

Proposal 11: Building on the Success of the Earned Income Tax Credit

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Introduction

The Earned Income Tax Credit (EITC) provides a refundable tax credit to lower-income working families. In 2011, the EITC reached 27.9 million tax filers at a total cost of \$62.9 billion. Almost 20 percent of tax filers receive the EITC, and the average credit amount is \$2,254 (IRS 2013). After expansions to the EITC in the late 1980s through the late 1990s—under Democrat and Republican administrations—the EITC now occupies a central place in the U.S. safety net. Based on the Census Bureau’s 2012 Supplemental Poverty Measure (SPM), the EITC keeps 6.5 million people, including 3.3 million children, out of poverty (Center on Budget and Policy Priorities [CBPP] 2014a). No other tax or transfer program prevents more children from living a life of poverty, and only Social Security keeps more people above poverty.

Since the EITC is only eligible to tax filers who work, the credit’s impact on poverty takes place through encouraging employment by ensuring greater pay after taxes. The empirical research shows that the tax credit translates into sizable and robust increases in employment (Eissa and Liebman 1996; Meyer and Rosenbaum 2000, 2001). Thus, the credit reduces poverty through two channels: the actual credit, and increases in family earnings. This dual feature gives the EITC a unique place in the U.S. safety net; in contrast, many other programs redistribute income while, at least to some degree, discouraging work. Importantly, transferring income while encouraging work makes the EITC an efficient and cost-effective policy for increasing the after-tax income of low-earning Americans.

Yet a program of this size and impact could be more equitable in its reach. Under the current design of the EITC, childless earners and families with only one child, for instance, receive disproportionately lower refunds.

In 2014, families with two children (three or more children) are eligible for a maximum credit of \$5,460 (\$6,143) compared to \$3,305 for families with one child. Married couples, despite their larger family sizes, receive only modestly more-generous EITC benefits compared to single filers.¹ Childless earners benefit little from the EITC, and have a maximum credit of only \$496—less than 10 percent of the two-child credit.

Prominent proposals seek to mitigate these inequalities. President Obama’s fiscal year 2015 budget includes an expansion of the childless EITC, a concept outlined by John Karl Scholz in 2007 in a proposal for The Hamilton Project. Notably, MDRC is currently evaluating Paycheck Plus, a pilot program for an expanded EITC for workers without dependent children, for the New York City Center for Economic Opportunity (MDRC 2014). The recent Hamilton Project proposal for a secondary-earner tax credit addresses the so-called EITC penalty for married couples (Kearney and Turner 2013). And the more-generous EITC credit for three or more children was recently enacted as part of the American Recovery and Reinvestment Act of 2009, and is currently scheduled to sunset in 2017.

Considering this broad set of EITC reforms, and recognizing the demonstrated effectiveness of the program as an antipoverty program with numerous benefits, this policy memo proposes an expansion for the largest group of EITC

BOX 11-1.

The Earned Income Tax Credit Schedule

Figure 11-1 presents the schedule for the EITC for tax year 2014. The EITC schedule has three regions. In the phase-in region, the credit is phased in at a constant rate, which is 7.65 percent for taxpayers without children, 34 percent for those with one child, 40 percent for those with two children, and 45 percent for those with three or more children. In the flat region, taxpayers receive the maximum amount of the EITC benefit. In the phase-out region, the credit is phased out at a constant rate: one-child families lose 15.98 percent of each dollar earned due to the lost credit, families with two or more children experience a 21.06 percent phase-out, and childless filers a 7.65 percent phase-out. The dotted lines in figure 11-1 indicate the somewhat more-generous schedule for married taxpayers—the Economic Growth and Tax Relief Reconciliation Act of 2001 and later legislation expanded the flat and phase-out regions for married couples; in 2014, the phase-out threshold for married couples is \$5,430 larger than for single filers. This expansion of the schedule for married couples was introduced to reduce the marriage penalties that the EITC creates for lower-income taxpayers.

To illustrate the mechanics of the credit, consider a single mother with one child earning \$15,000 per year. Her earnings would place her in the flat region of the credit—that is, in the range of income in which a tax unit receives the maximum credit and in which benefits are neither phased in nor phased out; she would receive an EITC of \$3,305. If her earnings were instead \$20,000, she would be in the phase-out region and her credit would fall by \$347 to \$2,958. In other words, her credit would equal the maximum credit minus 15.98 percent of all earnings that lie in the phase-out region.

recipients: families with one child. In particular, I propose to expand the one-child schedule to be on par with the two-child schedule, in equivalence scale-adjusted terms. An equivalence scale captures the cost of living for a household of a given size (and demographic composition) relative to the cost of living for a reference household of a single adult, and is a standard component in defining poverty thresholds. The proposal expands the maximum credit for one-child families to \$4,641, from \$3,305 under current law, an increase of about 40 percent. The expansion will lead to a roughly \$1,000 increase in after-tax income for taxpayers in the bottom 40 percent of the income distribution receiving the higher credit. As this paper outlines, the expansion is justified on equity and efficiency grounds. This expansion is anchored in the equity principle in that the generosity of the credit should be proportional to the needs of families of differing sizes; I use the equivalence scale implicit in the poverty thresholds of the Census SPM as a guide for household needs. This proposal is also supported by efficiency principles given the EITC's demonstrated success at raising labor supply among single mothers.

The target population for the proposal is low-income working families with children. Implementing this proposal requires legislative action by the federal government; it is important to note that altering the EITC schedule requires a simple amendment to the tax code, and not a massive overhaul of our nation's tax system. The revenue cost of the proposal derives from additional federal costs of the EITC, less the additional payroll and ordinary federal income taxes. The private benefits include increases in after-tax income and reductions

in poverty. The proposal would also generate social benefits through the spillover effects that the increase in income plays in improving health and children's cognitive skills (Dahl and Lochner 2012; Evans and Garthwaite 2014; Hoynes, Miller, and Simon forthcoming).

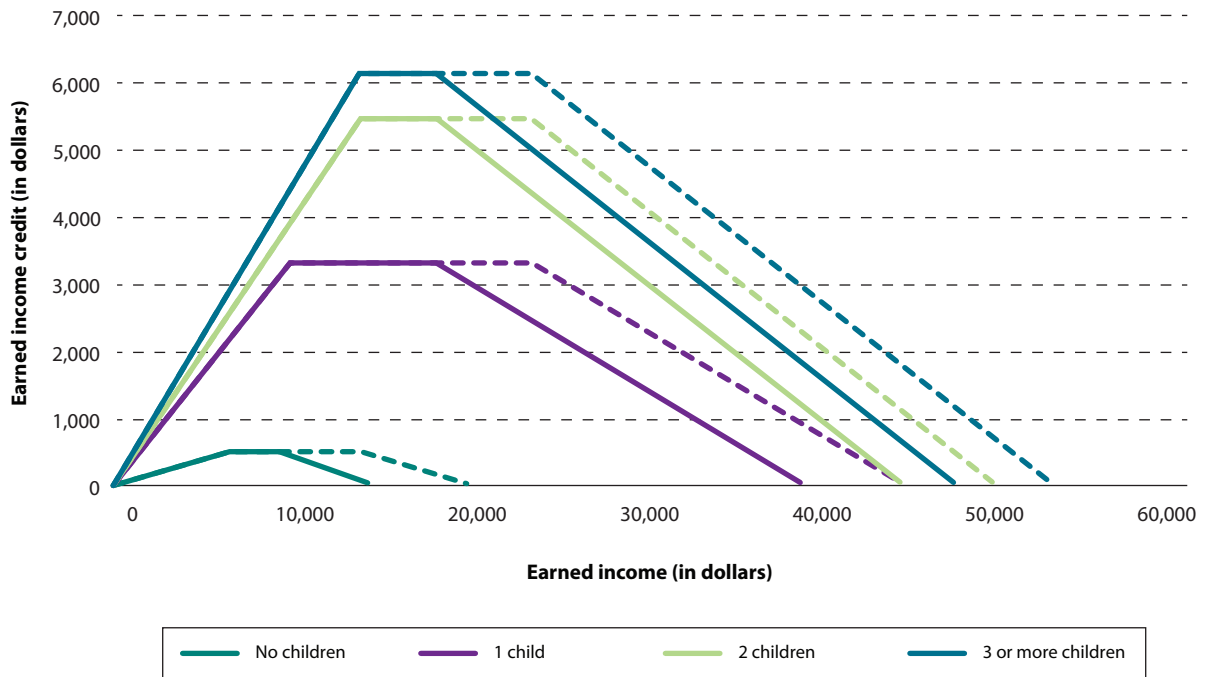
The Challenge

The EITC is a refundable tax credit that gives a taxpayer with no federal income tax liability a tax refund for the full amount of the credit. The amount of the credit depends on filing status, number of qualifying children, and earned income (and, for some taxpayers, adjusted gross income). (The EITC schedule is explained in box 11-1.) Because the EITC is one of our nation's most effective antipoverty programs, the challenge considered in this policy memo is how to leverage this tool to have even greater impact.

Enacted in 1975, the EITC's original intent was to offset payroll taxes for low-income families. The EITC has been expanded by tax legislation five times in the subsequent years: in 1986, 1990, 1993, 2001, and 2009. Figure 11-2 illustrates these policy expansions by plotting the maximum EITC credit by number of children for each year between 1985 and 2014 (in real 2014 dollars). The 1993 expansion is the most significant, having introduced the more-generous schedule for those with two or more children. Additionally, the 1993 expansion introduced the relatively small credit for childless taxpayers. The 2009 expansion, enacted as part of the federal stimulus, introduced a separate schedule for those with three or more children.

FIGURE 11-1.

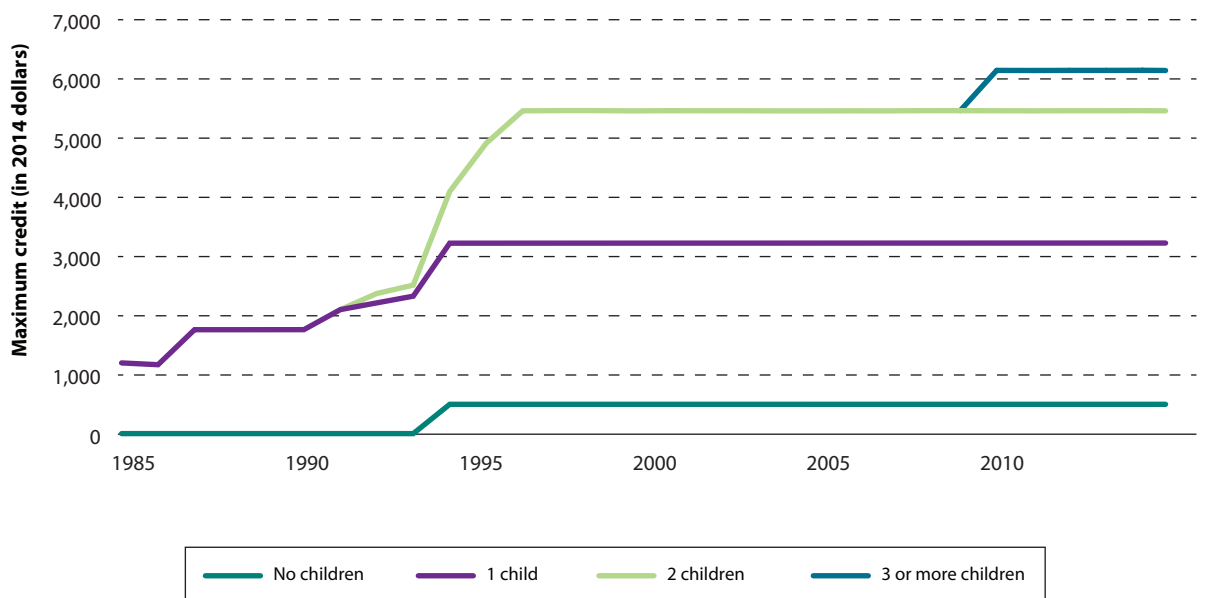
Earned Income Tax Credit Amount by Earnings Level and Number of Children, 2014



Source: Urban-Brookings Tax Policy Center 2014.

FIGURE 11-2.

Earned Income Tax Credit Maximum Credit by Number of Children, 1985–2014



Source: Urban-Brookings Tax Policy Center 2014.

TABLE 11-1.

Earned Income Tax Credit (EITC) Recipients by Number of Children, 2011

	Average credit amount (in dollars)	Share of EITC returns (percent)	Share of EITC benefits (percent)
No children	264	25	3
1 child	2,199	36	35
2 children	3,469	27	41
3 or more children	3,750	12	20
All recipients	2,254	100	100

Sources: IRS 2013; author's calculations.

Table 11-1 gives a snapshot of EITC recipients for 2011 (IRS 2013). A total of 27 million taxpayers received the credit, representing almost 20 percent of all tax filers. The total cost of the credit in 2011 was \$62.9 billion. As a comparison, in 2011, payments for the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program, totaled \$72.8 billion, and Unemployment Insurance payments totaled \$107.0 billion (Bitler and Hoynes 2013). EITC benefits averaged \$2,199 for one-child families, \$3,469 for two-child families, \$3,750 for families with three or more children, and less than \$250 for taxpayers with no children. About a quarter of the EITC returns went to taxpayers without children, 36 percent to those with one child, 27 percent to those with two, and 12 percent to those with three or more children. Overall, the majority (97 percent) of EITC dollars go to families with children; the small share of dollars claimed among those without children (3 percent) reflects their much lower potential and actual credit amounts.

Figures 11-1 and 11-2 illustrate that the EITC is substantially more generous for families with two or more children than it is for those with one child. For families with two children, the maximum credit is \$5,460 and the phase-out range extends to earned income of \$43,756, while for families with one child, the maximum credit is \$3,305 and extends to earned income of \$38,511. Standard equity arguments would imply that larger families should receive a higher credit than smaller families. But what is the right adjustment? The needs of a family grow with each additional child but, due to economies of scale in consumption, not in a proportional way. I use the family-size adjustment that forms the basis of the poverty thresholds in the Census SPM to capture the varying needs across family sizes. Known as equivalence scales, they are used to establish

the appropriate adjustments to the cost of living between different family sizes. Using the SPM equivalence scale, the maximum credit for families with two children should be about 18.7 percent higher than the maximum credit for one-child families. Under current law it is 65 percent higher.² I return to this in the proposal below.

The EITC is explicitly tied to work. As shown in figure 11-1, if a family has no earned income, then it is not eligible for the credit. Overall, the credit subsidizes entering and staying in the workforce, and redistribution occurs while encouraging work. This stands in contrast to virtually all other elements of the U.S. safety net—such as SNAP and Temporary Assistance for Needy Families, commonly referred to as welfare—where the largest benefits are transferred to those with no earnings. This work-promoting earnings subsidy is at the core of EITC’s cost-effectiveness.

The empirical research provides robust evidence that the EITC leads to sizable increases in the employment of single mothers (Eissa and Liebman 1996; Meyer and Rosenbaum 2000, 2001). For example, Meyer and Rosenbaum (2001) find that a 10 percent increase in EITC income leads to a 6.9 percent increase in employment rates (an elasticity of 0.69). Because of the two potential earners in the household, the labor supply predictions are more complex for married couples, generally suggesting a reduction in employment for secondary earners. The existing evidence shows that the EITC leads to modest reductions (an elasticity of 0.267) in the employment of married women (Eissa and Hoynes 2004). In contrast, we have little empirical evidence on the possible employment effects of the credit for taxpayers without children; the MDRC pilot of a childless EITC currently in the field in New York City should fill this important gap in our knowledge.

TABLE 11-2.

Details of Policy Proposal by Number of Children, 2014 Tax Year

	1 child		2 children		3 or more children	
	Current Law	Proposal	Current Law	Proposal	Current Law	Proposal
Phase-in rate	34.00%	34.00%	40.00%		45.00%	
Minimum income for maximum credit	\$9,720	\$13,650	\$13,650		\$13,650	
Maximum credit	\$3,305	\$4,641	\$5,460	no change	\$6,143	no change
Phase-out rate	15.98%	21.06%	21.06%		21.06%	
Beginning income of phase-out	\$17,830	\$17,830	\$17,830		\$17,830	
Ending income of phase-out	\$38,511	\$39,867	\$43,756		\$46,997	

Sources: Urban-Brookings Tax Policy Center 2014; author's calculations.

Note: The gray font applies to cells with values that change under the proposal.

The release of the Census SPM in 2011 provides annual reports on the number of persons lifted out of poverty due to safety net programs. The EITC lifted 3.3 million children out of poverty, more than any other program (CBPP 2014a). SNAP was the next largest, with 2.2 million children lifted from poverty (Short 2013). Overall, the credit lifted 6.5 million individuals out of poverty (CBPP 2014a).

These calculations based on the SPM are static; they calculate poverty with and without the specific income source (e.g., the EITC) but do not take into account the behavioral effects of that source on employment and earnings. To the extent that the EITC leads to an increase in employment and earnings, the statistics cited above are underestimates of the full antipoverty effects of the EITC.

Several studies have quantified benefits of the credit beyond those on employment, earnings, and income. Dahl and Lochner (2012) find that the increase in income through the EITC leads to improvements in child test scores. Hoynes, Miller, and Simon (forthcoming) find the increase in income through the EITC leads to an improvement in infant health by reducing the incidence of low-birth-weight births.³ Evans and Garthwaite (2014) find evidence that the expansion of the EITC improved health indicators—measured by blood and medical tests—for mothers, suggesting a significant relationship between increased income and a reduction in stress.

A New Approach

Given the efficient and cost-effective reduction in poverty that the EITC achieves for families with children, proposals are being advanced to expand the EITC for childless taxpayers and for married taxpayers. The proposal outlined in this paper to raise EITC benefits for the largest group of recipients—one-child families—is part of this broader set of proposed EITC reforms.

I justify this proposal on the basis of equity and efficiency grounds: first, as discussed below, based on the principle that the credit should be equal across different family sizes in proportion to their needs, the EITC for one-child families is below what it should be. Second, I have robust evidence based on historical expansions that expanding the EITC provides a cost-effective reduction in poverty for families with children by encouraging more work as the credit on income expands. Combined, these justifications are especially important given that real household incomes in the lower half of the income distribution have stagnated over the past forty years, and that the highest poverty rates for Americans are found among children (Short 2013; U.S. Census Bureau 2014).

As presented above, using the family-size adjustment that forms the basis of the poverty thresholds in the SPM, the maximum credit for families with two children should be about 18.7 percent higher than the maximum credit for one-child families, yet under current law it is 65 percent higher. My proposal is to expand the EITC to one-child families to be on par with the maximum credit for two-child families, in equivalence-scale units. I keep the two-child schedule at

TABLE 11-3.

Comparison of Current Law and Earned Income Tax Credit Proposal for Hypothetical Families

	One-child family Current law (2014)	One-child family Proposal
A. Minimum wage (\$7.25 per hour)		
Total earnings	15,080	15,080
Payroll taxes	-2,307	-2,307
Federal income tax	0	0
Child Tax Credit (including refundable)	1,000	1,000
EITC	3,305	4,651
Child-care costs	-1,508	-1,508
Child and Dependent Care Credit	527	527
Family disposable income	16,097	17,443
<i>Increase in income</i>		8%
B. 150% of minimum wage (\$10.90 per hour)		
Total earnings	22,672	22,672
Payroll taxes	-3,469	-3,469
Federal income tax	-592	-592
Child Tax Credit (including refundable)	1,000	1,000
EITC	2,531	3,621
Child-care costs	-2,267	-2,267
Child and Dependent Care Credit	706	706
Family disposable income	20,581	21,671
<i>Increase in income</i>		5%

Source: Author's calculations using TAXSIM (see Feenberg and Coutts 1993).

Note: The gray font applies to cells with values that change under the proposal. All figures, with the exception of the increase in income, are in dollars.

current law and as the reference schedule. The specific changes to the tax credit are shown in table 11-2. The phase-in rate for one-child families remains at 34 percent, as under current law, but the phase-in income range is extended to \$13,650 (from \$9,720) to match the range used for two- and three-or-more-child credit schedules. The maximum credit increases from \$3,305 to \$4,641, an increase of 40 percent. The phase-out rate increases from 15.98 percent to 21.06 percent (matching the two- and three-or-more-child credit rates) and the phase-out income range extends from \$17,830 to \$39,867 (compared to \$17,830 to \$38,511 under current law). This proposal presents an opportunity to bring the credit for families with children into a harmonized schedule, using the equivalence scale in the SPM as the basis for harmonization.

To illustrate the effect of this proposal, table 11-3 presents tax and income calculations for hypothetical families with a single parent with one child. Assume that a woman works full-time for the full year and that the family spends 10 percent of gross

earnings on child care. Panel A considers the case where the single woman earns the minimum wage of \$7.25 per hour. Under current law (column 1), after child-care expenses and payroll taxes, and after federal tax and credits, the family has a disposable income of \$16,097.⁴ In column 2, I show how taxes and disposable income change with the policy proposal (and no behavioral changes). The EITC rises to \$4,651 from \$3,305 and disposable income rises to \$17,443, an increase of 8 percent. Panel B considers a family where the woman earns 150 percent of the minimum wage (\$10.90 per hour). For that family, the proposal would increase family disposable income by 5 percent, from \$20,581 to \$21,691.

COSTS AND BENEFITS

The costs of the proposal include the federal revenue cost of expanding the EITC. However, including all economic effects, namely higher labor supply, the EITC cost would be offset by the additional payroll tax revenue and (ordinary) federal

TABLE 11-4.

Simulation of Proposed Policy by Expanded Cash Income Percentile

	All taxpayers			Taxpayers with children		
	Tax units with tax cut (in percent)	Average tax cut among beneficiaries (in dollars)	Change in after-tax income (in percent)	Tax units with tax cut (in percent)	Average tax cut among beneficiaries (in dollars)	Change in after-tax income (in percent)
Bottom quintile	5.5	-1,029	0.4	24.9	-1,051	1.2
Second quintile	11.1	-969	0.3	36.7	-975	0.8
Middle quintile	5.0	-830	0.1	14.2	-739	0.2
Fourth quintile	0.2	-741	0.0	0.3	-714	0.0
Top quintile	0.0	0	0.0	0.0	0	0.0
All	5.0	-958	0.1	15.9	-957	0.2

Source: Urban-Brookings Tax Policy Center microsimulation model version 0613-3 (see Rohaly, Carasso, and Saleem 2005).

Note: Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see Urban-Brookings Tax Policy Center (n.d.). The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The resulting percentile breaks are 20 percent \$17,272; 40 percent \$31,839; 60 percent \$52,010; 80 percent \$82,156; 90 percent \$114,150; 95 percent \$160,278; 99 percent \$376,776; 99.9 percent \$1,971,618 (in 2013 dollars).

income tax revenue collected with increases in employment and earnings. Taxpayers benefit privately from the increase in after-tax income and from the reduction in poverty. Because the expansion in the EITC is expected to boost employment and earnings of single-parent families, their income would increase through the expanded credit as well as through the predicted increase in earnings.⁵ The expansion may also lead to important social benefits resulting from the increase in income for these families. Studies find that the increase in income could yield spillover effects by improving health and children's cognitive skills (Dahl and Lochner 2012; Evans and Garthwaite 2014; Hoynes, Miller, and Simon forthcoming).

The distributional effects of the proposal, derived from the Urban-Brookings Tax Policy Center microsimulation model, follow the Joint Committee on Taxation convention of holding gross domestic product constant and subsequently assuming no change in labor supply. As shown in table 11-4, the proposal is decidedly progressive, raising after-tax income by 0.4 percent for taxpayers in the bottom income quintile and 0.3 percent for taxpayers in the second quintile, with effectively no impact on taxpayers in the top two quintiles. Tax units benefitting from this proposal—8.1 million in total—would each see their after-tax income rise by about \$1,000.

The benefits would be especially high among taxpayers with one child. The Urban-Brookings Tax Policy Center microsimulation model only shows output for all taxpayers

with children, but these estimates illustrate the higher benefit of this proposal on this select demographic group. Roughly one-quarter of taxpayers with children in the bottom quintile and over one-third of these taxpayers in the second quintile would see an increase in after-tax income. Among taxpayers with children, those in the bottom quintile would see their after-tax income rise by an average of 1.2 percent; taxpayers with children in the second income quintile would see their after-tax incomes rise, on average, by 0.8 percent. The average benefits for one-child families would be even higher under my proposal.

The proposal would have a substantial effect on the well-being of low-income families. Using the SPM to define poverty, CBPP (2014b) estimates that this EITC expansion would lift 410,000 people—including 131,000 children—out of poverty. This proposal would also improve the livelihood of a large number of people living below the poverty line. In total, 3 million people in poverty—including 1 million children—would be made less poor.

These estimates are conservative—that is, taking into account behavioral effects and increases in employment and earnings should lead to a reduction in costs (due to the offsetting payroll and federal income taxes) and an increase in private and social benefits. The empirical research shows robust evidence that an increase in the EITC leads to an increase in employment and earnings for single filers. For single parents already in

the labor market, this proposal provides a simple income transfer to those eligible for the EITC (assuming no change in earnings for those already in the labor market). For single women currently out of the workforce, the expanded EITC is predicted to encourage employment and earnings, leading to an increase in after-tax income through the EITC, other tax credits, and earnings (less payroll taxes and any owed federal income taxes). For married couples, the behavioral effects are expected to be more muted, with minimal effects for married men and modest reductions in employment and earnings for married women. In sum, family resources would increase through earnings and the EITC.

The proposal also comes with costs, foremost among them the lost revenue and expanded outlays owing to the more-generous credit. The Urban–Brookings Tax Policy Center microsimulation model estimates that the expanded EITC would lose roughly \$9 billion per year, or \$92.8 billion between 2015 and 2024. For reasons noted above, namely the convention that labor force be held constant, this estimate overstates the potential cost of the expansion. A second cost is that the expansion increases effective tax rates on those workers whose earnings fall in the phase-out range. For these workers, the lost benefits for each dollar earned rise from 15.98 percent to 21.06 percent—raising the disincentive to work. This raise in effective tax rates may slightly offset the gains to employment.

Questions and Concerns

Given the five prior expansions in the EITC, have we reached the limit of the employment-inducing effects of the program?

As shown in Jim Ziliak’s proposal in this series, employment rates for single women with children have declined considerably from their peak in 2000. He shows that the employment rate of single mothers with less than a high school diploma and with a child under age thirteen has fallen 10 percentage points from 70 percent in 2000 to 60 percent in 2012; it has also fallen for single mothers with more than a high school diploma from 82 percent to 72 percent. While these are higher employment rates than were experienced on the eve of welfare reform and the expansion of the EITC in the 1990s, we have no evidence that employment rates will not respond to the proposed expansion.

Can the EITC provide all the safety net we need for low-income families?

This proposal is based on the established track record for the success of the EITC in increasing after-tax income through

encouraging work. While the EITC now forms a central piece of the U.S. safety net for families with children, its prominence does not eliminate the need for other safety-net programs such as SNAP. Critically, the EITC does not help families in the face of labor market weakness and job loss. I bring attention to this limitation of the EITC in recent joint research with Marianne Bitler and Elira Kuka (Bitler, Hoynes, and Kuka 2013). The implication is that in the post-welfare reform era, the Great Recession resulted in more extreme poverty than we would have expected from experience prior to welfare reform (Bitler and Hoynes 2013). SNAP is essential for providing protection, especially for keeping families out of extreme poverty (Parrott 2014).

How would your proposal change if you used the equivalence scale implicit in the official poverty thresholds rather than the SPM?

The main theoretical grounding for our proposal—that the one-child schedule is too low relative to the two-child schedule given the difference in family size—holds regardless of whether we use the equivalence scale implied by the SPM or the official poverty threshold.

Why not expand the schedule for childless workers?

The equivalence-scale argument also extends to provide justification for expanding the EITC for taxpayers without dependents. Expanding the EITC for childless workers is supported by many, and recently appears prominently in President Obama’s budget. I see my proposal for the one-child credit as part of a broader set of policies for expanding and updating the EITC. I focus on the one-child credit because of the robust employment effects found for single mothers and the prevailing unacceptably high child poverty rates, and in an effort to work in concert with these other proposals.

Doesn’t your argument imply that the maximum credit for married couples should be larger than the credit for single taxpayers?

Yes, it does. Families with two parents have greater needs than do families with one parent (for a given number of children), and this is recognized by a larger equivalence scale and poverty threshold. I focus my proposal on expanding the one-child schedule for reasons of cost and in recognition of the broader policy context. In particular, there are other policies—notably The Hamilton Project proposal for a secondary-earner tax credit (Kearney and Turner 2013)—that address the EITC penalty for married couples. Kearney and Turner’s proposal is motivated by reducing the tax cost of entering work for low- and moderate-income families. This has the feature of de facto increasing the generosity of the EITC for married couples.

Conclusion

The EITC occupies a central place in the U.S. safety net. The program raises 6.5 million persons, including 3.3 million children, out of poverty. The only program that raises more Americans above poverty is Social Security. The EITC raises after-tax incomes at the bottom of the distribution while encouraging employment. It redistributes income through the credit as well as through increases in earnings. I propose to expand the EITC for families with one child, the largest group of EITC recipients. In particular, I propose to expand the one-child schedule to be on par with the two-child schedule, in equivalence scale-adjusted terms. The proposal expands the

maximum credit for one-child families to \$4,641, from \$3,305 under current law, for an increase of about 40 percent. This expansion is predicted to raise after-tax income by about \$1,000 for 8.1 million working families. I view this proposal as part of the broader agenda for expanding the EITC, including the childless expansion proposed by President Obama and The Hamilton Project (Scholz 2007), and expansions for married couples through a secondary-earner tax credit (Kearney and Turner 2013). Together, these expansions will rebalance the EITC such that its benefits more-closely match the varying needs across families of different sizes and so its benefits are more equitably distributed across the population.

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Hilary Hoynes is a professor of public policy and economics and holds the Haas Distinguished Chair in Economic Disparities. She is the co-editor of the leading journal in economics, *American Economic Review*. Hoynes is an economist and specializes in the study of poverty, inequality, and the impacts of government tax and transfer programs on low-income families. Current projects include evaluating the impact of the Great Recession across demographic groups, examining the impact of Head Start on cognitive and non-cognitive outcomes, examining the impact of the Earned Income Tax Credit on infant health, and estimating impacts of U.S. food and nutrition programs on labor supply, health, and human capital accumulation. In addition to her faculty appointment, Hoynes has research affiliations at the National Bureau of Economic Research, the University of California, Davis Center for Poverty Research and the Institute for Fiscal Studies. She sits on the National Advisory Committee of the Robert Wood Johnson Foundation Scholars in Health Policy Research Program and the Advisory Committee for the National Science Foundation's Directorate for the Social, Behavioral, and Economic Sciences.

Endnotes

1. The maximum credit is the same for married and single filers. However, the flat and phase-out regions of the credit are expanded for married couples, in essence raising the EITC credit amounts for married filers with earnings over \$17,000.
2. The SPM equivalence scale for families with one parents is $(1 + 0.8 \cdot \text{first child} + 0.5 \cdot \text{other children})^{0.7}$, which is equal to 1.50 for one-child families and 1.79 for two-child families. Interestingly, the three-child EITC is already on par with the two-child credit in equivalence-scale units: the three-child equivalence scale is 2.06, suggesting a 15 percent higher maximum benefit compared to the two-child credit; under current law it is 12.5 percent higher.
3. Additionally, Baker (2008) and Strully, Rehkopf, and Xuan (2010) find that the EITC increases average birth weight.
4. In this and the other calculations in this policy memo, we assume incidence of the payroll tax is on the worker and thus the worker “pays” the employer and employee portions of the payroll tax. We also assume child-care costs of 10 percent of gross earnings.
5. Earnings are predicted to decrease for married couples through the modest predicted reduction in work for secondary earners (Eissa and Hoynes 2006). Figures calculate households’ taxes based on earnings and demographic variables from the March Current Population Survey, as well as Census Bureau estimates of tax filing units and adjusted gross income. Poverty status is based on after-tax resources of the SPM family unit.

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