CARSEY INSTITUTE

Building Knowledge for Families and Communities National Issue Brief #72 Spring 2014

Proposed EITC Expansion Would Increase Eligibility and Dollars for Rural and Urban "Childless" Workers

Jessica A. Carson and Marybeth J. Mattingly

The Earned Income Tax Credit (EITC) is touted for its success in encouraging work and reducing poverty.[1] However, low-income workers without qualifying children are largely excluded from these benefits. Thus, President Obama has proposed expanding the EITC for workers without qualifying children, increasing the maximum credit value, increasing the phase-in (and phase-out) rate of the credit, and allowing workers to claim the credit at higher levels of income than under current policy. Further, the proposed policy would loosen age restrictions to allow childless workers aged 21 to 24 and 65 to 66 to claim the credit for the first time.[2] In this brief, we use data from the 2013 Annual Social and Economic Supplement to the Current Population Survey to examine how the expanded eligibility and higher credit values might affect tax filers in both rural and urban America (see Box 1).[3]

KEY FINDINGS

Proposed changes to the Earned Income Tax Credit (EITC) will increase the share of childless workers eligible for the EITC equally in rural and urban places, although rural residents are more likely to be eligible under both current and proposed policies.

2X The average increase in the credit—$476—would be similar for married and single filers without qualifying children in both rural and urban places. On average, the proposal would more than double the current credit for childless workers.

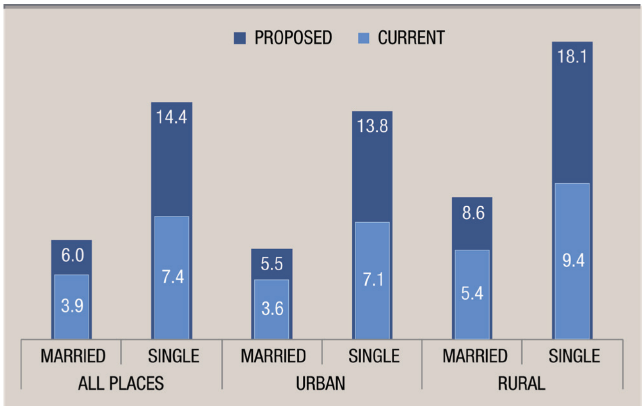
The number of unmarried filers who would become eligible for the credit is significantly higher than the number of married filers, in both urban and rural places.

The Share of Newly Eligible EITC Recipients Will Be Similar in Rural and Urban Areas

The proposed changes dramatically expand eligibility among those without qualifying children, particularly among those who are not married (Figure 1).[4] Under current policy, rural tax filers are more likely to be eligible for the EITC than are urban residents, both overall and among childless filers, in large part owing to the lower median incomes in rural areas.[5] Under the proposed changes, rural residents would still disproportionately qualify for the EITC, although the proportion of filers who would be newly eligible is similar across places.

There is little difference by marital status or place type in the average dollar value of the credit under either the current or the proposed policy. Among all childless workers eligible under the proposal, the EITC would increase by an estimated $476. Among just the newly eligible (filers who would receive no credit under current policy), the average increase would be even higher, with an estimated credit value of $521.

FIGURE 1: PERCENT OF CHILDLESS WORKERS ELIGIBLE FOR EITC



Source: Annual Social and Economic Supplement, Current Population Survey, 2013
Note: Estimates are among filers who meet age and citizenship requirements under each scenario. All differences between urban and rural places are statistically significant. Increases in eligibility are significantly larger for unmarried filers than for married.

The Impact of the Proposed EITC Expansion

Increased EITC dollars benefit not only the workers themselves, but also the communities in which they reside. Research shows that workers most often use the credit to meet short-term expenses, such as rent and utilities, and to purchase or maintain vehicles; as these dollars are funneled into local firms, they benefit the larger community.[6] Further, receiving an EITC refund also increases the likelihood of opening a bank account, thus promoting longer-term security for individuals.[7] In addition, the proposed expansion may promote work among young childless workers, and lay a better foundation for families as they enter the peak childbearing years. Finally, it is important to remember that while the proposed expansion of the EITC may provide additional dollars to low-wage workers who struggle to make ends meet in a lackluster economy following the Great Recession, it only helps those who work for at least part of the year.

Data

This brief is based on family-level analyses of the 2013 Annual Social and Economic Supplement (ASEC) of the Current Population Survey.[8] Because President Obama's proposal was planned for implementation in the 2015 tax year, we adjusted income thresholds for eligibility to reflect 2012's tax schema (the calendar year to which income data from the 2013 ASEC refer). Specifically, we derived maximum credits by doubling the 2012 tax year's maximum (as per the President's proposal) and applied changes to phase-in/out rates directly as percentages. We estimated income amounts necessary to (dis)qualify for the maximum credit and the level at which income phases out by subtracting the proposal's "current" (2015) threshold from the proposed threshold to calculate the percent by which the thresholds had been scaled upward, then applying that percent increase to thresholds relevant to the 2012 tax year. As per the 2012 tax code, we estimated parameters for married couples by adding $5,210 to the levels calculated for unmarried filers.[9] These estimates are meant to give perspective on the potential effects of the proposed change to EITC policy; however, because they are based on survey data, one should use caution when comparing across categories, as the margins of error may place seemingly disparate estimates within sampling error. All differences highlighted in this brief are statistically significant ($p < 0.05$).

BOX 1: DEFINITION OF THE TERMS RURAL AND URBAN

Definitions of rural and urban vary among researchers and the sources of data they use. Estimates in this brief come from the Current Population Survey, which indicates whether or not each household is located in a metropolitan area. The Office of Management and Budget defines a metropolitan area as: (1) a central county (or counties) containing at least one urbanized area with a population of at least 50,000 people, and (2) the counties that are socially and economically integrated with the urbanized area, as measured by commuting patterns. In this brief, urban refers to such metropolitan places, and rural refers to places outside these boundaries.

Endnotes

1. See Carmen DeNavas-Walt, Bernadette D. Proctor, and Jessica C. Smith, "Income, Poverty, and Health Insurance Coverage in the United States: 2012," *Current Population Reports* P60-245 (Washington, DC: U.S. Census Bureau, 2013); Bruce D. Meyer, "The Effects of the Earned Income Tax Credit and Recent Reforms," in *Tax Policy and the Economy*, vol. 24, edited by Jeffrey R. Brown (Chicago, IL: The University of Chicago Press, 2010); Chuck Marr, Chye-Ching Huang, and Arloc Sherman, "Earned Income Tax Credit Promotes Work, Encourages Children's Success at School, Research Finds" (Washington, DC: Center on Budget and Policy Priorities, 2014).

2. Office of the President, "The President's Proposal to Expand the Earned Income Tax Credit" (Washington, DC: Executive Office of the President and U.S. Treasury Department, March 2014). Similar proposals have also been introduced in the Senate and the House of Representatives. See Chuck Marr, Chye-Ching Huang, and Arloc Sherman, "Strengthening the EITC for Childless Workers Would Promote Work and Reduce Poverty" (Washington, DC: Center on Budget and Policy Priorities, 2014).

3. This brief uses the term "filers" to refer to "tax filing units," including single adults and married couples.

4. To "qualify," a child must pass a series of tests on age, residency, relationship to the tax filer, and tax filing requirements. For example, the child must be under 19 and younger than the filer (or the filer's spouse) unless enrolled as a full-time student (up to age 24), or permanently and totally disabled. For a full listing of requirements, see the Internal Revenue Service's "Qualifying Child Rules," available at www.irs.gov/Individuals/Qualifying-Child-Rules.

5. DeNavas-Walt, Proctor, and Smith, "Income, Poverty, and Health Insurance Coverage."

6. Alan Berube, "Using the Earned Income Tax Credit to Stimulate Local Economies," *The Living Cities Census Series* (Washington, DC: The Brookings Institution, 2006). See also Yannet M. Lathrop, "The Michigan EITC: A Small Investment that Makes a Big Difference" (Lansing, MI: Michigan League for Public Policy, 2013), and Caroline M. Sallee, "Economic Benefits of the Earned Income Tax Credit in Michigan" (East Lansing, MI: Anderson Economic Group, 2009).

7. Sherrie L. W. Rhine et al., "Householder Response to the Earned Income Tax Credit: Path of Sustenance or Road to Asset Building" (New York: Federal Reserve Bank of New York, 2005).

8. These analyses are based largely on family reference persons, and include other tax filers where identifiable (for example, where children under 18 were classified as the family reference person, we assigned tax filer status instead to their resident parent). Childless workers who are not heads of families and are not considered qualifying children themselves (for example, non-college students who live with parents or other young adults living alone or with roommates) are included as potential filers.

9. Because household characteristics affecting eligibility (for example, college enrollment, nativity, presence of children, citizenship status, age) refer to 2013, it is possible that families whom we have deemed eligible had a different household configuration in 2012, and thus would not have been eligible.

About the Authors

Jess Carson is a vulnerable families research scientist at the Carsey Institute (jessica.carson@unh.edu).

Marybeth J. Mattingly is the director of research on vulnerable families at the Carsey Institute and a research assistant professor of sociology at the University of New Hampshire (beth.mattingly@unh.edu).

Acknowledgments

The authors would like to thank Bruce Mallory, Curt Grimm, Michele Dillon, Amy Sterndale, and Laurel Lloyd at the Carsey Institute for their helpful comments and suggestions; Barbara Ray at Hiredpen, Inc., for editorial assistance; and Jennifer Clayton at the Carsey Institute for assistance in preparing the data. Special thanks to Arloc Sherman for his thoughtful feedback on an earlier draft.

Building knowledge for families and communities

The Carsey Institute conducts policy research on vulnerable children, youth, and families and on sustainable community development. We give policy makers and practitioners timely, independent resources to effect change in their communities.

This work was supported by the Annie E. Casey Foundation, the W. K. Kellogg Foundation, and anonymous donors.

Huddleston Hall
73 Main Street
Durham, NH 03824

(603) 862-2821
TTY Users: dial 7-1-1 or 1-800-735-2964 (Relay N.H.)

www.carseyinstitute.unh.edu