

Extend the EITC to Childless Adults under 25 While Fixing the Noncustodial Parent EITC

The Earned Income Tax Credit (EITC) is an important and effective tool that reduces poverty, increases workforce participation, increases financial security, leads to better educational outcomes for children, and improves overall child and parent well-being. The EITC is a rare anti-poverty program that enjoys bipartisan support, and has been expanded a number of times at the federal and state level since its introduction in the 1970's. Nearly all of New York State's EITC spending is currently used to supplement the federal program. Specifically, New York provides a 30% match to whatever amount an individual receives from their federal tax return.

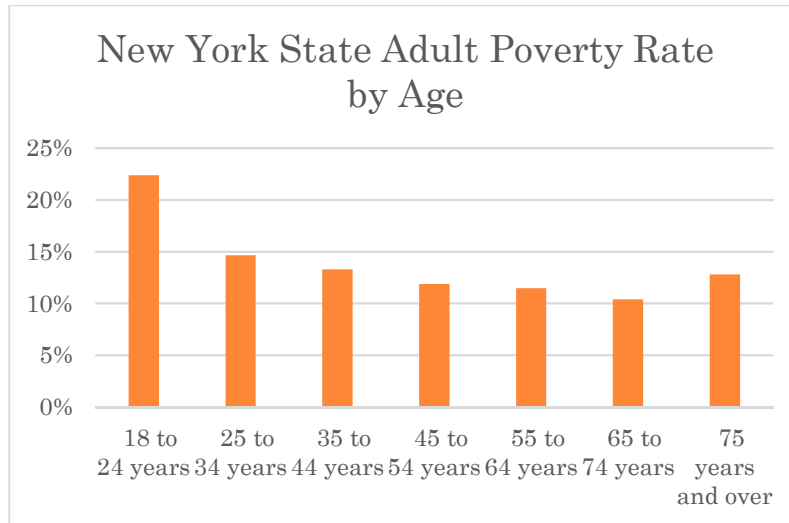
However, the federal EITC contains a few significant holes. While the credit for tax filers with children is quite robust, the amount received by childless adults is paltry. As a result, a childless worker who makes poverty level wages ends up paying more toward [state and federal taxes](#) (including payroll taxes) than they receive in tax credits. These low-wage workers are essentially taxed into greater poverty.

Childless adults under 25 are also categorically excluded from receiving the EITC altogether. This seems unwise for several reasons.

First, the start of one's time in the workforce is critically important toward lifetime employment success. Habits are established, relationships with mentors and supervisors are built, and career trajectories begin. This seems particularly important for individuals who did not go to college. Numerous studies have shown that expansions in the EITC increase workforce participation and job retention. It therefore is reasonable to assume that a robust EITC for low-income young workers would also increase workforce participation, job retention, and importantly, set these young workers on a positive employment trajectory¹.

Second, young adults are far more likely to be poor than any other age group of adults. It seems misguided to categorically exclude the group of adults most likely to be poor from a program that effectively reduces poverty. Over 22% of 18-24 year olds in New York State are in poverty, and 41% live in households making less than 200% of the federal poverty threshold. Young adults have nearly as high a poverty rate as children under 6.

¹ See - <https://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/2014-09-17-Youth-EITC-Young-Workers-FINAL.pdf>



Finally, extending the EITC to childless young adults could help these individuals to be more financially stable before they begin having children. Roughly 20% of births in New York State are to mothers under age 25. An EITC for childless adults would ultimately go to many expectant mothers, providing some additional resources to them during pregnancy and after children are born.

How to Develop and Administer a Childless Young Adult EITC

As noted above, most of New York's spending on the EITC is done through matching the federal program. But as the federal government categorically excludes childless adults under 25, New York would have to develop and administer its own EITC. And because the federal EITC for childless adults 25 and older is so inadequate and poorly funded, New York should not just extend the federal program to younger adults.

Instead, New York should build upon and improve the state's one EITC program that currently differs from the federal methodology, the EITC for noncustodial parents.

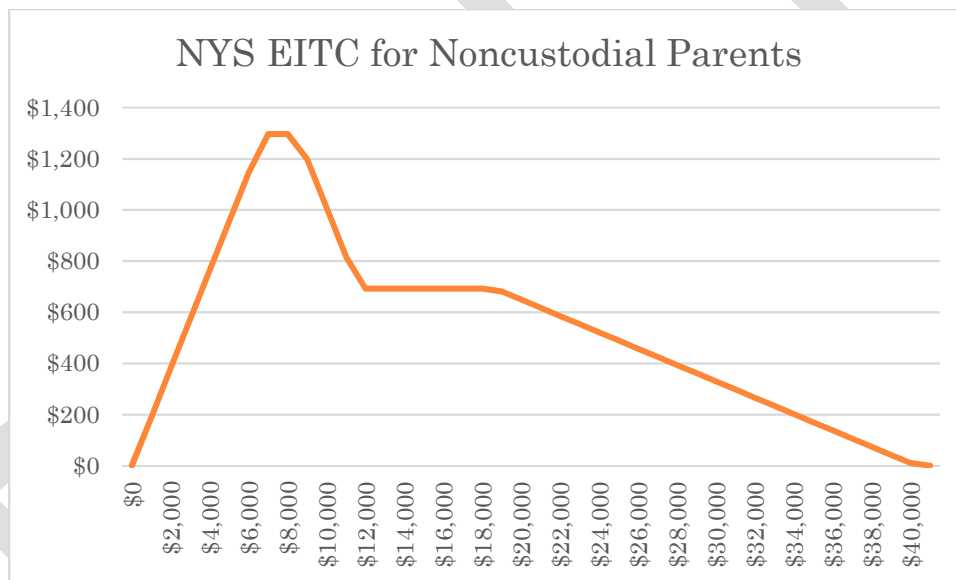
In 2006, New York State introduced an EITC for noncustodial parents who do not receive the larger federal and state EITC for individuals with dependents. This modest program serves approximately 5,000 people each year, and is intended to help noncustodial parents (typically fathers) contribute more to the care and financial support of their children. It is also designed to increase child support payment adherence, as only individuals who are up-to-date on child support are eligible to receive the tax credit.

According to the state Department of Taxation and Finance [website](#), the non-custodial tax credit is the greater of:

- 20% of the federal EITC that you could have claimed if the noncustodial child met the qualifying child definition. Compute it as if you had one qualifying child without the benefit of the joint return phase-out amount (even if you had a married filing joint return); or
- 2.5 times the federal EITC that you could have claimed if you met the eligibility requirements, computed as if you had no qualifying children. If the credit exceeds your tax liability, you can get a refund without interest.

According to [NYS Open Data](#), this works out to an average of around \$500 per recipient each year.

A simple way to extend the EITC to workers under 25 would be to apply the same methodology to all childless adults 18-24. However, the formula used to calculate the EITC for noncustodial parents is not ideal, and should be improved. The graph below shows the EITC at each \$1,000 increment of income up to \$41,000 per year.



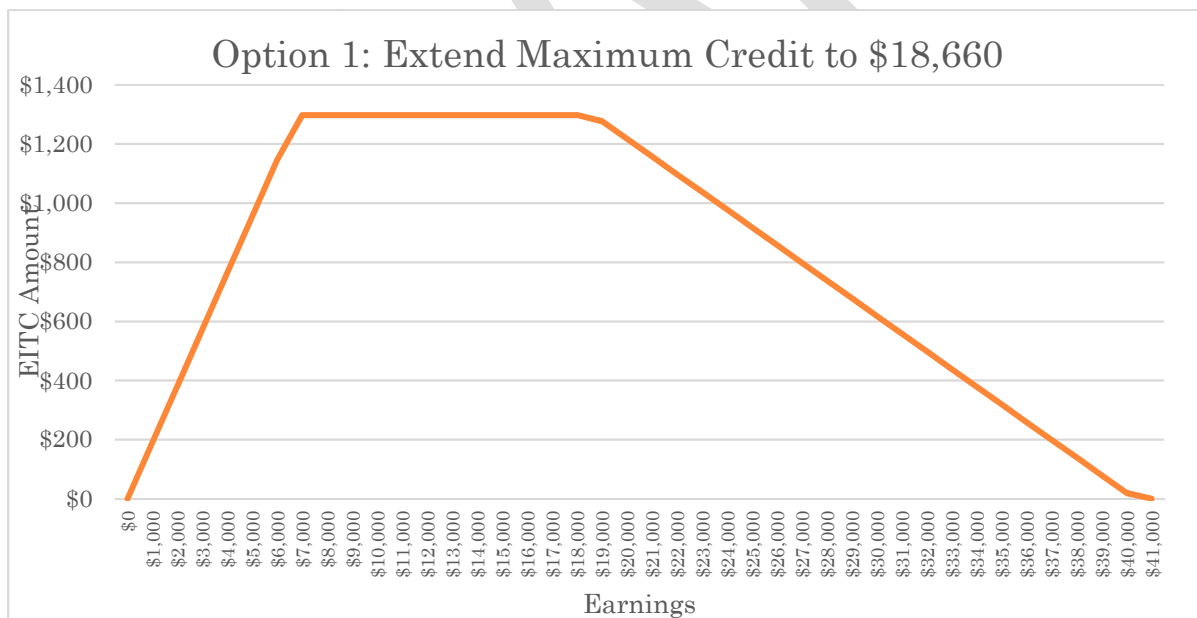
As the chart shows, the Noncustodial Parent EITC scales up rapidly, and provides a maximum benefit of nearly \$1,300 per year to individuals making between \$6,780 and \$8,490. But then things go awry as the credit begins diminishing rapidly while following the childless adult phase-out rate. Someone making \$12,000 a year only receives \$692 from the tax credit, despite still being in poverty and only having marginally higher earnings than someone making \$8,500 a year. Then, due to cobbled together nature of this tax credit, the childless adult phase-out stops, and the amount received plateaus until it reaches a second EITC phase-out (this one following the parent with one dependent methodology) at \$18,660. This phase-out ends at \$40,320.

New York State should address these shortcomings, and could do so quite easily. Here are two options for consideration, described in more detail below.

	Option 1	Option 2
Phase-in rate	7.65%	7.65%
Phase-in ends	\$6,780	\$6,780
Maximum credit amount	\$1,298	\$1,298
Phase-out begins	\$18,660	\$8,490
Phase-out rate	5.99%	4.08%
Phase-out ends	\$40,320	\$40,320

Option 1 – Extend the start of the phase-out for the maximum credit to \$18,660

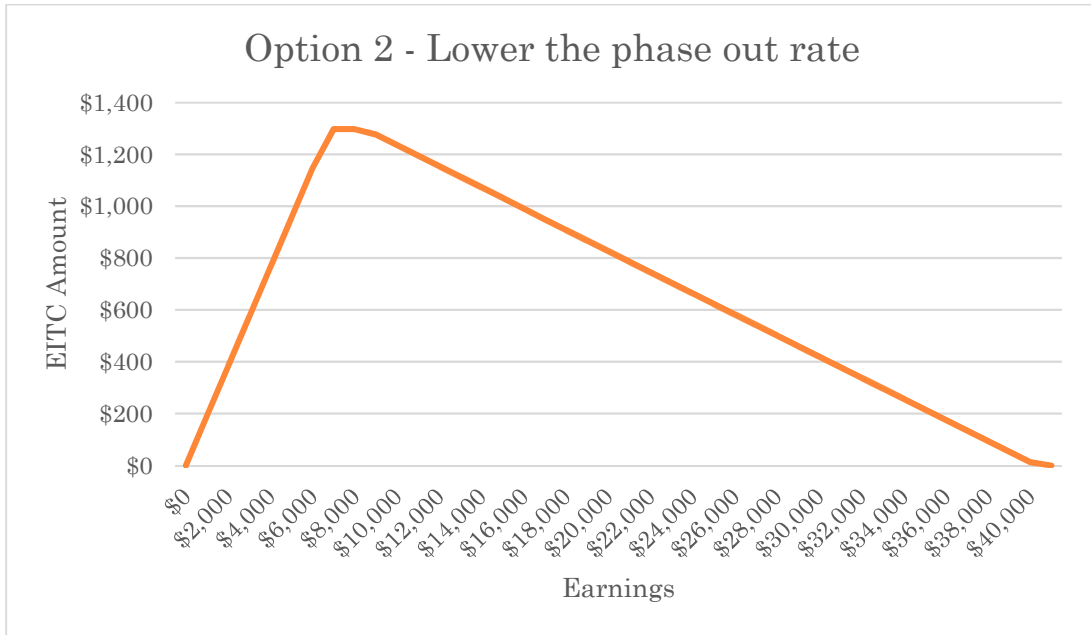
The maximum credit would still be reached when an individual earns \$6,780 per year, but the credit would not begin diminishing until earnings meet the federal phase-out for parents of 1 child (\$18,660 this year). Any qualifying individual earning between \$6,780 and \$18,660 would receive \$1,298 from this EITC. The phase-out would begin at \$18,600 and continue until earnings reached the federal cut-off of \$40,320. The chart below illustrates this proposed credit.



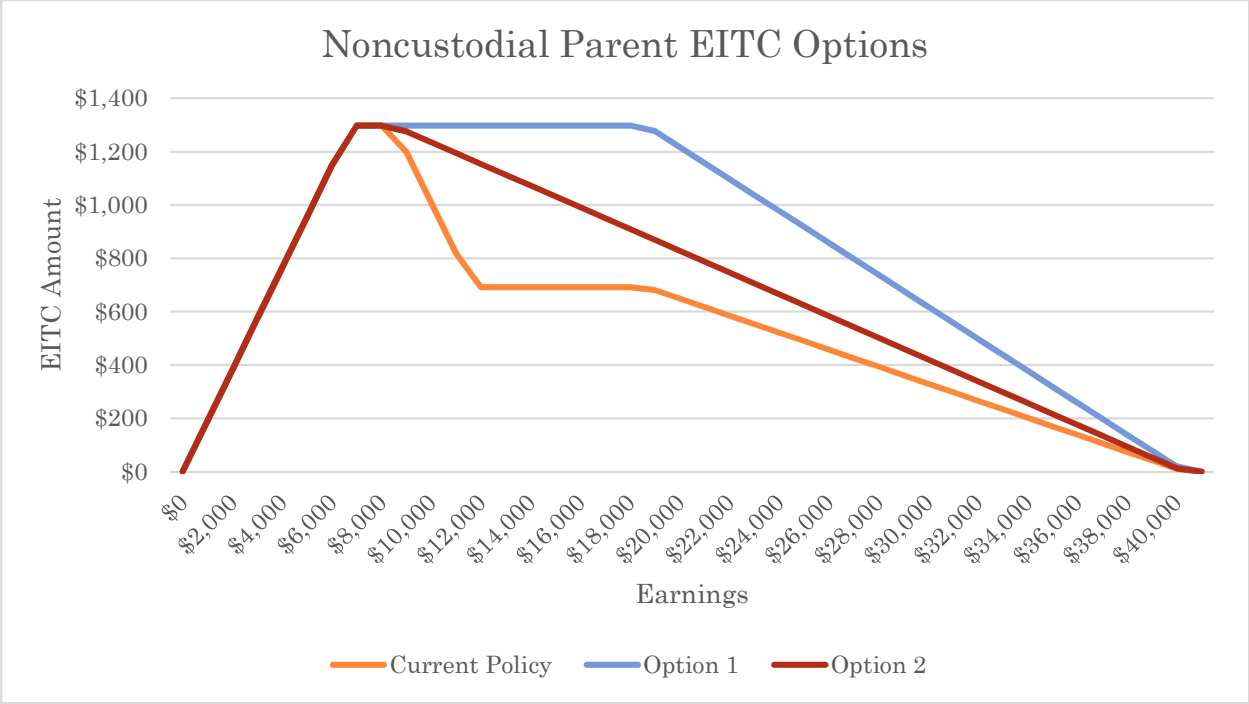
Option 2 – Lower the rate of the phase-out

The maximum credit would still be reached when an individual earns \$6,780 per year, and the credit would begin diminishing at \$8,490, but the credit would phase

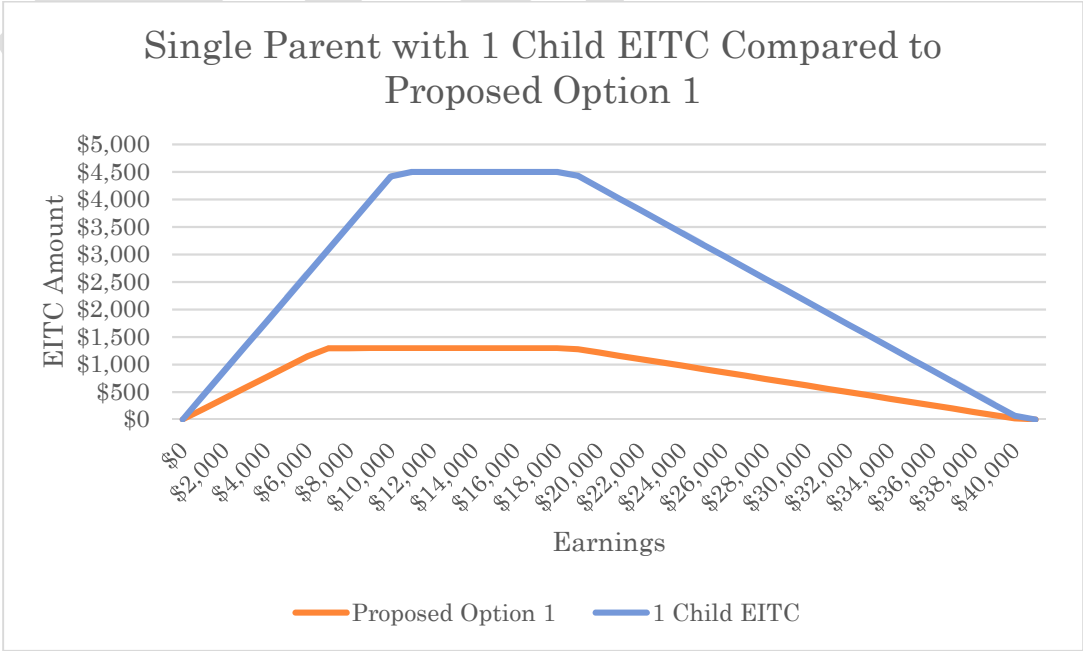
out smoothly between \$8,490 and \$40,320. This would match or increase the tax credit for everyone receiving it today, but would be considerably less costly than option 1. For example, an individual making \$13,000 per year would receive \$1,114 as compared to only \$692 today, while someone making \$25,000 per year would receive \$624 compared to \$490 today.



This chart shows both options alongside the existing structure of the state’s noncustodial parent EITC. The three are identical until earnings reach \$8,490, and then they diverge considerably until terminating at \$40,320.



It is worth noting that while adopting either proposed option for noncustodial parents and extending this credit to childless adults under 25 would cost a considerable amount, this EITC is still substantially smaller than the one received by families with dependents. For many reasons, it is completely appropriate that parents with children receive a significantly higher tax credit than childless adults. The chart below shows option 1 compared to the existing combined state and federal EITC for a single mother with one child.



New York State should improve the noncustodial parent EITC and extend the same improved methodology to childless adults under 25. Doing so will help young workers transitioning into adulthood become more financially stable, better able to start a family, and become more attached to the labor force.

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