Executive Summary

A MORE GENEROUS EARNED INCOME TAX CREDIT FOR SINGLES

Interim Findings from the Paycheck Plus Demonstration in Atlanta

OPRE Report 2020-28

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Overview

Introduction

Employment and wages have been rising over the last several years of the recovery from the Great Recession that ended in 2009. But the recent wage increases are not enough to offset decades of stagnating or even falling wages for many groups of low-wage U.S. workers. A central policy question is how to ensure that economic growth is shared more widely and that people who work are not poor. The Earned Income Tax Credit (EITC) is one option. By providing a refundable credit at tax time, it increases incomes and reduces poverty for millions of families. But as currently designed it does little for workers without dependent children, providing a very small credit targeted to those with the lowest earnings.

Paycheck Plus is a test of a policy that offers a more generous credit to low-income workers without dependent children. The program offers these workers a credit, referred to in the program as a bonus, of up to $2,000 at tax time and is being evaluated using a randomized controlled trial in New York City and Atlanta. Earlier findings from New York City indicate that the program increased after-bonus incomes and led to a small increase in employment rates.

This report presents interim findings from the test in Atlanta. To run the project, MDRC partnered with United Way of Greater Atlanta, which had recently assumed leadership of a large coalition of Volunteer Income Tax Assistance (VITA) programs. Between late 2015 and early 2016, over 4,000 low-income single adults were recruited to take part in the study. Half of them were selected at random to be eligible for the Paycheck Plus bonus for three years, starting with the 2017 tax season.

Primary Research Questions

1. How many adults in the study are eligible for and receive the bonus in each year? How much do they receive on average?
2. What are the effects of the offer of the bonus on employment rates, pretax earnings, and income, as measured with net annual earnings (after bonus and taxes)?
3. How do the effects of the offer of the bonus vary across different types of individuals, based on gender, level of disadvantage (among men), and earnings in the year before study entry?

Purpose

Paycheck Plus was tested in Atlanta to add to the evidence of how an expanded credit might work in a context different from that of New York City. The study will assess take-up rates of the bonus and its effects on employment, earnings, and income. The goal is to use the findings from both cities to inform consideration — whether federal or state and local — of tax credit amounts for workers without dependent children.

Key Findings and Highlights

- **In each of the first two years, about half of participants with earnings in the eligible range received a bonus. Among those who received bonuses, the average amount received was $1,350.** The study targeted a broad group of low-income individuals, who often have variable employment and earnings from year to year, so it was expected that not all study participants would be eligible for a bonus each year. In fact, 68 percent of them were eligible for a bonus in Year 1, meaning that they worked and earned less than $30,000. Just over half of that group applied for and received a bonus in Year 1.

- **Paycheck Plus in Atlanta increased after-bonus earnings, or earnings after accounting for taxes and the bonus, in the first year.** After-bonus earnings were $10,595 on average for the program group during Year 1, compared with $9,822 for the control group, for a statistically significant increase of $773, or about 8 percent. This increase is estimated using the full sample of study participants, including the roughly 60 percent of individuals who never received a bonus.

- **The program did not increase employment rates or earnings through the first two years in Atlanta.** The offer of the bonus creates an incentive to work, but its expected effects on earnings are less clear, given the different incentives the bonus creates at different earnings levels, as it phases in and then phases out. The program did not increase employment rates, nor did it have effects, either positive or negative, on average earnings through the first two years.

- **Paycheck Plus led to an increase in tax filing rates and large increases in the use of VITA sites for tax preparation.** More individuals in the program groups filed their taxes in each year than in the control group, a difference of about 12 percentage points in Year 1. The program also encouraged many more participants to file using the free tax services offered at participating VITA sites. Filing at one of United Way's VITA sites was not a requirement for bonus receipt, although it was strongly encouraged.

- **The program in Atlanta did not affect child support payment rates among noncustodial parents.** Paycheck Plus might be expected to affect the payment of child support through the additional income provided by the bonus or through increased work or earnings. Among noncustodial parents in the study sample, no effects on child support payments were observed through Year 2.

Methods

Between October 2015 and April 2016, the project recruited just over 4,000 single adults without dependent children to take part in the study. Individuals were eligible for study enrollment if they were not married, had a valid Social Security number, were not planning to claim a dependent child on their taxes in the subsequent year, were between the ages of 21 and 64, earned less than $30,000 in the prior year, and were not receiving or applying for Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI). Once eligible individuals agreed to participate, half of them were assigned at random to a group eligible for Paycheck Plus and half were assigned to a group not eligible for the program but still eligible for existing tax credits. Individuals assigned to the Paycheck Plus group were given a brief explanation of the bonus on a take-home sheet. The effects of the Paycheck Plus offer were estimated by comparing the full program group, including those who did not receive bonuses, with the full control group.

Data used for the study include basic demographic and background data collected from all study participants before study entry, unemployment insurance wage records from the Georgia Department of Labor, tax records from the Internal Revenue Service, and child support payment records from the Division of Child Support Services at the Department of Human Services in Georgia.

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The Authors

Executive Summary

Workers at the lower end of the U.S. labor market do not earn much more than they did 30 to 40 years ago. And some groups earn less. Inflation-adjusted wages for workers with only a high school diploma, for example, were lower in 2018 than they were in 1973.[1] The decline in real wages has been especially large for men with a high school education or less. Although the current tight labor market has contributed to modest wage increases at the lower end over the past few years, the longer-term trends of stagnant real earnings continue to be reinforced by the growing use of automation, international and domestic outsourcing, and weakened unions.

The Earned Income Tax Credit (EITC) is a key federal policy designed to address low wages and earnings, providing a credit at tax time to eligible low-income workers. The credit is refundable, meaning that it is first used to pay any taxes owed, with the remainder paid to the recipient. A low-income worker who is a single mother with two children, for example, can get a federal tax refund of up to $5,716. The EITC is widely viewed by policymakers and researchers as a successful public policy, since it is both antipoverty and pro-work. It has become one of the most successful antipoverty programs in the country, estimated to lift nearly six million people out of poverty each year.[2]

But the policy has done relatively little for a large group of low-income workers — those without dependent children. The maximum credit available to workers without dependent children is $519, and once such workers earn just over $15,000 during the year, they lose eligibility for the credit entirely. Low-income unmarried workers without dependent children number over 20 million and include young women and men, parents with adult children, and noncustodial parents who do not live with their children but often help support them.[3]

There have been several proposals in recent years to expand the EITC to help make work pay and to offset the stagnant or declining real earnings of low-wage workers. Some proposals expand the credit for all workers, while others, aiming to reduce the disparity in the current policy, focus primarily on workers without dependent children. Paycheck Plus is a test of a proposal with the latter focus.

The Paycheck Plus Demonstration, being run and evaluated in New York City, New York, and Atlanta, Georgia, offers workers without dependent children a credit, referred to in the program as a bonus, of up to $2,000 at tax time and extends benefits to such workers earning up to $30,000 per year, twice the EITC maximum income limit of about $15,000. In each city, individuals who met the criteria were enrolled into the study and half of them were randomly selected

[1]Economic Policy Institute, "Wages by Education" (2019), *State of Working America Data Library,* website: www.epi.org.

[2]Center on Budget and Policy Priorities, *Policy Basics: The Earned Income Tax Credit* (Washington DC: Center on Budget and Policy Priorities, 2019), website: https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit.

[3]Calculations from the 2016 American Community Survey.

to be eligible for the Paycheck Plus bonus for three years. The other study participants were assigned to a control group, not eligible for Paycheck Plus but eligible for existing credits such as the EITC. The study tracks both groups over time to assess the policy's effects.

The program was tested first in New York City, and an earlier report presents effects in that city through three years.[4] In New York the offer of the more generous bonus increased workers' after-bonus income (earnings after accounting for taxes and the paycheck plus bonus) and led to a modest increase in employment over the three-year period. The program also led to an increase in tax filing rates and a large increase in the use of free tax preparation sites. The more generous bonus also increased child support payments among noncustodial parents, but it did not detectably impact a range of other secondary outcomes, such as material well-being, involvement in the criminal justice system, health status, or overall poverty.

This report presents early findings from Atlanta, showing effects during the first two years on bonus receipt, income, work, earnings, and child support payments. The findings show that eligibility for the Paycheck Plus program led to an increase in after-bonus income in the first year but did not increase employment rates or child support payment rates in either year. The program also generated an increase in tax filing and an increase in the use of free tax preparation sites. Receipt of the bonus was lower in Atlanta than in New York, a factor that may explain the smaller effects in Atlanta. A final report will present effects through three years in Atlanta.

Paycheck Plus in Atlanta is being funded by the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research, and Evaluation; the U.S. Department of Labor; the Ford Foundation; the Annie E. Casey Foundation; the W. K. Kellogg Foundation; the JPB Foundation; the Chan Zuckerberg Initiative; Arnold Ventures; The Kresge Foundation; and the European Union's Horizon 2020 Research and Innovation Programme Lifepath Project. Paycheck Plus in New York City was funded by the New York City Mayor's Office for Economic Opportunity (NYC Opportunity), the Robin Hood Foundation, Arnold Ventures, the Edna McConnell Clark Foundation, the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Child Support Enforcement,[5] and the Chan Zuckerberg Initiative.

Paycheck Plus

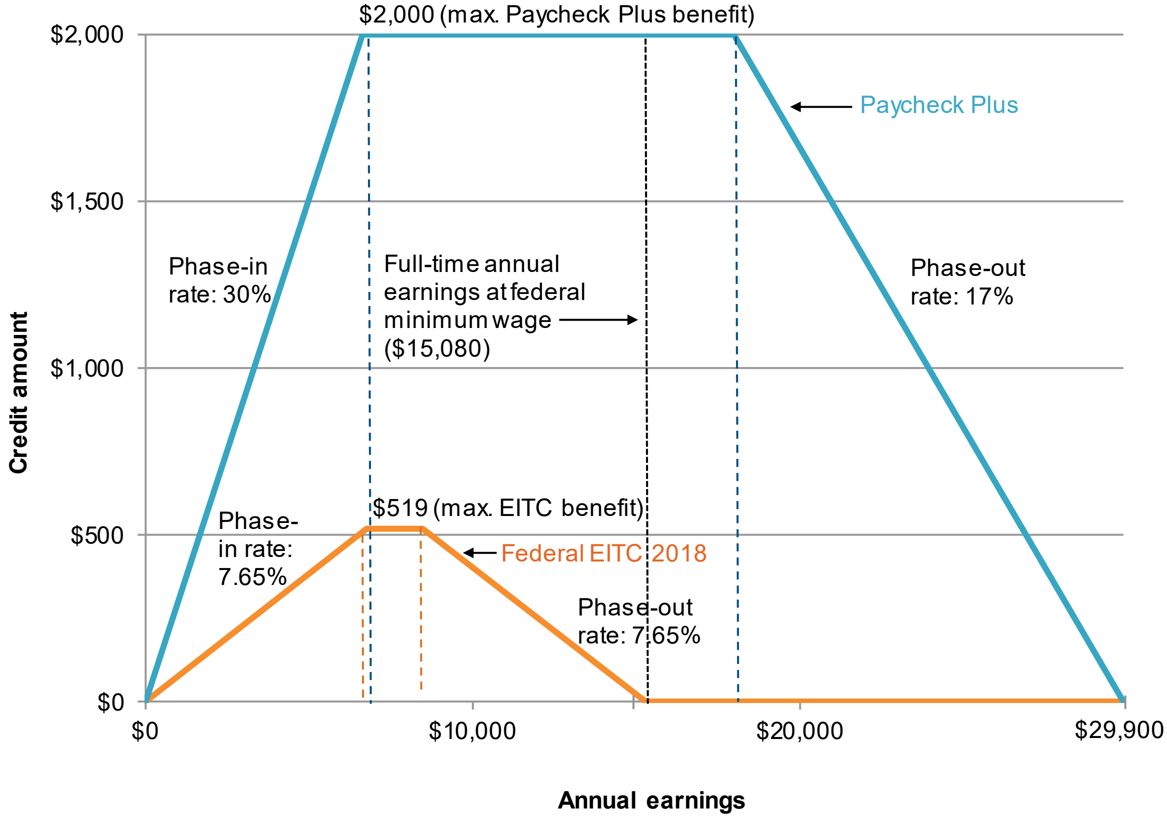
Paycheck Plus tests the effects of a much more generous EITC for childless adults. Figure ES.1 compares Paycheck Plus with the current EITC for workers without dependent children. Under the current EITC, such workers lose eligibility for benefits once their earnings reach about

[4]Cynthia Miller, Lawrence F. Katz, Gilda Azurdia, Adam Isen, Caroline Schultz, and Kali Aloisi, *Boosting the Earned Income Tax Credit for Singles: Final Impact Findings from the Paycheck Plus Demonstration in New York City* (New York: MDRC, 2018).

[5]The 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, provided funding to the demonstration in New York through a Section 1115 waiver.

Figure ES.1

Paycheck Plus Versus the Federal Earned Income Tax Credit (EITC)



SOURCES: Tax Policy Center (2019); Paycheck Plus program documents.

NOTES: The orange "Federal EITC 2018" line illustrates the credit schedule for a single adult with no qualifying children.

The blue "Paycheck Plus" line illustrates the Paycheck Plus bonus schedule for a single adult with no qualifying children.

The dashed vertical lines delineate the earnings range in which the maximum credit amount is permitted, shown in orange for the federal EITC and in blue for Paycheck Plus.

$15,000, and the maximum possible benefit is $519. Paycheck Plus increases the maximum benefit to $2,000 and also raises the income limit for eligibility to $30,000 so that more low-wage workers qualify for some benefit.

MDRC partnered with United Way of Greater Atlanta to run the project. United Way had recently assumed leadership in Atlanta of a large coalition of Volunteer Income Tax Assistance (VITA) programs, which offer free tax preparation services to individuals with incomes below a certain threshold. Between October 2015 and April 2016, the project recruited just over 4,000 single adults without dependent children to take part in the study. Individuals were eligible for the study if they met several eligibility criteria, the primary ones being that they had earned less than $30,000 in the prior year and were not planning to claim dependents during the upcoming tax season.

United Way directed its recruitment effort to organizations in its network and throughout the city that served populations who qualified for Paycheck Plus. Ultimately, 15 employment programs and about 25 social service organizations, including faith-based and nonprofit groups, served as recruitment partners. The Georgia Department of Human Services (DHS) Division of Child Support Services (DCSS) was another vital partner during enrollment. Paycheck Plus program staff were invited to recruit eligible individuals from seven fatherhood programs sponsored by DCSS. In order to reach more individuals connected to the child support system, DCSS also sent multiple letters introducing the study to noncustodial parents living in the targeted counties. In addition to these mailings, the study was marketed more broadly using various media outlets, including local radio stations, as well as via advertisements throughout the city's public transportation system.

Among roughly 4,000 participants recruited for the study, 61 percent were male, 60 percent were older than age 35 when they enrolled, and 86 percent were non-Hispanic black. Almost 30 percent of the sample had been incarcerated and 42 percent were noncustodial parents.[6] The majority of the participants had completed high school or the equivalent, but most of this group had not attended college. About 80 percent of participants reported earnings of less than $18,000 in the year prior to study entry.

Once eligible individuals agreed to participate, half of them were assigned at random to a group eligible for Paycheck Plus and half were assigned to a group not eligible for the program but still eligible for existing tax credits such as the EITC. 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 2017, 2018, and 2019, based on earnings in the previous calendar year.

Paycheck Plus was designed so that the process of applying for and receiving the bonus would be as similar as possible to that for the federal EITC, even though Paycheck Plus operates outside of the tax system. As with the EITC, an individual had to file federal income taxes and have earned income in the eligible range to receive the bonus. One important difference was that participants would need to apply directly each year to receive the bonus; they did not receive it automatically once they filed taxes. Applying for the bonus required them to identify themselves as Paycheck Plus participants if they filed taxes at one of United Way's VITA sites or, if they filed elsewhere, to bring copies of their tax documents to a VITA site. The structure of the bonus was the same in both New York and Atlanta, with one exception. In New York, all or part of the bonus could be intercepted to pay down child support debt, a policy that mimics the federal credit. In Atlanta, in contrast, there is no intercept. Program designers opted to test a version without an intercept to enhance the attractiveness of the bonus to noncustodial parents.

[6]The sample of noncustodial parents was defined more broadly for the Atlanta study than for the New York study and is based on self-reports in addition to child support program data.

Once bonus amounts were determined, MDRC worked directly with United Way and its payment vendor to request, issue, and monitor the deposit of each bonus payment to a bank account or debit card. Because study participants had to take additional steps to apply for the bonus (beyond filling out their tax returns), the project team delivered a series of participation reminders to the program group members, beginning with an initial "Welcome to Paycheck Plus" message (by mail and e-mail) explaining how the bonus works, how to earn the first bonus, and when and how to apply for it. These reminders, delivered in the period leading up to and during each tax season, were followed up with individual phone calls to ask if participants had questions and to offer United Way services, such as help with employment and financial needs.

The current report measures the effects of eligibility for the more generous bonus on economic, tax filing, and child-support payment outcomes. The core economic outcomes are after-bonus income, employment, and earnings. The bonus should directly increase the incomes of those who receive it. By conditioning benefits on work, the program might also encourage those not working to move into work, although economic research suggests that this effect could be small. For those already working, the expected effects on earnings will depend on the level of earnings, since the bonus increases as earnings increase up to a point, stays constant as earnings increase up to a second point, and declines as earnings increase even further, as displayed in Figure ES.1. The phase-up/phase-down design, while necessary to target benefits to the lowest-income workers, raises the possibility that some workers with earnings on the phase-down part of the bonus might reduce their earnings to become eligible for a larger bonus.

Findings

- **About 52 percent of program group members with earnings in the eligible range received a bonus in the first year, and 47 percent received a bonus in the second year. Among those who received bonuses, the average amount received was $1,350.**

The study targeted a broad group of low-income individuals, who often have variable employment and earnings from year to year, so it was expected that not all study enrollees would be eligible for a bonus each year. In fact, 68 percent of the program group was eligible for a bonus in Year 1, meaning that they worked and earned less than $30,000. Eligibility rates fell to 61 percent in Year 2, as some individuals moved out of work and others earned more than $30,000.

Among those eligible, 52 percent received a bonus in Year 1, and 47 percent received a bonus in Year 2. Part of the reason why all those who were eligible did not receive a bonus is that not all eligible workers file taxes — those with very low earnings are not required to do so and the small amount of bonus they stood to receive may not have been enough of an incentive to file taxes. Another reason, as mentioned earlier, is that among those who filed taxes, bonus receipt was not automatic, as it would be if the bonus were part of the tax code. Finally, as with any new demonstration program, some study participants probably forgot about the bonus by the time tax season arrived, as much as a year after they enrolled in the study, or they may not have understood the eligibility requirements or steps needed to claim it.

- **Encouraging eligible participants to apply for the bonus was more challenging in Atlanta than in New York.**

Receipt of the bonus among eligible participants was lower in Atlanta than in New York. Although maximizing bonus receipt was a challenge in both cities, there were additional hurdles in Atlanta. First, as discussed in the full report, the Atlanta participants were less connected to the tax system than the New York participants. Atlanta participants were less likely to report filing taxes even though more of them reported working over the past year than New York participants at the time of program entry. Thus, encouraging study participants to file taxes in Atlanta may have been more challenging than in New York. Even beyond that, however, Paycheck Plus encourages participants to use the VITA sites to file taxes. In New York, many study participants were past VITA clients, but very few Atlanta participants had used VITA in the past. Second, the project in Atlanta faced the added challenge of establishing a trusting relationship between program group members and United Way and its VITA service partners. United Way was a relatively new VITA provider and, unlike the New York operations partner (Food Bank for New York City), was not yet well known in the community for offering free tax services.

Finally, participants had been recruited from a large and diverse region of 13 metropolitan Atlanta counties. The team anticipated that participants in outlying counties could face transportation hurdles when it came time to apply for the bonus during the tax season — particularly if they lived and worked far from United Way VITA sites.

- **Paycheck Plus increased after-bonus income, or earnings after accounting for taxes and the bonus, in the first year.**

On average, after-bonus income for individuals in the control group was $9,822 in Year 1 (2016). Income is calculated using data from IRS tax records and is defined as earnings from wages or self-employment minus taxes and plus credits (including the federal EITC and the Paycheck Plus bonus). Income for the program group, in contrast, was $10,595 during Year 1, for a statistically significant increase of $773, or about 8 percent (as shown in Table ES.1). This increase is averaged over the full sample, including the roughly 60 percent of individuals in the program group who never received a bonus. Considering that about 36 percent of the program group received a bonus in Year 1, and that the average amount received was $1,342, the increase in after-bonus income when averaged over the full sample would be about $486 (or 36.2 percent of $1,342) if there were no increases in earnings in response to the program.

Bonus receipt fell from Year 1 to Year 2 and smaller effects on after-bonus income are observed for the full sample in Year 2. The increase of $473, shown in the table, closely matches what would be expected if there were no increases in earnings in response to the program (or 29 percent of $1,350).

Table ES.1

Effects on Employment and Earnings

Outcome	Program Group	Control Group	Difference (Effect)	P-Value
Year 1				
Any earnings (%)	80.0	79.9	0.1	0.923
Earnings ($)	10,281	9,914	367	0.211
After-bonus income ($)	10,595	9,822	773***	0.004
Year 2				
Any earnings (%)	77.0	76.0	1.0	0.407
Earnings ($)	12,238	12,069	169	0.648
After-bonus income ($)	12,207	11,734	473	0.155
Sample size (total = 3,972)	1,996	1,976		

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

NOTES: Rounding may cause slight discrepancies in sums and differences.
Sample sizes may vary because of missing values.
Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; * = 10 percent.
Earnings refers to wages plus self-employment income.
Employment is defined as having any earnings from wages or self-employment income.
Estimates were regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members.
Year 1 refers to tax year 2016, and Year 2 refers to tax year 2017.

- **Paycheck Plus did not increase employment rates or earnings through the first two years in Atlanta.**

Data from IRS tax records were also used to estimate effects on employment and earnings. About 80 percent of control group participants worked during Year 1 and they earned on average $9,914. Control group employment rates and earnings fell between Year 1 and Year 2. Paycheck Plus had no significant effect on employment or earnings in either year in Atlanta.

Although the offer of the bonus creates an incentive to work, its expected effects on earnings are less clear, given the different incentives the bonus creates at different earnings levels. One concern with the structure of the bonus, and with the EITC, is the potential for some higher-earning workers to reduce their earnings to try to become eligible for a larger bonus. The findings show no evidence of that effect for Paycheck Plus. Effects on earnings at the higher end of the distribution were small and statistically insignificant.

Effects were also estimated for key subgroups, including women compared with men, more disadvantaged men compared with other men, and by earnings before study entry.[7] There were no statistically significant differences in impacts on economic outcomes across groups defined by gender or prior earnings. However, there is some evidence of larger effects on earnings

[7]More disadvantaged men were defined as those who had been incarcerated at some point prior to study entry or who were noncustodial parents. They account for about 70 percent of all men in the study.

and income in Year 2 for the subset of men in the study not defined as more disadvantaged, relative to their more disadvantaged counterparts.

- **Paycheck Plus led to an increase in tax filing rates and a large increase in the use of VITA sites for tax preparation.**

In 2017, 48 percent of people in the control group filed their taxes. Paycheck Plus increased the filing rate by 12.2 percentage points, an increase of 25 percent. The impact on tax filing fell somewhat in Year 2 but was still large. The program's largest effects were on the use of VITA sites. In the absence of the program, only 5 percent of study participants would have used a VITA site to prepare taxes, as shown by the rate for the control group. The program increased that rate to 28 percent in Year 1. Filing at one of United Way's VITA sites was not a requirement for bonus receipt, although it was strongly encouraged. The increase in VITA use, although sometimes accompanied by longer wait times than those for paid preparers, probably reduced out-of-pocket spending on tax preparation.

- **Paycheck Plus did not affect child support payment rates among noncustodial parents.**

About 42 percent of study participants reported at study entry that they had minor children living elsewhere or were listed in the state's child support system as having a child support order. Paycheck Plus could affect payment rates through the additional income provided by the bonus, or through increased work or earnings. Through Year 2, the program had no effect on payment rates or amount and no effect on child support arrears, among the subset of noncustodial parents who had an order or arrears in the state's child support system.

Conclusion

The early findings from Atlanta indicate that Paycheck Plus increased workers' after-bonus income in Year 1 but had no effects on work or earnings in either of the first two years. It also did not affect child support payments among noncustodial parents.

The findings from Atlanta are smaller than those from the test in New York. In that city, the bonus increased after-bonus incomes in all years and led to small increases in employment, with notably large increases for women and more disadvantaged men. That program also led to a small increase in child support payments for noncustodial parents.[8]

Atlanta was a good place for a replication of Paycheck Plus, given that it provided a very different context from New York City — a different population, a different labor market, and lower average wages. But parts of that context made it more challenging to approximate how the bonus would work if it were part of the tax code. In particular, the Atlanta study sample was more geographically spread out, less connected to the VITA system, and less likely to file taxes more

[8]The increase in child support payments in New York was not driven by the intercept of the bonus in that site, suggesting that the findings in Atlanta are not due to the fact that the model did not intercept bonus payments to pay down child support debt.

generally, making it challenging to maintain awareness of the bonus over time and to encourage individuals to apply for and claim it. Probably as a result, bonus receipt among eligible individuals was lower in Atlanta than in New York, a pattern which may have contributed to the more muted effects in Atlanta.

Other differences in effects are more puzzling. The study in New York, for example, found larger effects on employment for women than for men, consistent with other research in economics. The female participants in Atlanta differed in some ways from their counterparts in New York, which may relate to differences between the eligible populations across the two cities and in the organizations that served as recruitment partners. For example, they were older, on average, and had higher earnings at study entry. A question for future research is whether these differences in characteristics account for the pattern of findings across cities.

A key goal of testing the program in two cities is to provide better evidence of potential effects if the program were to become federal policy. As such, the best estimate of effects will be based on findings from both tests, with the samples combined and weighted so that the pooled sample approximates a national population. A future report will present this synthesis of findings from both cities combined. The next report from the project will present three-year findings from Atlanta.