

TAX & BUDGET

Closing the Gap in the EITC Would Benefit 6.1 Million Working Women at All Stages of Their Lives

July 2015

Joan Entmacher, Amy Matsui, and Katherine Gallagher Robbins

The federal Earned Income Tax Credit (EITC) encourages and rewards work by boosting the wages of low-wage workers, lifting the incomes of millions of families above the poverty line every year.¹ Considerable research demonstrates the EITC's effectiveness at encouraging work, especially among low-income single mothers, and reducing poverty among families with children.² The boost the EITC provides families with children—about \$3,000 on average³—helps families meet their basic needs, pay for transportation and child care so they can get to work, and provides lasting health, education, and employment benefits to children.⁴

In contrast, the EITC provides little or no help to low-wage workers without qualifying children (including workers without children, non-custodial parents, and parents whose children are beyond the age limit). The "childless worker EITC"—does not provide a meaningful work incentive or poverty-reducing benefit. The average EITC benefit for an individual or couple without children in 2012 was just \$277.⁵ For 2015, it is worth a maximum of about \$500 and begins to phase out when incomes are still below poverty. As a result, the federal tax system actually pushes this group of workers into, or deeper into, poverty.

Closing the gap in the EITC for childless workers would increase economic security for working women at all stages of their lives.

Closing the gap in the EITC for childless workers would provide increased work incentive for young men, whose participation in the labor force has been declining.⁶ But it would also provide substantial benefits for women.

President Obama's Proposal to Close the Gap in the EITC

President Obama's proposed improvements in the EITC for childless workers would:

- double the current maximum credit (to about \$1,000 in tax year 2016);
- increase the amount of income that tax filers can earn and remain eligible for the credit (from less than \$15,000 to over \$18,000 for a single tax filer); and
- expand the age range of workers who are eligible for the credit, from 25-64 to 21-66.

Source: U.S. Dep't of Treasury, General Explanations of the Administration's FY 2016 Revenue Proposals, at 147-148 (Feb. 2015) available at <http://www.treasury.gov/resource-center/tax-policy/Documents/General-Explanations-FY2016.pdf> and Internal Revenue Service, 2015 EITC Income Limits, Maximum Credit Amounts and Tax Law Updates, available at <http://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit/EITC-Income-Limits-Maximum-Credit-Amounts-Next-Year>.

Who Would Benefit from Closing the Gap in the EITC?

The President's proposal would benefit:

- 13.5 million low-income workers, including 7.7 million workers whose EITC would increase, 5.8 million newly eligible workers, and 2.2 million with incomes above the current cutoffs.
- 6.1 million women, 44 percent of whom are women of color.
- 3.3 million adults age 21-24, nearly half (45 percent) of whom are women.
- 300,000 workers age 65 or 66, two-thirds of whom are women.
- 1.3 million individuals with disabilities, over half (54 percent) of whom are women.
- 500,000 people who would be lifted above the poverty line and 10 million people whose depth of poverty would be reduced.

Source: Executive Office of the President and the U.S. Treasury Department, The President's Proposal to Expand the Earned Income Tax Credit, (Mar. 2013) available at http://www.whitehouse.gov/sites/default/files/docs/eitc_report.pdf and unpublished CEA estimates based on Current Population Survey, on file with the National Women's Law Center.

The President's proposal would benefit 6.1 million working women⁷, including women in low-wage jobs, where women are a large majority of workers; young women who already experience a wage gap and are burdened by student debt; mothers whose children have left home who are economically disadvantaged by caregiving; and older women who need to increase income before retirement.

Women working in low-wage jobs would benefit.

- Women account for two-thirds of low-wage workers.⁸
- Women are disproportionately represented in those low-wage jobs at all life stages.⁹
- Women working full time in the low-wage occupations are typically paid only 85 cents for every dollar their male counterparts are paid.¹⁰
- Low-wage jobs are less likely to provide steady employment.¹¹ In 2014, workers in low-wage occupations were more than twice as likely to be working part-time involuntarily as those in the overall workforce.¹²

Maria is a 28-year-old woman who works 35 hours a week at minimum wage cleaning office buildings.

She earns \$12,700, close to the poverty line for a single adult in 2015. Under current law, she would receive an EITC of about \$160; under the President's proposal, she would receive an EITC of about \$820.

1.5 million young women, including women entering the labor force and students working to support themselves, would benefit.

- Young women already experience a wage gap in their early 20s – women age 21 through 24 working full time, year round are typically paid only 96 percent of what their male counterparts are paid.¹³ They are also more likely to be poor than their male counterparts: 22.3 percent of women age 21-24 are poor, compared to 17.5 percent of men.¹⁴
- Because of women's lower pay, although women and men typically borrow the same amount for college, the repayment of that loan represents a larger monthly expense for women than it does for men, according to a recent AAUW study.¹⁵
- Pell Grants provide federal financial assistance for lower-income students, 62 percent of whom are women and 59 percent of whom are financially independent.¹⁶ However, because of the escalating cost of higher education, these grants now cover less than a third of the cost of four-year college per recipient.¹⁷ While Pell Grant recipients are more likely than other lower-income students to stay enrolled and earn a degree,¹⁸ many still drop out of school before obtaining a degree.¹⁹
- Extending the EITC to younger childless workers would help more low-income women, including both full- and part-time students who are supporting themselves while juggling the demands of work and school.

Nicole is a 21-year-old college senior who works 20 hours a week as a cashier at a local grocery store to support herself while she earns her degree.

She makes \$9,170 a year. Under current law she would be too young to receive the EITC for childless workers. Under President Obama's proposal, she would receive an EITC of about \$1,000.

Women who are economically disadvantaged by caregiving would benefit.

- The “motherhood penalty” is estimated to reduce earnings by up to 15 percent per child for low-wage working mothers,²⁰ and persists as children age.²¹ An expanded EITC for workers without qualifying children would help mothers whose earning capacity has been reduced by years of childrearing, after their children have left home.
- Overall, 60 percent of those caring for sick, elderly or disabled family members are women.²² Many working caregivers have lost income because of their caregiving responsibilities;²³ an expanded EITC could compensate for lower earnings.
- In large part due to the recent recession, many parents are still providing financial support for their adult children. Unemployment among 20-34-year-olds is currently 6.9 percent,²⁴ and more than half of young adults live with their parents.²⁵ An expanded EITC could help adult children with low earnings and low-income parents who are contributing to their support, but are no longer able to claim them as dependents on their tax return.

Women account for two-thirds of the older workers who would benefit.

- Women make up over half of poor adults ages 50 through 66, and over 23 percent of unmarried women ages 50 to 66 are poor.²⁶ Nearly half (47 percent) of poor women ages 50 to 66 are women of color, though they comprise less than one-third (29 percent) of the women in this age group overall.²⁷ An expanded EITC would boost their income.
- By encouraging employment among older women, the proposal could increase women’s Social Security retirement benefits. First, it could enable them to wait until their Full Retirement Age to claim Social Security benefits, and avoid a benefit reduction.²⁸ Second, by staying in the workforce, they could increase their work history and wages on which Social Security benefits are based. Social Security benefits are critical to lowering women’s poverty in old age.²⁹
- The increased refund from an expanded EITC could enable older working women to add to their retirement savings, supplementing their Social Security benefits after they retire.

Wanda is a 65-year-old woman who returned to work in her 40s after raising two children. She now works 20 hours a week as a home-health aide and cares for her 87-year-old mother.

She earns \$10,280 per year. Under current law, she would be too old to receive the EITC for childless workers. Under the President’s proposal, her EITC would be about \$1,000.

Methodology note:

Examples of EITC earned by individuals are NWLC calculations based on EITC parameters outlined in Executive Office of the President and the U.S. Treasury Department, The President’s Proposal to Expand the Earned Income Tax Credit, (Mar. 2014) available at http://www.whitehouse.gov/sites/default/files/docs/eitc_report.pdf. Median earnings figures for cashiers and home health aides come from the Bureau of Labor Statistics, Occupational Employment and Wage Estimates (May 2014), available at http://www.bls.gov/oes/current/oes_nat.htm. Annual earnings are for 50 weeks per year.

- 1 NWLC calculations based on U.S. Census Bureau, Current Population Survey Table Creator *available at* <http://www.census.gov/cps/data/cpstablecreator.html>. In 2013 income from the EITC lifted more than 5.3 million people above the poverty line.
- 2 Chuck Marr et al., Ctr. on Budget & Policy Priorities, EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds (Apr. 2015), *available at* <http://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>.
- 3 Ctr. on Budget & Policy Priorities, Policy Basics: The Earned Income Tax Credit (Jan. 2015), *available at* <http://www.cbpp.org/cms/?fa=view&id=2505>.
- 4 Marr et al., *supra* note 2.
- 5 Ctr. on Budget & Policy Priorities, *supra* note 3.
- 6 John Karl Scholz, The Hamilton Project, Employment-Based Tax Credits for Low-Skilled Workers (Dec. 2007), *available at* http://www.hamiltonproject.org/files/downloads_and_links/Employment-Based_Tax_Credits_for_Low-Skilled_Workers.pdf.
- 7 Exec. Office of the President and U.S. Treasury Department, The President's Proposal to Expand the Earned Income Tax Credit (Mar. 2014), *available at* http://www.whitehouse.gov/sites/default/files/docs/eitc_report.pdf.
- 8 NWLC calculations based on Miriam King et al., Integrated Public Use Microdata Series, Current Population Survey: Version 3.0 (IPUMS-CPS), Minneapolis: University of Minnesota, 2010. Data are for 2013. Figures are for employed workers. The low-wage workforce is comprised of workers in occupations that typically pay \$10.50 per hour or less. Median hourly wages of the low-wage workforce are from Bureau of Labor Statistics, Occupational Employment and Wage Estimates (May 2014), *available at* http://www.bls.gov/oes/current/oes_nat.htm.
- 9 *Id.*
- 10 *Id.*
- 11 Liz Watson & Jennifer E. Swanberg, Flexible Workplace Solutions for Low-Wage Hourly Workers: A Framework for a National Conversation 6 (Workplace Flexibility 2010, May 2011), *available at* <http://workplaceflexibility2010.org/images/uploads/whatsnew/Flexible%20Workplace%20Solutions%20for%20Low-Wage%20Hourly%20Workers.pdf>.
- 12 NWLC calculations *supra* note 8. Data refer to the reason for working part-time during the previous week. 11.5 percent of workers in low-wage occupations worked part-time involuntarily compared to 5.0 percent of all workers.
- 13 NWLC calculations based on CPS Table Creator, *supra* note 1. The median personal earnings of women 21 through 24 working full time, year round are \$25,000. For their male counterparts this figure is \$26,000. Figures are for 2013.
- 14 NWLC calculations based on CPS Table Creator, *supra* note 1.
- 15 Am. Ass'n of Univ. Women, Graduating to a Pay Gap 3 (Oct. 2013), *available at* <http://www.aauw.org/research/graduating-to-a-pay-gap/>.
- 16 U.S. Dep't of Educ., Nat'l Ctr. for Educ. Statistics (NCES), 2011-12 National Postsecondary Student Aid Study (NPSAS:12). Computation by NCES QuickStats on Mar. 5, 2014, *available at* <http://nces.ed.gov/datalab/quickstats/default.aspx>.
- 17 The Inst. for Coll. Access & Success, Pell Grants Help Keep College Affordable for Millions of Americans (Mar. 2015), *available at* http://ticas.org/sites/default/files/pub_files/overall_pell_one-pager.pdf.
- 18 The Inst. for Coll. Access & Success, Aligning the Means and the Ends: How to Improve Federal Student Aid and Increase College Access and Success 5 (Feb. 2013), *available at* http://projectonstudentdebt.org/files/pub/TICAS_RADD_White_Paper.pdf.
- 19 Educ. Trust calculations based on data from the Dep't of Educ., Nat'l Ctr. for Educ. Statistics 2003-04 Beginning Post-Secondary Students Longitudinal Study, Second Follow Up (BPS 04/09), on file with NWLC.
- 20 Michelle J. Butig & Melissa J. Hodges, *Differences in Disadvantage: Variation in the Motherhood Penalty across White Women's Earnings Distribution*, 75 Am. Sociological Rev. 705 (Oct. 2010).
- 21 Joan R. Kahn, et al., *The Motherhood Penalty at Midlife: Long-term Effects of Children on Women's Careers*, 76 J. of Marriage & Family 56, 69 (2014), *available at* <http://onlinelibrary.wiley.com/doi/10.1111/jomf.12086.pdf>.
- 22 Nat'l Alliance for Caregiving & AARP, Caregiving in the U.S.: Executive Summary (June 2015), *available at* http://www.caregiving.org/wp-content/uploads/2015/05/2015_CaregivingintheUS_Executive-Summary-June-4_WEB.pdf.
- 23 *Id.*
- 24 NWLC calculations based on Bureau of Labor Statistics, Current Population Survey Database (<http://data.bls.gov/cgi-bin/srgate>), Series Codes LNS13000036, LNS11000036, LNS13000089, LNS11000089. Unemployment rate is for June 2015, seasonally adjusted.
- 25 U.S. Census Bureau, Families and Living Arrangements, Living Arrangements of Adults, Table AD-1, *available at* http://www.census.gov/hhes/families/data/adults.html?eml=gd&utm_medium=email&utm_source=govdelivery. In 2013 57.2 percent of individuals 18-34 lived with their parents.
- 26 NWLC calculations based on CPS Table Creator, *supra* note 1. The poverty rate for unmarried women 50-66 is 23.1 percent; this category includes women who are married but whose spouse is absent.
- 27 *Id.*
- 28 Virginia Reno et al., Nat'l Acad. of Social Ins., Social Security: It Pays to Wait (Feb. 2014), *available at* <http://www.nasi.org/research/2014/brief-social-security-it-pays-wait>.
- 29 NWLC, Women and Social Security (Feb. 2015), *available at* <http://www.nwlc.org/resource/women-and-social-security>.