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New York City to Test New Tax Credit for Working Poor

It's unusual for a city to create its own tax credit, but New York has launched a pilot project that supplements the federal Earned Income Tax Credit to help lift low-income, single adult workers with no children out of poverty.

BY J.B. WOGAN | NOVEMBER 15, 2013

Could an additional $2,000 in tax credits lift poor single men out of poverty? That's what New York City's Center for Economic Opportunity intends to find out. With the help of a national evaluation firm, the city began recruiting and enrolling 3,000 city residents this fall in a three-year pilot project called Paycheck Plus that adds to the annual amount that low-income workers without dependent children receive through the federal Earned Income Tax Credit (EITC).

The federal EITC is a particularly popular anti-poverty tool that has historically enjoyed bipartisan support because numerous economic studies have shown that it encourages and rewards work while providing incentives for people to leave welfare. The New York City initiative comes at a time when the official poverty rate for the United States remains stuck at 15 percent and poverty rates in dozens of large cities have climbed to 25 percent or higher. Based on estimates released by the U.S. Census Bureau earlier in November for its supplemental poverty measure, the national poverty rate would be three percentage points higher if the EITC and Child Tax Credit ended tomorrow.

In 2012 the maximum value of the federal credit was $5,891, which was available to a married family with three or more children. The maximum value for a single adult with no children, however, was substantially less -- $475. The city's pilot project would target that population of single adult low-income workers without dependent children. The maximum credit one could receive from New York City would be $2,000 per year, available to anyone making between $6,667 and $18,000. Workers could qualify for some level of credit until their income exceeds $29,863 a year.

Funding for the credits come from city tax levy funds, with an estimated budget impact of $6 million, though that's only an educated guess from MDRC, the firm evaluating the pilot's impacts. The actual cost would depend on whether eligible recipients sign up for the city credit. It's unlikely that all of the 3,000 people selected for the city credit will sign up, said Cynthia Miller, an economist with MDRC.

The supplemental payments would be issued for three years: 2015, 2016 and 2017. Because the credit is tailored for low-income workers without dependant children, it would largely affect men. (The target population would likely include fathers who pay child support but do not live with their children.) New York

City Deputy Mayor Linda Gibbs said that the federal EITC skews toward women and children, which has left single young men behind, particularly black and Latino men. For example, last year the federal EITC provided $3,170 in tax credits to a single working adult with a dependent child who earned $11,650. For a single adult without a child, the same wage triggered a substantially smaller credit: $180.

The New York City pilot seeks to level that disparity a bit. To qualify, workers need to be single adults without a child who earn less than $30,000 a year and fall within the age range of 21 through 64. For someone earning $11,650 a year, the New York program would result in an extra $1,820 credit.

The Brookings Institution held an event Nov. 14 to discuss the pilot project, in part because it’s unusual for a city to create its own tax credit, but also because the city has contracted with MRDC to implement a random-assignment study with treatment and control groups. In addition to the 3,000 city residents who would receive the supplemental credit, 3,000 “control” participants would not. MDRC will track outcomes such as quarterly earnings and child support payments for both groups using government records, but also a follow-up survey that will measure impacts on other aspects of people’s lives, such as food security, marriage and fertility.

Audience members at the Brookings event asked about the long-term implications of the experiment. “We would not do this with the intention of taking it to scale as a citywide program,” Gibbs said. Instead the apparent use of the research results would be to lobby Congress for an expansion of the federal EITC, perhaps as part of a larger overhaul of tax policy. Twenty-four states and the District of Columbia currently have state tax credit programs that match a portion of the federal credit, with Ohio deciding in its last legislative session to join the pack next year. None of those programs take the extra step of focusing the additional credits on individual workers who don't have dependent children. But if the New York City pilot yields encouraging results, "I could see it encouraging other localities or states to implement something similar," said Mike Leachman, the director of state fiscal research at the Center on Budget and Policy Priorities.

The president of MDRC, Gordon Berlin, said academics have wondered for years about the impacts of a nation-wide supplemental credit for low-wage workers -- regardless of marriage status or family composition. In fact, Berlin published a paper in 2007 on a national policy proposal similar in structure to New York’s pilot project. His cost estimate was between $29 billion to $33 billion a year. “This is an expensive policy if it were to become a national policy,” he warned. In his 2007 paper, Berlin noted that prior research would suggest that a supplemental tax credit may increase the rates of employment, cohabitation, co-parenting and marriage, while decreasing adult male involvement in criminal activity. It could also conceivably help men pay child support. But with New York City’s pilot, he said, “we’re out of the realm of the theoretical.”