



Executive Summary

**EXPANDING THE
EARNED INCOME
TAX CREDIT
FOR WORKERS WITHOUT
DEPENDENT CHILDREN**

**Interim Findings from
the Paycheck Plus
Demonstration in
New York City**



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Overview

In recent decades, wage inequality in the United States has increased and real wages for less-skilled workers have declined. As a result, many American workers are unable to adequately support their families through work, even working full time. The Earned Income Tax Credit (EITC) has helped to counter this trend and has become one of the nation's most effective antipoverty policies. But most of its benefits have gone to workers with children. The maximum credit available to workers without dependent children is just over \$500, and workers lose eligibility entirely once their annual earnings reach \$15,000.

There has been bipartisan support for expanding the EITC for this group of workers. Paycheck Plus is a test of that idea. The program, which provides a bonus of up to \$2,000 at tax time, is being evaluated using a randomized controlled trial in two major American cities: New York City and Atlanta, Georgia. This report presents interim findings from the test of Paycheck Plus in New York City. Between September 2013 and February 2014, the project in New York recruited just over 6,000 low-income, single adults without dependent children to take part in the study. Half of them were selected at random to be offered a Paycheck Plus bonus for three years, starting with the 2015 tax season.

Findings

The program sought to mirror the process by which filers apply for the federal EITC, even though the bonus was not administered by the Internal Revenue Service. Participants needed to apply for each bonus, and receipt of it was not automatic with tax filing.

- About 64 percent of individuals in the program group who had earnings in the eligible range received bonuses in the first year (2015), and 57 percent received bonuses in the second year (2016). Among those who received bonuses, the average amount received was \$1,400.
- Paycheck Plus increased after-bonus income (earnings plus bonuses) in both years, and increased employment in 2015.
- Paycheck Plus increased tax filing in both tax filing seasons.
- Paycheck Plus increased the payment of child support in 2015.
- Paycheck Plus increased employment in 2015 for most types of participants, although its effects were larger among women than among men.

These findings are consistent with research on the federal EITC showing that an expanded credit can increase after-transfer income and encourage employment without creating work disincentives. Later reports will examine effects after three years on income, work, and other measures of well-being, in both New York City and Atlanta.

Preface

The Earned Income Tax Credit (EITC) has been one of the nation's most effective antipoverty policies. It has helped to counteract decades of stagnating or even falling wages for the bottom part of the wage distribution, increasing employment among single mothers and raising millions of families and children out of poverty.

But it could do more. One important and sizable group has been left out of the EITC's reach: low-income workers who do not have dependent children. This group includes young men and women just starting out, older workers with adult children, and parents who do not have custody of their children. All have faced the same falling wages over the past decades as workers with children, and the same tough labor market of more recent years, and all could benefit from an expanded tax credit. Yet there has been little or no public-policy response.

An expanded credit for this group is not a new idea. Representatives from both political parties have called for a more generous EITC for childless workers. Part of the bipartisan appeal of the EITC is that it reduces poverty while also encouraging work. What is new about Paycheck Plus is that it tests this idea in two large cities. Testing a tax refund as a demonstration, outside of the Internal Revenue Service, brings with it a set of challenges. Eligible workers did not automatically get bonuses if they filed taxes, for example, as they would if an expanded credit were part of the tax code. Instead they had to go through additional steps. Recipients and even tax preparers did not necessarily understand even the EITC itself, and the project had to make sure that participating workers knew and trusted the new program.

The early results are encouraging. Most eligible workers received bonuses. Paycheck Plus increased workers' incomes and also led a modest increase in employment rates. It also led to an increase in child support payments among parents who owed them. The findings are consistent with a large amount of other research showing that work-based earnings supplements such as the EITC boost employment and earnings while increasing work effort.

The fact that single people working in low-wage jobs are treated differently from those with children raises questions of equity. The findings presented here show that an expanded tax credit can encourage work and increase incomes, just as the EITC has already done for single mothers. Although such a credit would not fully make up for decades of falling wages, it would be a start.

Gordon L. Berlin
President, MDRC

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This report reflects the generous contributions and support of many people. We are especially grateful to the individuals participating in the Paycheck Plus evaluation, who have allowed us to learn from their experiences. We also appreciate the assistance of the many staff members at the Volunteer Income Tax Assistance (VITA) sites who helped operate the program.

The project would not have been possible without the work and dedication of several individuals and organizations, including Linda Gibbs, former New York City deputy mayor for Health and Human Services; Kristin Morse, former executive director of the New York City Mayor's Office for Economic Opportunity (NYC Opportunity); and several staff members at New York City's Human Resources Administration. We thank Carson Hicks and Jean-Marie Callan at NYC Opportunity for continued support and guidance throughout the project. We also thank Michele Ahern and her colleagues at the New York City Office of Child Support Enforcement for assistance in implementing the program and for providing child support data. German Tejada, Arlene Sabdull, and Andy Nieto at Food Bank for New York City were instrumental in getting the program up and running. We also thank Dale Grant and Patricia Brooks of Grant Associates for assistance with designing and implementing the employment-referral services.

The authors thank Gordon Berlin, Dan Bloom, Rob Ivry, John Hutchins, and James Riccio from MDRC, and Carson Hicks and Jean-Marie Callan from NYC Opportunity for their helpful comments on the report. The authors also received comments from the Paycheck Plus Policy Advisory Group: Chuck Marr, Lauren Pescatore, and Eugene Steuerle.

At MDRC, Alexandra Bernardi coordinated Paycheck Plus program operations in New York City and contributed valuable insights for this report. Kali Aloisi and Paul Veldman processed the quantitative data and Kali Aloisi also coordinated the production of the report. Leslyn Hall helped design the survey instrument and monitored its administration. Joshua Malbin edited the report and Ann Kottner prepared it for publication.

The Authors

Executive Summary

In recent decades, wage inequality in the United States has increased and real wages for less-skilled workers have declined. Wages have increased for workers with college degrees by 19 percent since the early 1970s, but have fallen by 17 percent for workers without high school diplomas.¹ As a result, many American workers are unable to adequately support their families solely through work, even working full time.

The Earned Income Tax Credit (EITC) has helped to counter rising earnings inequality and stagnating real wages by increasing the incomes of low-income workers. A working, single mother with two children, for example, can get a federal tax refund of up to \$5,600 at tax-filing time from the EITC. The credit has been expanded substantially since the 1980s and is now one of America's most effective antipoverty policies.² However, the EITC does little to help low-wage workers who do not have dependent children, a group that has faced the same tough labor market as those with children. The maximum credit a worker without dependent children can receive is \$506,³ and that worker loses eligibility once his or her earnings reach \$15,000. Put differently, an individual working full time at \$9 per hour would earn too much to qualify for any credit. This disparity in the treatment of these two types of workers in low-wage jobs raises questions of equity.

Policymakers on both sides of the aisle have recognized the value of the EITC as a policy that both reduces poverty and encourages work, and they have also promoted the idea of expanding it for adults without dependent children. Paycheck Plus is a test of that idea. The program, which provides up to \$2,000 at tax time, is being evaluated using a randomized controlled trial in two major American cities: New York City and Atlanta, Georgia. Paycheck Plus in New York City is funded by the New York City Mayor's Office for Economic Opportunity (NYC Opportunity), the Robin Hood Foundation, the Laura and John Arnold Foundation, the Edna McConnell Clark Foundation, and the U.S. Department of Health and Human Services.⁴ The test in Atlanta is being funded by the Ford Foundation, the Annie E. Casey Founda-

¹Economic Policy Institute, "Wages by Education" (website: www.epi.org/data/#?subject=wage-education, 2017).

²Center on Budget and Policy Priorities, "Policy Basics: The Earned Income Tax Credit" (website: www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit, 2016); Austin Nichols and Jesse Rothstein, "The Earned Income Tax Credit," pages 137-218 in Robert A. Moffitt (ed.), *The Economics of Means-Tested Transfer Programs in the United States Volume 1* (Chicago: University of Chicago Press, 2016).

³In 2017, for tax year 2016.

⁴The U.S. Department of Health and Human Services' Office of Child Support Enforcement, with the support of the New York State Office of Temporary and Disability Assistance, is providing funding to the demonstration in New York through a Section 1115 waiver.

tion, the Kellogg Foundation, the U.S. Department of Health and Human Services, the U.S. Department of Labor, and the Lifepath Project. MDRC worked with NYC Opportunity to design the demonstration and partnered with the New York City Human Resources Administration and Food Bank for New York City to implement the program. MDRC is also evaluating its effects.

This report presents interim findings from the test of Paycheck Plus in New York City, presenting the proportion of participants who actually received the expanded credit in the first two years, and the credit's effects over that time on income, work, earnings, tax filing, and child support payments. The findings are consistent with research on the federal EITC showing that an expanded credit can increase incomes and encourage work without creating work disincentives. Later reports will examine effects after three years on income, work, and other measures of well-being, in both New York City and Atlanta.

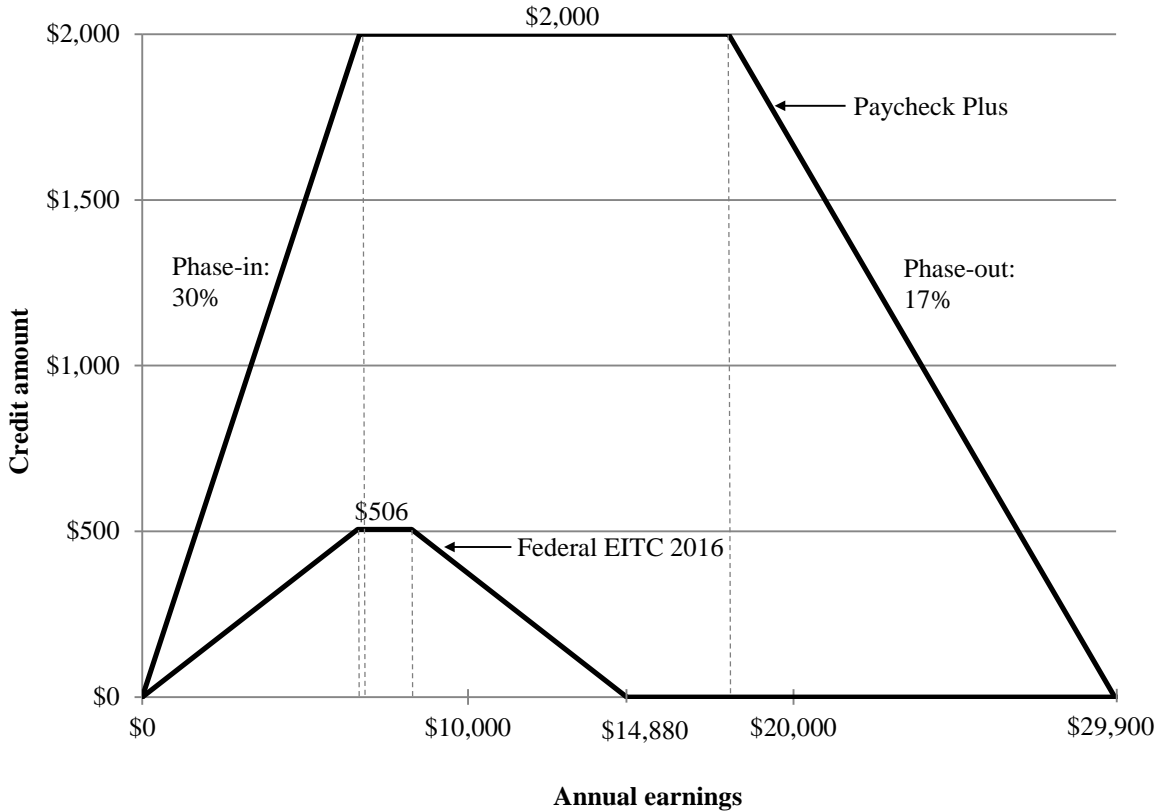
Paycheck Plus

Paycheck Plus tests the effects of a much more generous EITC for childless adults. Figure ES.1 compares Paycheck Plus with the current EITC for workers without dependent children. Under the current EITC, a worker loses eligibility for benefits once his or her earnings reach about \$15,000 and the maximum benefit that he or she can receive is \$506. Paycheck Plus increases the maximum amount to \$2,000 and expands eligibility so that more low-wage workers qualify for the maximum benefit. An individual can continue receiving some benefits until his or her earnings reach just under \$30,000. The Paycheck Plus bonus "tops up" the federal EITC, bringing a worker's total credit up to a maximum of \$2,000. Finally, as is the case with the federal EITC, some or all of the bonus may be intercepted to pay down child support debt owed by a noncustodial parent (a parent who does not have custody of at least one of his or her children).

MDRC partnered with Food Bank for New York City (FBNYC) to run the project in New York. FBNYC, which runs the largest network of Volunteer Income Tax Assistance (VITA) sites in the city, directed its recruitment effort to organizations in its network and throughout the city that served populations who qualified for Paycheck Plus. Additional outreach was conducted through the New York City Human Resources Administration's cash assistance program, Supplemental Nutrition Assistance Program, and child support program. Between September 2013 and February 2014, the project recruited 6,000 single adults without dependent children to take part in the study, all of whom had earned less than \$30,000 in the previous year.

Once individuals agreed to participate, half of them were assigned at random to a group offered Paycheck Plus and half were assigned to a group not offered the program but still able

Figure ES.1
Paycheck Plus Versus the Federal EITC



SOURCES: Urban Institute and Brookings Institution Tax Policy Center (2016); Paycheck Plus program documents.

NOTES: Federal EITC illustrates the credit schedule for a single adult with no qualifying children. The phase-in and phase-out rates for the federal EITC shown are 7.65%.

to claim existing tax credits. Individuals assigned to the Paycheck Plus group were given a brief explanation of the bonus on a take-home sheet that illustrated the bonus amounts for various earnings levels. The bonus was available to the program group for three years, payable at tax time in 2015, 2016, and 2017, based on earnings in the previous year.

The program sought to mirror the process by which filers apply for the federal EITC, even though the bonus was not actually administered by the Internal Revenue Service (IRS). One important difference was that participants would need to apply for each bonus; they did not

receive it automatically once they filed taxes. To apply for the bonus, participants first had to file their taxes (at FBNYC VITA sites, by using other free or paid tax preparers, or by preparing their own taxes). Workers who filed their own taxes or used tax preparers other than VITA sites could bring in or mail in copies of the tax documents that they filed. Once bonus amounts were determined, MDRC worked directly with FBNYC and its payment vendor to request, issue, and monitor the deposit of each bonus payment to a bank account or debit card.

Program staff members faced several challenges in testing the effects of an expanded EITC. First, for there to be a fair test of the program, study participants had to understand and remember the bonus. As is the case with the existing EITC, the structure of the bonus is sometimes challenging to understand. Second, program enrollment took place a full year before participants could receive their first bonuses, to allow time for them to adjust their work and earnings in response. The lag meant that many study participants could have forgotten about the bonus and could have failed to claim it at tax time. Third, claiming the bonus required extra steps from participants beyond just filing taxes. To address these challenges, staff members conducted substantial marketing and outreach to individuals in the program group, starting in the spring of 2014 and continuing in the months leading up to each tax season during which the bonus would be paid.

The study will measure the program's effects on a range of outcomes, the most immediate being income, poverty, and work. The expectation is that the bonus should increase incomes among those who receive it and, by increasing the payoff to working, could increase employment rates. Economic theory suggests that the program might reduce work effort among higher earners, since the credit is taxed away as earnings increase. The study will gauge whether that reduction takes place.

Finally, increases in income and work could have a range of other effects on participants, including reductions in material hardship, improvements in health and subjective well-being, increased child support payments, and reduced involvement with the criminal justice system. The data used for this report include records from the unemployment insurance system, child support payment records, and tax records provided by the IRS, including information from tax forms for all tax filers and W-2 and 1099 forms for all individuals whether or not they filed taxes.

The sample recruited for the study in New York reflects the diversity of low-wage workers. About 59 percent of the sample members are men, 47 percent were age 35 or older when they joined the study, 22 percent had not obtained a high school diploma or equivalent, and 18 percent had been incarcerated at some point in the past. In addition, 9 percent were noncustodial parents. Although nearly all participants had worked at some point in the past,

about a third had no earnings in the year before they enrolled. Another 30 percent had worked in the previous year but earned less than \$7,000.

Findings

- **About 64 percent of program group members with earnings in the eligible range received bonuses in the first year, and 57 percent received bonuses in the second year. Among those who received bonuses, the average amount received was \$1,400.**

Overall, about 46 percent of the full program group received bonuses in 2015 (see Figure ES.2). It was expected that some number of participants would not be eligible for bonuses, either because they had no earnings or because they had earnings above the \$30,000 eligibility cutoff. Low-income earners often have highly variable earnings and employment from year to year. About 70 percent of the program group met the earnings requirement to receive the bonus in 2015 (based on earnings during 2014), and 64 percent of this eligible group received bonuses in 2015. This “take-up rate” is in line with take-up rates of the federal EITC for adults without dependent children, most recently estimated at 65 percent.⁵ Bonus receipt fell for the full program group from 46 percent of all program group members in 2015 to 35 percent in 2016, in part because fewer participants had earnings in the eligible range and in part because those who were eligible claimed the bonus at lower rates.

Some eligible individuals did not claim the bonus because they did not file taxes, particularly if they had very low earnings. However, even among those who filed taxes, not all applied for the bonus. Recall that individuals were required to apply for the bonus each year. If the federal EITC were made more generous for childless adults along the lines of Paycheck Plus, take-up would probably be higher, since tax filing would trigger the credit automatically.

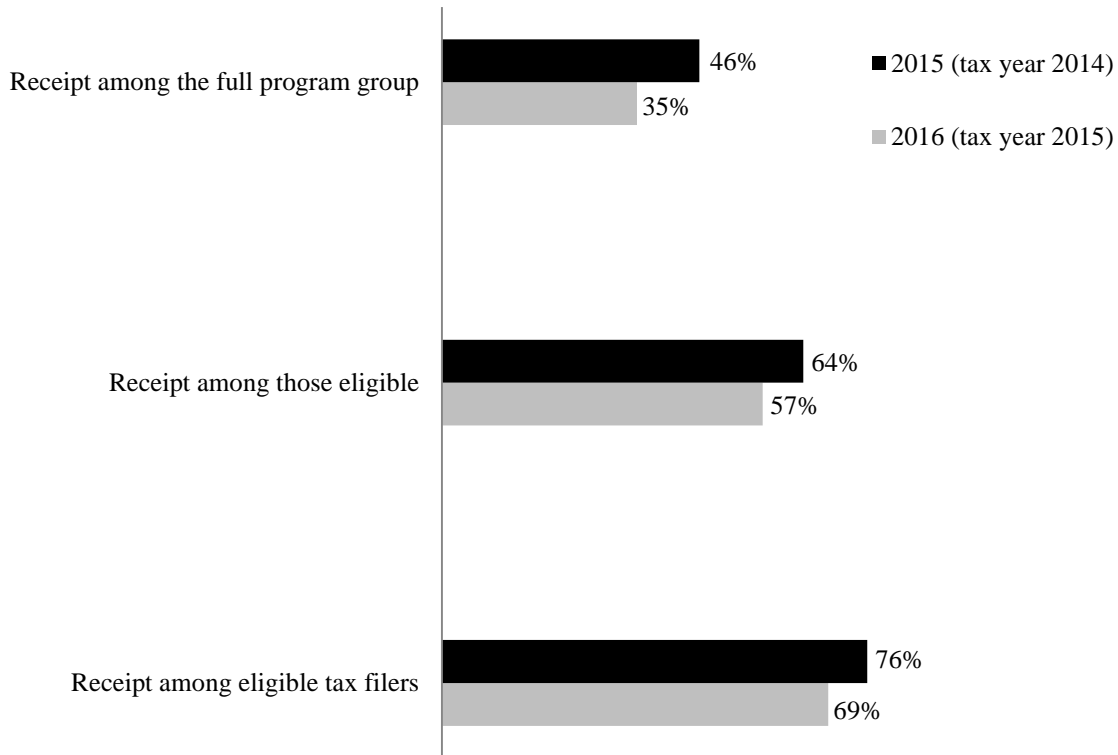
- **Lower proportions of eligible men than women received the bonus, particularly men who were noncustodial parents or former prisoners.**

In 2015, 74 percent of eligible women received bonuses compared with 58 percent of eligible men. Women were more likely to receive bonuses than men in part because they were more likely to work, but largely because those with earnings in the eligible range were more likely to file taxes, and were also more likely to apply for bonuses if they did file taxes.

⁵Maggie R. Jones, “Changes in EITC Eligibility and Participation, 2005-2009,” Center for Administrative Records Research and Applications Working Paper #2014-04 (Washington, DC: U.S. Census Bureau, Center for Administrative Records Research and Applications, 2014).

Figure ES.2

Paycheck Plus Bonus Receipt



SOURCES: IRS tax forms, W-2s, and 1099-MISCs; Paycheck Plus program data on bonus receipt.

Relatively low percentages of former prisoners and noncustodial parents applied for and received bonuses, primarily because they were less likely to apply for bonuses when they had earnings in the eligible range. They were less likely to apply even if they filed taxes. For example, 65 percent of eligible filers with previous incarcerations received bonuses, compared with 79 percent of eligible filers without previous incarcerations.

- **Paycheck Plus increased income in both of the first two years and increased employment in the second year.**

About 80 percent of the study sample reported earnings in 2014, with an average of about \$10,000 (or \$13,000 among those who had some earnings). The program did not have a detectable effect on employment rates — the fraction who had any earnings — in 2014 (see

Table ES.1). In 2015, however, the program led to a modest increase in employment of 2.5 percentage points (over the control group rate of 73.8 percent). The size of the effect is within the range of what would be expected, given existing economic research on how responsive individuals' work decisions are to incentives of this size. An analysis of the distribution of earnings did not detect that the bonus reduced work effort among those who had higher earnings when they enrolled in the study.

The IRS data also can be used to create a rough measure of income, or "net earnings," defined as earnings minus taxes plus the bonus. On average, individuals in the program group had net earnings of about \$10,049 in 2014 compared with \$9,395 for the control group, a statistically significant increase of \$654, or 7 percent. The increase in net earnings for the subsequent year was \$645, or 6 percent.

- **Paycheck Plus increased tax filing and the use of free tax preparation services.**

In both 2015 and 2016, program group members were more likely than control group members to file taxes. For example, 68 percent of the control group filed taxes in 2015, compared with 73 percent of the program group.

The program also led to change in the methods used to prepare taxes. Single people typically do not file taxes at VITA sites, as evidenced by the low proportion of the control group who did so: only 20 percent filed taxes at VITA sites in 2015. The program led to a large increase in the use of VITA sites in both years, effects of over 20 percentage points, with about half of the increase coming from a reduction in the use of paid preparers. The increase in the use of VITA sites probably reduced tax-preparation costs for program group members, although it may have also increased the time they had to wait for their taxes to be prepared.

- **Paycheck Plus increased the payment of child support in the second year.**

When they entered the study, about 9 percent of participants were noncustodial parents who had child support orders or who owed child support debt. Among these noncustodial parents, the program led to an increase in payments in 2015. About 80 percent of noncustodial parents in the program group made a payment during the year, compared with 71 percent of those in the control group. Similarly, the program group paid on average \$191 per month in child support, an increase of \$54 over the control group.

Table ES.1
Effects on Work and Earnings

Outcome	Program Group	Control Group	Difference (Effect)	P-value
<u>2014</u>				
Any earnings (%)	79.7	78.8	0.9	0.338
Earnings (\$)	10,079	10,047	33	0.893
Net earnings (\$)	10,049	9,395	654 ***	0.001
<u>2015</u>				
Any earnings (%)	76.3	73.8	2.5 **	0.012
Earnings (\$)	12,885	12,693	192	0.560
Net earnings (\$)	12,108	11,464	645 **	0.015
Sample size (total = 5,968)	2,997	2,971		

SOURCE: IRS tax forms, W-2s, and 1099-MISCs.

NOTES: Earnings refers to wages plus self-employment income.

Net earnings refers to earnings plus credit amount minus taxes.

A two-tailed t-test was applied to differences between the outcomes of the program and control groups. Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.

Estimates were regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members.

- **Paycheck Plus increased employment for most types of participants, although its effects were larger among women than men.**

The overall positive effect on employment in 2015 is generally consistent among most types of participants. However, the positive effect on employment in the second year is larger among women than men. The program also increased women's average earnings in 2014 by about 7 percent, an effect that is different from the effect among men by a statistically significant amount. The larger effect among women is in line with previous research suggesting that women's employment is more responsive to economic incentives than men's. The men in Paycheck Plus were less likely to file taxes than the women, but they may have also been less aware or trusting of the program, since men are less likely to participate in benefit programs. If men responded to the program less strongly because they were less aware of it, then they might

be expected to respond more strongly if an EITC for workers without dependent children were federal policy and all tax filers automatically received it.

Conclusion

The interim results presented here show that the program was successfully implemented in New York City, and that fairly large proportions of eligible workers received the bonus. The program led to an increase in incomes and the rate of filing taxes in both of the first two years and to a modest increase in employment during the second year. The employment effects were larger among women than men, but small, positive effects on employment were apparent among many types of participants in the second year. The program also led to an increase in child support payments among noncustodial parents. Finally, there is no evidence that the program reduced work effort or earnings among those who had higher earnings when they enrolled.

Work-based assistance is not appropriate for all low-income individuals. Some people with disabilities or older people may not be able to work even in a strong labor market, and many people have difficult times finding work in recessions. But the findings presented here add to the evidence that the EITC can be a broad-based response to declining wages and an integral component of a functioning social safety net.

Future reports from the Paycheck Plus demonstration will describe the program's effects after three years and will use survey data to present more comprehensive effects on income, poverty, health, and material and subjective well-being. Findings from Atlanta, which has a different policy environment and labor market, will also add to the evidence about the potential effects of expanding the EITC for low-income workers without dependent children.

About MDRC

MDRC is a nonprofit, nonpartisan social and education policy research organization dedicated to learning what works to improve the well-being of low-income people. Through its research and the active communication of its findings, MDRC seeks to enhance the effectiveness of social and education policies and programs.

Founded in 1974 and located in New York; Oakland, California; Washington, DC; and Los Angeles, MDRC is best known for mounting rigorous, large-scale, real-world tests of new and existing policies and programs. Its projects are a mix of demonstrations (field tests of promising new program approaches) and evaluations of ongoing government and community initiatives. MDRC's staff members bring an unusual combination of research and organizational experience to their work, providing expertise on the latest in qualitative and quantitative methods and on program design, development, implementation, and management. MDRC seeks to learn not just whether a program is effective but also how and why the program's effects occur. In addition, it tries to place each project's findings in the broader context of related research — in order to build knowledge about what works across the social and education policy fields. MDRC's findings, lessons, and best practices are shared with a broad audience in the policy and practitioner community as well as with the general public and the media.

Over the years, MDRC has brought its unique approach to an ever-growing range of policy areas and target populations. Once known primarily for evaluations of state welfare-to-work programs, today MDRC is also studying public school reforms, employment programs for ex-prisoners, and programs to help low-income students succeed in college. MDRC's projects are organized into five areas:

- Promoting Family Well-Being and Children's Development
- Improving Public Education
- Raising Academic Achievement and Persistence in College
- Supporting Low-Wage Workers and Communities
- Overcoming Barriers to Employment

Working in almost every state, all of the nation's largest cities, and Canada and the United Kingdom, MDRC conducts its projects in partnership with national, state, and local governments, public school systems, community organizations, and numerous private philanthropies.