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POLICYNOTE

EXPANDING THE EARNED INCOME TAX CREDIT COULD BENEFIT OLDER WORKERS IN NEW YORK

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Elevator Pitch: The Earned Income Tax Credit (EITC), a popular federal program that has been replicated in many states and lifts millions out of poverty, has historically excluded most older workers from receiving benefits at the same rate as their younger counterparts. A New York state expansion of its EITC program would benefit tens of thousands of older low-income New Yorkers, thereby supporting them at a vital time in their work lives and benefiting the state economy.

The Earned Income Tax Credit (EITC) is one of the largest and most successful poverty-reduction programs in the United States. The amount of the credit depends on family structure and is calculated on a sliding scale that starts relatively small at low levels of income, increases up to a certain point where it plateaus, then phases out as a worker's income rises[1]. By providing working parents with refundable tax credits that vary based on family size and income, the program incentivizes work while providing significant cash supplements to the working poor.

Recognizing the federal EITC program as an effective anti-poverty policy tool, U.S. states have introduced and expanded their own EITC programs over the years. In 1996, New York state introduced its version of the program to supplement the federal credit. In 2006, the state became the first state in the nation to enact an EITC program for noncustodial parents, or parents who do not have physical custody of at least one of their children.

Despite the EITC's many benefits, the program is not without its shortcomings. Importantly, its reach remains limited. Most childless workers are ineligible to receive the credit unless they have very low incomes. The program also excludes older workers by capping benefits for workers over age 64. In addition, research suggests that by effectively subsidizing low-wage work, some of the program's benefits accrue to employers who do not have to raise wages to attract workers. The subsidy also reduces job turnover and allows employers to suppress wage growth. As a result, the EITC reduces wages for low-wage workers — particularly older workers — who do not receive the credit.[2]

New York's policymakers should expand the EITC to benefit older workers. Older workers make up an increasing share of the labor market and are more likely to be working poor than their prime-age counterparts[3]. More than 72,00 childless New Yorkers over age 64 would become eligible were policymakers to remove the age cap for New York's EITC. If income limits were also increased, 91,300 workers over age 64 would become eligible to receive the credit.

Expanding New York's EITC would benefit older workers

Nearly three decades after adopting an EITC in New York, the impact of the program is clear. New York's EITC currently provides a benefit set at 30 percent of the federal credit, and in 2020, it provided an essential income boost to over 1.2 million workers and families struggling to meet basic needs.[4]

The American Rescue Plan (ARP), which was enacted in 2021 to mitigate the economic impact

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of the COVID-19 pandemic, serves as a useful blueprint for an expansion of New York state's EITC. In 2020, the maximum credit for an adult between ages 25 and 65 without children was $543 and phased out at an income of $15,980. The ARP roughly tripled federal EITC benefits for childless adults and temporarily expanded eligibility to workers older than 64 and workers ages 19–25 who aren't students. The income cap increased to $21,000 for single individuals and $27,300 for married couples filing jointly. (Table A1 in the appendix documents these changes.)

If New York's EITC program were expanded to include workers older than 64, as was done temporarily in the ARP, more than 72,00 childless New Yorkers over age 64 would become eligible for the NY EITC. If the age restriction were removed and the income cap were increased to match changes enacted in the ARP, 91,300 workers over age 64 would become eligible to receive the credit.

Women and workers of color represent a considerable share of the older workers in low paid jobs who would benefit from such an expansion. In 2021, 55 percent of older beneficiaries from the expanded EITC were women. More than 22 percent of older beneficiaries were non-white.

If all filers were to receive the maximum credit (an assumption that potentially overestimates costs), removing the age limit would cost $39.1 million. If higher income limits and increased benefits introduced in the American Rescue Plan were also enacted, the removal of the age cap would cost a maximum of $136.9 million, or 17.7 percent of the 2020 cost ($771 million) to the state. It should be noted that EITC's administrative costs are relatively small and represent less than 1 percent of benefits delivered. In comparison, non-tax benefits programs can have administrative costs related to determining eligibility that are as high as 20% of program expenditures.[5]

Expanding New York's EITC would also benefit the state economy

Refundable tax credits like the EITC stimulate state economies. Research has connected EITC receipt to improved financial stability and access to transportation. A survey found that 40 percent of recipients planned to use EITC refunds for utility payments and 36 percent intended to use them to pay rent. Subsequent research has found that between one-quarter and one-third of EITC recipients use their tax refunds on transportation-related expenses.[6,7]

Federal refundable tax credits generate a "multiplier effect" between 1.22 and 1.26, which translates to an average of $1.24 in additional economic activity for every dollar spent.[8] During the 2020 tax year, New York state EITC expenditures totaled $771 million[9]. According to the multiplier effect, this added approximately $956 million in additional economic activity to the state's economy.

Expanding the state EITC could therefore improve economic activity. Using the average multiplier referenced above, removing the age limit to include workers over 64 would add $48.5 million in economic activity per year. If income limits and credit amounts were expanded as well, this figure would increase to a maximum of $169.7 million. Another estimate that considers spending differences among age groups suggests that every dollar of income going to a household with an elderly member generates between $1.10 to $2.00 in economic output[10]. Taking this estimate into account, removing the age cap combined with credit increases and income limit expansions could boost aggregate demand in the state by $150.6 to $273.8 million.

Conclusions and Policy Recommendations

Despite the bipartisan support the EITC enjoys and the many benefits of the program, it is not without shortcomings. Research suggests that by incentivizing more people to work in the low-wage labor market, the EITC has the potential to reduce wages.[11] The EITC is ostensibly intended to benefit low-paid workers' households, but economic dynamics allow employers to capture a portion of the benefits. First, employers benefit from the EITC because the they do not have to raise wages to attract more workers. Second, the subsidy allows employers to suppress wage growth and hold on to workers because EITC benefits help low-wage workers absorb job-ending shocks better (events such as injury or illness, family and childcare responsibilities, or transportation difficulties), thus reducing their turnover rates.[12] Put differently, the Earned Income Tax Credit reduces pre-tax wages for all non-college educated workers while increasing after-tax income only for those who are eligible for the credit. As a result, the program lowers the income of those who do not qualify for the credit, particularly older workers. Expanding EITC benefits would offset some of these lost earnings and help stabilize older workers' earnings and should be combined with other measures to help bolster wages.

Expand the EITC to include older workers

The EITC's eligibility rules reflect an outdated socioeconomic and policy environment. Today, adults not raising children are the only group that are taxed into, or deeper into, poverty, partly because their EITC benefits are very low. In addition, the labor participation of older workers has steadily increased and the group now accounts for the largest share of future growth in the labor market. The program's eligibility rules should be updated to account for these realities. Without a permanent EITC expansion that ends age restrictions, an increasing share of the population will be unable to access this key cash assistance program. Expanded age and income eligibility could benefit more than 90,000 older workers in New York state and could generate between $47.9 million and $169.7 million in additional economic activity in the state.

Increase the minimum wage and bolster unions

Although a more robust EITC for childless workers would partially offset the negative wage effects of the program, these expansions are unlikely to prevent the expansion of low-paid jobs that result from a subsidy that benefits the employers of low-wage workers. Expanding the EITC must therefore be accompanied by other measures to raise wages directly, including polices that support stronger unions and higher minimum wages at federal, state, and local levels.

Appendix

We use the 2022 Annual Social Economic Supplement (ASEC) to the Current Population Survey (CPS) to estimate the number of older workers who will benefit from the expansion of the New York EITC. We calculate the number of childless workers over the age of 64 that previously were not eligible to receive any EITC benefits due to age restrictions. Income eligibility rules for the EITC depend on workers' adjusted gross income. Therefore, to determine workers' income we have considered their adjusted gross income (or losses) from all sources. For married individuals we have also included the total adjusted gross income of their spouses. Since EITC eligibility and benefit levels depend on workers' tax filing status, they are grouped into different categories based on their marital status. Our analysis has some limitations because of the use of the CPS-ASEC data to impute the newly eligible population. Specifically, our estimate might overcount the newly eligible population on several metrics. Only non-U.S. citizens who are not either legal permanent residents or alien tax residents are ineligible to receive the EITC. But CPS-ASEC categorizes all these individuals as non-citizens. Restricting the data only to U.S. citizens will severely undercount the number of potential recipients so we do not limit our analysis to people living in the state of New York who are U.S. citizens. Additionally, the CPS-ASEC does not collect information on tax filing, so it is possible that those assumed to be eligible might be claimed as dependents and potentially be considered ineligible for the EITC.

Table A1: EITC Benefits for Childless Individuals

	Minimum Income for Maximum Credit	Maximum Credit	Phase-out Range for Childless Individuals		Phase-out Range for Childless Couples Filing Jointly	
			Beginning Income	Ending Income	Beginning Income	Ending Income
Before Expansion	$7,100	$543	$8,880	$15,980	$14,820	$21,710
After Expansion	$9820	$1502	$11,610	$21,200	$17,550	$27,300

Source: Crandall-Hollick (2021) and SCEPA's calculations.
Note: "Ending income" for each group is calculated based on their "beginning income" and their phase-out rates.

Endnotes

1 https://www.cbpp.org/research/federal-tax/the-earned-income-tax-credit

2 Rothstein, Jesse. (2010). "Is the EITC as Good as an NIT? Conditional Cash Transfers and Tax Incidence." American Economic Journal: Economic Policy 2(1):177–208.

3 https://www.jec.senate.gov/public/_cache/files/d4597ad8-ce76-4c11-9180-c224a2917ea2/written-testimony-jec-feb-9-ghilarducci-final.pdf

4 https://data.ny.gov/Government-Finance/Earned-Income-Tax-Credit-NYS-EITC-Claims-by-Number/fdjp-nm8v/data

5 House Committee on Ways and Means, Subcommittee on Oversight, Written Statement of Nina E. Olson, National Taxpayer Advocate, Hearing on Improper Payments in the Administration of Refundable Credits, http://waysandmeans.house.gov/uploadedfiles/olsen_testimony.pdf, May 25, 2011, p. 9.

6 Romich, Jennifer L. and Thomas Weisner. 2000. How Families View and Use the EITC: Advance Payment Versus Lump Sum Delivery. *National Tax Journal* 53(4):1245–66.

[7] Mendenhall, Ruby, Kathryn Edin, Susan Crowley, Jennifer Sykes, Laura Tach, Katrin Kriz, and Jeffrey R. Kling. 2012. The Role of Earned Income Tax Credit in the Budgets of Low-Income Households. *Social Service Review* 86(3):367–400.

[8] Zandi, Mark. (2012). Bolstering the Economy: Helping American Families by Reauthorizing the Payroll Tax Cut and UI Benefits.

[9] https://data.ny.gov/Government-Finance/Earned-Income-Tax-Credit-EITC-Claims-by-Credit-Typ/3sqx-ew2z/data

[10] Boivie, Ilana I. and Dan Doonan. (2021). Pensionomics 2021: Measuring the economic impact of DBpension expenditures. National Institute on Retirement Security.

[11] See Rothstein (2010).

[12] Davis, Owen and Aida Farmand. (2021) “Who does the Earned Income Tax Credit benefit? A monopsony view.” Working Paper Series 2021-2, Schwartz Center for Economic Policy Analysis and Department of Economics, The New School for Social Research.