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## WAYS AND MEANS COMMITTEE CHAIRMAN CHARLES RANGEL'S PROPOSED EXPANSION OF THE EITC FOR CHILDLESS WORKERS: AN IMPORTANT STEP TO MAKE WORK PAY

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### Summary

The tax reform plan released today by Ways and Means Committee Chairman Charles Rangel includes a sizable increase in the component of the Earned Income Tax Credit available to low-income working adults who are not raising minor children. Senators Barack Obama, Evan Bayh, and John Kerry and Representatives Bill Pascrell, John Yarmuth, and Keith Ellison also have introduced legislation that would expand the childless workers' EITC, and New York City Mayor Michael Bloomberg and several Democratic presidential candidates have offered proposals as well. (For a summary of the congressional proposals, see the box on page 7.)

The focus on the EITC for childless workers is overdue. Over the past two decades, policies have been enacted to improve work incentives for low-income working families with children and to help those families make ends meet. Childless adults, however, have been largely left out of these efforts to promote and reward work.

These workers receive very little help from the EITC. The maximum EITC for childless workers, \$438 in 2008, is less than one sixth the size of the maximum EITC for a family with one child, and less than one tenth the size of

### KEY FINDINGS

**The Earned Income Tax Credit for workers without children is currently extremely small, too small even to fully offset federal income taxes for workers at the poverty line.**

**Ways and Means Committee Chairman Charles Rangel's proposal to increase the EITC for childless workers would:**

- Prevent workers whose wages leave them in poverty from owing federal income taxes.
- Improve work incentives for childless adults and, in particular, for less-educated men — a group whose declining employment rates are a major cause for concern.
- Ensure that full-time minimum wage workers will not become ineligible for the EITC when the minimum wage increases to \$7.25 an hour in 2009.
- Reduce poverty and hardship among low-wage workers without children, a group with access to almost no other forms of government support.
- Likely have a positive impact on children, because many "childless" workers eligible for the EITC are noncustodial parents.
- Benefit more than 7 million workers nationwide and thousands in each state (see state-by-state estimates in the appendix).

the maximum EITC for families with two or more children.<sup>1</sup> Furthermore, the EITC for childless workers begins to phase out at an income level of only \$7,160 in 2008 for single workers, or less than two thirds of the poverty line (see Table 1). And a single childless worker with income exactly at the poverty line is eligible for an EITC of only \$142, which is substantially less than the worker owes in federal income and payroll taxes. As a result, such workers are taxed deeper into poverty.

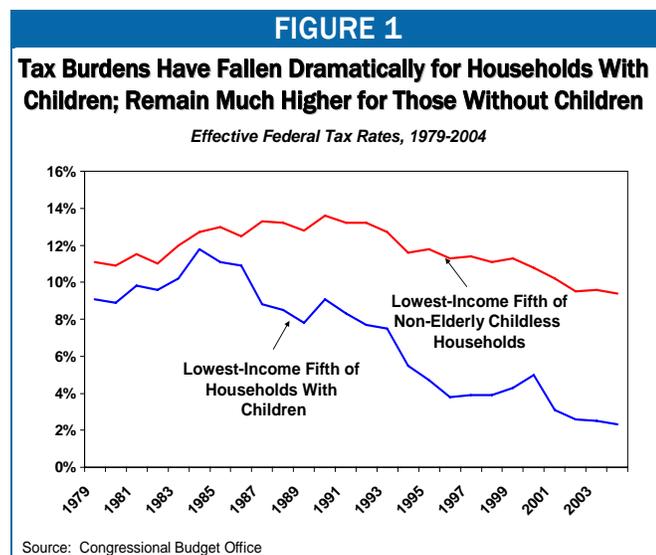
The childless workers' EITC is so small that it accounted for only about 2 percent of EITC costs in 2006.<sup>2</sup> It is available only to workers between the ages of 25 and 64; young adults under age 25 who work for very low wages cannot qualify for it. (See the box on page 8.)

Table 1: Comparing the EITC for Childless Workers With the EITC for Families With Children, 2008		
	Single Childless Worker	Single Parent, One Child
Maximum EITC	\$438	\$2,917
EITC begins phasing out:	\$7,160	\$15,740
<i>Percent of poverty line</i>	<i>65%</i>	<i>108%</i>
EITC fully phased out:	\$12,880	\$33,995
<i>Percent of poverty line</i>	<i>117%</i>	<i>233%</i>

Partly because the childless workers' EITC is so limited, the poorest fifth of non-elderly childless adults pay *more than four times* as large a share of their income in federal taxes, on average, as do low-income families with children. This group also has seen a much smaller reduction in its tax burden — both over the last few years and over the last several decades — than low-income families with children. (See Figure 1.)

At a cost of about \$3 billion per year, the Rangel proposal to expand the EITC for childless workers would advance the goal of “making work pay” by:

- **Reducing tax burdens for workers whose earnings leave them in poverty.** As the Congressional Research Service has noted, single childless adults are *the only taxpayers in America who owe federal income taxes even when their incomes are below the poverty line.*<sup>3</sup> Under current law, a single



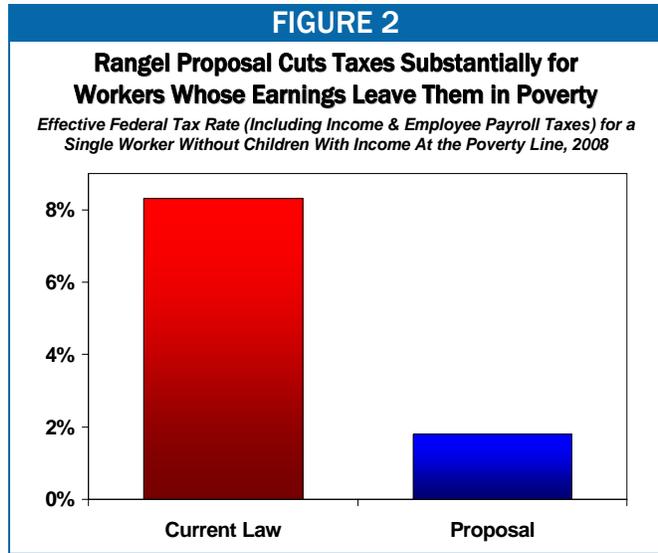
<sup>1</sup> For consistency, all EITC parameters included in this analysis are for 2008 (the year in which the Rangel proposal would take effect).

<sup>2</sup> This small share also reflects the fact that take-up rates for the childless workers' EITC are much lower than for the EITC for families with children. The low take-up rate for the childless workers' credit is itself probably due in part to the very small size of the credit.

<sup>3</sup> Gregg Esenwein and Maxim Shvedov, “Federal Income Tax Thresholds for Selected Years: 1996 Through 2007,” Congressional Research Service, updated March 26, 2007.

worker without children with income at the federal poverty line will owe \$910 in federal income and employee payroll taxes in 2008, even after taking the EITC into account. (In sharp contrast, the EITC for a family of four with income at the poverty line is large enough to more than offset the family's payroll tax liability, and the family owes no income tax.)

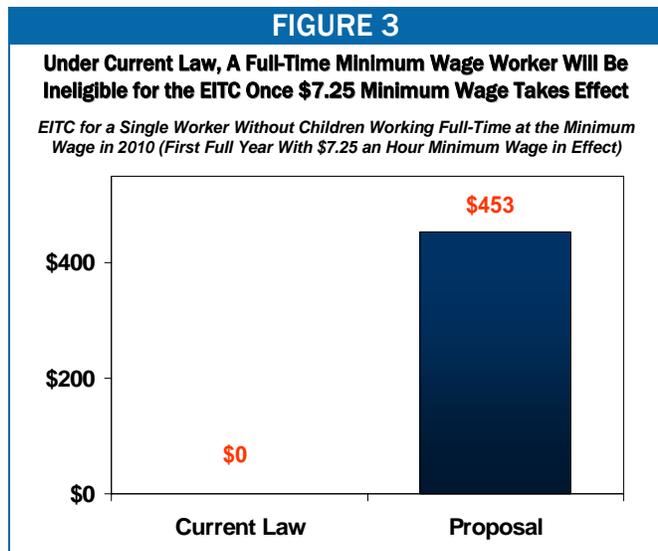
The Rangel proposal would eliminate income tax liability for workers below the poverty line and markedly reduce their overall federal tax burdens. For example, the combined federal income and employee payroll tax burden for a single childless worker with income at the poverty line would fall from 8.3 percent of income to 1.8 percent. (See Figure 2.)



- **Turning the EITC into a meaningful work incentives for childless adults.** The employment rate of less-educated men has declined over the past several decades, a cause for serious concern. Research has consistently found that the expansions in the EITC for families with children that were enacted in the 1990s significantly increased the share of single mothers who work. In fact, the EITC is one of the few tools for which research has consistently shown a significant positive impact on employment rates.

It seems likely that a more robust EITC for childless workers could help boost employment among this group as well. But the current childless workers' EITC — a maximum credit of \$438 in 2008, and an average credit of about \$250 — is almost certainly too small to generate such benefits.

The Rangel proposal would double the maximum credit, raising it to \$875 in 2008, enough to constitute a meaningful work subsidy. The proposal also would expand the income range over which workers could receive the childless workers' EITC. If this range is not widened, full-time minimum wage workers will be ineligible for the EITC starting in 2009, when the recently enacted \$7.25-an-hour minimum wage takes effect. Under the Rangel proposal, such workers would continue to be eligible for the EITC. (See Figure 3.)



- **Reducing poverty and hardship among working adults.** Over the past two decades, work supports — such as the EITC, child care assistance, and subsidized health care — have been

expanded for low-income working families with children. This has not occurred, however, for workers without children. These workers generally receive no income supplements from any level of government unless they qualify for the very small EITC for childless adults. (A substantial number of poor childless workers are eligible for food stamps, but most of them do not receive that assistance.<sup>4</sup>) In addition, because they do not qualify for Medicaid, many of these workers lack health insurance: Census data show that 45 percent of childless adults with incomes below the poverty line were uninsured in 2006.

More than 7 million of these very low-income working adults would benefit from the Rangel proposal to expand the childless workers' EITC. (For state-by-state estimates, see Appendix Table 1 on page 10.)

### **Low-Income Workers Without Children and the Federal Tax System**

As the non-partisan Congressional Research Service has observed, “one principle of tax fairness or equity accepted by many is that households at the low end of the income spectrum, especially those near the poverty threshold, should not be subject to the federal income tax.”<sup>5</sup> Poor families with children do not owe federal income taxes, and they receive an EITC large enough to offset their payroll taxes and, indeed, to provide them with an earnings supplement as well. In contrast, poor single workers without children are taxed deeper into poverty, because the EITC they receive is much less than the income and payroll taxes they owe.

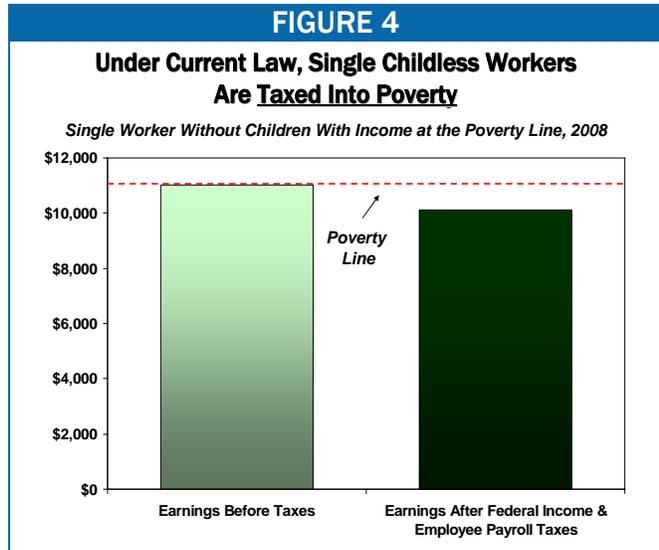
- **In 2008, the EITC will fully offset the employee share of payroll taxes only for childless workers earning less than \$5,720.** Workers earning less than this amount qualify for an EITC equal to 7.65 percent of their earnings — or exactly the amount of the employee share of payroll taxes. For workers earning more than \$5,720 (about half the poverty line for a single individual), the EITC is less than the amount subtracted from their wages in payroll taxes.
- **In addition, in 2008, a typical single childless adult will begin to owe federal income taxes — in addition to payroll taxes — when his or her income is just \$10,655, or less than the poverty line.** (The poverty line is expected to be approximately \$11,030 for a single individual in 2008.)
- **Workers with earnings right at the poverty line are taxed into poverty by federal income and payroll taxes.** In 2008, a single worker with income at the poverty line will see his or her take-home pay reduced by \$910, or 8.3 percent, under current federal income and payroll tax rules. (See Figure 4.) A married couple at the poverty line will see its take-home pay reduced by \$957, or 6.7 percent.

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<sup>4</sup> In addition, food stamp eligibility is highly restricted for these individuals during periods when they are out of work or are employed for less than 20 hours a week. When not working at least 20 hours per week, childless workers are generally limited to three months of food stamp receipt out of each three years.

<sup>5</sup> Gregg Esenwein and Maxim Shvedov, “Federal Income Tax Thresholds for Selected Years: 1996 Through 2007.”

- **When the employer side of the payroll tax is taken into account, the tax burden on poor childless adults is even higher.** The overwhelming consensus among economists is that *both* the employee and the employer shares of the payroll tax are, in fact, borne by the employee.<sup>6</sup> That is, the additional 7.65 percent payroll tax remitted by the employer is in fact borne by the employee, in the form of reduced wages (i.e. the wages the employee is paid are lower than they would be in the absence of payroll taxes). This means that, even for the lowest-income workers who are not raising minor children, the EITC offsets only half the payroll tax burden they bear.



(In contrast, the EITC for families with children phases in at much higher rates — 34 percent for families with one child and 40 percent for families with two or more children. Hence, for very low-income working parents, the EITC offsets both employee and employer payroll taxes.)

Under the Rangel proposal, federal tax burdens for childless workers with incomes at or below the poverty line would be sharply reduced.

- For single workers who are not raising children and who have incomes at the poverty line, the percentage of income consumed by federal income and employee payroll taxes would fall from 8.3 percent to 1.8 percent. (See Figure 2 on page 3.)
- For married couples with incomes at the poverty line, the EITC would fully offset federal income and employee payroll taxes.

The Rangel proposal would increase the EITC for workers with earnings of less than \$5,720 from 7.65 percent to 15.3 percent of earnings. As a result, the EITC would fully offset both employee and employer payroll taxes for the very lowest-income workers (those in the EITC phase-in range).

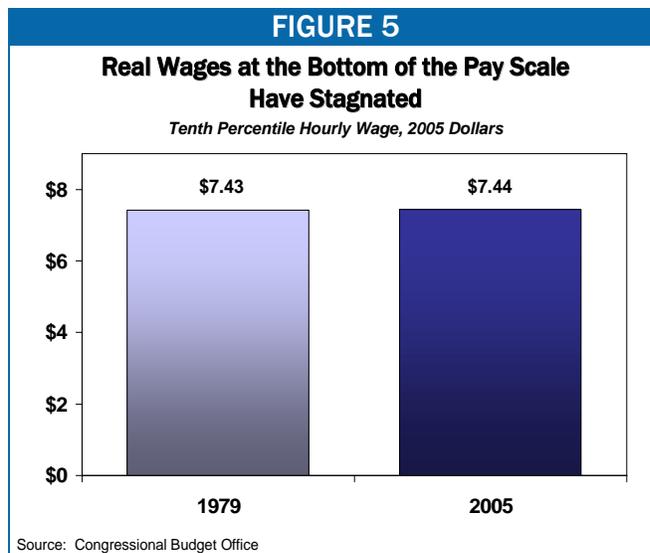
### **Low-Income Workers Without Children and the U.S. Labor Market**

Employment rates for less-educated men have declined in recent decades. Census data show that, in March, 1979, some 76.4 percent of less-educated men aged 25-64 (the age group eligible for the childless workers' EITC) with no college education were employed; in March 2006, some 70.8 percent were. When those *seeking* work are included, the “labor-force participation rate” for

<sup>6</sup> See for example, Congressional Budget Office, “Historical Effective Tax Rates: 1979-2004,” December 2006, <http://cbo.gov/ftpdocs/77xx/doc7718/EffectiveTaxRates.pdf>.

childless, non-college educated males age 25 to 64 declined from 80.9 percent in March 1979 to 75.8 percent in March 2006.

The percentage of less-educated African-American men who are working or looking for work is particularly low. In March 2006, only 65.6 percent of black (non-Hispanic) childless males age 25 to 64 without any college education participated in the labor force, down from 73.5 percent in March 1979. These declines in labor-force participation (i.e. in the percentage of people either working or looking for work) have had negative consequences not just for the individuals who have fallen out of the labor market, but also for their families and communities and for society at large.



The decline in labor-force participation has occurred over a period during which real wages (i.e. wages adjusted for inflation) for less-educated workers have generally stagnated or declined.<sup>7</sup> (See Figure 5.) As Brookings Institution Fellows Isabel Sawhill and Ron Haskins recently noted, “some people choose not to join the labor force or to work only sporadically simply because wages for low-skill jobs are very low, have stagnated in recent decades, and are often not competitive with other sources of income...”<sup>8</sup>

The EITC is a critical tool for making low-skill work pay. Studies have consistently found that expansions in the EITC for families with children have helped to induce single mothers to enter the work force. For example, several separate studies, employing different methodologies, have found that the EITC expansions of the early and mid 1990s were responsible for a substantial share of the large increase in employment among single mothers that followed them.<sup>9</sup> Even relatively modest EITC changes have yielded large gains: one study found that an increase of about \$450 in the EITC for families with two children in the mid 1990s led to a 3.2 percentage point rise in employment among single mothers with two children, a substantial increase.<sup>10</sup>

<sup>7</sup> See for instance, Congressional Budget Office, “Changes in Low-Wage Labor Markets Between 1979 and 2005,” December 2006, <http://cbo.gov/ftpdocs/76xx/doc7693/12-04-LaborForce.pdf>.

<sup>8</sup> Isabel Sawhill and Ron Haskins, “Attacking Poverty and Inequality: Reinvigorate the Fight for Greater Opportunity,” Opportunity 08: Independent Ideas for Our Next President, Brookings Institution, 2007, <http://www.opportunity08.org/Issues/OurSociety/31/r1/Default.aspx>.

<sup>9</sup> See Joseph Holtz, Charles H. Mullin, and John Karl Scholtz, “Examining the Effect of the Earned Income Tax Credit on the Labor Market Participation of Families on Welfare,” National Bureau of Economic Research Working Paper No. 11968, January 2006; Nada Eissa and Hilary W. Hoynes, “Behavioral Responses to Taxes: Lessons From the EITC and Labor Supply,” paper prepared for NBER Tax Policy and the Economy Conference, September 15, 2005; Bruce D. Meyer and Dan T. Rosenbaum, “Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects,” National Bureau of Economic Research Working Paper No. 7491, January 2000; and Nada Eissa and Jeffrey B. Liebman, “Labor Supply Response to the Earned Income Tax Credit,” *Quarterly Journal of Economics*, May, 1996.

<sup>10</sup> Joseph Holtz, Charles H. Mullin, and John Karl Scholtz, “Examining the Effect of the Earned Income Tax Credit on the Labor Market Participation of Families on Welfare.”

## The Rangel Bill and Other Congressional Proposals to Expand the EITC for Childless Workers

During the current congressional session, four bills have been introduced that would expand the EITC for childless workers.

- **The legislation introduced by Chairman Rangel** would increase the EITC for workers earning less than \$5,720 from 7.65 percent to 15.3 percent of their earnings, increasing the maximum credit to \$875 in 2008. In addition, the legislation would widen the income range over which workers are eligible for the credit, increasing the point at which the credit begins to phase out to \$10,900 in 2008 (\$13,900 for married couples), close to the poverty line. Very similar **legislation introduced by Representatives Yarmuth and Ellison (H.R. 2951)** would increase the point at which the credit begins to phase out to \$10,700.
- **Legislation introduced by Senator Kerry in the Senate (S. 1333) and Rep. Pascrell in the House (H.R. 2222)** would make various improvements to the EITC, including an increase in the childless workers' credit. Like the Rangel bill, it would double the credit's phase-in and phase-out rates.
- **Legislation introduced by Senators Bayh and Obama (S. 1626)**, which includes a number of proposals intended to promote work, marriage, and payment of child support among low-income men, would gradually expand the childless workers' EITC, with the changes taking full effect in 2012. By 2012, the bill would increase the maximum childless workers' EITC by 16 percent and make the full credit available to workers earning up to \$14,500 (full-time minimum wage earnings at the new minimum wage). That is, the credit would not begin to phase down until a worker's income reached \$14,500. (Under current law in 2012, the credit would begin to phase down at an income of \$7,860.) The Bayh/Obama bill would add a further increment in the childless workers' EITC for noncustodial parents who are current on their child support obligations; for these individuals, the maximum credit would be twice that available to other childless workers.

Table 2 below shows the EITC parameters under the various proposals.

	Phase-In Rate	Credit Phases in Up to:	Maximum Credit	Credit Begins Phasing Out:*	Phase-Out Rate	Phase-Out Ends
Current Law	7.65%	\$5,720	\$438	\$7,160	7.65%	\$12,880
Kerry/Pascrell	15.3%	\$5,720	\$875	\$7,160	15.3%	\$12,880
Bayh/Obama**	7.65%	\$5,900	\$451	\$8,190	7.65%	\$14,090
Rangel	15.3%	\$5,720	\$875	\$10,900	15.3%	\$16,620

\* For married couples, the credit begins phasing out at income levels \$3,000 above those shown here.

\*\*The Bayh/Obama expansion becomes more generous over time. By 2012, when the changes are fully in effect, the maximum credit would be \$555 (as compared with \$479 under current law), the credit would begin phasing out at an income level of \$14,500 (as compared with \$7,850 in 2012 under current law), and the credit would be fully phased out an income level of \$21,750 (as compared with \$14,110 in 2012 under current law).

A more robust EITC for childless workers potentially could have similar effects on labor-force participation among childless adults. In particular, it could help reverse the declines in labor-force

### **The EITC Should Also Be Extended to Younger Workers**

Currently, workers under age 25 are ineligible for the childless workers' EITC.\* Given that one of the main objectives of the EITC is to encourage labor-force participation, this restriction is problematic. Labor-force participation among less-educated younger adults, especially young minority adults, is particularly low. Since these workers are ineligible for the childless workers' EITC, an expanded credit will do nothing to boost their labor-force participation rates.

The rationale for denying the EITC to younger workers is that some of these individuals are students from middle-income families. As a result of the restriction, many low-income workers who are *not* students are denied the EITC.

Full-time students under age 24 would in most cases be ineligible for the childless workers' EITC even without the age restriction,\*\* and it is not clear that the benefit of excluding middle-income part-time students from the EITC is worth the cost: a missed opportunity to influence employment decisions at the start of the careers of low-income individuals who are *not* attending college. But even if the goal of excluding part-time students is accorded considerable weight, Census data suggest that the age-25 threshold for the childless workers' EITC could be reduced by at least several years without making the EITC available to many students.

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\* Individuals over age 64 are also ineligible for the childless workers' EITC. Policymakers imposed this age limit to prevent elderly individuals who receive low earnings from part-time work as a supplement to Social Security benefits (which are generally excluded from income for tax purposes) from appearing to have low income and qualifying for the EITC.

\*\* Specifically, individuals are ineligible for the for the childless workers' EITC if they are eligible to be claimed as a dependent on someone else's tax return. Full-time students under age 24 are eligible to be claimed as dependents.

participation among less-educated men, most of whom are not eligible for the EITC for families with children because they do not have children or because they are noncustodial parents. It could also boost employment among less-educated women without children. While the labor force participation rate of that group has increased since the 1970s (as have labor force participation rates for virtually all groups of women), less-educated women without children did not experience the robust employment gains achieved by single mothers in the 1990s. Researchers have attributed a significant portion of this difference to the fact that while single mothers were eligible for a sizable EITC, low-income women without children were not.

An expanded EITC alone is unlikely to raise labor force participation rates to the level that many policymakers and analysts would like to see. But is an important piece of any strategy to achieve this goal — along with job training efforts, efforts to facilitate reentry into the labor force for people who have been incarcerated, and efforts to increase high school completion rates and enrollment in postsecondary education.

### **Low-Income Workers Without Children and Government Assistance**

Low-income childless adults receive little help from either state governments or the federal government. When such adults are employed, the only work support generally available to them is

the very small federal EITC. (These workers often qualify for food stamps, but only a small share of them participate in that program.<sup>11</sup>)

Further, low-income childless adults are generally ineligible for Medicaid, unless they have serious disabilities. A large share of low-income childless adults are uninsured: 45 percent of those with incomes below the poverty line and 43 percent of those with incomes below twice the poverty line. Expanding the EITC for childless workers would provide assistance to millions of low-income working adults who are ineligible for most or all other forms of support.

An increase in the childless workers' credit also could have a positive impact on children, since many of these workers are fathers. Boosting the incomes of low-wage noncustodial parents, and creating incentives for those who are not employed to enter the work force, may make it possible for these fathers to comply with their child support obligations, benefiting their children.<sup>12</sup> Moreover, many other workers who currently are eligible for the childless workers' credit will someday have children. If an expanded EITC strengthens their labor-force attachment now and induces them to work more in the "above-ground" economy, it will make them better able to provide for children later on.

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<sup>11</sup> Since 1996, the Food Stamp Program has imposed a time limit of three months out of every three years on food stamp receipt by jobless childless adults under the age of 50. This time limit may contribute to the low rates of participation in the program among childless adults who are working and not subject to the time limit, since individuals who receive food stamps and then see their benefits terminated because they have not yet found a job may be unlikely to reapply for benefits when they are working and their financial circumstances are somewhat less dire. They may not understand that the three-month time limit does not apply during periods when they are employed at least 20 hours a week.

There also is no federal cash assistance available for jobless non-elderly childless adults. Most states do not provide cash assistance to such individuals either.

<sup>12</sup> Some have proposed to make eligibility for the childless workers' credit for those workers who have child support obligations contingent on payment of child support. While this idea is worthy of serious consideration, it would require that the IRS have access to data that would allow it to reliably administer such a requirement. The IRS and Treasury have said in the past that such a provision is not yet administratively feasible.

**APPENDIX TABLE 1: Number of Tax Filers Who Would Benefit From the Ways and Means Committee Childless Workers' EITC Expansion**

<b>State</b>	<b>Number</b>	<b>Margin of Error</b>
Alabama	121,000	±14,000
Alaska	17,000	±2,000
Arizona	140,000	±16,000
Arkansas	91,000	±10,000
California	948,000	±42,000
Colorado	117,000	±14,000
Connecticut	72,000	±10,000
Delaware	18,000	±2,000
D.C.	20,000	±2,000
Florida	489,000	±28,000
Georgia	220,000	±19,000
Hawaii	35,000	±4,000
Idaho	38,000	±4,000
Illinois	311,000	±23,000
Indiana	143,000	±15,000
Iowa	75,000	±9,000
Kansas	75,000	±9,000
Kentucky	109,000	±13,000
Louisiana	122,000	±14,000
Maine	39,000	±5,000
Maryland	124,000	±14,000
Massachusetts	178,000	±17,000
Michigan	245,000	±20,000
Minnesota	111,000	±13,000
Mississippi	84,000	±9,000
Missouri	150,000	±16,000
Montana	32,000	±3,000
Nebraska	44,000	±5,000
Nevada	64,000	±8,000
New Hampshire	20,000	±3,000
New Jersey	195,000	±18,000
New Mexico	62,000	±7,000
New York	510,000	±30,000
North Carolina	218,000	±19,000
North Dakota	17,000	±2,000
Ohio	302,000	±22,000
Oklahoma	86,000	±11,000
Oregon	108,000	±13,000
Pennsylvania	268,000	±21,000
Rhode Island	26,000	±3,000
South Carolina	122,000	±14,000
South Dakota	21,000	±2,000
Tennessee	154,000	±15,000
Texas	632,000	±35,000
Utah	55,000	±7,000
Vermont	16,000	±2,000
Virginia	155,000	±16,000
Washington	148,000	±16,000
West Virginia	57,000	±6,000
Wisconsin	127,000	±14,000
Wyoming	13,000	±2,000
<b>United States</b>	<b>7,545,000</b>	<b>±105,00</b>

Source: CBPP simulation of 2008 policies using March 2004-2006 Current Population Survey data.  
 Note: State estimates are based on demographic and economic conditions for 2003-2005; three years of data are combined in order to improve reliability and reduce the sampling error associated with the limited sample size of the state data.