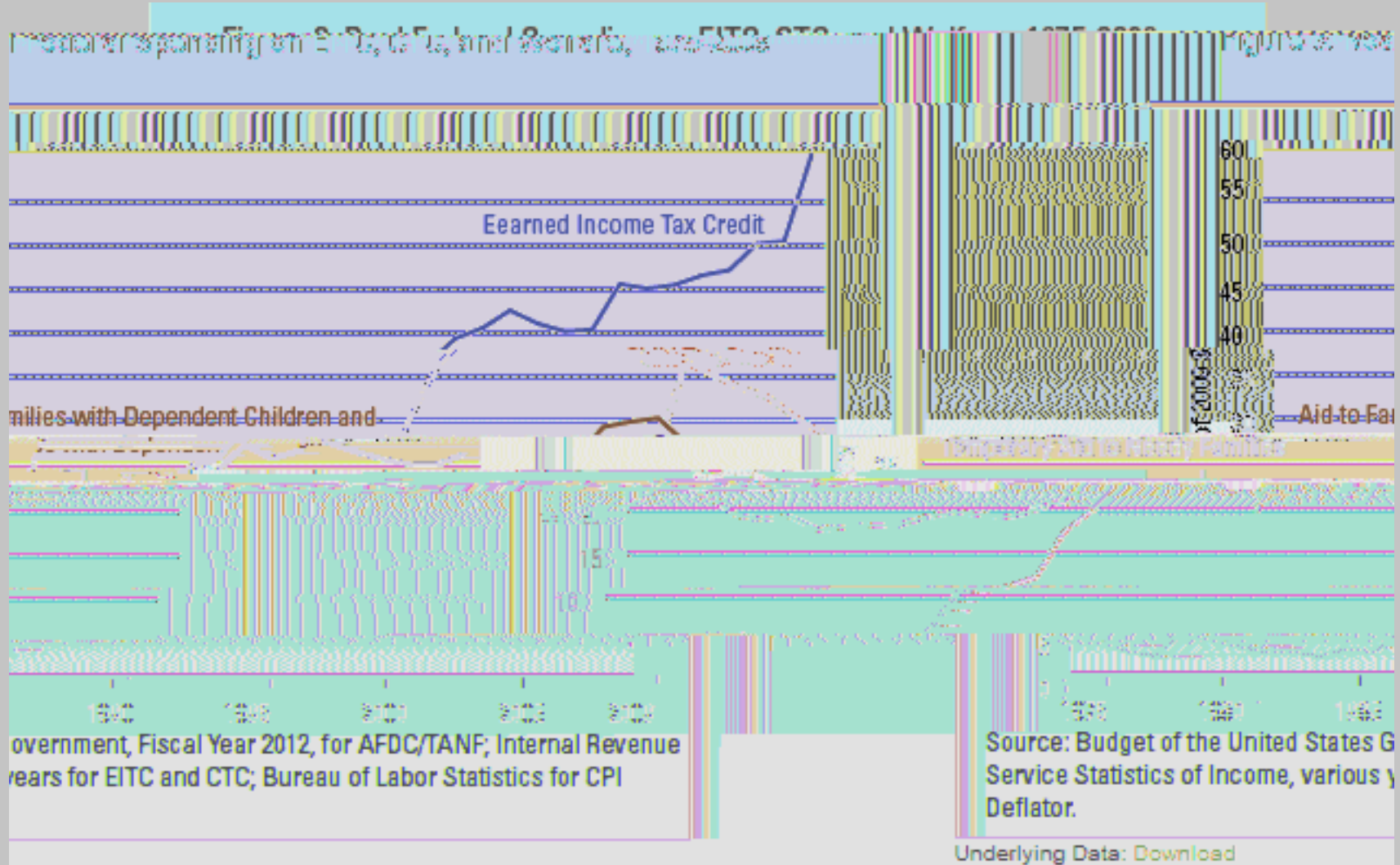
# EITC Eligibility and Payments

- Until 2001, EITC parameters were identical for single and married filers.
  - EGTRRA (Economic Growth and Tax Relief Reconciliation Act of 2001)
  - Extended flat/phase-out regions for married couples; now \$3100 higher than for singles.



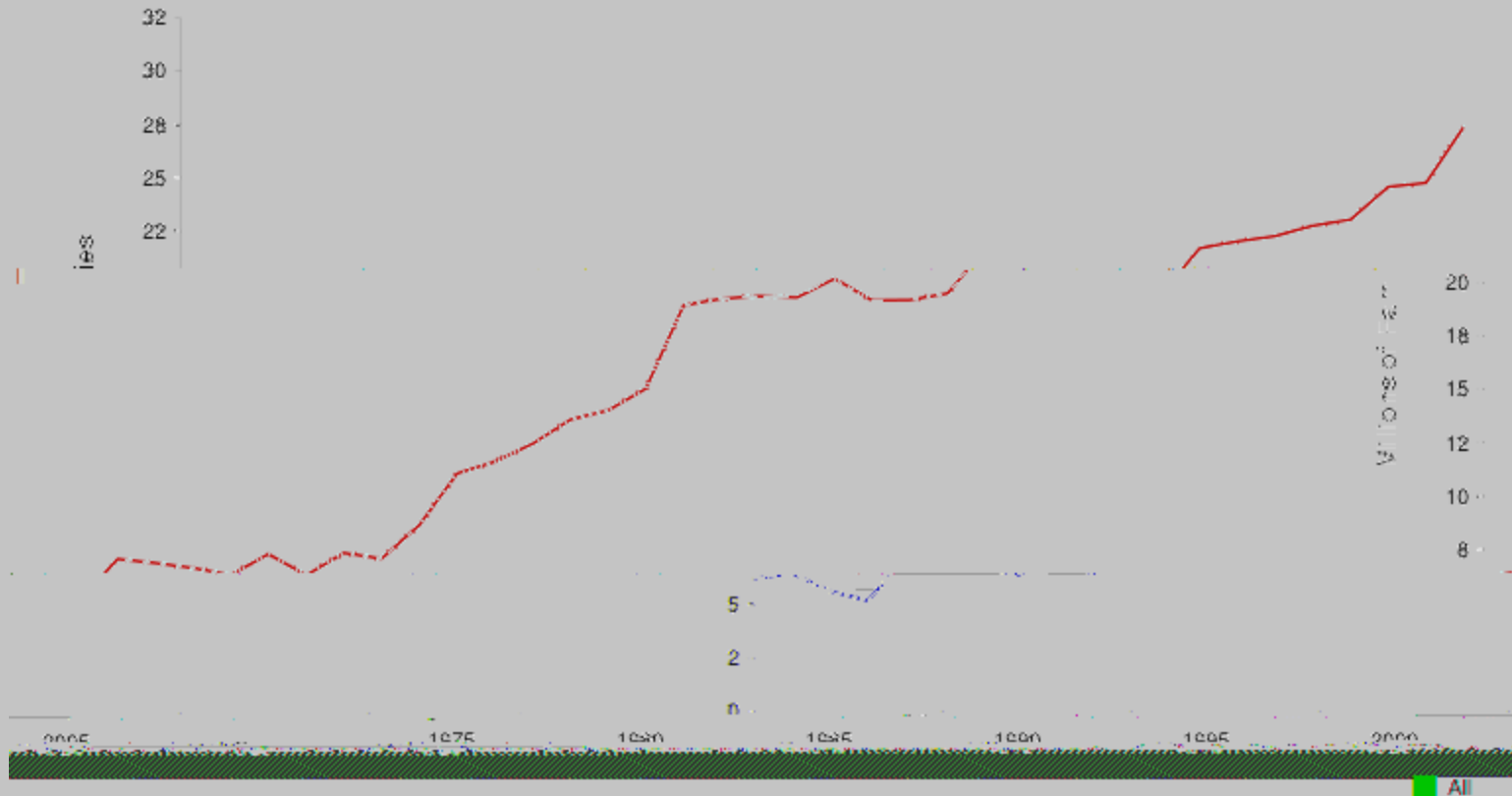


# Tax cost of EITC, 1975-2010



# EITC Recipients, 1975-2009

Number of Families Receiving Federal Earned Income Tax Credit



Source: Tax Policy Center



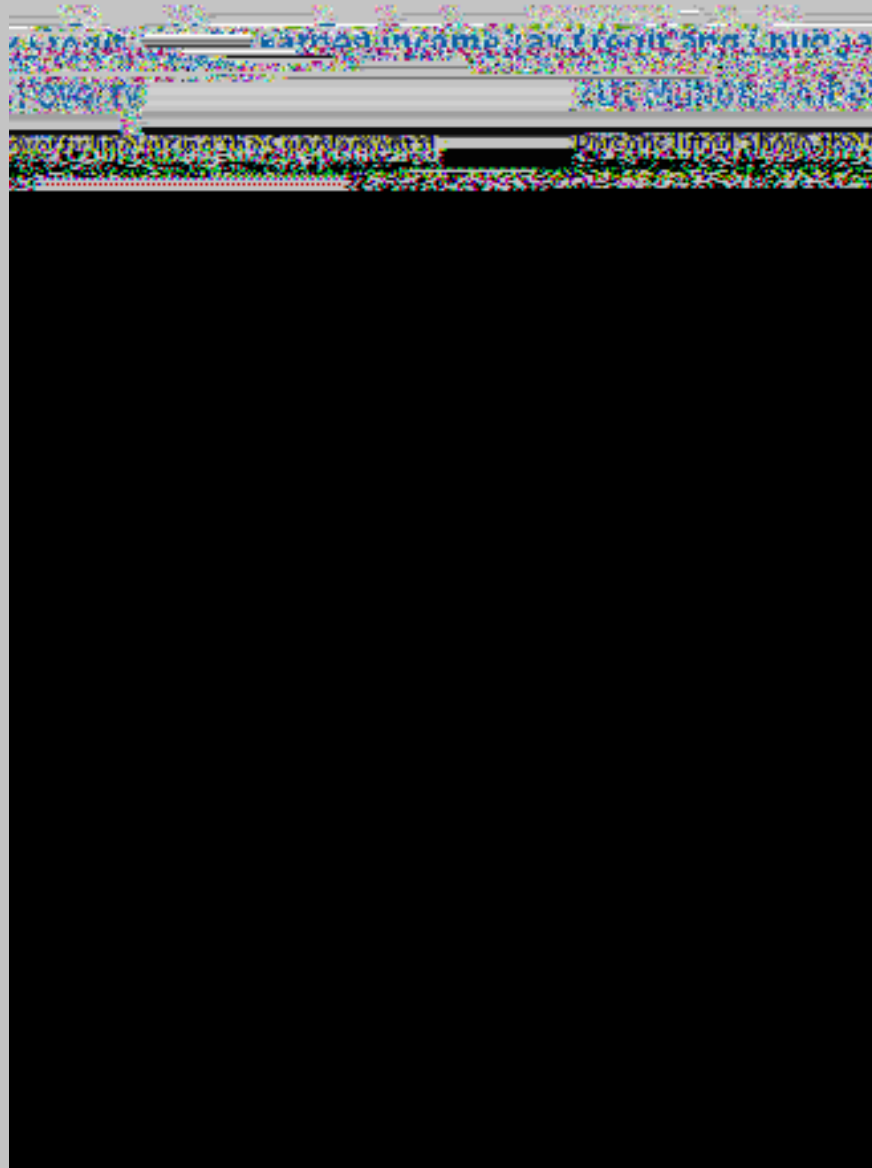
- The EITC targets working families (no earnings= no EITC)
- The EITC targets low-income families
- The EITC targets families with children
- The EITC encourages work
- The EITC reduces poverty





# The EITC reduces poverty

Census estimates of poverty reduction due to EITC, 2011



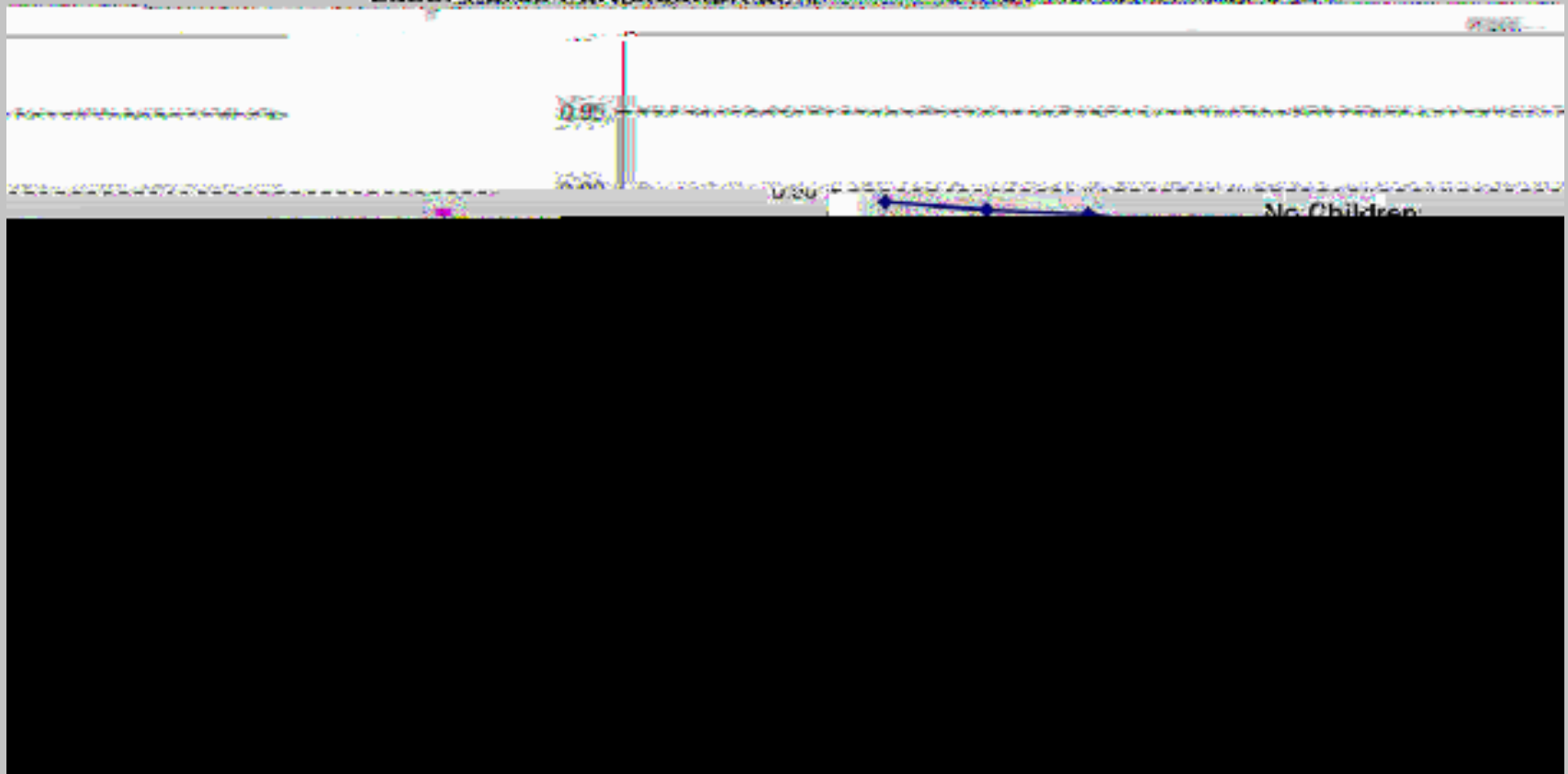
# But that is not quite the whole story

Eissa and Hoynes (2005)

- Impacts of EITC on single and married women with children
- Evidence:
  -

Increase in employment rates for women

## Labor Force Participation of Unmarried Females: 1989-2000



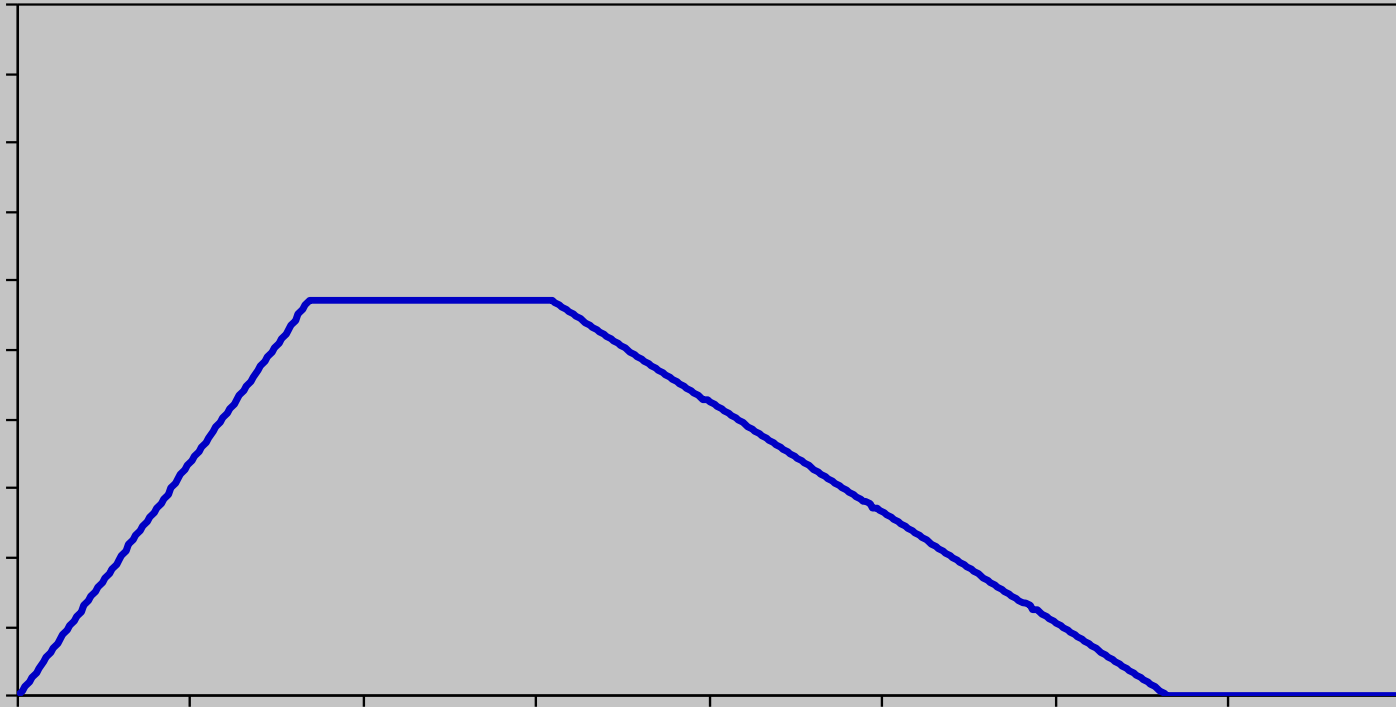
- Source: Eissa, Kleven and Kreiner (2008)

## American Recovery and Reinvestment Act 2009

- Expand EITC for families with 3+ children
- Expand eligibility for married couples
  - Expand income eligibility range further for married couples
  - Married couples to receive the credit at even higher income levels than in the past

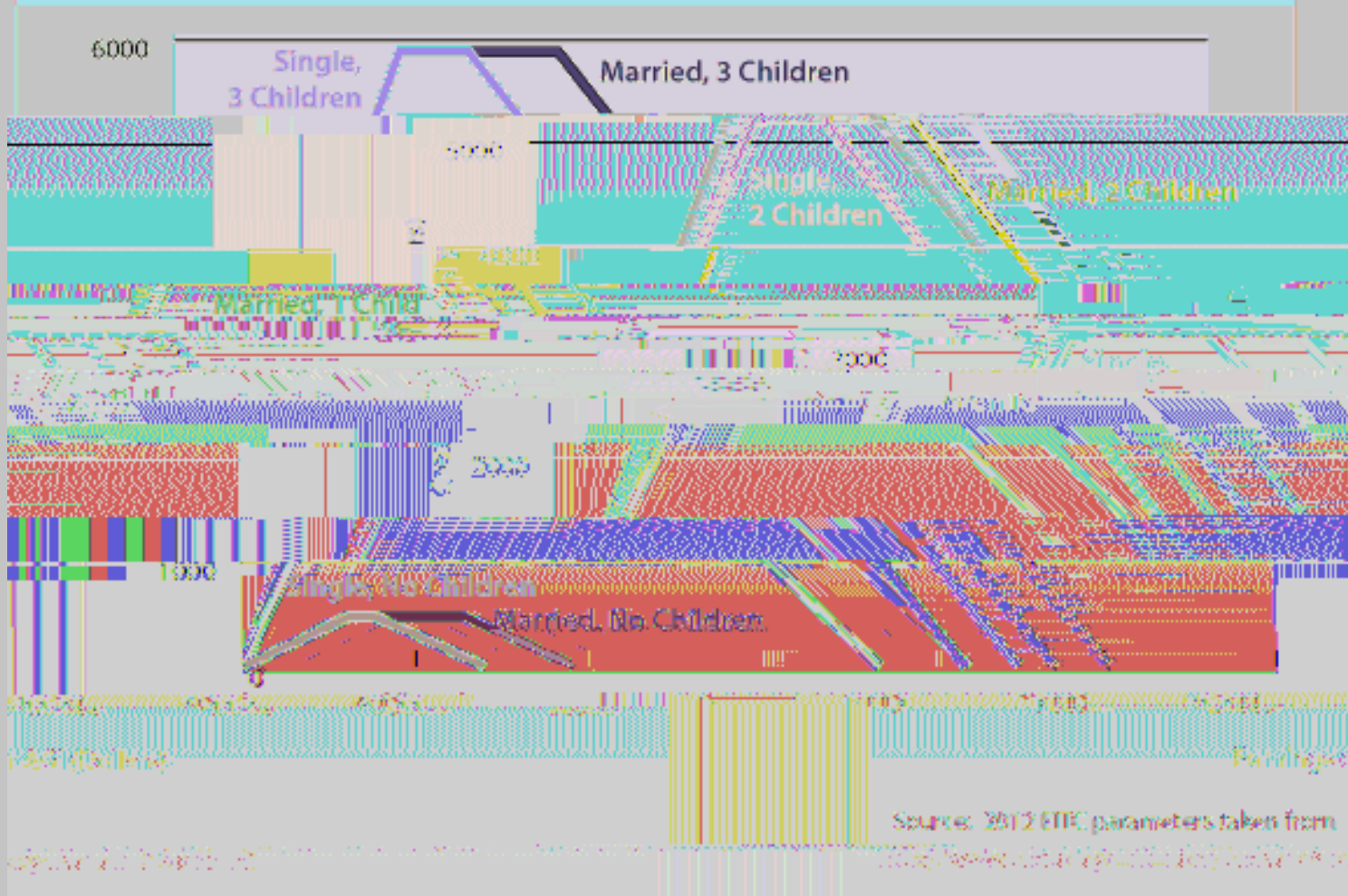


# Expand eligibility for married couples



# New EITC Structure

Figure 1. Earned Income Tax Credit by Number of Children and Filing Status, 2012

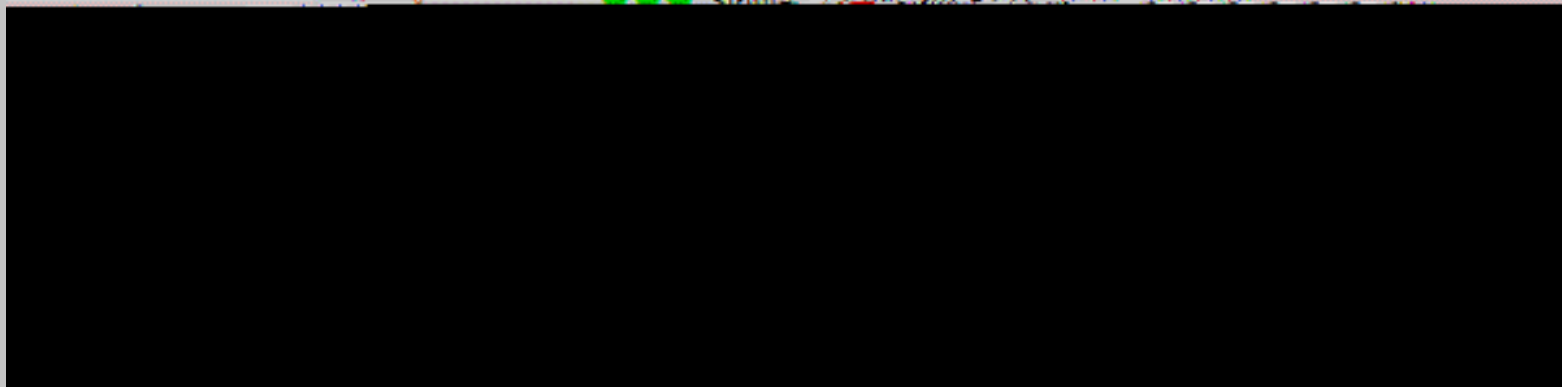
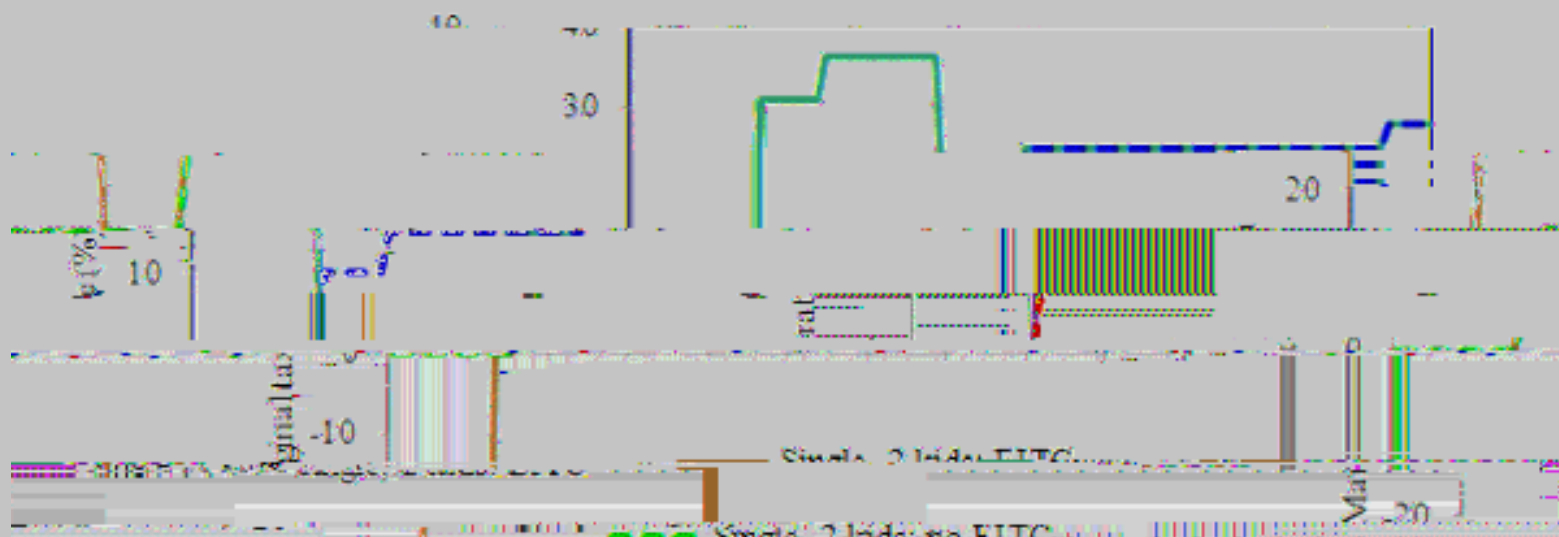


Underlying Data: [Download](#)

## If your filing status is Head of Household

### Taxable Income

Over	But not over	Marginal Rate
\$0	\$11,000	10%
\$11,000	\$44,000	12%
\$44,000	\$78,000	22%
\$78,000	\$165,000	24%
\$165,000	\$315,000	32%
\$315,000	\$400,000	35%
\$400,000	and over	37%



# What do our clients “look” like?

Age	36.6
% Female	69%
% Caucasian	98%
% Married	29%
% Employed	76%
Years of Education	12.8
% that Receive Govt Assistance	69%
Income	\$13,252
% In Poverty	56%
Total Refund	\$3,342
Total EITC Amount	\$2,060
% that Under-predicted Refund	93%
% that Have Checking Account	74%
% that Have Savings Account	48%
% that Have Mortgage	28%
Unpaid Credit Card Debt	\$2,272

What do they plan to spend their tax refund on?



# Labor Market Characteristics of EITC Recipient vs. non-Recipient Households

	All	Married, no kids	Married, 1 kid	Married, 2+kids	Single, no kids	Single, 1 kid	Single, 2+kids
<b>EITC Recipients:</b>							
Mean Household Income	\$15,194	\$8,325	\$18,700	\$21,212	\$7,024	\$15,761	\$17,421
% of High School or Less	61.5%	70.5%	64.1%	68.5%	60.0%	54.1%	58.3%
% with Two Earners	26.3%	9.6%	24.6%	30.1%	NA	NA	NA
Average EITC	\$1,782	\$495	\$1,812	\$2,623	\$423	\$1,808	\$2,728
EITC as % of Income	11.7%	5.9%	9.7%	12.4%	6.0%	11.5%	15.7%
<b>Non-EITC Recipients:</b>							
Mean Household Income	\$47,235	\$68,549	\$83,372	\$94,271	\$23,696	\$32,125	\$31,723
% of High School or Less	39.7%	36.1%	34.2%	29.6%	43.4%	46.6%	48.3%
% with Two Earners	65.1%	56.8%	70.5%	71.3%	NA	NA	NA

Table 4a, Athreya, Reilly and Simpson, 2010

# Assets Debt and Net Worth of EITC Recipient vs. non- Recipient Households

	All	Married, no kids	Married, 1 kid	Married, 2+kids	Single, no kids	Single, 1 kid	Single, 2+kids
<b>EITC Recipients:</b>							
Mean Net Worth	\$103,753	\$284,403	\$204,918	\$118,468	\$67,574	\$56,102	\$49,837
Mean Assets							

Table 4a, Athreya, Reilly and Simpson, 2010