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New York City Comptroller
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A Report by the Bureaus of Policy and Budget
www.comptroller.nyc.gov

May 2014

FIGHTING POVERTY AND EXPANDING OPPORTUNITY:

THE EARNED INCOME TAX CREDIT IN NYC





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EXECUTIVE SUMMARY

The Earned Income Tax Credit (“EITC”) is one of the most successful and celebrated antipoverty programs in United States history. In 2011, the combination of federal, state, and local EITCs provided over \$2.5 billion to New York City residents.

President Obama recently proposed a significant expansion of the Earned Income Tax Credit as part of his 2015 Executive Budget. The proposal, which would expand eligibility by amending age and income restrictions, is designed to lift 500,000 Americans out of poverty and provide needed resources for an additional 10 million Americans living in poverty.

Should Congress pass an expansion of the EITC, working families and individuals across the country would directly benefit. The Council of Economic Advisors projects that under the President’s proposal 7.7 million workers would be eligible for a larger credit, while 5.8 million workers would be newly eligible for the EITC.¹ The non-partisan Brookings Institution seconds these findings and notes that an expanded EITC would have a pronounced effect in the nation’s urban centers, estimating that 61 percent of people who would benefit from a stronger EITC for childless workers live in the nation’s 100 largest metro areas, with nearly 650,000 residents of the NYC-Metro area expected to benefit.²

This report, by New York City Comptroller Scott M. Stringer, highlights the history of the EITC and finds that the President’s proposed expansion would have the following effects on New York City:

- Providing an additional \$250 million in Federal benefits to 365,000 households.
- Making 350,000 childless New York City households eligible for a credit up to \$1,005, an average of \$800 per filer.
- Making 15,000 low-income workers aged 21 to 24 and 65 to 66 in New York City newly eligible for the credit.
- Raising an estimated 40,000 New York households out of poverty.
- Increasing the total benefit to poor and working class families in New York City to over \$2.9 billion per year when combined with State and City EITC programs, thereby raising the incomes of many of the City’s hard working residents who have seen their wages stagnate as the cost of living has continued to rise.

The following report charts the substantial economic and social impact the President’s proposals would have in New York City and urges Congress to pass an expansion to the EITC that would benefit those who most need help.

HISTORY OF EITC

The Earned Income Tax Credit (“EITC”) is one of the most successful antipoverty programs in United States history. Developed by President Richard Nixon and signed into law by President Gerald Ford in 1975, the EITC has been expanded five times by both Republican and Democratic Presidents, including Ronald Reagan, who called the EITC “the best antipoverty bill, the best pro-family measure, and the best job-creation program ever to come out of...Congress.”³

The EITC is a refundable⁴ tax credit for working individuals and families designed to incentivize employment by offsetting federal, state, city and payroll taxes and by providing income support specifically to working people. The size of the credit — up to \$8,159 annually for City residents⁵ — depends on a recipient’s income, marital status, and number of children.

By increasing the retained income of low-wage workers, experts have found that the EITC repays our society by reducing poverty,⁶ inequality,⁷ and temporary economic duress,⁸ while encouraging employment,⁹ school achievement,¹⁰ children’s future earnings,¹¹ and infant wellbeing.¹² According to Kathryn Edin, Professor of Public Policy and Management at Harvard University’s Kennedy School of Government, the EITC is “one of the most successful social policies that’s ever been invented.”¹³

Despite the great success of the EITC, its benefits have not been equally shared by all. Childless adults are only eligible if they earn below \$14,340 a year — the equivalent of \$7.17 an hour at a full-time job.¹⁴ As a result, a childless adult working full time at the minimum wage does not receive any benefit at all under the current program.

Furthermore, the average childless adult with wages equal to the poverty threshold faces a combined income and payroll tax burden of over \$1,000 and an EITC credit of only \$171 dollars, which does little to help a population of 7 million low-wage childless workers avoid poverty and economic hardship.¹⁵

President Obama’s Budget for Fiscal Year 2015 seeks to remedy this situation by extending the promise of the EITC to a wider population. The President’s proposal would:

- Lower the EITC’s age floor from 25 to 21
- Raise the EITC’s age ceiling from 65 to 67
- Double the maximum childless worker credit to over \$1,000
- Increase the income level for childless individuals where the credit is fully phased out to \$18,070 for singles and \$23,570 for childless couples.

This expansion would have a significant effect on low-income New Yorkers throughout the five boroughs.

Bipartisan Support for the EITC

With such incentives, most recipients who can work will want to work. This is part of the American character. – Richard Nixon

I want most to help those who want to get back to work in productive jobs. This can best be done by temporary tax incentives to charge up our free enterprise system. – Gerald Ford

Earned Income Tax Credit should be continued to help the working poor. – Jimmy Carter

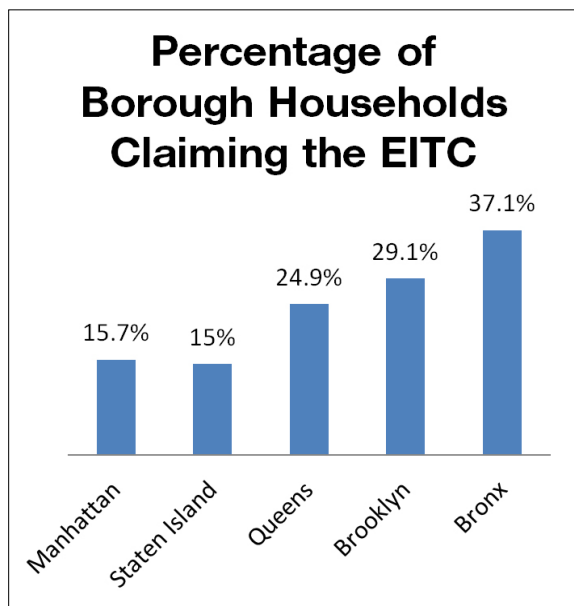
By hiking the earned income tax credit [...] we can make sure that the working families do not suffer under the burden of Federal taxation. Giving a leg up to those struggling to move up is what America is all about. – Ronald Regan

The expansion of the Earned Income Tax Credit [...] will put dollars for child care directly in the hands of parents, instead of bureaucracies. – George H. W. Bush

It’s about more groceries and a car, more school clothes for the kids, and more encouragement and hope to keep doing the right thing. – Bill Clinton

I’m concerned about the earned income tax credit. I’m concerned for someone who is moving from near-poverty to middle class – George W. Bush

Few [programs] are more effective at reducing inequality and helping families pull themselves up through hard work than the Earned Income Tax Credit.. – Barack Obama



New York State and New York City have enhanced the EITC by enacting state and local credits that also boost the earnings of the working poor.

In 1994, New York State enacted a State EITC, which today provides a credit equal to 30 percent of the Federal EITC.¹⁶ New York State's EITC contributed an additional \$572 million to City residents in 2011.

In 2004, New York City became one of only three municipalities in the country to offer a citywide EITC to low-income residents, joining Washington D.C. and Montgomery County, Maryland.¹⁷ New York City's EITC offers a refundable five percent match of the Federal EITC, helping to offset New York City's personal income tax (PIT). New York City contributes close to \$95 million in EITC returns to claimants.

Taken together, in 2011, 890,000 New York City residents filed for the Federal, State and City EITC, receiving a cumulative \$2.5 billion. In 2012 the EITC had a substantial impact in the City, pulling about 70,000 households out of poverty and helping thousands more low-income working families.¹⁸

MEASURING THE EFFECT OF PRESIDENT OBAMA'S PROPOSALS IN NEW YORK

The President's plan, along with several similar congressional proposals, would extend the eligibility for the EITC to a wider array of low-income workers in New York City. All told, the President's proposal would boost EITC benefits for New York City residents by \$340 million per year.

The proposal would provide significant benefits to two principal groups:

(1) People between the ages of 21-25 and 65-66

Under current law, workers ages 21 to 25 do not qualify for the EITC even though that cohort suffers from one of the highest rates of working poverty in New York City.¹⁹

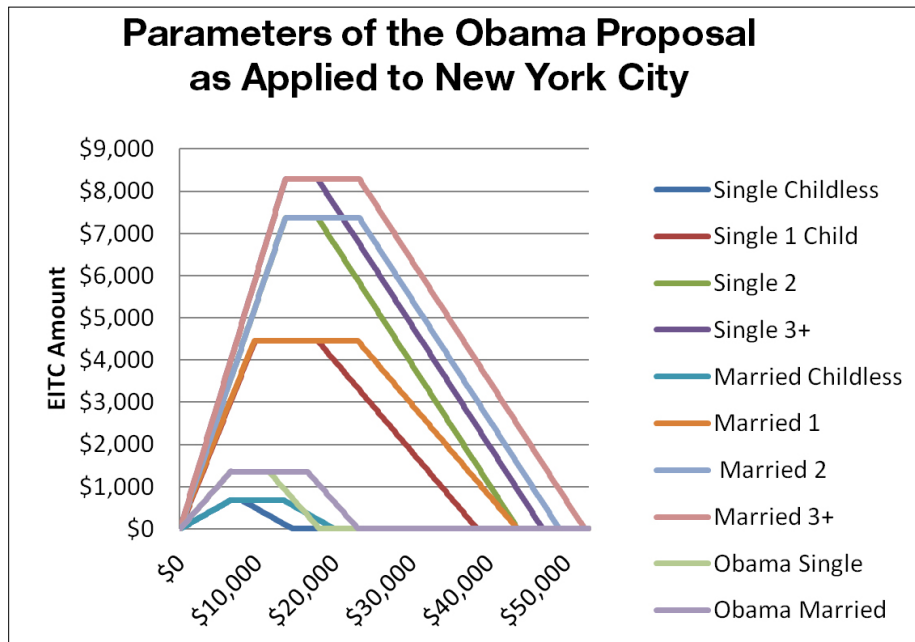
Under the President's plan, an unmarried 23-year-old childless New Yorker working full-time at the New York State minimum wage (earning roughly \$16,000 per year), would be eligible for a combined federal, state and local credit of \$316 annually. A married, 23-year-old parent earning a similar wage would receive a credit of up to \$4,462.

Since nearly two-thirds of working poor 21 to 25-year-olds are parents, their children stand to benefit from the additional income the EITC provides. The effect of the EITC on the welfare of children, even prior to their birth, is well-documented. Economists at the University of California have shown that the EITC is associated with reductions in low birth weights for children.²⁰ The EITC is also strongly correlated with significant increases in student test scores and may result in boosting academic achievement "by the equivalent of about two extra months of schooling."²¹ These positive effects translate into beneficial

outcomes in adulthood. Each additional \$1,000 in annual income in early childhood leads to higher college enrollment and higher annual earnings.²² In 2012, the EITC raised approximately 3.3 million children from poverty nationwide.²³

(2) Low-wage, childless workers

The President’s proposal would also boost benefits for low-wage, childless workers who are currently either entirely excluded from the credit or receive a negligible amount that fails to offset their tax liabilities. This expansion would directly benefit the 17 percent of New York’s working poor who are childless.



Under current law, a childless adult with wages equal to the Census Bureau’s poverty line (\$12,566) receives an EITC of just \$171 annually.

The President’s proposal would amend the tax code to aid this group by doubling the maximum credit available to childless adults and non-custodial parents to \$1,005 in 2015, and by increasing the income level at which the credit would begin to “phase out” to \$11,500.

The Comptroller’s office estimates that an estimated 365,000 childless adults and non-custodial parents in New York City would be newly eligible for an average EITC of roughly \$800 per filer.

By extending the EITC both to childless adults and to a wider age bracket, the Comptroller’s office estimates that the proposed EITC expansion would raise 40,000 New York City residents out of poverty.

New York City could also expect a stronger and more inclusive labor market after the passage of an EITC expansion. The President’s plan is estimated by the United States Treasury Department to have a targeted effect on the labor force participation rates of young adults, older workers, men without a college education, and women without dependent children.²⁴ A study conducted by the non-partisan social research organization MDRC estimates that for single workers “an enhanced EITC could potentially increase employment and incomes by as much as 10 percent.”²⁵ Following from this premise, the MDRC, in partnership with the Center for Economic Opportunity, is currently conducting a four-year, \$11 million pilot program to offer an EITC-like wage supplement to 3,000 New Yorkers. The plan proposed in the President’s Budget would extend a similar benefit to all low-income workers in the City.

CONCLUSION: THE CONTINUED PROMISE OF THE EITC

For nearly 40 years, the EITC has had a profound effect on the pocketbooks of working New Yorkers, providing an especially efficient vehicle for getting aid to those that need it most. The program's federal administrative costs constitute less than 1 percent of its budget and its benefits are concentrated among the very poor.²⁶

However, the EITC is not simply a program for the very poor. Rather, its effects are wide-ranging. Every year, roughly 1 in 4 New York City filers claims the EITC and a recent report found that nationwide, between 1989 and 2006, roughly half of all tax payers with one or more children claimed the EITC for at least one year.²⁷ This suggests that for many recipients, the EITC functions as a short-term safety net that helps them emerge from poverty and climb the ladder into the middle class.²⁸

The EITC is particularly crucial in cities with high costs of living, such as New York, where full-time employment does not guarantee a roof over one's head, let alone a middle-class lifestyle. More than one-in-four families in New York City homeless shelters include at least one working adult and a further 16 percent of single adults residing in shelters are employed.²⁹ The EITC benefits these individuals by acting as a critical supplement to their wages.

The EITC not only has a profound effect on individual families, but also on the economic fabric of our communities. New Yorkers use their EITC benefits to repay debt, build savings, invest in their homes, and pay for education.³⁰ Because of the spatial concentration of the working poor, the EITC not only supports individuals and their families, it also functions as a targeted investment to impoverished neighborhoods.³¹

A half-century after the start of the "Great Society," America continues to struggle from the scourge of poverty — from our smallest towns to our greatest metropolis. Congress should expeditiously pass an expansion of the EITC which marshals our best policy resources to fight poverty, enhance opportunity, and boost net income for more New Yorkers.

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4 Refundable tax credits are provided to eligible tax filers even if the filer's total tax liability is zero. In that case, the filer receives the tax credit in the form of a direct payment (check).

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6 Jacob Lew, A Proven Way to Fight Poverty, (<http://www.politico.com/magazine/story/2014/03/budget-tax-credit-middle-class-104250.html#.UxjEQz9dVqx>)

7 Thomas Hungerford, 'The Redistributive Effect of Selected Federal Transfers and Tax Provisions', (http://aysps.gsu.edu/sites/default/files/documents/frc/FRC_Hungerford_103009.pdf)

8 Tim Dowd and John Horowitz, Income Mobility and the Earned Income Tax Credit: Short-Term Safety Net or Long-Term Income Support, (<http://cms.bsu.edu/Academics/CollegesandDepartments/MCOB/Programs/Depts/Economics/FacultyResearch/-/media/WWW/DepartmentalContent/MillerCollegeofBusiness/Econ/research/FacultyPapers/horowitz2011pfr.ashx>)

9 VJ Hotz, CH Mullin, JK Scholz, 'The Earned Income Tax Credit and the Labor Market Participation of Families on Welfare', (http://www.researchgate.net/publication/23551172_The_Earned_Income_Tax_Credit_and_Labor_Market_Participation_of_Families_on_Welfare/file/32bfe512bf12f5fc83.pdf)

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11 Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, 'Early-Childhood Poverty and Adult Attainment, Behavior, and Health', (<http://www.ipr.northwestern.edu/events/other-events/docs/conf08-attainment/papers/duncan.pdf>)

- 12 Hilary W. Hoynes, Douglas L. Miller, and David Simon, 'Income, The Earned Income Tax Credit, and Infant Health', (<http://www.nber.org/papers/w18206>)
- 13 Ruby Mendenhall and Kathryn Edin, 'The Role of the EITC in the Budgets of Low Income Families', (http://npc.umich.edu/publications/u/working_paper10-05.pdf)
- 14 The designation 'childless adults' extends also to non-custodial parents, who are not permitted to claim their children when applying for the EITC. Increasing the EITC for this population would pay enormous dividends for both adults and their children.
- 15 Chuck Marr, Nathaniel Frenzt, Sharon Parrott, Arloc Sherman, and Chye-Ching Huang, 'Lone Group Taxed Into Poverty Should Receive a Larger EITC', (<http://www.cbpp.org/cms/index.cfm?fa=view&id=4128>)
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ACKNOWLEDGEMENTS

Comptroller Scott M. Stringer thanks Nichols Silbersack, Policy Analyst, and Andrew McWilliam, Senior Research Economist, the lead researchers and writers of this report.

Comptroller Stringer also recognizes the important contributions to this report made by: David Saltonstall, Policy Director; Andrew L. Kalloch, Deputy Policy Director; Susan Scheer, Special Assistant for Policy; Adam Eckstein, Policy Analyst; Sally Frank, Policy Analyst; Alaina Gilligo, First Deputy Comptroller; Sascha Owen, Chief of Staff; Tim Mulligan, Deputy Comptroller of Budget; Michael Nitzky, Director of Communications; Eric Sumberg, Deputy Communications Director and Press Secretary; Shannon Heath, Digital Media Manager; Nicole Turso, Press Officer and Archer Hutchinson, Creative Lead and Web Developer.



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