Expanding the EITC for Single Workers and Couples Without Children (aka Tax Relief for Low-Wage Workers)

A Policy Brief prepared for the Center on Poverty, Work and Opportunity at the University of North Carolina at Chapel Hill

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Abstract

The Earned Income Tax Credit (EITC), the nation’s largest anti-poverty program, now provides tax benefits of roughly $39 billion dollars a year to over 21 million households. By supplementing the earnings of low wage workers, the EITC “makes work pay.” The EITC’s popularity can be attributed to its providing both work incentives and tax relief. In 1993, Congress extended a small earned income credit to single and childless couples; however, about 96 percent of EITC dollars still go to families with children. This discussion paper argues that, while the emphasis of the EITC on rewarding work for families with children deserves continued primacy, expansion of the EITC to childless single workers and married couples without children deserves greater attention for the following reasons:

- The disproportionate and growing income tax burden (payroll, sales, excise) faced by this group of workers;
- The growing segment of workers at the bottom of the labor market, particularly single men with low levels of education and training, who remain confined to low wage jobs;
- The strict separation in our thinking between households with and without children requires reexamination, given the growing number of children with non-custodial parents; and,
- With a national savings rate below zero, the need to facilitate asset building for all low-wage workers, including those without children.

We recommend expanding the EITC for single workers and childless married couples with a range of policy recommendations, each targeting specific new subgroups of EITC recipients and addressing a slightly different purpose:

1. Increase the EITC from 7.65 percent to 15.3 percent of earnings up to $8,080 in order to directly offset payroll taxes; and adjust the phase-in and phase-out ranges;
2. Lower the age requirement for single and childless workers to qualify for the EITC from 25 to 21 to target greater workforce participation incentives to young workers just entering the labor market and making major decisions about work;
3. Encourage single low-income workers to claim the Advance (monthly) EITC and use the increase in employee payroll earnings to contribute toward health care insurance premiums; and,
4. Link the EITC to asset building options such as matched savings accounts for education and training, homeownership, retirement, and entrepreneurship. In addition, remove asset limits for other public benefit programs, particularly to assist those with disabilities to enter the labor market and build assets.

Introduction
The Earned Income Tax Credit (EITC) is a refundable federal income tax credit first enacted with bipartisan political support in 1975. The EITC encourages low-income workers with children to enter and remain in the labor market by supplementing the earnings of those working for low wages, thus “making work pay.” . . . In this policy brief, we explore three questions:

1. What do existing policy research and current data tell us about whether the original two goals of the EITC—payroll tax relief and encouraging employment—are being met adequately for the sub-groups of childless single and married workers;

2. Are there additional rationales that would justify an expansion of the EITC for this sub-group; and,

3. What policy changes could accomplish all or some of these policy goals?

Summary of Key Findings
[Details not shown here]
- The disproportionate tax burden faced by low-wage single workers, which has worsened since the EITC was enacted in 1975, makes tax relief an even greater priority as an issue of tax fairness. . . If any workers need a tax cut, we argue that these workers do.
- A growing segment of workers at the bottom of the labor market. . . remain confined to low-wage jobs and earn marginal incomes or have dropped out of the labor market altogether. . . Leaving this group at the margins of the labor market undermines the strength of the workforce, communities, and families.

Additional Rationales for Expanding the EITC for “Childless” Workers:
In addition to the need for the EITC to better meet the goals of tax relief and encouraging work for childless workers, we also identified three additional reasons why an expansion of the EITC is warranted:

- Given changes in family structure and the growing number of children with non-custodial parents, the strict separation in our thinking between households with and those without children requires reexamination. . .
- Single workers who now qualify for the very modest credit can receive few if any other government benefits. . .
• With the national savings rate at zero, innovative approaches that promote savings and asset building for all low-income workers deserve support.

Policy Options for an Expansion of the EITC for Childless Workers

[Details not shown here]

Politically, at both the federal and state level, an expanded EITC could embody both progressive and conservative values by: (1) rewarding those who work with an earnings subsidy; (2) providing the greatest benefits to those with the greatest need; (3) offsetting the tax burden on working poor single and childless married couples struggling to make ends meet; (4) providing incentives for people to enter the workforce who otherwise might not do so; (5) achieving these ends without increasing employer costs, without creating hiring disincentives and with minimal government bureaucracy; and (6) helping single workers and families without children, and potentially many more, to build assets for homeownership, education, and retirement when combined with other institutional supports such as matched savings programs.

Analysis and Policy Proposals

[Detail not shown here]

Conclusions and Suggestions for Policy Reform

[Detail not shown here]

(The complete policy brief including footnotes, tables, charts, appendices, and references can be found at http://www.law.unc.edu/documents/poverty/publications/gittermanpolicybrief.pdf.)