

MINIMUM WAGE

The Minimum Wage and the EITC: Complementary Strategies Helping Women Lift Their Families Out of Poverty

Updated December 2014 | Julie Vogtman & Katherine Gallagher Robbins

The minimum wage and the Earned Income Tax Credit (EITC) are two federal policies that help low-income workers, especially women, make ends meet and support their families. Improvements to the minimum wage and the EITC are necessary as important complements to—not substitutes for—one another.

What is the federal minimum wage?

The federal minimum wage sets a national floor below which employers generally cannot pay their workers. However, because the federal minimum wage remains at the same level unless Congress acts, its purchasing power erodes as the cost of living rises. Today, the federal minimum wage is just \$7.25 per hour.

Women are nearly two-thirds of minimum wage workers in the U.S., so an inadequate minimum wage especially harms women and their families.¹ Annual full-time minimum wage earnings of \$14,500 leave a parent with one or more children living in poverty.²

What is the federal Earned Income Tax Credit?

The federal Earned Income Tax Credit (EITC) supplements the earnings of low-wage workers, particularly those supporting families, and offsets payroll taxes. The credit is refundable, so if a tax filer owes less in federal income taxes than the amount the EITC is worth, he or she will receive some or all of the credit as a cash refund.

The EITC is particularly important to women, who typically earn less than men and are more likely to bear the expenses of raising children on their own. In 2013, the EITC lifted more than 5.3 million people out of poverty, including more than 2.7 million children and almost 1.5 million adult women.³

The minimum wage and the EITC serve distinct populations and purposes.

- Though many working families benefit from both the minimum wage and the EITC, their purposes and target populations do not entirely overlap.
- The federal minimum wage is a basic workplace standard designed to protect all workers from exploitation. It applies to workers earning the lowest hourly wages, regardless of their family size or total household income (although the vast majority of families who would benefit from a minimum wage increase have low or moderate incomes).⁴

- The EITC primarily targets low- to moderate-income families with children, including those with household income above minimum wage earnings. Workers without children may qualify for a small federal EITC, but the maximum credit in 2014 is \$496, and childless workers with earnings above \$14,590 (or \$20,020 for a married couple filing jointly) receive no credit at all.⁵

Together, the minimum wage and the EITC more effectively support work and reduce poverty than either policy does alone.

- Without the EITC, full-time earnings of \$14,500 a year leave a minimum wage worker with one or more children well below the poverty line—but the income boost provided by the EITC can enable this worker to pull her family out of poverty (or alleviate its severity if she has more than two children). Filing as the head of her household, she generally would be eligible for the maximum federal EITC in tax year 2014, which is:
 - \$3,305 if the worker has one child (\$2,075 above the poverty line⁶);
 - \$5,460 if the worker has two children (\$170 above the poverty line); and
 - \$6,143, if the worker has three children (\$1,482 below the poverty line when combined with the federal child tax credit).⁷
- The minimum wage and EITC also work together to help families meet different types of expenses at different times, since the minimum wage is reflected in every paycheck, while the EITC is paid annually after families file their tax returns. An adequate minimum wage is essential to help families meet regular expenses like rent and groceries. Families often depend on the EITC to pay back bills and cover more sporadic expenses, such as home and vehicle maintenance, dental care, and glasses—and in some cases, recipients use the EITC to pay for additional education or training to help them move into higher-paying employment.⁸
- The EITC is an important source of income for many low-wage workers, but relying entirely on the EITC to increase workers' pay as the cost of living rises essentially provides a taxpayer subsidy to employers that allows them to keep wages low.⁹

Specifically, because the EITC supplements the after-tax wages of many low-wage workers, it may reduce pressure on employers to pay higher before-tax wages¹⁰—which is particularly hard on workers without qualifying children who, if they work full time at a minimum wage job, will earn too much to be eligible for any help from the EITC. Low wages, even if supplemented by the EITC, also mean lower Social Security benefits for workers because the EITC is not counted for Social Security purposes, thus decreasing their economic security in retirement. Raising the minimum wage, and maintaining it at an adequate level, can combat these effects by ensuring that businesses bear an appropriate share of responsibility for fairly compensating the workers they employ.

A higher minimum wage and a stronger EITC would help more workers lift themselves out of poverty.

- The value of the federal minimum wage has eroded substantially over time, losing nearly a third of its purchasing power since reaching its peak in the late 1960s. If the minimum wage had kept up with inflation since 1968, it would be nearly \$11.00 per hour today.¹¹ In 2015, 29 states and the District of Columbia will have minimum wages above the federal level, including ten states that index the minimum wage to keep pace with inflation.¹² But a federal minimum wage increase is necessary to ensure that workers across the country are paid more fairly.

A bill pending in Congress, the Fair Minimum Wage Act of 2013 (S. 460/H.R. 1010), would restore much of the value of the federal minimum wage by raising it to \$10.10 per hour. It would also gradually raise the minimum cash wage for tipped workers—frozen at just \$2.13 per hour since 1991—to 70 percent of the regular minimum wage, and index both wages to keep pace with inflation in the future. Enacting this legislation would boost annual earnings for a full-time minimum wage worker by \$5,700 to \$20,200, enough to lift a family of three out of poverty,¹³ and would raise pay for restaurant servers and other tipped workers—who are also mostly women—by up to \$9,880 per year.¹⁴ Because women are the majority of workers who would get a raise under the bill, it could also help narrow the gender wage gap.¹⁵

- Federal legislation is also needed to update and refine the EITC. Today, single workers without qualifying children—including young, childless women who are often 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—remain the one group of Americans who begin to owe federal income tax when their income is still below the poverty line.¹⁶ The federal EITC should be expanded to benefit more workers without qualifying children—and improvements to the EITC enacted in 2009 to reduce marriage penalties and boost benefits for parents with three or more children, currently in effect only through 2017, should be made permanent.¹⁷
- In considering legislative changes to the minimum wage or the EITC, policy makers must recognize the complementary nature of these two important strategies. Raising the minimum wage will not obviate the need to preserve and expand the EITC; even at \$10.10 per hour, the minimum wage will not be sufficient for many working families to meet the high costs of necessities like housing, medical expenses, and child care. At the same time, an EITC expansion must not be viewed as an appropriate substitute for a minimum wage increase; offsetting all of the income loss from the eroding value of the minimum wage through the EITC makes taxpayers, rather than employers, responsible for maintaining an adequate income standard for low-wage workers. Improvements to both the minimum wage and the EITC are necessary to reduce poverty and expand opportunity for low-wage workers and their families.

1 See Julie Vogtman & Katherine Gallagher Robbins, NWLC, Fair Pay for Women Requires Increasing the Minimum Wage and the Tipped Minimum Wage (Oct. 2014), available at http://www.nwlc.org/sites/default/files/pdfs/fair_pay_for_women_requires_increasing_the_minimum_wage_and_tipped_minimum_wage_october_2014.pdf [hereinafter NWLC, Fair Pay for Women]. “Minimum wage workers” are defined as those making at or below the federal minimum wage.

2 See U.S. Census Bureau, Poverty Thresholds for 2013, <https://www.census.gov/hhes/www/poverty/data/threshld/index.html> (last visited Nov. 25, 2014).

3 NWLC calculations based on U.S. Census Bureau, Current Population Survey, 2014 Annual Social and Economic Supplement (using CPS Table Creator), <http://www.census.gov/cps/data/cpstablecreator.html> (last visited Nov. 25, 2014).

4 David Cooper, EPI, Raising the Federal Minimum Wage to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost, at 10-11 (Dec. 2013), available at <http://s2.epi.org/files/2013/RAISING-THE-FEDERAL-MINIMUM-WAGE-TO-1010-WOULD-LIFT-WAGES-FOR-MILLIONS-AND-PROVIDE-MODEST-ECONOMIC-BOOST.pdf>.

5 Internal Revenue Serv., EITC Income Limits, Maximum Credit Amounts and Tax Law Updates, Tax Year 2014, <http://www.irs.gov/individuals/EITC-Income-Limits-Maximum-Credit-Amounts-and-Tax-Law-Updates> (last visited Dec. 2, 2014). Taxpayers without children who are under age 25 or over age 64 are not eligible for the EITC. NWLC, Questions & Answers about the Earned Income Tax Credit, Tax Year 2013, at 2 (Mar. 2014), available at <http://www.nwlc.org/sites/default/files/pdfs/qandaeitc2014.pdf>.

6 For purposes of these calculations, the “poverty line” refers to the 2014 U.S. Department of Health & Human Services (HHS) federal poverty guideline for the relevant family size in the 48 contiguous states and D.C., <http://aspe.hhs.gov/poverty/14poverty.cfm> (last visited Dec. 12, 2014). The Census Bureau poverty thresholds, *supra* note 2, have not yet been revised for 2014.

7 A worker with three qualifying children earning \$14,500 annually would be eligible for a federal child tax credit of \$1,725. See NWLC, Questions & Answers about the Child Tax Credit, Tax Year 2013, at 4 (Mar. 2014), available at <http://www.nwlc.org/sites/default/files/pdfs/qandactc2014.pdf>. Families with more than three children may be eligible for a higher child tax credit, but the maximum EITC remains \$6,143. *Id.* and Internal Revenue Serv., *supra* note 5. Accordingly, even with the critical income boost provided by the federal EITC and CTC, full-time minimum wage earnings leave a worker with three or more children below the poverty line. See HHS federal poverty guidelines, *supra* note 6.

8 Ctr. on Budget & Policy Priorities, Policy Basics: The Earned Income Tax Credit (Jan. 2014), available at <http://www.cbpp.org/files/policybasics-eitc.pdf>.

9 See, e.g., John Schmitt, Ctr. for Econ. & Policy Research, Low-Wage Lessons, at 6-8 (Jan. 2012), available at <http://www.cepr.net/documents/publications/low-wage-2012-01.pdf>.

10 David Cooper, EPI, Strengthening the EITC and Raising the Minimum Wage Should Go Hand-In-Hand (Jan. 7, 2013), <http://www.epi.org/blog/strengthening-eitc-raising-minimum-wage/>.

11 The high-water mark for the federal minimum wage of \$1.60 in 1968 (see Doug Hall, EPI, Increasing the Minimum Wage Is Smart for Families and the Economy (May 2011), available at http://www.epi.org/publication/increasing_the_minimum_wage_is_smart_for_families_and_the_economy/) would be \$10.92 in 2014 according to the BLS inflation calculator, http://www.bls.gov/data/inflation_calculator.htm (last visited Nov. 25, 2014).

12 NWLC, Women and the Minimum Wage, State by State, <http://www.nwlc.org/resource/women-and-minimum-wage-state-state> (last visited Nov. 25, 2014). States that will adjust their minimum wages based on inflation in 2015 are Arizona, Colorado, Florida, Missouri, Montana, New Jersey, Ohio, Oregon, and Washington; Nevada will also adjust its minimum wage if the cost of living rises substantially. Five additional states (Alaska, Michigan, Minnesota, South Dakota, Vermont) and the District of Columbia will index their minimum wages to inflation beginning in later years, following step increases specified in legislation.

13 NWLC calculation assuming 40 hours per week, 50 weeks per year at \$10.10 per hour. Under the Fair Minimum Wage Act, the federal minimum wage would increase in three steps to \$10.10 per hour before being indexed to inflation.

14 NWLC, Fair Pay for Women, *supra* note 1, and NWLC calculation assuming 40 hours per week, 50 weeks per year at \$7.07 per hour.

15 Julie Vogtman & Katherine Gallagher Robbins, NWLC, Higher State Minimum Wages Promote Fair Pay for Women (Oct. 2014), available at http://www.nwlc.org/sites/default/files/pdfs/higher_state_minimum_wages_promote_fair_pay_for_women_october_2014.pdf.

16 Ctr. on Budget & Policy Priorities, *supra* note 8, and Susanna Birdsong et al., NWLC, The President’s Proposed EITC Expansion Would Benefit 6.1 Million Working Women at All Stages of Their Lives (Apr. 2014), available at http://www.nwlc.org/sites/default/files/pdfs/eitc_expansion_fact_sheet_april_2014.pdf.

17 See Ctr. on Budget & Policy Priorities, *supra* note 8, and NWLC, Frequently Asked Questions About Refundable Tax Credits (Dec. 2012), available at <http://www.nwlc.org/sites/default/files/pdfs/taxcreditsfaq.pdf>.