The Next Stage
for Social Policy:
Encouraging Work
and Family Formation
among Low-Income Men

Adam Carasso
Harry J. Holzer
Elaine Maag
C. Eugene Steuerle

Discussion Paper No. 28

October 2008

Adam Carasso, formerly with the New America Foundation, is now chief economist for the House Budget Committee. Harry J. Holzer is a professor of public policy at Georgetown University and a senior fellow at the Urban Institute. Elaine Maag is a research associate with the Urban Institute's Income and Benefits Policy Center and the Urban–Brookings Tax Policy Center. C. Eugene Steuerle is the vice president of the Peter J. Peterson Foundation and a former codirector of the Tax Policy Center.

The Urban–Brookings Tax Policy Center

The Tax Policy Center (TPC) aims to clarify and analyze the nation's tax policy choices by providing timely and accessible facts, analyses, and commentary to policymakers, journalists, citizens and researchers. TPC's nationally recognized experts in tax, budget, and social policy carry out an integrated program of research and communication on four overarching issues: fair, simple and efficient taxation; long-term implications of tax policy choices; social policy in the tax code; and state tax issues.

Information presented in this paper is derived in part from the Transfer Income Model, Version 3 (TRIM3) and associated databases. TRIM3 requires users to input assumptions and/or interpretations about economic behavior and the rules governing federal programs. Therefore, the conclusions presented here are attributable only to the authors of this report.

The views expressed are those of the authors and do not necessarily reflect those of the Urban Institute, the Brookings Institution, their boards of trustees, or their funders.

Contents

The Next Stage for Social Policy:
Encouraging Work and Family Formation among Low-Income Men

Since the early 1990s, the labor force participation of low-income women has risen dramatically (Blank 2002). This has been particularly true among African American single mothers. Analysts generally attribute this rise in work activity to welfare reform, the strong economy of the 1990s, and several income supplements for the working poor—such as expansion of the earned income tax credit (EITC).

Over the same period, labor force activity among low-income or less-educated young men stagnated, and it declined significantly among young black men. According to Holzer and Offner (2006), labor force participation rates among black men age 16–24 not enrolled in school and with a high school diploma or less education declined from 77 percent in 1989 to 68 percent in 1999–2000; the rates among those age 25–34 declined as well (from 87 to 84 percent). If anything, these measured declines understate the actual declines, because they are based only on the "noninstitutional population;" the rising incarceration rates for young black men over this period implies an additional large number of nonemployed men not captured in the official statistics (Western and Pettit 2000).

This lack of labor force activity among such large numbers of young men imposes large individual and societal costs. Lack of early employment leads to lower wages and employment levels for these young men as they age (Ellwood 1982; Neumark 2002), since they fail to accumulate the work experience that generates much early wage growth. If these young men engage in crime and become incarcerated as a result of their low earning potential, their future employment prospects will be further reduced (Holzer et al. 2007); and, their crime will impose enormous costs on the United States, in victim costs as well as the costs of administering the criminal justice system (Ludwig 2006). Further, low work effort and participation in crime almost certainly reduce the marriage prospects of these young men (Wilson 1987). Since most of these men eventually become noncustodial fathers, their lack of work and earnings reduces the family incomes available to their children, raising their poverty rates and imposing huge economic costs on them and on the United States overall (Holzer et al. 2007).

A key policy lever to encourage work—the EITC—largely excludes less-educated young men not living with children. Though the EITC can provide households with at least two children just over $4,700 in 2007, a single individual without children qualifies for a maximum credit of less than one-tenth this amount ($428). Further, while the EITC subsidizes families with at least two children until their earned income reaches almost $38,000, a childless individual stops receiving a subsidy once his earnings reach about $13,000.[1]

This paper analyzes EITC expansion proposals expand the EITC that focus on providing a work incentive for childless individuals and reducing "marriage penalties," in

---

[1] Married couples can receive the EITC until their earnings exceed those listed by $2,000 in 2007. Starting in 2008, married couples can receive the EITC until their earnings are $3,000 higher than those of singles.

which individuals who marry receive less EITC (or pay more taxes) than they did before marriage. Both these shifts in EITC policy could improve the work incentive for young males via an already-tested tax policy mechanism. Although our discussion focuses primarily upon men, since they are often left out of a support system, all proposals are gender neutral and would benefit single women without children as well.

Why Should Tax Policy Matter to Less-Educated Men?

A long literature in the social sciences explores the many causes of low work activity among less-educated men (e.g., Edelman, Holzer, and Offner 2006; Freeman and Holzer 1986; Holzer 1994; Mincy 2006). These causes include lack of early work experience, continuing discrimination among employers, "spatial mismatch" between job locations and potential employees, and weakening informal networks that link workers to the labor market. Some authors have also stressed attitudinal and cultural factors that increasingly lead young black men to disconnect from both school and work at early ages, perhaps in response to a perceived lack of real opportunity in both (Mead 2007).

Although a significant part of the literature deals with factors that uniquely affect black men, there has also been a strong downward trend in the real or relative wages of all less-educated young men that has weakened their incentives to work, as they move downwards along their "labor supply functions" (in the terminology of economists) . Chinhui Juhn (1992) clearly documents a relationship between falling wages and falling labor force activity among less-educated young men. Juhn, Topel, and Murphy (1991) and Katz and Autor (1999) also document this pattern. Perhaps more troubling, Grogger (1998) and Gould, Weinberg, and Mustard (2002) find a strong relationship between declining wages and the tendency of young men in the United States to participate in crime.

If less-educated young men tend to stop working when their wages fall, then efforts to supplement the earnings of less-educated young men that effectively raise their "net wages" (i.e., wages net of taxes) should induce them to work more. We have limited direct evidence that young men respond to improved compensation through higher work levels, though the evaluation of the New Hope project in Milwaukee during the 1990s provides some evidence to that effect (Duncan, Huston, and Weisner 2007). But the nation's experience with the expansion of the EITC in the 1980s and 1990s, which appears to have generated impressive increases in labor force participation among single mothers (Eissa and Liebman 1996; Meyer and Rosenbaum 2001), suggests the power of tax policy to raise labor supply among the poor. While few low-income men benefit from the EITC in its current form, experience with these other wage subsidies strongly implies that men, too, would benefit from EITC-like expansions.

An additional reason for believing that wages net of taxes affect the labor supply of less-educated men involves recent developments in child support policy. Enforcement of child support orders has increased dramatically over the past few decades, resulting in increased collections from absent fathers. But this system also generates fairly high marginal tax rates on low-income noncustodial fathers, especially those with limited

earnings capacity to begin with (Holzer, Offner, and Sorensen 2005; Pirog and Ziol-Guest 2006).

One could argue that child support payments by absent fathers are not really a tax, if the collections are passed onto their offspring and if the fathers care about the well-being of these offspring. But at least the first of these conditions is violated in many states, who choose not to "pass through" collections to families on public assistance (Wheaton and Sorensen 2007).

Additionally, tax rates rise substantially when the absent fathers are in "arrears," or in debt to the child support system. The large percentage of low-income noncustodial fathers in arrears has been documented by Sorensen and colleagues (2003), among others. Indeed, any noncustodial father with a child support order who has been incarcerated will almost automatically go into arrears, as his child support obligations remain in effect while his ability to pay usually disappears. And, for low-income absent fathers in arrears, states can and often do garnish up to 50 percent of the meager wages earned. Combined with other explicit and implicit taxes on their low earnings, tax rates near or above 100 percent can occur (Primus 2002).

For low-income noncustodial fathers, tax policy can be used to offset some of the very high taxes imposed on them through the child support system. Indeed, the District of Columbia and New York state recently implemented earned income credits against state taxes for noncustodial fathers keeping up with their current support orders.

The idea of extending an EITC to individuals, including those without children, has recently picked up steam, with a set of proposals in Congress (summarized in Aron-Dine and Sherman 2007). Various researchers have also proposed bolder increases (e.g., Berlin 2007; Edelman et al. 2006). We analyze these proposals, along with a proposal to separate out the work incentive versus the child support in the current EITC below.

Young Single Males and Current Tax Policy

The preponderance of concern in the largely piecemeal design of the low-income safety net has been to protect and help single mothers with children while containing costs. As a consequence, incentives in federal tax and transfer programs have the (possibly) unintended effect of isolating young men by penalizing marriage, additional work, and savings. The system makes young men's economic contributions a liability to their parents, relatives, potential spouses, and children in terms of the government benefits that would be lost, essentially reinforcing their noncustodial status. Two interrelated elements of tax policy—which can be generalized to all targeted social welfare programs—are responsible: benefits that end or phase out after certain income thresholds are reached and marriage penalties (the phenomenon in which some married couples pay more in taxes—or receive less in tax benefits—than they would if they were not married).

Benefit phaseouts. Tax benefits such as the EITC (or welfare, Medicaid, or food stamp benefits, for that matter) accrue to low-income households. At a defined threshold, benefits reduce or phase out for each additional dollar of earnings. If a benefit decreases at a rate of 20 cents for each new dollar of earnings, then the household faces an effective

3

marginal tax rate of 20 percent from that provision alone—not counting other benefit cutbacks or income or Social Security taxes. The deliberate purpose of a few tax benefits like the EITC is to offer benefits that *phase in* with each dollar of additional earnings so, at least at low earnings levels, a person's tax benefit grows along with his or her earnings. However, to keep such programs targeted and to contain costs, benefits are reduced beyond a defined earnings threshold.

An alternative to phasing out benefits gradually as income rises is to eliminate eligibility for such tax benefits entirely as a worker crosses some dollar threshold. For example, at $10,000 of earnings, a worker still receives a benefit of $2,000; but at $10,001 of earnings, the worker suddenly receives nothing. Known as a benefit "cliff," such provisions have truly severe work and family formation disincentives (though they are present in some key welfare programs like Medicaid). The tax system typically employs gradual phaseouts to minimize this type of distortion. This, in turn, creates a dilemma. Policymakers must balance the speed at which benefits phase out with the costs of phasing out benefits slowly.

Marriage penalties. Persons pay an overall marriage penalty when they owe more tax as a married couple than they would if they remained single. The inverse situation creates marriage bonuses. Lawmakers rarely intend to create marriage penalties——or marriage subsidies, for that matter.

Two conditions are necessary to cause marriage penalties and subsidies, and neither is sufficient by itself.[2] The first condition is tax rates that vary based on income. The second is joint filing by married couples for benefits or taxes. Both characterize the U.S. tax code. A marriage bonus occurs, for instance, when two very low income people marry, and the new spouse's income adds to the earned income tax credits for which they otherwise qualify. Penalties, on the other hand, often arise when two people marry, and the income of the partner either disqualifies or reduces the benefits that the other partner was receiving (Carasso and Steuerle 2005). The same individuals can face a marriage bonus in the tax system and a marriage penalty in the transfer system, under certain conditions (Acs and Maag 2005).

Benefits available. The federal government offers moderately generous tax benefits to families *with children*. A head of household with two children who earns between $15,000 and $25,000 may enjoy more than $5,500 in tax benefits—either as cash refunds or as offsets to tax liability (figure 1). The major child-related tax provisions benefiting these families are the EITC, the dependent exemption, and the child tax credit (see box 1). The head of household standard deduction and rate schedule also arguably help these families, at least in keeping their income nontaxable (effects not directly shown in figure), as can the child and dependent care tax credit, for families with qualifying child care expenses (also not shown). We observe that this level of tax benefit declines moderately steeply when additional income is introduced into the household, due to the 21.06 percent phaseout of the EITC.

---

[2] See Carasso and Steuerle (2005) and Steuerle (1999). As many have noted, a tax system by itself cannot simultaneously be progressive in terms of rate structure, tax all households the same when they have the same income, and tax all individuals the same when they have the same income.

The single-headed household shown here would see a decline from a peak benefit of nearly $6,000 reached at $22,000 of earnings to a benefit of around just $3,020 at incomes of $38,000 and higher. Note, by the way, that this is only one of the many additional "taxes" they may pay; loss of food stamps, Medicaid, and other less universally available benefits also is likely.

**Box 1. Select Family Tax Benefit Provisions**

Earned income tax credit (EITC). The EITC provides a subsidy for low-income working families that combines work incentives at lower-earning levels with child-raising benefits. The credit equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches a maximum; both the percentage and the maximum credit depend on the number of children in the family. The credit serves as a wage subsidy, providing childless workers an additional 7.65 cents for each dollar earned, one-child families 34 cents for each dollar earned, and families with two or more children 40 cents for each dollar earned during the phase-in range (figure 2 and table 1). Analysts credit the EITC with offering a moderate work incentive to recipient households in the phase-in range. The credit then stays flat at that maximum as earnings continue to rise, but eventually earnings reach a phaseout range. From that point the credit falls with each additional dollar of income until it disappears entirely. In the phaseout range, the EITC could provide a disincentive to work (or marry, if marriage brings additional income into the household)—phasing out at 7.65 percent for childless families, 15.98 percent for families with one child, and 21.06 percent for families with two children. Throughout the phaseout range, the diminished benefit at each new step in income *undercuts* the net income the household receives for additional work. The phaseout begins at a slightly higher income for married couples than for single parents (although this higher phaseout will expire along with the 2001–03 tax cuts after 2010). The credit is fully refundable: any excess beyond a family's income tax liability is paid as a tax refund. The phase-in/out points and the credit are indexed to inflation. Children under age 19 (or under age 24 if still in college) qualify their parents for the EITC.

Dependent exemption. Families can reduce their taxable income by $3,400 for each child in 2007. This results in a tax reduction of up to $510 per child for families facing a 15 percent tax rate. Families facing higher tax rates benefit more, and those in the 10 percent bracket benefit less. Many lower-income households do not owe enough income tax to fully use nonrefundable benefits like the dependent exemption. The dependent exemption can be claimed for the same age children as the EITC.

Head of household (HOH) status. Single parents can file as a head of household, resulting in less tax owed than if they filed "single." They owe less tax than similar adults with no children because they can exempt more income from tax using a higher standard deduction ($7,850, compared with $5,350 for singles) and more of their income is taxed at lower rates. Together, this means that head of household filing status can contribute to marriage penalties; the deduction for a couple ($10,700) is less than twice the deduction for a head of household or the sum of the single and head-of-household deduction—which is what couples would face if they were not married.

Sources: Carasso, Rohaly, and Steuerle (2005); Maag and Carasso (2007, 2008).

Figure 1. Current Law Children's Tax Benefits for a Head of Household with Two Children in 2007
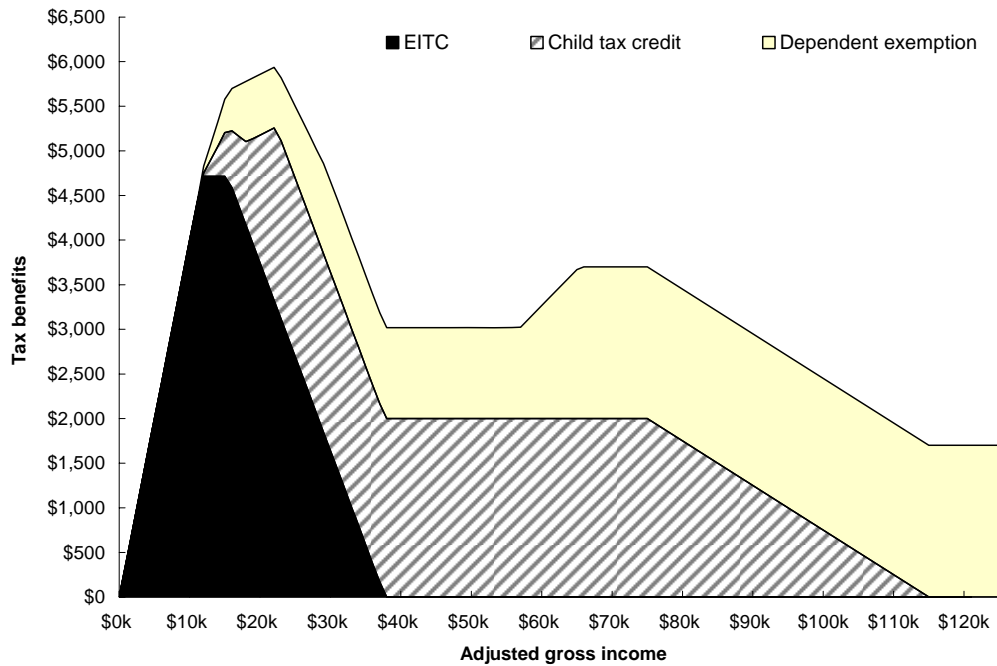
Source: The Urban Institute, 2008.

We observe the same general pattern among married couples with two children. Peak tax benefits exceed $5,500 for couples earning about $24,000 and fall to around $3,000 once earnings reach $40,000. This suggests roughly that a head of household with two children earning $22,000, with tax benefits of about $6,000, who marries a single earner making $18,000, would face a marriage penalty (loss of tax benefits) of around $3,000. Married couples do not benefit from head of household filing status, but they do benefit from the other programs that help single-headed households.

This feature in the tax benefit "landscape" for both married couples and heads of household is often called the "benefit hump" and it stymies would-be reformers. The political goals of creating no losers, spending little money, and getting rid of the benefit hump are essentially impossible to achieve at the same time. Thus, rationalizing incentives to work by cutting into this benefit hump would create many losers among low-income families with children, yet enhancing benefits around this hump can be expensive, requiring still higher phaseout rates and marriage penalties, which further increase the hump.

By comparison, the maximum EITC for single workers who do not claim any children was just $428 in 2007, and this credit began phasing out at just over $7,000 of earnings (figure 2 and table 1). The childless EITC can only be received by workers between ages 25 and 64.[3] Single low-income men cannot claim the child tax credit,

---

[3] In the case of a married couple, only one spouse need be between 25 and 64.

dependent exemptions, or head of household rate schedule that also support work and parenting, because these work support subsidies are *tied* to subsidies for raising children in the same home. Figure 3 summarizes the key tax benefits for families under current law.

Figure 2. Current Law EITC Benefit Schedule by Filing Status and Number of Children, 2007
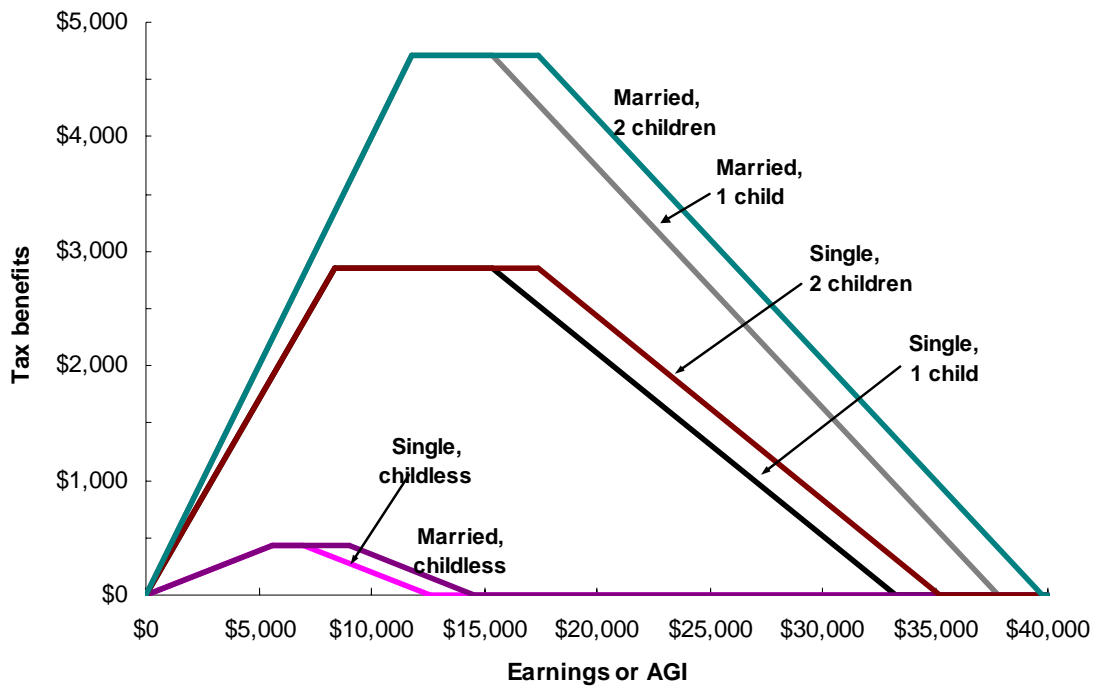
Source: The Urban Institute, 2008.

Table 1. EITC Parameters for Tax Year 2007

Calendar year	Credit rate (percent)	Minimum income for maximum credit	Maximum credit	Phaseout rate (percent)	Phaseout Range	
					Beginning income	Ending income
Single filers						
No children	7.65	5,590	428	7.65	7,000	12,590
One child	34	8,390	2,853	15.98	15,390	33,241
Two children	40	11,790	4,716	21.06	15,390	37,783
Married couples filing jointly						
No children	7.65	5,590	428	7.65	9,000	14,590
One child	34	8,390	2,853	15.98	17,390	35,241
Two children	40	11,790	4,716	21.06	17,390	39,783

Source: http://www.taxpolicycenter.org/taxfacts/Content/Excel/historical_eitc_parameters.xls.

7

Figure 3. Summary of Current Law Family Tax Benefits in 2007
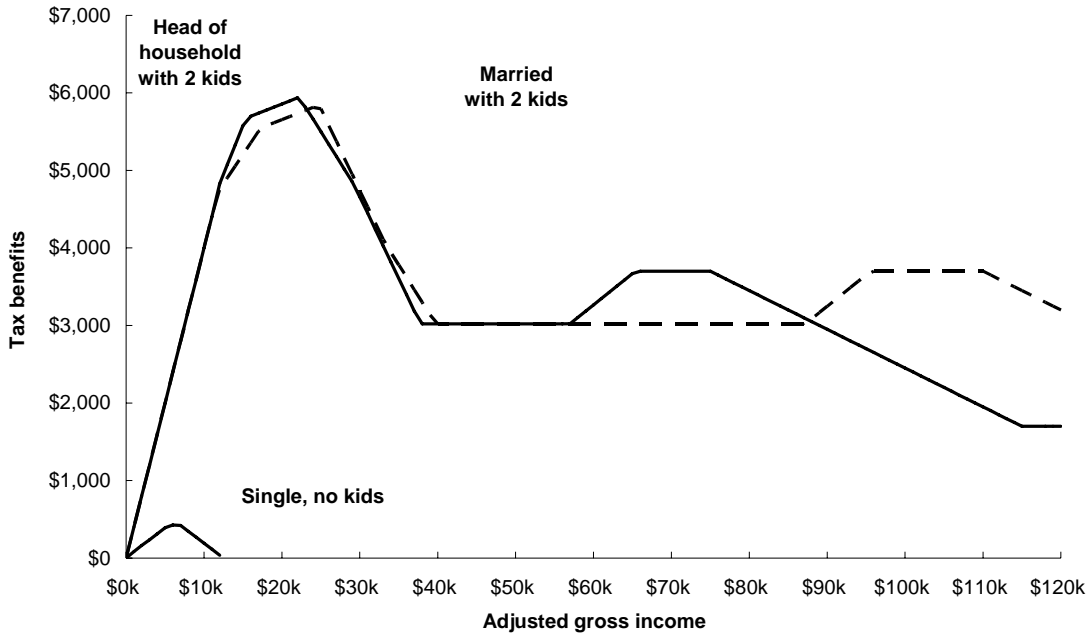
Source: The Urban Institute, 2008.

In fiscal year 2007, the EITC provided $43.3 billion in assistance, making it among the largest social welfare programs in the United States. As a mainstay social safety net program, its design can affect the net incentive effect of tax and transfer programs on those with low incomes. In 2007, spending on the EITC, child tax credit, and dependent exemption totaled $114.3 billion (figure 4). Groups with lower average incomes, such as nonwhite households with children, disproportionately benefit from the EITC, while moderate- to upper-income families benefit more from the child tax credit and dependent exemption since these households tend to have higher tax liabilities. Childless couples and individuals do not benefit from these child-related provisions and receive a relatively small benefit from the childless EITC.

In sum, federal tax and transfer programs do little right now to encourage work or marriage among single men facing poor wage opportunities. If anything, these programs (along with some peculiar features of our child support system) send the opposite signals, particularly to those who are male and nonwhite: they can usually increase incomes for their families by shunning marriage or otherwise moving out or cohabiting in ways that do not result in penalties. Indeed, avoiding marriage and work has become a significant "tax shelter" for the poor (Acs and Maag 2005; Carasso and Steuerle 2005).

Figure 4. Major Social Welfare Programs, 1970–2007
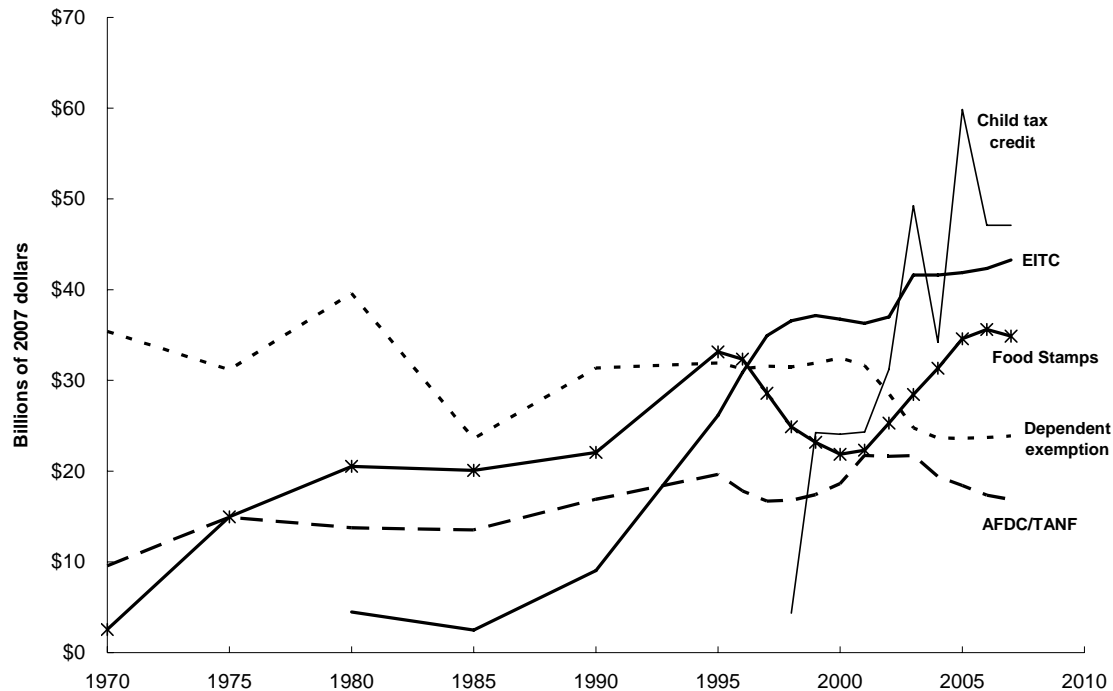
Source: Kids Share 2008: How Children Fare in the Federal Budget (The Urban Institute and New America Foundation, 2008).

Tax Policy Approaches to Increasing Work Effort

Let's summarize where we are. Current tax policy's treatment of work and family presents reformers with a series of difficult signals and choices:

- The EITC and child tax credit confusingly mix work and childrearing incentives.

- Low-income workers without children qualify for few benefits.

- High marginal tax or benefit-loss rates—if one simply counts programs with universal eligibility like EITC, food stamps, and Medicaid—are much higher than marginal rates faced by middle- and upper-income households, possibly discouraging additional work in most income ranges.

- Large marriage penalties exist, resulting from the *combination* of tax rates that vary with income and the requirement for joint (or household) filing for most government benefits. (Neither condition by itself is sufficient to discourage family formation and economic advancement.)

Those seeking to create or repair the low-income safety net engage in an optimization challenge. No policy can simultaneously raise benefits, remove marriage penalties, reduce high marginal tax rates, rationalize incentives and structure, and

produce only winners at no (or even little) additional cost. We discuss these criteria in the context of the options below.

Some strategies that we and others who have made proposals in this arena try to use to work through these tradeoffs are as follows:

- make low-income workers without custodial children eligible for a significant subsidy;

- separate child from work subsidies; and/or

- reduce or eliminate the EITC as a source of marriage penalties.

We summarize a select set of proposals in table 2. We simulate or discuss proposals similar to those by Rangel (described in Aron-Dine and Sherloc 2007); Edelman, Holzer, and Offner (2006); Berlin (2007); and Steuerle (in this paper).[4] For a more complete summary of several of these proposals, see Berube, Park, and Kneebone (2008).

We use the Transfer Income Model, Version 3 (TRIM3), which was developed and is maintained at the Urban Institute under primary funding from HHS/ASPE, to simulate the revenue and distributional consequences of each of these proposals (for a description of modeling efforts, see appendix A). We use another spreadsheet model to compute these proposals impact on marriage penalties. In order to provide clear comparisons, we model all proposals using the same law (2007), which requires us to make assumptions about the indexing of various proposals. In all cases, we assume the proposals would be fully indexed, similar to the current EITC. In addition, our cost estimates assume no behavioral response. To the extent that people are induced to enter the labor force, costs of each of these proposals would rise, at least in the short run. Brief summaries of these proposals follow—in 2007 law—though they may have been represented by their original authors with earlier law values.

Rep. Charles Rangel (D-NY). Congressman Rangel proposes to double the phase-in rate of the current law childless EITC from 7.65 to 15.3 percent, which would allow qualifying individuals to offset both the employer and employee shares of payroll taxes—the burden of which the EITC was originally intended to lift for the working poor. In effect, the credit would rise from $428 to $855 per childless worker. We estimate the cost of this proposal would be $1.1 billion.

Edelman, Holzer, and Offner 2006 (EHO). This proposal boosts the credit available to childless single individuals from $428 to $1,666 (20 percent of the first $8,330 in earnings). To decrease marriage penalties, EHO propose disregarding half of

---

[4] Some proposals were not included in simulation efforts because they were hybrids of existing proposals, limited to highly specific subpopulations, or difficult to simulate. These include Raphael (2007), who models a hybrid of Berlin and Edelman, Holzer, and Offner; Scholz (2007), who models an effective doubling of the childless EITC for workers and couples over age 30 and a 25 percent subsidy for those under age 30; and Forman, Carasso, and Saleem (2005), who separate worker and child subsidies as part of a larger tax reform that reduces marriage effects by doubling the width of tax brackets for couples relative to singles.

the lower-earning spouse's earnings. To assist younger workers, EHO decrease the minimum age limit for eligibility from 25 to 21 and reduce the maximum age limit from 64 to 45. We estimate the cost of this proposal to be $13.5 billion. Were EHO to count all of the lower spouse's earnings (as is the case under current law), we estimate the proposal cost would be $9.9 billion.

Berlin 2007. This proposal raises the childless EITC for individuals to $2,070 (25 percent of the first $8,280 of earnings). Following Steuerle (1999), which made clear that two conditions are necessary for marriage penalties—joint filing and variation in tax rates—Berlin also proposes removing most marriage penalties by moving the overall EITC toward individual filing. The credit would be available to workers age 21–54 who worked at least 30 hours a week for at least 26 weeks each year. We estimate the cost of this proposal to be $35.4 billion.

Steuerle 2008. In this paper, Steuerle puts forward a set of options that separate the EITC into a credit for families with children and a worker credit. In doing so, Steuerle attempts to protect those with the lowest incomes while reducing marriage penalties by rewarding second earners. The proposal has two broad features: first, adopt an expanded worker credit that replaces the less generous childless EITC; and second, reduce the current EITC for one and two children, while holding families in the phase-in or plateau range of the current credit schedule harmless if they have one worker or better off if they have two workers. The latter feature is achieved by allowing the family to qualify for the same EITC they currently qualify for if they have one worker and then augmenting that with a second worker's credit for the second spouse. The share of the credit attributed to the "worker" can certainly vary, as can the other parameters.

In table 2, we show three iterations of this credit. The first sets the worker credit at 15.3 percent of the first $7,644 of earnings. This results in a maximum worker credit of $1,170. This amount fully offsets both the employee and employer share of payroll taxes for workers over this income range. Workers receive the maximum credit until their earnings reach $14,021, at which point the credit begins phasing out at a rate of 5.73 percent. This rate was chosen so the total worker credit would be phased out completely at the same point as the EITC for single parents. The worker credit is based on individual earnings. However, to target assistance to low- and middle-income families, it begins phasing out at a rate of 5 percent once household earnings exceed $50,000. To keep the total credit going to a family with children the same in the phase-in range, the EITC for one child families is reduced to 18.7 percent of the first $7,644 of earnings, phasing out at a rate of 8.79 percent once earnings exceed $14,021 ($15,843 for joint returns). For families with two or more children, the EITC phases in at a rate of 40.9 percent of the first $7,644 of earnings, phasing out at a rate of 15.33 percent once earnings exceed $14,021 ($15,843 for joint returns). These parameters were selected so the EITC for two or more children was fully phased in at the same point as the one-child EITC and worker credit (currently, the phase-in range for the EITC for two or more children is larger than that for one child). This means families with one worker will receive at least the same combined worker credit plus EITC as they do under current law. The maximum credit would increase from $4,716 to $5,437. This happens when both earners earn at least $8,390 (the point at which the credits stop phasing in) but joint income does not exceed $17,390 (the point at which the EITC starts phasing out).

Table 2. Select Proposals to Reform the EITC, 2007 Law

Proposal	Description	Age limits	Earnings disregards	Hours requirement	Cost (millions)
Current law	For childless individuals and couples, max $428 credit, 7.65% phase-in up to $5,590, phases out by $12,590	25–64	No	No	($1,193) (If it were repealed)
Proposal descriptions assume current-law childless EITC is repealed; costs are relative to current law					
Rangel 2007	Childless EITC: same as current law but phases in at 15.3% and phases out above $10,900. Max credit is $855.	25–64	No	No	$1,092
EHO 2006-1	Childless EITC: 20% of first $8,330; max credit is $1,666. Phaseout rate 15.98%; begin phaseout at $11,107 for singles, $13,107 for married couples.	21–45	No	No	$9,879
EHO 2006-2	Same as above, reduce lower-earning spouse's earnings by 50 percent.	21–45	Half of lower-earning spouse's earnings	No	$13,455
Berlin 2007-1	Apply current EITC to higher-earning spouse. Add in worker credit for lower-earning spouse, 25% of first $8,280 (max credit is $2,070). Phaseout for worker credit starts at $15,287. For married couples, assume no extended phaseout of credit for lower-earning spouse.	21–54	No, but credit based on secondary earner's wages	30 hours a week, 26 weeks a year	$35,437
Steuerle 2008-1	Separate current EITC into single worker and household child credits. Phase in worker credit at 15.3% on 1-child EITC schedule. Adjust 2-child EITC to phase in on 1-child schedule. Phase worker credit out on 2+ child, unmarried schedule. Reduce maximum 1-child EITC to $2,211; reduce maximum 2-child EITC to $4,074. Worker credit based on individual earnings but phases out at 5% above household earnings of $50,000.	None	No	No	$33,772
Steuerle 2008-2	Same as above, except phase worker credit in at 10%; adjust 1- and 2-child EITC accordingly.	None	No	No	$26,721
Steuerle 2008-3	Same as above, except phase worker credit in at 7.65%; adjust 1- and 2-child EITC accordingly.	None	No	No	$23,705

Source: The Urban Institute, 2008. TRIM3 Microsimulation Model used to estimate costs under 2007 law using the 2004 public-use baseline, inflated to 2007 dollars.

Notes: "EHO" = Edelman, Holzer, and Offner (2006). A number of related reforms that address single childless workers, such as Scholz (2007) and the New Hope Demonstration (Bos et al. 2007), are omitted as they address very select subpopulations.

These goals are met by first eliminating the current no-child EITC and replacing it with a worker credit, based on individual—rather than family—earnings. Because it is based on individual earnings, it contains no marriage penalty. (Recall that a necessary condition for marriage penalties is joint filing.) Meanwhile, because the worker credit substitutes for part of a credit that at times created marriage penalties, the net impact is to reduce those marriage penalties. Simultaneously, it encourages work among moderate-income individuals without children by greatly expanding the credit.

This particular design is aimed at minimizing losers—an issue, Steuerle recognizes, would not be present if designing from scratch. Once the worker credit plus EITC (one- or two-child) is fully phased in, a family in the phase-in range or plateau range of the old EITC with one worker and children receives the same benefit as under current law. A twist is that the worker credit and the remaining EITC fully phase in on the current law's one-child schedule. This prevents any single parents or individuals who receive the EITC under current law from receiving less in combined EITC plus worker credit under the new proposal. Nonetheless, it was necessary to adopt a single phaseout range for the individual worker credit, and that phaseout parallels the EITC for unmarried parents, rather than joint filers. Hence, some single-earner couples, if earnings are concentrated in one earner, might lose if their income is between $15,390 (when the credit but not the remaining EITC starts to phase out) and $37,783 (when that phaseout is complete). Of course, many two-earner couples in this range will be much better off.

The estimated proposal costs below do not restrict the credit to persons within a certain age range or to those who have worked a minimum number of hours. But, such requirements, singly or in combination, could be implemented (similar to Berlin 2007) and would certainly reduce the total cost of the proposal. We simulate the credit at three levels, as shown in tables 2 and 3. The proposals range in cost from $33.8 billion (without requirements) to $23.7 billion (with requirements).

Generally, significant cost savings for each proposal (except Congressman Rangel's) could be achieved by putting in place age limits or work requirements. We do not address here the question of whether work requirements could be enforced.

Analysis of Options

All these proposals would meaningfully augment the credit for many workers who either benefit very little or not at all from the current EITC. Naturally, trade-offs exist between expanding the credit over a larger income range and either increasing costs dramatically or phasing the credit out faster, resulting in higher marginal tax rates. In addition, a trade-off exists between creating "winners" and "losers" in the proposals. The more a proposal varies from the current credit design, the more likely we are to observe "losers"—and sometimes in income ranges covering very vulnerable populations. Note, however, that this "winners" and "losers" calculus is mainly political; there is no inherent reason that the present law design and its distribution of benefits and penalties should be considered equitable or rational just because lawmakers managed to legislate it.

Who Benefits from the Proposals?

Congressman Rangel's proposed doubling of the childless EITC—without any changes in eligibility rules—dictates that only individuals benefiting from the EITC now will benefit if the proposal is enacted into law. The proposal has no net "losers." Every person currently receiving the childless EITC will receive a childless EITC twice as large. The proposal does not separate incentives for work and children—but it does reduce the relative importance of having a child when it comes to benefiting from the EITC.

The rather tight income range over which people are eligible for the proposed EITC guarantees that benefits accrue to very low income individuals. Almost one-third of the benefits from the change proposed by Rangel go to individuals and families with adjusted gross income (AGI) below $5,000. The lion's share of remaining benefits goes to individuals and families with AGI between $5,000 and $10,000 (table 3). On average, their tax liability is reduced by almost $100 (this number includes some people who observe no tax change).

Table 3. Percent of Benefits Received, by Income Class

|	Rangel	EHO-1	EHO-2	Berlin	Steuerle-1	Steuerle-2	Steuerle-3
No income	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Less than $5,000	31.7%	7.6%	6.1%	0.1%	2.0%	1.5%	1.3%
$5,000–$10,000	61.3%	36.0%	27.8%	5.6%	9.5%	8.4%	7.7%
$10,000–$15,000	6.7%	43.4%	34.2%	15.9%	16.8%	16.6%	16.4%
$15,000–$20,000	0.0%	13.1%	12.7%	15.7%	16.6%	17.1%	17.3%
$20,000–$25,000	0.0%	0.1%	3.6%	9.2%	13.5%	14.4%	14.9%
$25,000–$30,000	0.0%	0.0%	4.9%	6.9%	12.0%	13.2%	13.9%
$30,000–$35,000	0.0%	-0.1%	5.4%	7.8%	9.0%	10.3%	11.0%
$35,000–$40,000	0.0%	0.0%	4.0%	7.9%	7.3%	8.1%	8.6%
$40,000–$50,000	0.0%	0.0%	1.3%	12.6%	8.2%	7.3%	6.7%
$50,000–$75,000	0.0%	0.0%	0.0%	13.5%	5.1%	3.1%	2.2%
$75,000–$100,000	0.0%	0.0%	0.0%	3.2%	0.0%	0.0%	0.0%
$100,000–$200,000	0.0%	0.0%	0.0%	1.4%	0.0%	0.0%	0.0%
Over $200,000	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%
Total tax change ($1,000s)	-1,092	-9,000	-12,258	-32,285	-30,768	-24,344	-21,597

Source: Urban Institute calculations using TRIM3 Microsimulation Model.

The proposal exaggerates marriage penalties and subsidies existing under current law. That is, a family with no children that receives a marriage bonus now will receive a larger one, and a family that owes a marriage penalty now pays a larger one under the proposal (figure 5). Marriage penalties for childless individuals marrying a person with children vary.

Proposals by Edelman, Holzer, and Offner go further than that of Rangel—but along the same lines as Rangel, create few changes in who would be eligible for the credit—except along income dimensions. Similar to Rangel, Edelman et al. propose to increase credit rates. Significantly, they also propose that the childless EITC cover a larger swath of income. More radically, they propose disregarding half the lower-earning spouse's earnings (EHO-2)—a move designed to reduce marriage penalties. Recognizing that many single men who could benefit from the EITC fall below the current cutoff age of 25, EHO reduce the lower age limit for the credit from 25 to 21. To partly offset the

added cost, they similarly reduce the upper age limit for the childless credit from 64 to 45. Allowing individuals age 46 to 64 to still qualify for the EITC would add $2.8 million to the credit's cost. Besides conditioning on age, EHO also suggest excluding individuals still in school from receiving the credit as another way to constrain costs (this last cost savings option is not modeled).

Figure 5. Rep. Rangel's Proposal (15.3% of first $5,590, phases out above $10,900) Marriage Penalties and Subsidies in Select Tax Programs for a Couple with No Children in 2007
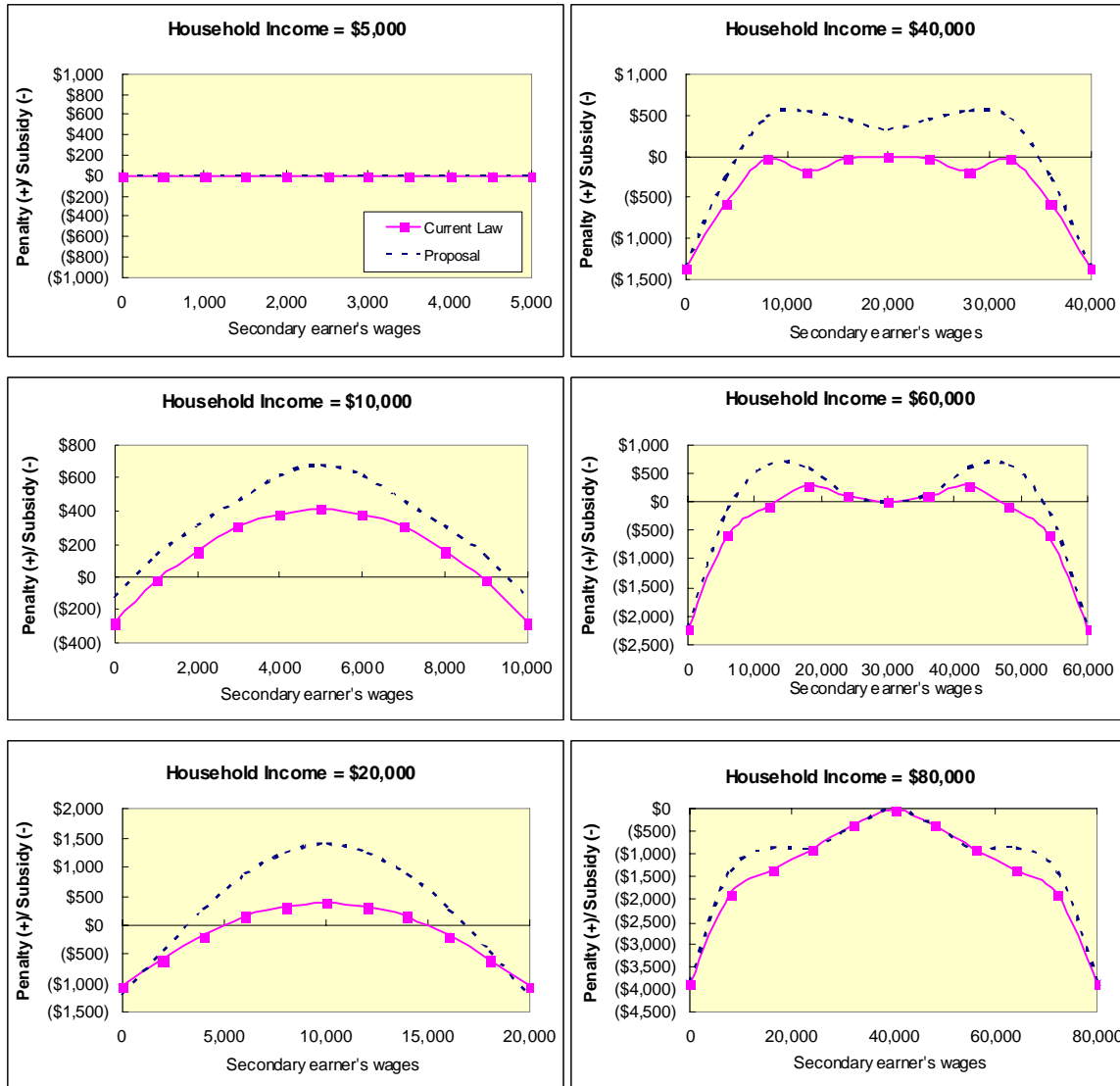
Source: The Urban Institute, 2008.

Note: The secondary earner has earnings ranging from 0% to 100% (in 10% increments) of total household income in each example and had no children before marriage. The primary earner earns the balance and was a single filer without children before marriage.

In Edelman et al.'s proposal, almost 90 percent of the $9 million total benefits from the increased EITC accrues to individuals with incomes below $15,000—and the tax change is significant. On average, people with AGI between $5,000 and $15,000 save $400 in taxes. A very small number of families that currently qualify for the one-child or two-child EITC would see their tax bills rise, if the dependent that qualified them to receive the EITC is newly eligible for his or her own (larger) childless EITC. This happens, for example, when a student below the age of 25 has earnings. The student does not qualify for a childless EITC under current law, but under the proposal, he or she could qualify once the age limits are removed if the rule that a qualifying child cannot qualify for his or her own EITC is also removed. If this were the case, upon qualifying for the new EITC, the student would no longer be used as a qualifying child for his or her parents.

A version of Edelman et al.'s proposal that does more to reduce work disincentives and marriage penalties would only count half the lower-earning spouse's wages in calculating the credit. EHO-2 increases the credit for almost all childless married couples, though a few would lose. Couples with incomes low enough to be in the phase-in range of the credit receive a smaller credit under EHO-2 because they receive 20 cents on the dollar for a smaller total income. Also, for a few couples that would receive the maximum credit, it would push their earnings back into the phase-in range of the credit and receive a smaller amount. Larger numbers of couples would benefit more under this alternative proposal that disregards earnings because they move from beyond the earnings level that qualifies them for a credit to being in the credit range, or they move from the phaseout range of the credit back into the maximum credit range or "plateau." EHO-2 would provide $12 billion to childless couples, earning between $5,000 and $15,000—though some benefits go to couples with higher earnings. About 10 percent of total benefits accrue to families with AGI exceeding $30,000.

In the version of the EHO proposal that does not exclude half the lower-earning spouse's earnings (EHO-1), since the EHO proposals increase EITC benefits for single workers and couples without children, marriage to a parent with children results in a greater penalty under the proposal than under current law. In addition, EHO-2 is still only applicable to a childless couple, so the benefit of this more generous schedule is lost upon marriage to a spouse with children.

Berlin and Steuerle attempt a more radical reform of the EITC. Both give priority to reducing and avoiding marriage penalties. The Berlin proposal eliminates virtually all marriage penalties by moving the EITC to individual filing, while the Steuerle credits virtually reduce marriage penalties across the board by converting a portion of the EITC benefit to individual filing.

The Berlin proposal delivers significant benefits to very low income families. Those with AGI between $10,000 and $20,000 see an average tax cut of over $500. However, families with incomes exceeding the current EITC thresholds also receive a substantial amount of benefits. Some families who are not eligible for the current EITC still benefit from the Berlin proposal, particularly when the spouses have disparate earnings. Rather than the higher earner disqualifying the lower earner from a credit, half the lower-earning spouse's income is removed from the equation, allowing the couple to

retain more of their benefit. As a result, the Berlin proposal also delivers benefits well up the income distribution (into the $75,000–$100,000) range, as shown in table 3. Over a quarter of all benefits paid out by the Berlin proposal would go to families with AGI exceeding $40,000—that is, even in a household earning $100,000 a year, if the low earner's wages are within the qualifying range, the household still receives the Berlin benefit. The Berlin proposal contains costs by requiring substantial work effort throughout the year, which means many workers in the phase-in range of the credit would no longer be eligible for a credit.

The basic component of Steuerle's proposal is to split the EITC into two pieces, one aimed at low-income families with children and one aimed at individual workers. The portion aimed at families with children is set so the sum of that plus the worker credit will equal the current EITC—for families with one worker. Families with two workers benefit by receiving an additional credit for the second earner. We test three variations of the proposal by varying the portion of the credit subsidizing work, not connected with children. Rates on the worker credit vary from 7.65 percent (the employee share of payroll taxes) to 15.30 percent (the employer and employee shares of payroll taxes). We test the intermediate value of 10 percent.

The child portion of the credit is simplified by phasing the credit in over the same range of income, regardless of the number of children in the household—rather than the current EITC, which phases in over different ranges of income based on the number of children. The worker credit phases in over this same range of income but phases out over the two-child single-parent range. This is done to minimize the number of "losers" at the higher income ranges, while not creating a large number of "winners" with one child at the higher income ranges of eligibility. If the credit was completely based on individual filing, we would observe a large number of "winners" at higher income ranges, similar to the Berlin proposal. However, to contain costs, Steuerle phases the worker credit out at a 5 percent rate once joint income exceeds $50,000. This allows Steuerle to deliver benefits slightly more generous than that of Berlin (with the most generous proposal at the lower income ranges) while limiting costs. Steuerle's proposals that rely on smaller credit rates naturally deliver fewer total benefits and smaller benefits than Berlin's proposal to households in most income ranges.

Steuerle's proposal that allows a worker credit of 15.3 percent of earned income delivers almost 80 percent of total benefits to families with AGI below $30,000. Average benefits to families with AGI between $5,000 and $35,000 exceed $400 dollars.

The more money involved in any proposal, the higher the tax rates required to recoup the spending—either through higher phaseout rates on recipient populations or higher tax rates on nonrecipient and recipient populations. We recognize that better work incentives in one part of the income distribution tend to have opposite incentive effects in higher parts of the income distribution. These are among the trade-offs required by the higher-costing Berlin proposals and Steuerle options.

For all these proposals, distributional consequences can be very misleading. Eventually someone must pay for these credits. It is in the ultimate impact of these

changes, as in the context of broader tax reform, that distributional consequences can best be understood. However, we do not examine that option here.

Marriage Subsidies and Penalties

A common baseline for measuring marriage penalties is a couple cohabiting outside the knowledge of the IRS who can pool its financial resources that each adult receives from government programs. In this context, marriage penalties are really the cost or disincentive of taking wedding vows. People who don't care about vows can easily avoid the penalty (except in those rare programs where welfare workers try to somehow police cohabitation and somehow measure when it is more permanent). For low-income populations, the "penalty" of marriage in the tax code (again, excluding welfare programs) centers on reductions in total tax subsidy, while, for cohabiting couples at moderate and higher incomes, it usually consists of increases in tax liabilities. Proposals that increase tax benefits only for single workers naturally tend to increase marriage penalties—hence the adjustments suggested in some of the proposals.

We use a model or calculator that simulates the individual income tax system for stylized workers and family types to calculate the marriage penalties and bonuses introduced as a result of these various proposals. The examples in figures 5–8 all assume that a single worker marries a head of household with two children. The single worker is the primary earner and the head of household is the second earner. Each figure traces marriage subsidies or penalties for this couple assuming it has a joint income of $5,000, $10,000, $20,000, $40,000, $60,000, and $80,000. Within each example, the two lines trace the amount of marriage subsidy/penalty that results as the second earner contributes an increasing share of family income, ranging from 0 to 100 percent. The solid line shows subsidies/penalties under current law while the dashed line shows the subsidies or penalties resulting from the proposal.

Rangel. Representative Rangel's proposal to double the childless EITC would slightly raise marriage penalties relative to current law for lower-income families. The slight effect is mainly because the credit itself is small. Figure 5 shows how marriage penalties play out for stylized couples at select incomes. Take a household with income of $10,000; the solid line traces current law and shows a decline from a marriage subsidy of $4,000 (primary earner earns 100%, second earner earns 0%) to a marriage subsidy/penalty of $0 (primary earner earns 0%, second earner earns 100%). The dashed line shows that a necessary drawback of simply augmenting the current childless EITC is an increase in marriage penalties (really, a reduction in marriage subsidies) relative to current law. At higher incomes the Rangel proposal mainly introduces penalties when the "primary" earner, or person without the children, would have been eligible for the Rangel proposal before marriage. However, for many middle-income families already married, a parallel divorce bonus would arise: that is, if they would divorce, the low earner would now be eligible for a wage subsidy unavailable in the marriage.

Edelman, Holzer, and Offner. The two EHO proposals also augment EITC benefits for single workers. EHO-2 attempts to lessen the penalty by disregarding half the lower-earning spouse's income, effectively extending the phaseout range. However,

because EHO-2 only applies to childless workers who marry, its modest effects are not captured in our example, which assumes a single worker receiving the EHO benefit marries a head of household with two children. The dashed lines in figure 6 shows that the EHO proposal reduces marriage subsidies or raises marriage penalties for all couples

Figure 6. EHO
Marriage Penalties and Subsidies in Select Tax Programs for a Couple with No Children in 2007
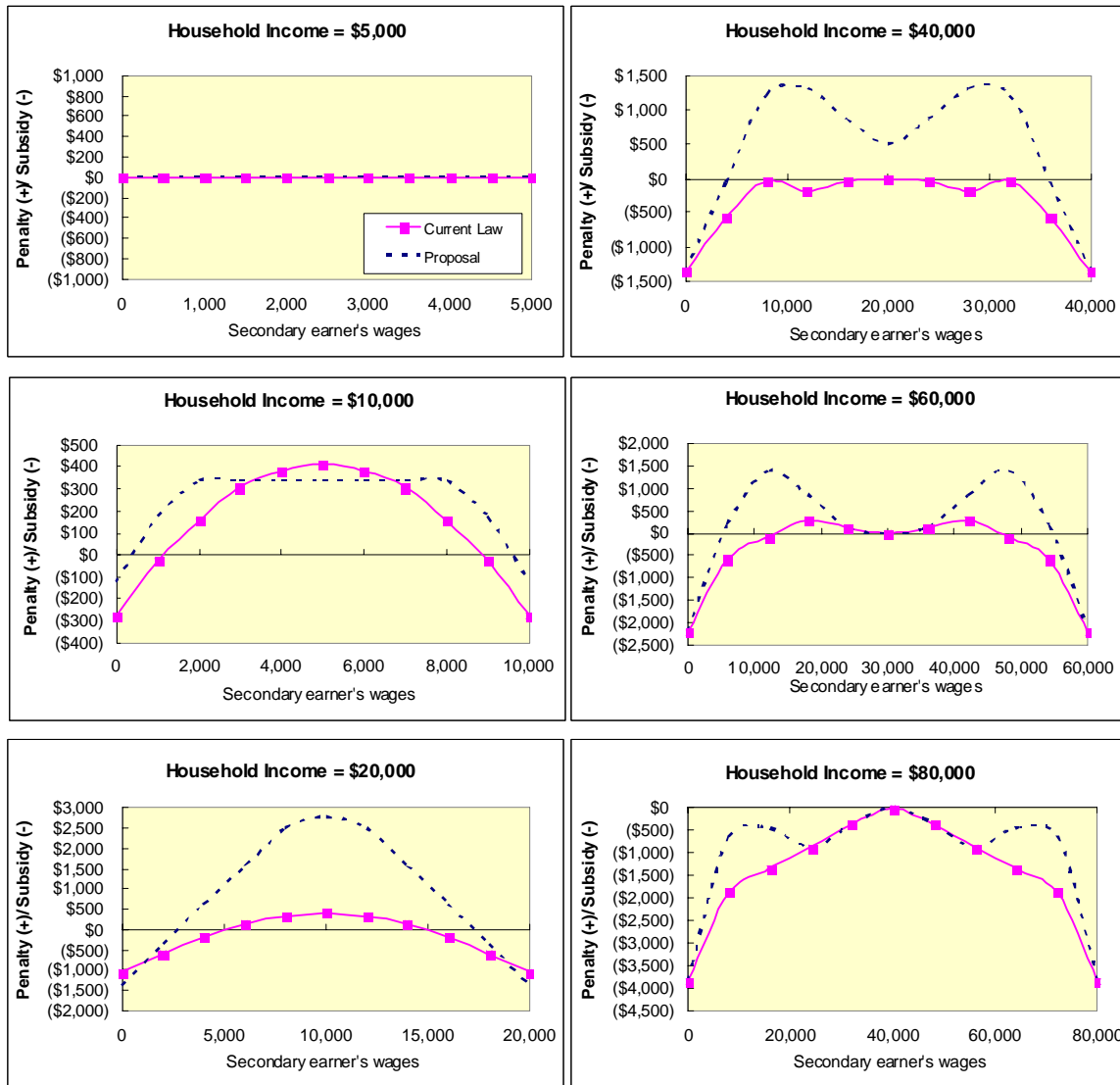
Source: The Urban Institute, 2008.

Note: The secondary earner has earnings ranging from 0% to 100% (in 10% increments) of total household income in each example and had no children before marriage. The primary earner earns the balance and was a single filer without children before marriage.

with incomes of $5,000, $10,000, and $20,000. For higher-earnings couples, EHO increases marriage penalties in the same way that the Rangel proposal does: the spouse with children earns most of the income such that the childless worker qualified for the EHO proposal before marriage. The parallel divorce bonus issue also applies to EHO.

Berlin. By awarding the EITC to the higher-earning spouse but providing the lower-earning spouse with a 25 percent credit, the Berlin proposal significantly raises marriage subsidies or reduces penalties relative to current law for nearly all families, except those with high joint earnings at $80,000. (See figure 7.) The only middle-income families that miss out on the Berlin benefits are those where one spouse tends to earn all or most of the income so the second spouse claims little or no low-earner benefit. One consequence of individual filing, of course, is that greater subsidies or lesser penalties accrue to spouses having similar earnings generally while lower subsidies or higher penalties go to spouses with more disparate earnings.

Steuerle. Because it attempts to serve the political objective of limiting losers, the Steuerle proposal has a similar, but not quite as generous, effect on marriage subsidies and penalties as the Berlin proposal. The Steuerle proposal effectively eliminates or reduces marriage penalties except for joint returns where one spouse earns nearly all the income so the second earner receives little or no worker benefit. Also, because the Steuerle proposal has a built in phaseout for couples, unlike the Berlin proposal, families with joint incomes of $80,000 receive no benefit whatsoever, unlike current law. Figure 8 shows the Steuerle-1 proposal. The Steuerle proposal takes a portion of the EITC and then divides it more finely into separate work and child raising components. It then augments the work component. This effectively allows married couples to maintain the total benefits they received when they were cohabiting—except, at higher incomes, couples lose the benefit due to the joint income phaseout. The Steuerle proposal generally provides the same amount of marriage subsidy or penalty regardless of the income split. (Because our standard example assumes two children, the other variants of the Steuerle proposal show very similar effects on marriage penalties.)

Proposals that enhance the economic position of the individual relative to the couple will increase marriage penalties or lower marriage subsidies. Conversely, proposals that move toward individual filing or otherwise increase the thresholds for joint filing in proportion with single filing will raise subsidies and lessen or remove penalties, but with potential trade-offs of higher revenue cost and extending benefits—and associated benefit phaseout rates—to families (much) higher up the income distribution that might not be regarded as deserving.

Figure 7. Berlin Proposal
Marriage Penalties and Subsidies in Select Tax Programs for a Couple with Two Children in 2007
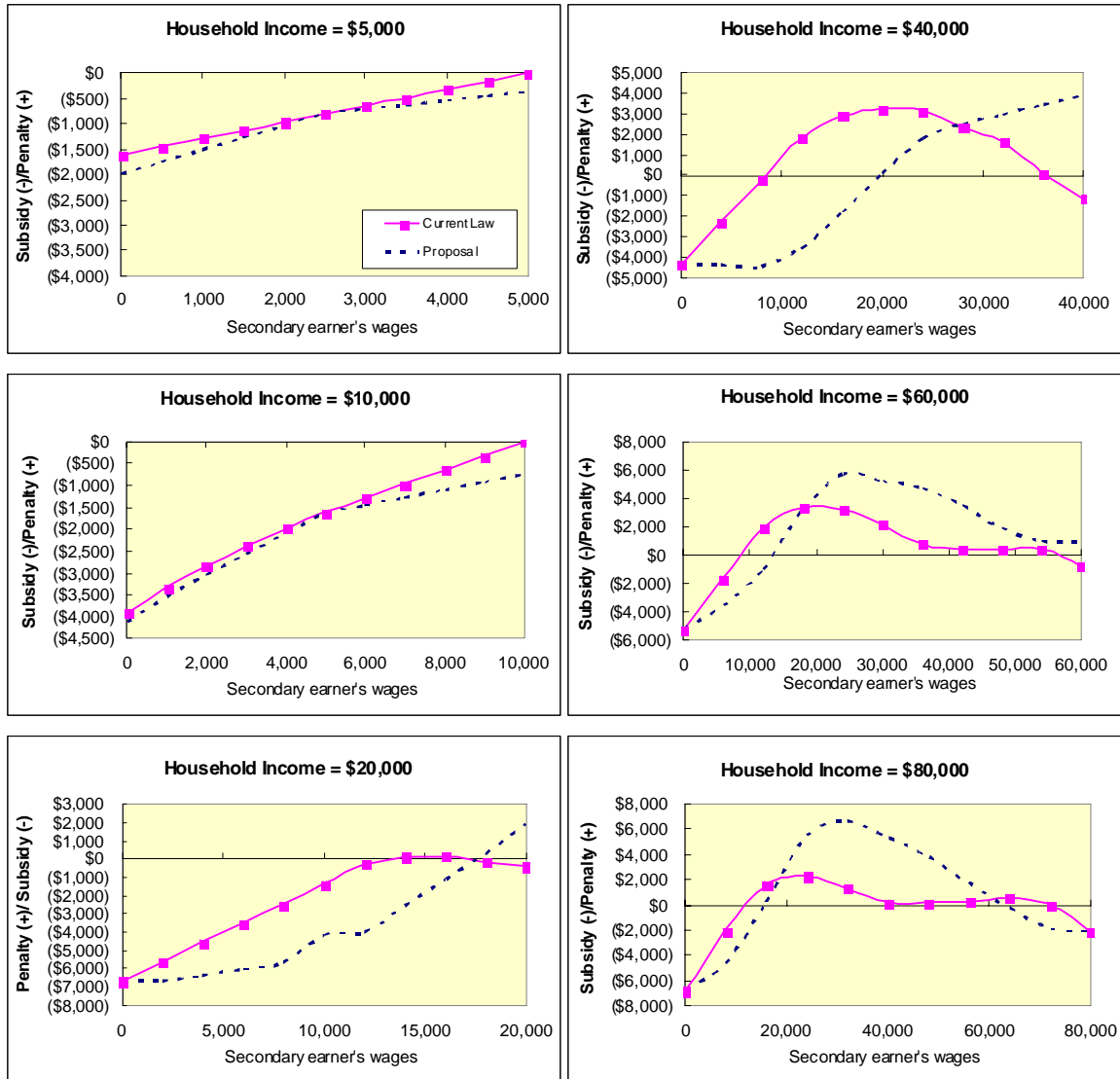
Source: The Urban Institute, 2008.

Note: The secondary earner was a head of household with two children before marriage. Her earnings range from 0% to 100% (in 10% increments) of total household income in each example. The primary earner earns the balance and was a single filer without children before marriage.
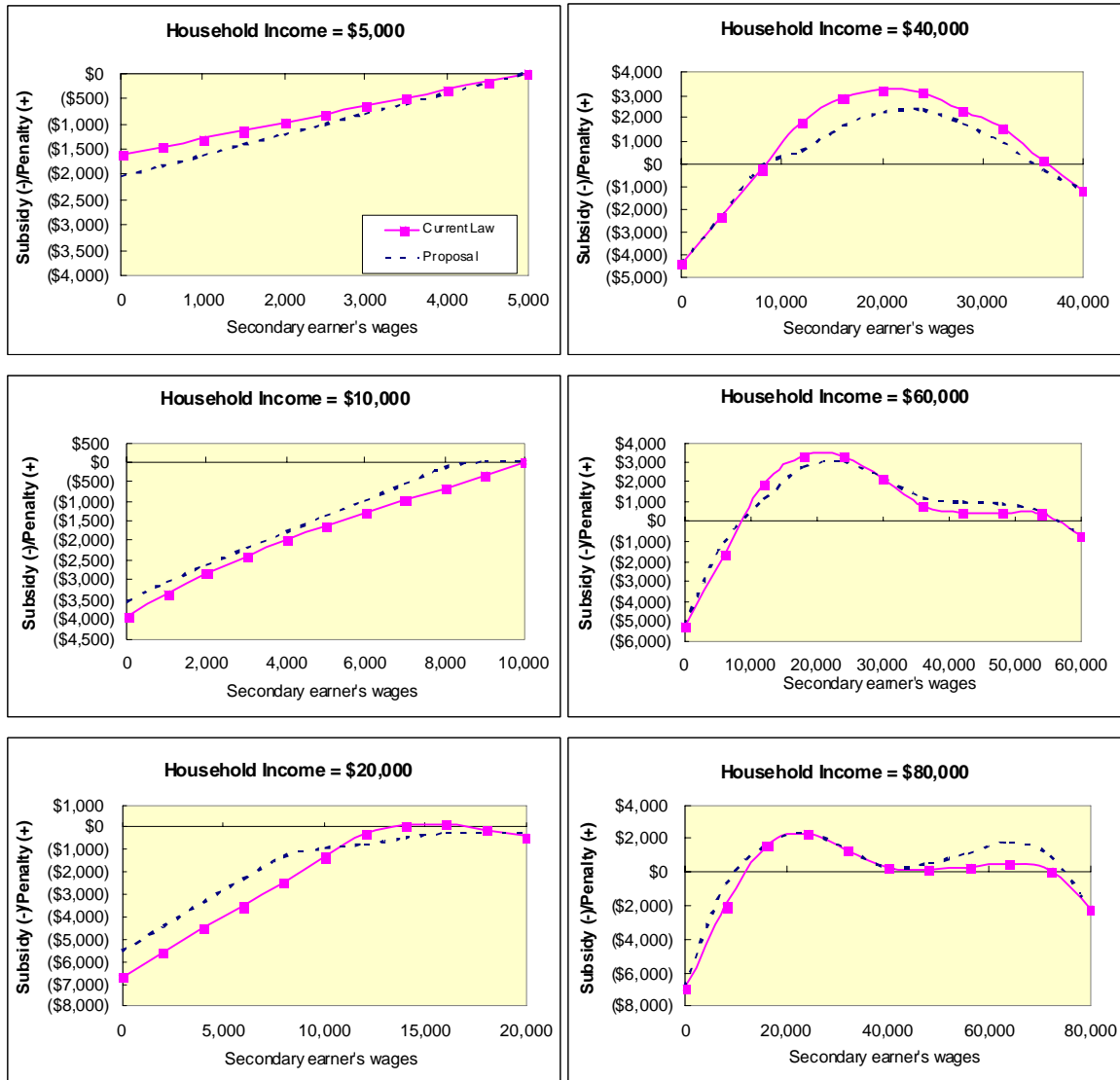
Figure 8. Steuerle Option 1
Marriage Penalties and Subsidies in Select Tax Programs for a Couple with Two Children in 2007

Source: The Urban Institute, 2008.

Note: The secondary earner was a head of household with two children before marriage. Her earnings range from 0% to 100% (in 10% increments) of total household income in each example. The primary earner earns the balance and was a single filer without children before marriage.

Broader Themes

Clearly, design issues are thorny. Government programs all have benefits and costs, and costs rise along with benefits. While it is possible *simultaneously* to provide work incentives for low- and moderate-income individuals largely left out of the current social welfare system and to reduce or avoid additional marriage penalties, it is not possible to do so without spending additional money or reducing benefits for some who now receive them. And spending more money requires phaseouts or direct taxes to cover the costs. Some of these trade-offs are political as much as economic. At a given level of cost, we might be very happy with a simplified reform structure

Additionally, work incentives raise issues of administration. This is particularly true for those proposals shown in table 2 that would limit the enhanced credit to workers who satisfied weekly or yearly hours requirements. Such scrutiny either implies increased wage reporting data from employers or even the assistance of state and local welfare agencies to verify workers' paychecks. A major issue is the self-reporting of the self-employed and how wage "rates" would be calculated or policed. Phelps (1997) and others have sympathy for moving in this direction but seldom have tackled the enforcement issue.

At several points we have raised the issue of costs. These now need to be brought into a broader perspective. Even the highest costing proposal examined here involves only a fraction of one year's worth of projected growth in government health subsidies, which are rising at over $50 billion a year and over $300 billion annually within about five years. Direct expenditures present many of the same dilemmas posed here. For instance, even programs without phaseouts have negative tax effects; those effects are simply put more completely in the tax side of the budget rather than incorporated partly into phaseouts on the expenditure side. Unfortunately, researchers tend to examine the tax system separately from the expenditure system, but it is usually a distinction without merit.

From another perspective, the cost of every proposal examined here is more than fully covered simply by the currently scheduled decline in the relative value of current tax code subsidies for low-income workers and children. Thus, the EITC and dependent exemption rise with inflation, but the child credit does not. And as share of payroll or GDP, all these programs lose ground (figure 9). Consider also that the enhanced child credit ($1,000 rather than $500) is scheduled to expire in 2010 and that the looming alternative minimum tax threatens to effectively repeal the dependent exemptions for nearly all married couples earning above $75,000 a year (Carasso et al. 2005). Many reforms noted here might only be a moderate part of a larger reform of the tax treatment of low-income workers and children.

Perhaps most important, we have not here estimated the benefits of reform based on additional work and less money spent on incarceration—not to mention the future output of children of low-income parents to the extent that they gain from a more stable work and marriage-friendly environment. Of course, many other policy changes are needed as well—including more effective education and training, reductions in

24

incarceration (or more work supports for those previously incarcerated), and changes in child support policy. The last issue is especially crucial, since noncustodial fathers in arrears now see their EITC benefits withheld under current enforcement policies, thus generating no benefit to them (at least until their arrears are paid off) from working. Hence, extensions of the EITC along the dimensions described above should be incorporated into a broader policy effort to encourage work and marriage for this group.

Figure 9. If Family Tax Benefits Grew with GDP
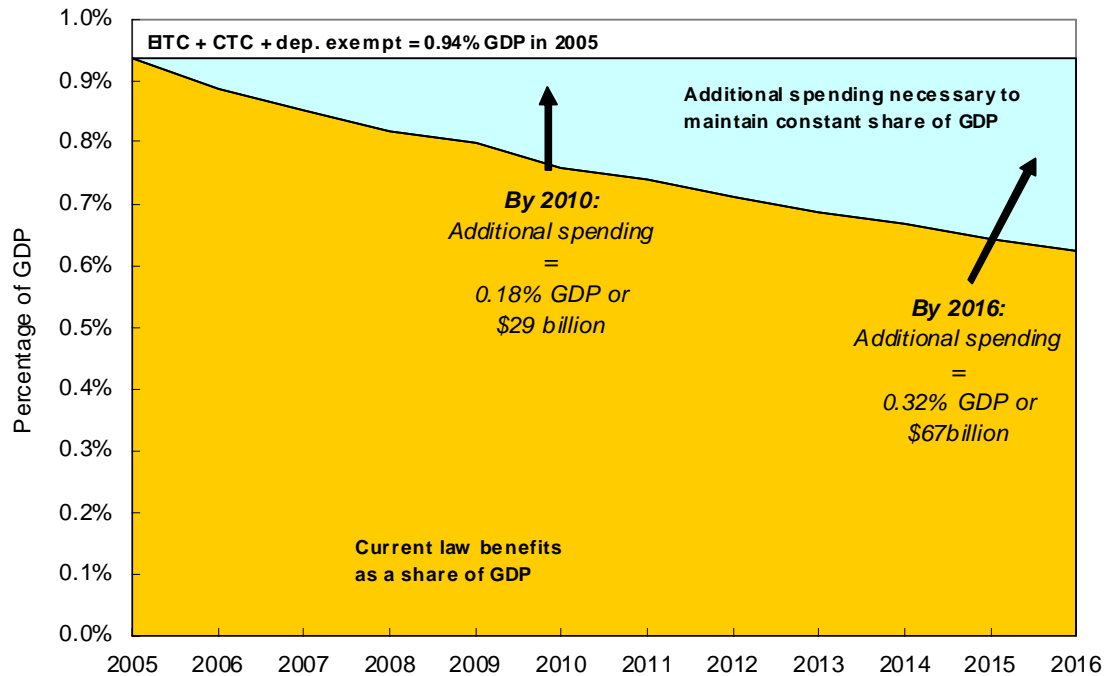
Source: Carasso, Holzer, and Steuerle, The Urban Institute, 2006.

Note: Assumes 2001–04 tax cuts are permanently extended; otherwise, much more would need to be spent each year after 2010 to keep these programs constant relative to GDP.

Conclusion

Low-income men without children, and especially those who are African American, have left the workforce in great numbers in recent years, for a variety of reasons—especially their poor earnings opportunities. Current tax and welfare law discourages them from work by penalizing work, savings, and marriage—making government resources available more through unemployment or incarceration than through work or family involvement. This paper has surveyed and simulated a range of proposals that seek to transform the currently small childless EITC into more of an individual work credit for low-income men and their families and for single women without children. Cost estimates and a thorough examination of the marriage penalties have been provided. The

goal has been to provide the most comprehensive analysis to date of individual worker incentives that rely upon an EITC-type of structure.

References

Acs, Gregory, and Elaine Maag. 2005. "Irreconcilable Differences? The Conflict between Marriage Promotion Initiatives for Cohabiting Couples with Children and Marriage Penalties in Tax and Transfer Programs." *Assessing the New Federalism* Brief B-66. Washington, DC: The Urban Institute.

Aron-Dine, Aviva, and Arloc Sherman. 2007. "Ways and Means Committee Chairman Charles Rangel's Proposed Expansion of the EITC for Childless Workers: An Important Step to Make Work Pay." Washington DC: Center on Budget and Policy Priorities.

Berlin, Gordon. 2007. "Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families." *The Future of Children* 17(2): 17–42.

Berube, Alan, David Park, and Elizabeth Kneebone. 2008. "Metro Raise: Boosting the Earned Income Tax Credit to Help Metropolitan Workers and Families." Washington, DC: The Brookings Institution.

Blank, Rebecca. 2002. "Evaluating Welfare Reform in the United States." *Journal of Economic Literature* 40(4): 1105–56.

Bos, Hans, Greg Duncan, Lisa Gennetian, and Heather Hill. 2007. "New Hope: Fulfilling America's Promise to 'Make Work Pay.'" Discussion Paper 2007-16, *The Hamilton Project*. Washington, DC: The Brookings Institution.

Carasso, Adam, and C. Eugene Steuerle. 2005. "The Hefty Penalty on Marriage Facing Many Households with Children." *The Future of Children* 15(2):151–75.

Carasso, Adam, Jeffrey Rohaly, and C. Eugene Steuerle. 2005. "A Unified Children's Tax Credit." *National Tax Association Proceedings: 97th Annual Conference on Taxation*. Washington, DC: National Tax Association.

Duncan, Greg, Alesha Huston, and Frank Weisner. 2007. *Higher Ground*. New York: Russell Sage Foundation.

Edelman, Peter, Harry Holzer, and Paul Offner. 2006. *Reconnecting Disadvantaged Young Men*. Washington, DC: Urban Institute Press.

Eissa, Nada, and Jeffrey Liebman. 1996. "Labor Supply Response to the Earned Income Tax Credit." *The Quarterly Journal of Economics* 111(2): 605–37.

Ellwood, David. 1982. "Teenage Unemployment: Permanent Scars or Temporary Blemishes?" In *The Youth Labor Market Problem,* edited by Richard B. Freeman and David A. Wise (349–90). Chicago: University of Chicago Press.

Forman, Jonathan Barry, Adam Carasso, and Mohammed Adeel Saleem. 2005. "Designing a Work-Friendly Tax System: Options and Tradeoffs." Discussion Paper 20. Washington, DC: Urban-Brookings Tax Policy Center.

Freeman, Richard, and Harry Holzer, eds. 1986. *The Black Youth Employment Crisis*. Chicago: University of Chicago Press.

Gould, Eric, Bruce Weinberg, and David Mustard. 2002. "Crime Rates and Local Labor Market Opportunities in the United States, 1979–97." *Review of Economics and Statistics* 84(1): 45–61.

Grogger, Jeffrey. 1998. "Market Wages and Youth Crime." *Journal of Labor Economics*. 16(4): 756–91.

Holzer, Harry. 1994. "Black Employment Problems: New Evidence, Old Questions." *Journal of Policy Analysis and Management* 13(4): 699–722.

Holzer, Harry. Forthcoming. "Collateral Costs: The Effects of Incarceration on Employment and Earnings of Young Men." In *Do Prisons Make Us Safer? The Benefits and Costs of the Prison Boom,* edited by Steven Raphael and Michael Stoll. New York: Russell Sage Foundation.

Holzer, Harry, and Paul Offner. 2006. "Trends in the Employment Outcomes of Young Black Men, 1979–2000." In *Black Males Left Behind*, edited by Ronald B. Mincy (11–38). Washington DC: Urban Institute Press.

Holzer, Harry, Paul Offner, and Elaine Sorensen. 2005. "Declining Employment among Young Black Less-Educated Men: The Role of Incarceration and Child Support." *Journal of Policy Analysis and Management* 24(2): 329–50.

Holzer, Harry, Diane Schanzenbach, Greg Duncan, and Jens Ludwig. 2007. *The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor*. Washington DC: Center for American Progress.

Juhn, Chinhui. 1992. "Decline of Male Labor Force Participation: The Role of Declining Market Opportunities." *Quarterly Journal of Economics* 107(1): 79–121.

Juhn, Chinhui, Robert Topel, and Kevin Murphy. 1991. "Why Has the Natural Rate of Unemployment Increased through Time?" *Brookings Papers on Economic Activity 1991: 2.* Washington, DC: Brookings Institution Press.

Katz, Lawrence F., and David Autor. 1999. "Changes in the Wage Structure and Earnings Inequality." In *Handbook of Labor Economics.* Amsterdam: North-Holland.

Ludwig, Jens. 2006. "The Costs of Crime." Testimony to the U.S. Senate Committee on the Judiciary, September 19.

Maag, Elaine and Adam Carasso. 2007. "Taxation and the Family: What Is the Child Tax Credit?" *The Tax Policy Briefing Book*. Washington, DC: Urban-Brookings Tax Policy Center. http://www.taxpolicycenter.org/briefing-book/key-elements/family/ctc.cfm.

———. 2008. "Taxation and the Family: What Is the Earned Income Tax Credit?" *The Tax Policy Briefing Book*. Washington, DC: Urban-Brookings Tax Policy Center. http://www.taxpolicycenter.org/briefing-book/key-elements/family/eitc.cfm.

Mead, Lawrence. 2007. "Toward a Mandatory Work Policy for Men." *The Future of Children* 17(2): 43–72.

Meyer, Bruce, and Daniel Rosenbaum. 2001. "Welfare, the Earned Income Tax Credit, and the Labor Supply of Single Mothers." *Quarterly Journal of Economics* 116(3): 1063–114.

Mincy, Ronald B., ed. 2006. *Black Males Left Behind*. Washington DC: Urban Institute Press.

Neumark, David. 2002. "Youth Labor Markets in the United States: Shopping Around v. Staying Put." *Review of Economics and Statistics* 84(3): 462–82.

Phelps, Edmund S. 1997. *Rewarding Work: How to Restore Participation and Self Support to Free Enterprise*, Harvard University Press.

Pirog, Maureen, and Kathleen Ziol-Guest. 2006. "Child Support Enforcement: Programs and Policies, Impacts and Questions." *Journal of Policy Analysis and Management* 25(4): 943–90.

Primus, Wendell. 2002. "Improving Public Policies to Increase the Income and Employment of Low-Income Non-Custodial Fathers." Washington, DC: Center on Budget and Policy Priorities.

Raphael, Steven. 2007. "Boosting the Earnings and Employment of Low-Skilled Workers in the United States: Making Work Pay and Removing Barriers to Employment and Social Mobility." Berkeley: University of California, Berkeley.

Scholz, John Karl. 2007. "Employment-Based Tax Credits for Low-Skilled Workers." Discussion Paper 2007-14, *The Hamilton Project*. Washington, DC: The Brookings Institution.

Sorensen, Elaine, Heather Koball, Kate Pomper, and Chava Zibman. 2003. "Examining Child Support Arrears in California: The Collectibility Study." Washington, DC: The Urban Institute.

Steuerle, C. Eugene. 1999. "Valuing Marital Commitment: Radical Restructuring of Our Tax and Transfer Systems." *The Responsive Community* 9(2): 35–45.

Western, Bruce, and Becky Pettit. 2000. "Incarceration and Racial Inequality in Men's Employment." *Industrial and Labor Relations Review* 54(1): 3–16.

Wheaton, Laura, and Elaine Sorensen. 2007. "The Potential Impact of Increasing Child Support Payments to TANF Families." *Perspectives on Low-Income Working Families* Brief 5. Washington, DC: The Urban Institute.

Wilson, William. 1987. *The Truly Disadvantaged*. Chicago: University of Chicago Press.

Appendix A. TRIM Modeling

The federal tax module in the TRIM3 model was used to estimate costs for all the proposals discussed in this paper. The model is publicly available to registered users at trim.urban.org. All modeling began with the 2004 baseline (the most recent publicly available baseline at the time modeling work began). We modeled 2007 law by deflating 2007 parameters to 2004 using the CPI-U (http://data.bls.gov/cgi-bin/surveymost). The baseline simulation uses data from the March 2005 CPS, which reports 2004 incomes.

We attempted to model proposals by other authors as closely as possible to those described in their various papers. To provide cleaner comparisons, we modeled all programs in 2007 law. To do this, we assumed proposals by other authors were subject to annual inflation, similar to the current EITC. If the authors did not intend to inflate the parameters of their proposals over time, then the cost estimates presented here overestimate the cost of the proposal.

In addition, TRIM3 estimates of the baseline vary from actual tax data. This occurs because TRIM3 finds too few people eligible for the EITC compared with actual IRS data. This could be a function of incorrect reporting on the CPS or errors in who receives the credit from the IRS. Wheaton (2008) explores this in detail.

Table A1 shows the results of the 2004 baseline compared with IRS data concerning the EITC. Overall, the baseline (from which all changes in this report are measures) captures 83.7 percent of returns claiming an EITC and 71.4 percent of the dollar amount. Although it is unclear to what extent noncompliance explains why the baseline does not capture the same totals as IRS data, and we do not know how noncompliance will play out under the new proposals, it might be safest to think of the estimates in this paper as lower-bound estimates. Unless there is a reason to think there would be differential noncompliance under the various proposals simulated in this analysis, relative comparisons of the proposals should be accurate.

Specifics in Modeling Proposals

Rangel—This proposal required no new programming. The parameters of the EITC were updated using the proposed parameters, as shown in table 2 of the text.

EHO—To model this proposal, we updated the parameters of the current EITC, per table 2. To model the earnings disregard, we implemented new programming, which based the EITC on the sum of the higher-earning spouse's earned income plus the lower-earning spouse's earned income. No other EITC parameters were changed.

Berlin—This proposal required new programming. The EITC was reprogrammed to be based only on the higher-earning spouse's earned income. Next, a new credit was implemented for the lower-earning spouse. To qualify for this credit, the lower earner must have worked 26 weeks during the year for 30 hours a week. We specified these limits using the CPS variables WKSWORK (weeks worked last year, even for a few hours [include paid vacation and sick leave]) and PEHRUSLT (number of hours usually worked per week at all jobs). No hours or work requirement was imposed for the higher-earning spouse, who continued to receive the EITC, with the new parameters specified.

The current law limitation on capital gains was used. Because we do not have information on how capital gains are distributed between the head and spouse, if joint capital gains exceeded the limit, individuals were disqualified from the credit.

Steuerle—This proposal required new programming. The new EITC parameters were entered. A new worker credit was implemented that applied to individual earnings. The current law limitation on capital gains was used. Just as in Berlin, because we do not have information on how capital gains are distributed between the head and spouse, if joint capital gains exceeded the limit, individuals were disqualified from the credit. In addition, the worker credit was phased out with joint earnings.

Additional information on the modeling of these credits—including run names available on the public TRIM3 server—is available by contacting Elaine Maag via the Urban Institute.

Table A1. TRIM Results Compared with Unedited IRS Data

Adjusted Gross Income class	No Qualifying Children		One Qualifying Child		Two or More Qualifying Children		Total	
	Returns (thousands)	Amount (millions)	Returns (thousands)	Amount (millions)	Returns (thousands)	Amount (millions)	Returns (thousands)	Amount (millions)
Baseline simulation								
Less than $5,000	1,735	350	690	590	707	715	3,131	1,655
$5,000–$10,000	2,575	658	684	1,599	837	2,604	4,096	4,860
$10,000–$15,000	840	54	940	2,412	1,173	4,881	2,953	7,348
$15,000–$20,000	0	0	1,007	2,040	1,365	4,862	2,372	6,903
$20,000–$25,000	0	0	1,151	1,412	1,313	3,358	2,464	4,769
$25,000–$30,000	0	0	1,008	473	1,321	1,954	2,329	2,428
$30,000+	0	0	159	13	1,089	605	1,305	619
Total, all returns	5,150	1,062	5,638	8,540	7,862	18,979	18,649	28,580
IRS unedited data								
Less than $5,000	1,832	393	766	828	528	721	3,126	1,942
$5,000–$10,000	2,210	593	1,598	3,737	1,151	3,404	4,959	7,734
$10,000–$15,000	647	38	1,559	3,950	1,930	7,955	4,136	11,943
$15,000–$20,000	0	0	1,622	3,323	1,676	5,934	3,299	9,257
$20,000–$25,000	0	0	1,464	1,829	1,597	4,076	3,060	5,906
$25,000–$30,000	0	0	1,181	586	1,364	2,092	2,545	2,677
$30,000+	0	0	121	12	1,023	554	1,144	566
Total, all returns	4,690	1,024	8,311	14,264	9,269	24,736	22,270	40,024
Baseline simulation/IRS unedited data								
Less than $5,000	94.7%	89.1%	90.1%	71.3%	133.8%	99.2%	100.1%	85.2%
$5,000–$10,000	116.5%	111.0%	42.8%	42.8%	72.7%	76.5%	82.6%	62.8%
$10,000–$15,000	129.8%	142.1%	60.3%	61.1%	60.8%	61.4%	71.4%	61.5%
$15,000–$20,000	-	-	62.1%	61.4%	81.4%	81.9%	71.9%	74.6%
$20,000–$25,000	-	-	78.6%	77.2%	82.2%	82.4%	80.5%	80.8%
$25,000–$30,000	-	-	85.3%	80.7%	96.9%	93.4%	91.5%	90.7%
$30,000+	-	-	131.7%	110.4%	106.5%	109.2%	114.1%	109.4%
Total, all returns	109.8%	103.7%	67.8%	59.9%	84.8%	76.7%	83.7%	71.4%