

Making the EITC work for Low-Income, Non-Custodial Fathers

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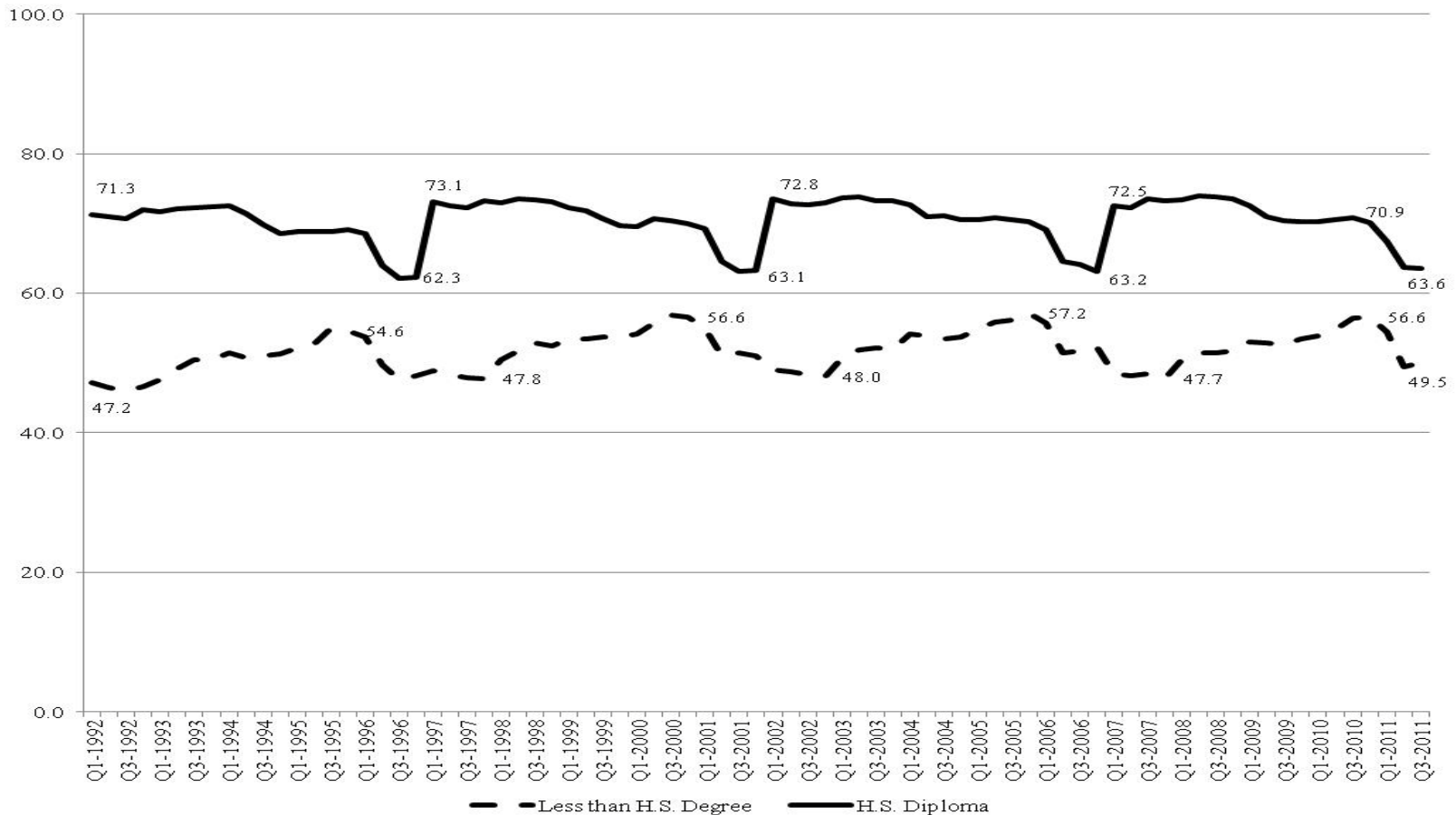


Center for Research on Fathers,
Children and Family Well-Being

 COLUMBIA UNIVERSITY
IN THE CITY OF NEW YORK

Skip Problem 1: Stagnant/Falling Employment to Population Ratio

Men, 25 years old and older, by education, 1992-2011



Responses to Date are Inadequate

- Evidence shows conditional cash transfers
 - ↑ motivate work and other pro-social behavior and
 - ↓ public assistance caseloads
 - Several states have offered enhanced EITCs to NCPs.
- The goal:
 - ↑ work and child support payments among low to moderate-income NCPs
 - Offset regressive payroll and (state) income taxes.

Problem 2: Low-income NCPs penalized by regressive tax policies

Table 1: Impact of Federal Taxes and Child Support on Income and Poverty Status of Custodial and Noncustodial Parents with a Full-Time Job

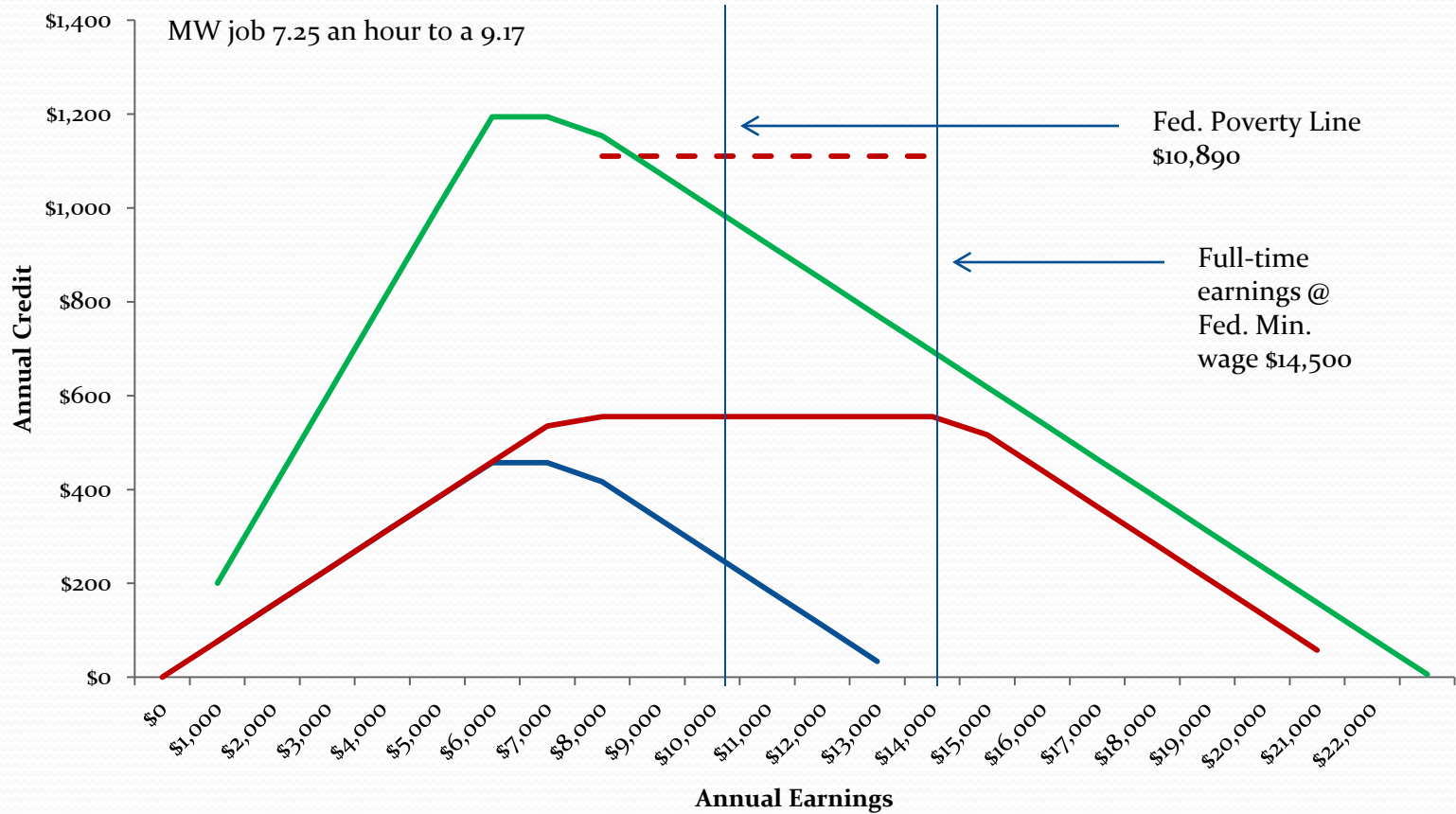
	Custodial Parent	Noncustodial Parent
Earnings (full-time minimum wage job)	\$12,775	\$12,775
As a Percent of Poverty	74%	114%
Payroll Tax	\$977	\$977
Federal Tax (before credits)	\$0	\$382
Refundable Child Tax Credit	\$641	\$0
Earned Income Tax Credit	\$4,824	\$8
Earnings Less Taxes, Plus Credits	\$17,263	\$11,423
As a Percent of Poverty	100%	102%
Child Support	\$3,194	(\$3,194)
Income after Taxes, Credits, and Child Support	\$20,456	\$8,229
As a Percent of Poverty	118%	73%

Note: This example reflects the 2008 minimum wage, tax rules, and poverty thresholds. The example assumes that there are two children who live with the custodial parent, and that the child support order is set to 25 percent of the noncustodial parent's gross income (earnings). The custodial family's poverty threshold is \$17,346, the threshold for a single adult with two children. The noncustodial parent's threshold is \$11,201, the amount for a single individual.

Problem 3: Barriers to Claiming the EITC among NCPs

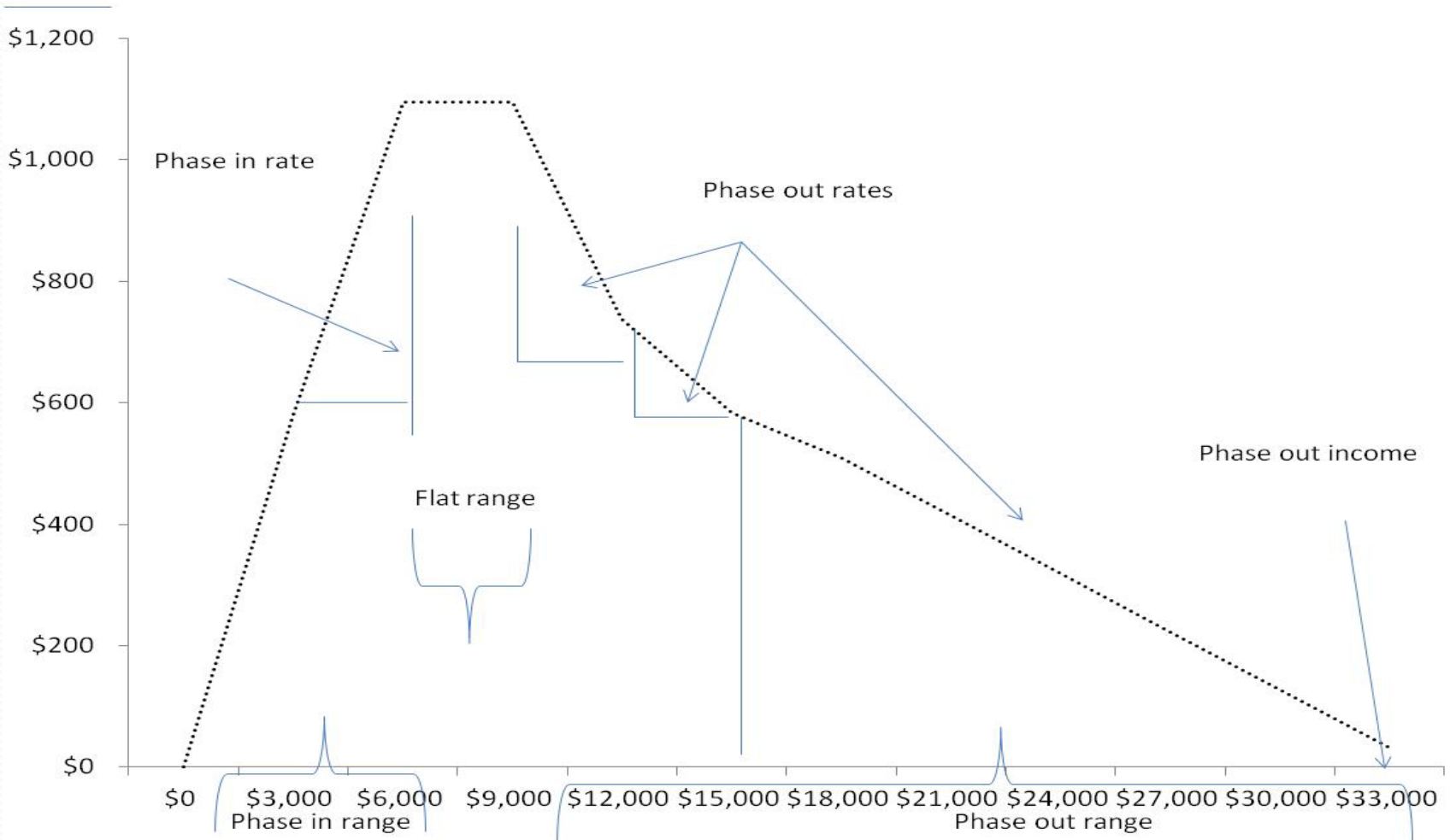
- Low, irregular, earnings from informal economy
- Limited awareness / knowledge of the existing childless worker credit
- Transaction costs of filing taxes outweigh the proposed benefit.

EITC at the Federal Level it was modelled on NEW York State, So let's examine NY State.)



- Existing Federal EITC for Childless Workers
- Bayh-Obama (S. 1626)
- Bayh-Obama Bonus for Full Compliance
- Julia Carson (S. 2979)

The NY State NCP EITC: How it works



Limitations of the NY EITC in Practice

- Underutilized
 - In 2006:
 - 42,930 NCPs (11% of NCPs with current child support orders) met all of the eligibility criteria for the credit.
 - 5,280 NCPs (13% of eligible NCPs) received the credit.*
- Credits are inadequate
- The child support requirements undermine the work incentives for the lowest income NCPs who are:
 - least likely to have formal child support orders or
 - most likely to default on their child support orders

*

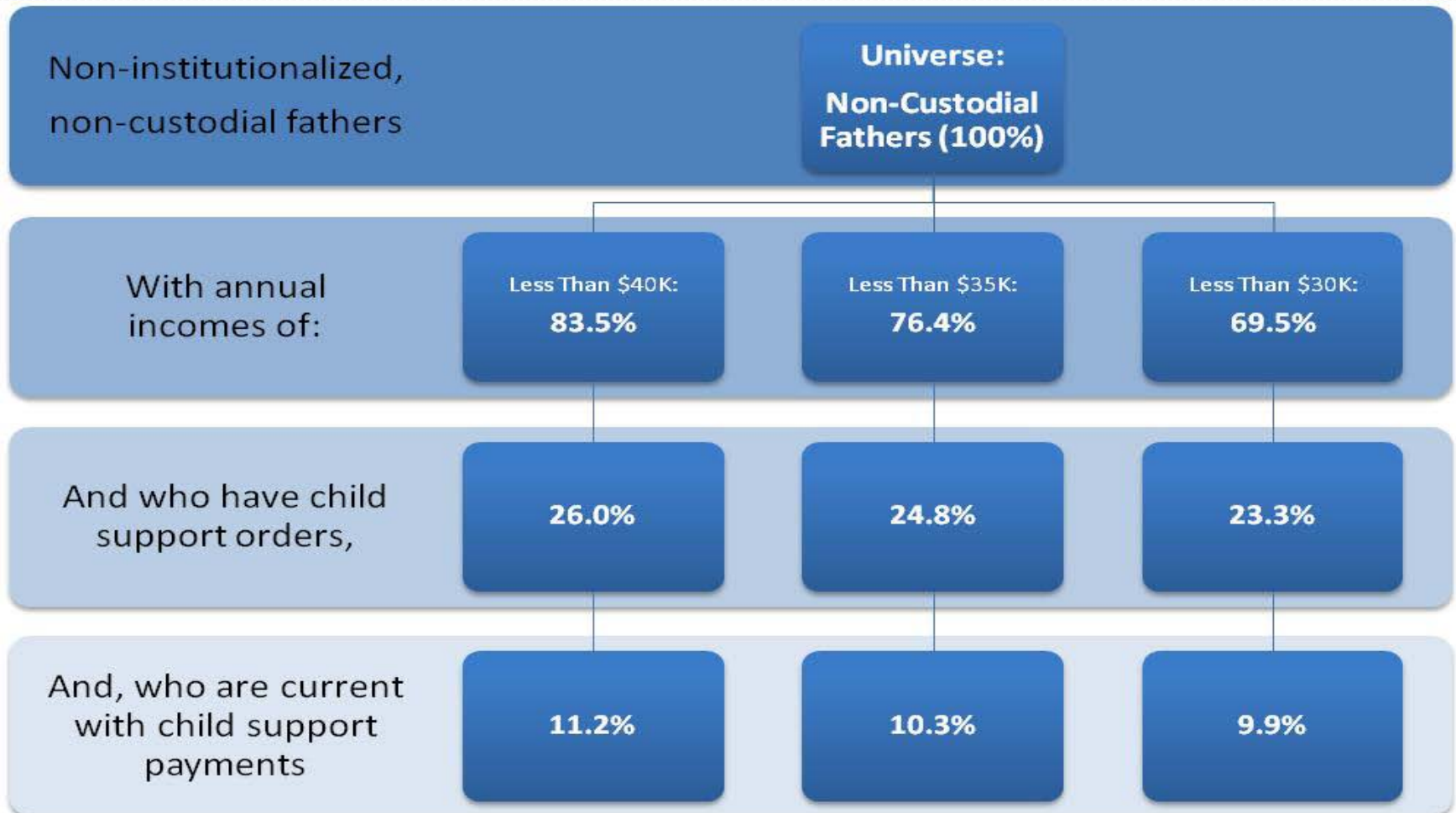
Sorensen, E. (2010). New York Noncustodial Parent EITC: Implementation and First-Year Findings. The Urban Institute.
<http://www.urban.org/publications/412125.html>

Problem 4: Poor NCPs cannot pay CS & make ends meet.

Monthly Child Support Obligation, Income, and Expenses Assuming Father's Annual Income of \$10,890 (2010)

State	Dist. of Columbia	Texas	New York	California	Alabama	Florida
City	D.C.	Austin	New York Pct. of	Oakland	Birmingham	Jacksonville
Guidelines Model	Hybrid	Income Shares	Obligor's Income	Income Shares	Income Shares	Income Shares
Child Support Obligation	50	91	139	158	183	197
Food Stamps	160	160	160	160	160	160
Taxes & Credits						
Federal Taxes	139	139	139	139	139	139
State Taxes	553		450	174	303	
Payroll Taxes	833	833	833	833	833	833
Existing Federal Childless EITC	457	457	457	457	457	457
Additional state NCP EITC	1207		928			
Expenses						
Food ^a	283	283	283	283	283	283
Housing	1328	558	1280	1183	673	716
Healthcare	90	86	91	87	91	89
Transportation	114	220	263	265	227	231
Other	435	227	422	396	258	270
Net disposable income	-1045	-822	-1308	-1836	-1283	-1037

Problem 5: Orders and Compliance



In their own words, ...

- CRFCFW conducted a qualitative study with 43 non-custodial fathers in New York who were income-eligible for the NCP EITC.
- The study found that child support obligations hamper non custodial fathers' abilities to make ends meet. Because they don't pay child support first and other expenses later.

Out of work, but the bills keep coming -

David, Age 24, Chautauqua, NY

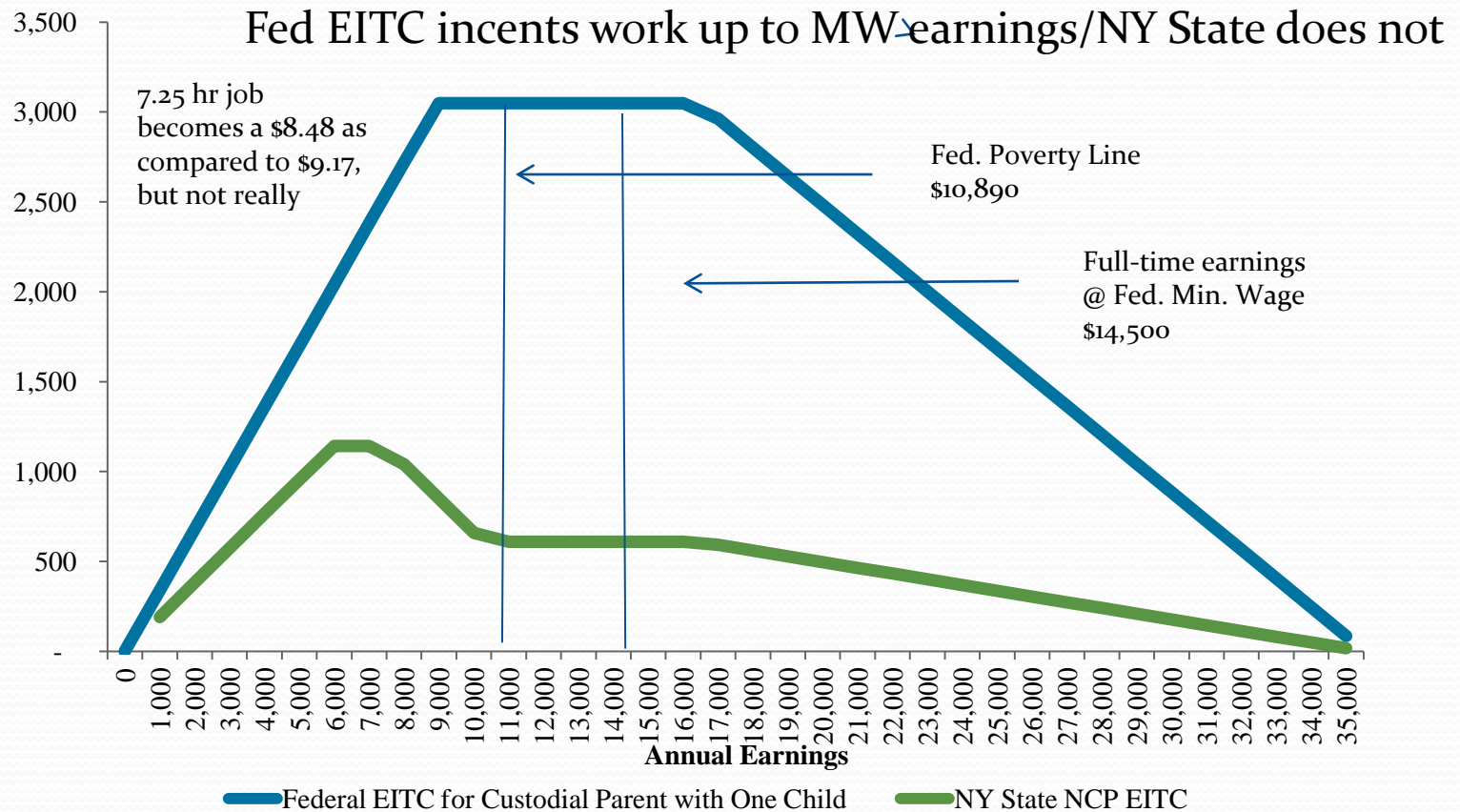
Demographics: White father, 24 years old
Non-resident Child: 2 year-old daughter
Resident Children: 2 year-old daughter and 5 year old step-son
Income: Currently unemployed; total income for 2008
between \$20,000 - \$30,000
Weekly Order: Previously \$108; modified to \$28
Arrears: \$4,000

Well, like I said, I receive the food stamps, so that helps, you know, with the food bill. But the unemployment makes, you know, kind of - you have to divide, you know, what needs to be paid week by week by week. Sometimes I have an off week and I don't have to pay anything. But my landlord. He's a stickler, so I've got to pay him \$100 every week, you know, to make up for my rent and then I'll go through, you know, what, like insurance needs to be paid, electric needs to be paid, gas needs to be paid - gas does need to be paid. You know, then you got gas for your vehicles, and your house supplies, you know, and just everyday things that you need.

The NCP EITC as an Asset

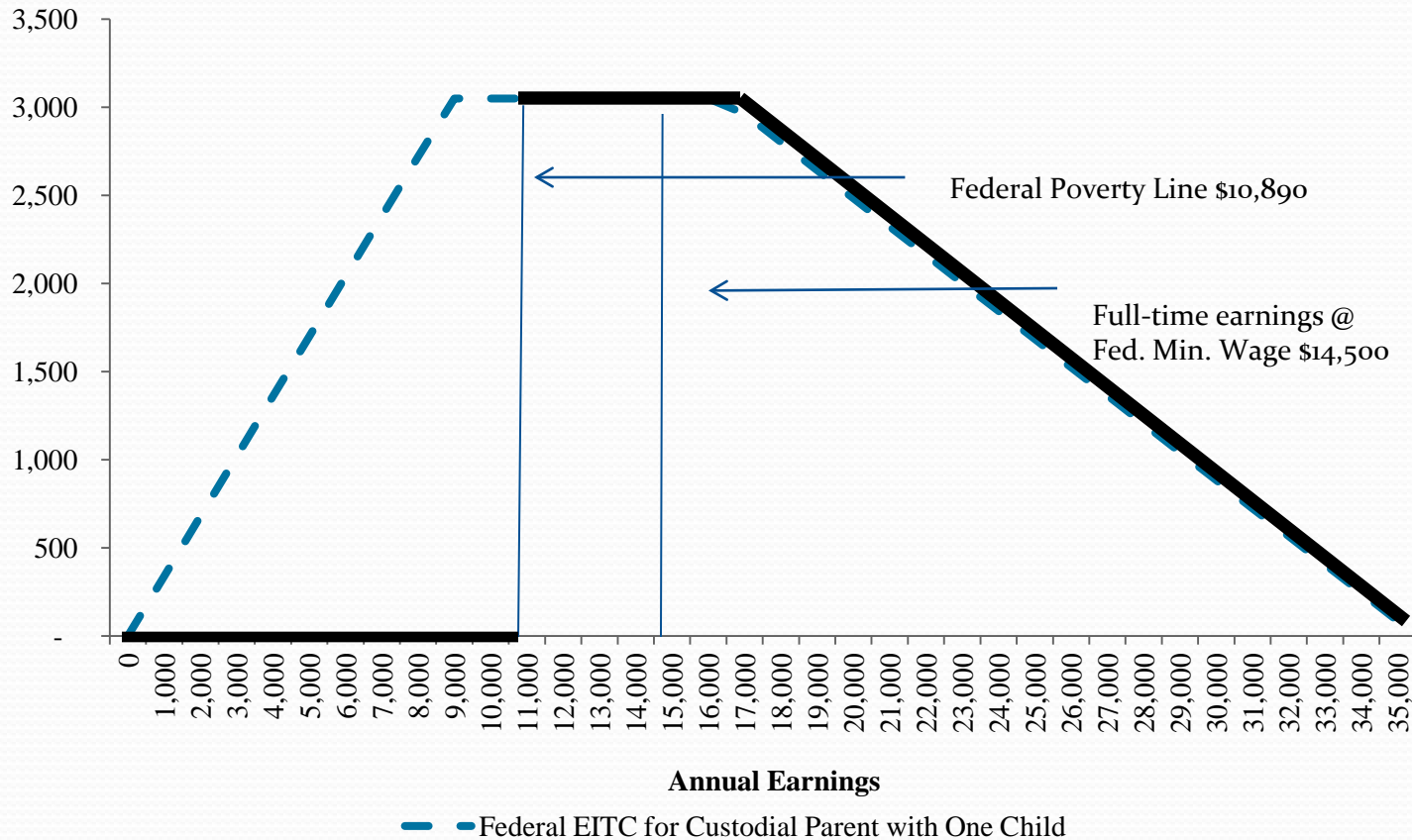
- Participants in CRFCFW's qualitative study noted that collecting the NCP-EITC as a lump sum could be an important asset-related feature of the credit. Bernardo, a 33 year old father of two, for example, stated that this feature of the NCP-EITC could help with child support:
- *“It [the NCP_EITC] can help because it’ll be a lump sum that I can pay to the child support. You know, once I get that I can look forward to that money and just take that check and put it towards child support in one lump sum. It’s money that I wasn’t really counting on, and as long as anything doesn’t go wrong I think I would definitely put it to child support.”*

Structure of the existing NY State and Federal One-Child EITC



The Compliance Catch-22

Federal EITC for Custodial Parent with One Child




Proposed Solutions: Part 1: Enhancing the NCP EITC

- Increasing the phase-in rate (from \$0.076 to at least \$0.34)
- Extend the phase-in range at least to the poverty line for a single person household.
- Increase earnings supplement in the flat range, to ensure that someone working full-time is not poor.
- Begin the phase out range after NCPS earn FTMW earnings
- Relax the full compliance criteria

Proposed Solutions: Part 2:

Relaxing Full Compliance Criteria

- Raise the Childless credit and apply to NCPs (S. 1626, S. 2979)
- Change child support Guidelines to make sure more low-income NCPs would qualify for the NCP EITC
- Create a New Hope Work Incentive conditional on Monthly Compliance (Mead 2011)
- Establish a federal self support reserve at the poverty line for a single person family and assume that all NCPs with incomes below this threshold have zero child support orders.

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- All of this is conditioned upon work, let's hope the unemployment rate continues to fall so that work the demand for labor rises enough to make many Low income NCPs meet the earnings test.