



Center for Research on Fathers, Children and Family Well-Being

NCP EITC Study Policy Recommendations

The Issue

The federal earned income tax credit (EITC) is now the largest anti-poverty program in the U.S. providing payroll-tax relief and work incentives to thousands of families headed by low-wage workers. In 2009 the EITC lifted 6.6 million people out of poverty (Center on Budget and Policy Priorities, 2009). The dollar amount of the credit is based upon a formula that includes an individual or couple's income for the year as well as the number of dependents in the household. The maximum credit for a childless worker is a fraction of the maximum credit for a single custodial parent.¹ Additionally, the earnings limit for the maximum credit is significantly lower for childless workers. For the purposes of the federal EITC, non-custodial parents (NCPs) are considered childless workers, regardless of the amount of child support, or other financial contributions they provide to their children.

For the 2008 tax year, a single parent with one child who earned between \$8,580 and \$15,740 was eligible for the maximum credit of \$2,917. On the other hand, a childless worker could only earn between \$5,720 and \$7,160 in order to receive the maximum credit of \$438. Thus a single parent fully employed at minimum wage (2008 gross earnings would have been \$12,812), would have received the maximum credit, while a childless worker with the same earnings would only have qualified for a maximum credit of \$48 (Scott, 2008).²

Policymakers are seeking ways to increase the childless worker credit and provide additional support to NCPs who support their children financially; because NCPs with low incomes and childless workers with low incomes are two populations whose incomes dip below the poverty line after taxes. In 2006 New York State (NYS) became the first state to enact an EITC for non-custodial parents (the NYS NCP EITC). Given that it was the first NCP EITC in the nation, policymakers are interested in how it is working.

Our Study

In the credit's first year the take-up rate was low; only 5,280 non-custodial parents (12% of all New York State

income-eligible non-custodial parents) received the credit (Sorensen, 2010). In order to explore why so few non-custodial parents have received the credit, and how to find out how potential recipients think they would spend the credit, CRFCFW undertook a qualitative study of participation and hypothetical allocation of the NYS NCP EITC among non-custodial fathers. Funding was provided by The Ford Foundation and The Open Society Institute.

This brief is the final of four policy briefs from the study. The first brief explained how the credit's eligibility criteria limited the total number of non-custodial parents who could file for it. Ineligibility was not the only significant barrier to filing for the credit; most NCPs we spoke with had not heard of the NYS NCP EITC prior to participating in our interviews, which were conducted in 2009. The second brief provided examination of the employment histories and statuses of the study participants and established ____ of the differences between the study sample and the larger population of non-custodial parents who are the intended recipients of the NYS NCP EITC. The third brief focused on how these NCPs might have used the credit if they had been eligible and better informed.

Methods & Sample

To recruit a representative sample, we originally hoped to be in the field at the beginning of tax season stationed at free tax preparation sites serving low-income people, such as the New York City VITA (Volunteer Income Tax Assistance Program) sites. Unfortunately, funding for the NYC VITA sites required that filers with custodial children receive priority in the first two months of the year; filers without dependent children could access services in March. We suspected that many in our target population would go elsewhere to have their taxes prepared, rather than wait. So we arranged to recruit study participants at H&R Block locations in four of the five boroughs starting in February, 2009.

1. The example provided is based upon the 2008 credit figures for a single (custodial) parent with either one or two children.
2. Annual minimum wage (full time) for 2008 is calculated as 29 forty-hour weeks at \$5.85 per hour and 23 forty-hour weeks at \$6.55 per hour (federal minimum wage increased from \$5.85 to \$6.55 on July 24, 2008).

We soon found that the H&R Block customers typically exceeded the earnings threshold for the NCP EITC and were thus not our target population. Few who met the earning's threshold had non-resident children or formal child support orders. Thus, we recruited only four respondents from H&R Block.³

Finally, we recruited thirty-nine NCPs, most with child support orders and low-to-moderate incomes at three of the five sites providing services under the *Strengthening Families through Stronger Fathers Initiative* (SFSFI)⁴. Two of these sites were in Manhattan and one was in Chautauqua, NY. Though NCPs enrolled in SFSFI-funded programs could not meet the full child support compliance criteria for the NYS NCP EITC, we were confident that they were similar to the NYS NCP EITC target population in other respects.

Study participants completed a short multiple choice survey, to assess eligibility and to gather demographic data, before participating in a one-on-one semi-structured interview.⁵ All short survey and long interview data refer to the 2008 tax year.

Policy Recommendations

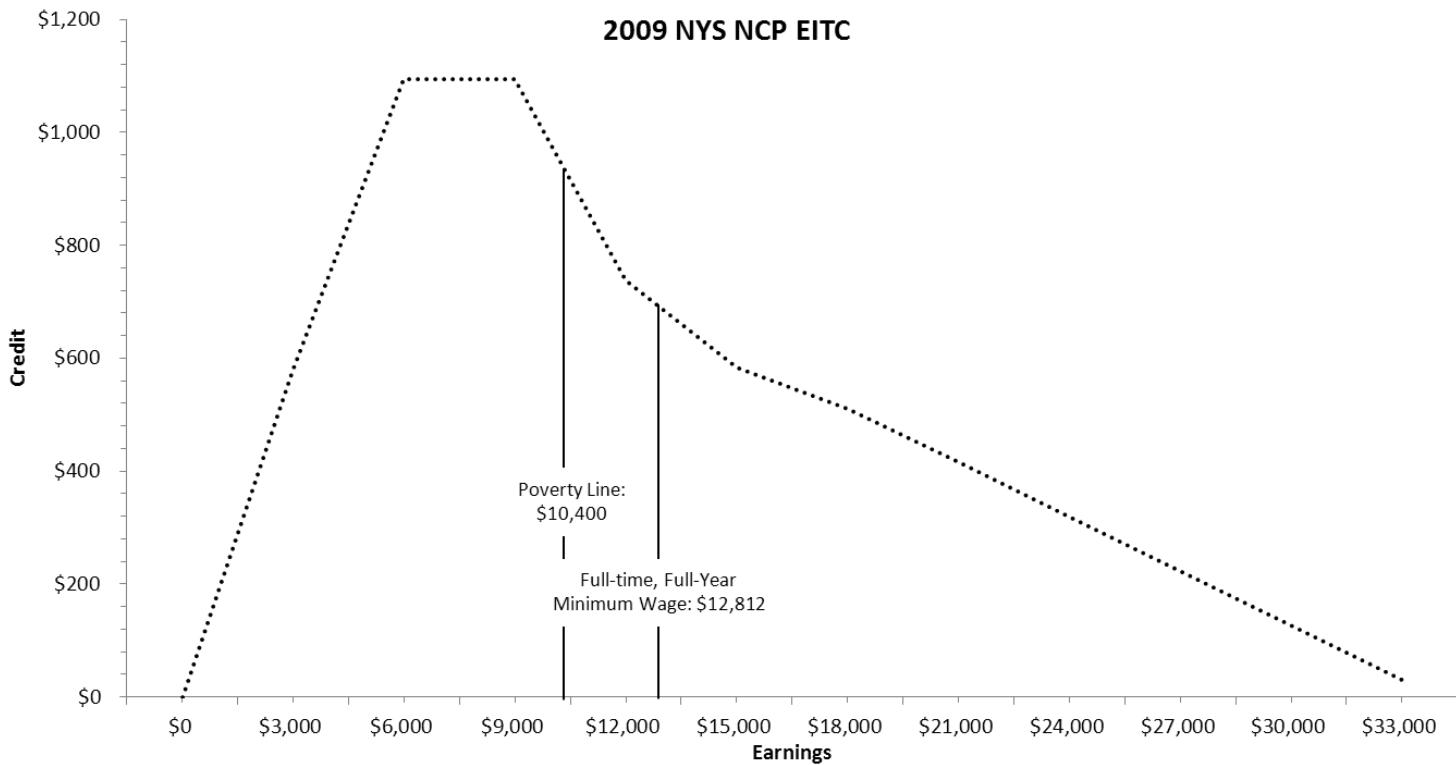
Many scholars and policymakers are focused on examining the NYS NCP EITC and its impact with an eye toward establishing a federal NCP EITC. There are two critical flaws in the current structure of the credit that will hinder its success. First, the dollar value of the NCP EITC is not enough to serve as an effective work incentive for potential recipients. Second, the full child support compliance criterion is a major barrier for

the majority of the target population (non-custodial parents earning less than \$33,000 per year--as of the 2011 credit) (Wheaton & Sorensen, 2010).

There are four ways that the credit's value could be structured so that more applicants would receive a greater total amount. Each of these changes relate to the credit's structure, which is currently as pictured below.

1. The phase-in rate could be increased;
2. The phase-in range could be extended—at minimum, we recommend extending the phase-in range through to the annual earnings that reflect that the individual is at or below the poverty line for a single-person household;
3. The flat range, between phase-in and phase-out, could be extended—at minimum, we recommend extending the flat range through to the annual earnings that reflect that the individual worked full-time, full-year, at minimum wage;
4. The credit maximum, in the flat range, could be increased.

The child support compliance criteria could be relaxed in order to increase the number of NCPs who would be eligible for the credit. There is a precedent, called the self-support reserve, for relaxing child support guidelines for low-income NCPs. If a NCP's adjusted income (AGI) is at or near the federal poverty line for a single person household, some 38 states reduce the child support order, often to a nominal amount. In New York



State this is \$25 per month for NCPs with AGI below the poverty line and \$50 per month for NCPs with AGI below 135 % of the poverty line. Following this precedent we recommend that the federal government assume that all NCPs with AGI below 135% of the poverty line have a zero child support order, for the purpose of determining eligibility for a federal NCP EITC. As a result, all NCPs with income below 135% of the poverty line would qualify for the federal NCP-EITC.

Relaxing the full compliance criteria for individuals in this way would make credit distribution administratively easier, because rather than check on these individuals' compliance, the credit could be awarded, with assurance that if individuals do owe arrears, the credits will be intercepted by each respective state's enforcement system.

In addition to the credit's aforementioned structural flaws, lack of information about the credit is a barrier for potential recipients of the NYS NCP EITC. Though the federal EITC, which benefits mostly custodial parents and their children, became much more generous in 1993, take up of the credit did not occur immediately. Instead, a major information, advocacy, and outreach campaign about the availability of the new provisions of the EITC and about assistance with the application process preceded the growth in its utilization. Though the TANF program encouraged single mothers to apply for the credit, this outreach was mainly undertaken by advocates for low-income single mothers and by not-for-profit agencies that served them in a variety of ways in the places where single mothers congregated (e.g., Head Start Programs, Day Care Centers, and so on). A similar effort should be undertaken to inform and assist NCPs to apply for the NCP EITC. Further, even if few provide direct services to fathers, a wide range of community-based organizations serving low and moderate income families reach NCPs indirectly. Though advocates for NCPs and responsible fatherhood programs may lead and frame such efforts, they should enlist a broad range of family-serving agencies in the execution.

Finally, NCPs would get the NCP EITC in a lump sum, however, they may be less likely than custodial mothers to save such lump sums, or use them in other asset building ways, for two reasons. First, NCPs have difficulty seeing how their children's economic security and mobility improves when they purchase asset-like items or durable goods, such as a car or a home. Second, the NCP EITC is small relative to the cost of such items. However, their children's education is one asset that overcomes the first barrier. Further, NCPs are highly motivated to invest in their children's education, because NCPs almost universally regret not having obtained more education themselves.

Policy makers can help overcome the second barrier. Presently, the federally funded *Assets for Independence Program* provides grantees with matched savings accounts for a variety of purposes and technical assistance to increase the financial literacy of grantee constituents. Although financial literacy training and support, which includes managing child support pay-

ments and arrears, is part of the programming available to NCP's, to our knowledge, matching funds that would support child savings accounts are not available to NCP's. This may be short sighted. This program should be expanded to provide a child savings account for NCPs who wish to a portion of the NCP EITC for save for their children's' education. What's more the program might encourage custodial and non-custodial parents to use this matching fund to jointly save for their child's education, thereby undoing one of the adverse effects of having a non-resident parent.

References

- Wheaton, L., & Sorensen, E. (2010). Extending the EITC to noncustodial parents: Potential impacts and design considerations. *Journal of Policy Analysis and Management*, 29(4), 749-768.