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INCREASING THE EARNED INCOME TAX CREDIT FOR CHILDLESS WORKERS

A Synthesis of Findings from the Paycheck Plus Demonstration

*How do you go to work every day and not have enough money to keep
a roof over your head?*

—Paycheck Plus study participant

INTRODUCTION

The precarious life of workers with low incomes in the United States reflects decades-long trends in wage inequality, with rising wages at the top and stagnant or even falling wages at the bottom. As a result, many American workers are unable to adequately support themselves and their families through work, even if they work full time. Although wages have increased somewhat over the past year, as employers face challenges filling jobs, it is not clear whether this will persist beyond the COVID-19 pandemic as the economy opens back up.

The Earned Income Tax Credit (EITC) has helped to counter low and falling wages. By providing a refundable credit to low-wage workers at tax time, it has become one of the nation's most effective antipoverty policies.¹ But most of its benefits go to workers with children. The maximum credit for a worker with two children, for example, is almost \$6,000. If there are no minor children in the household, the worker gets a tenth of that amount. This disparity means that a large number of workers with low incomes—more than 20 million people—benefit very little from the EITC. This group includes young women and men without children, older workers with adult children, and noncustodial parents (that is, parents who do not have custody of their children).

Numerous proposals over the years have come from both sides of the political spectrum to increase the credit for workers without dependent children—without success. That's due in part to concerns that a more generous credit would cause some workers to reduce their work effort, since the credit phases out as earnings increase. Although the EITC for childless workers was increased as part of the American Rescue Plan Act (ARPA) of 2021, which tripled the maximum benefit to \$1,500, that expansion is set to expire in 2022 unless it is made a permanent part of the tax code.

The Paycheck Plus Demonstration was started in 2013 and, motivated by the earlier expansion proposals, set out to learn more about the potential effects of a bigger credit for workers without dependent children. How many workers would receive it? Would it increase incomes? Would it draw nonworkers into employment, but also encourage higher earners to cut back on work? The demonstration, conducted as a randomized controlled trial, offered a bonus of up to \$2,000 at tax time to a group of adults with low earnings and without children in two large cities—New York and Atlanta—and tracked them for three years to measure the effects of the program on income, work, and earnings. The study was conducted in New York City first and findings were released in 2018.² Findings from the study in Atlanta were released in 2022.³

The study in New York found that the bonus increased after-bonus earnings (that is, earnings after taxes plus the bonus), led to small increases in employment rates (largely for women and for a subgroup of particularly disadvantaged men in the study), and did not lead to reduced work effort among higher earners. Paycheck Plus also led to an increase in child support payments by noncustodial parents. It had few overall effects on many other outcomes, such as physical health status or criminal justice involvement. The findings in the Atlanta study were more muted. In that city, Paycheck Plus increased after-bonus earnings, but only in the first year, had no detectable effect on employment rates, and did not reduce earnings among higher earners. Bonus receipt rates—that is, the percentage of individuals randomly selected for the program who applied for and received a bonus—were somewhat lower in Atlanta than in New York, which may explain part of the difference.

What do the findings imply for a national expansion of the EITC, such as that provided through ARPA? While the tests of the two individual cities were each informative and provided lessons about implementation and impacts in a particular context, the best estimate of the effects of a national expansion is from using data from both cities combined. This brief presents those findings.

In sum, the estimates from the pooled sample combining both cities indicate that the offer of the more generous bonus through Paycheck Plus increased after-bonus earnings, led to a small increase in employment rates, and did not reduce work effort among higher earners. Paycheck Plus also encouraged more people to file taxes. As policymakers consider whether to make the expansion of the credit under ARPA permanent, the findings provide evidence on its potential effects and suggest that the EITC can be a useful tool for addressing inequality in the labor market and the low wages earned by workers without dependent children.

THE EITC AND PAYCHECK PLUS

The EITC was designed to help the working poor and is seen as one of the most successful antipov-erty policies in the nation. By providing a refundable credit at tax time, it has moved millions of adults and their children out of poverty. The credit amount depends on earnings, increasing as a worker's earnings increase to a certain point, staying fixed at a maximum amount as earnings continue to increase, and then falling as earnings increase further, eventually falling to zero as a worker

earns too much to qualify. The phase-in and phase-out structure is designed to target benefits to those who need them the most.

The credit amount also varies by marital status and the number of children in the household. The maximum credit available in 2020 for a single mother with two children, for example, was \$5,920, and her credit would gradually fall to zero once her earnings reached \$48,000. If she had no children, on the other hand, the most she could receive was \$538 and she would become ineligible for the credit once she earned more than \$16,000. Under ARPA, the maximum credit this worker can receive was increased to \$1,502 for 2021, and she becomes ineligible once her earnings reach about \$21,500. This expansion is currently set to expire after one year.

Paycheck Plus was a test of a more generous credit for workers without dependent children. As shown in Figure 1, the program provided up to \$2,000 at tax time to eligible workers, nearly four times the maximum federal tax credit and 30 percent larger than the credit offered under ARPA. In addition, Paycheck Plus extended benefits to more workers—those who earned up to \$30,000 per year. The Paycheck Plus payment is referred to in this brief as a bonus, to avoid confusion with the federal credit.

Even though the structure of the EITC is somewhat complicated, most workers who are eligible for it receive the credit if they file taxes, since it is typically calculated as part of the filing process. But not all eligible workers file taxes, since those with very low earnings are not required to do so. About 80 percent of eligible workers receive the EITC, with receipt rates somewhat lower for those without dependent children. Most of those who don't receive it do not file taxes.

Paycheck Plus was designed so that the process of applying for and receiving the bonus would be as similar as possible to the EITC, even though it operated outside of the federal tax system. Workers had to file federal income taxes and have earnings in the eligible range. But they also had to take steps beyond just filing taxes. They had to identify themselves as Paycheck Plus participants if they filed taxes at one of the sites offering Volunteer Income Tax Assistance (VITA), an IRS program that provides free tax preparation for filers with low incomes; Paycheck Plus was implemented through selected VITA sites. If workers filed elsewhere, they had to bring or mail copies of their tax documents, with proof that the IRS accepted them, to a participating VITA site. Once the bonus amount was determined, it was deposited directly into workers' bank accounts or loaded onto debit cards.

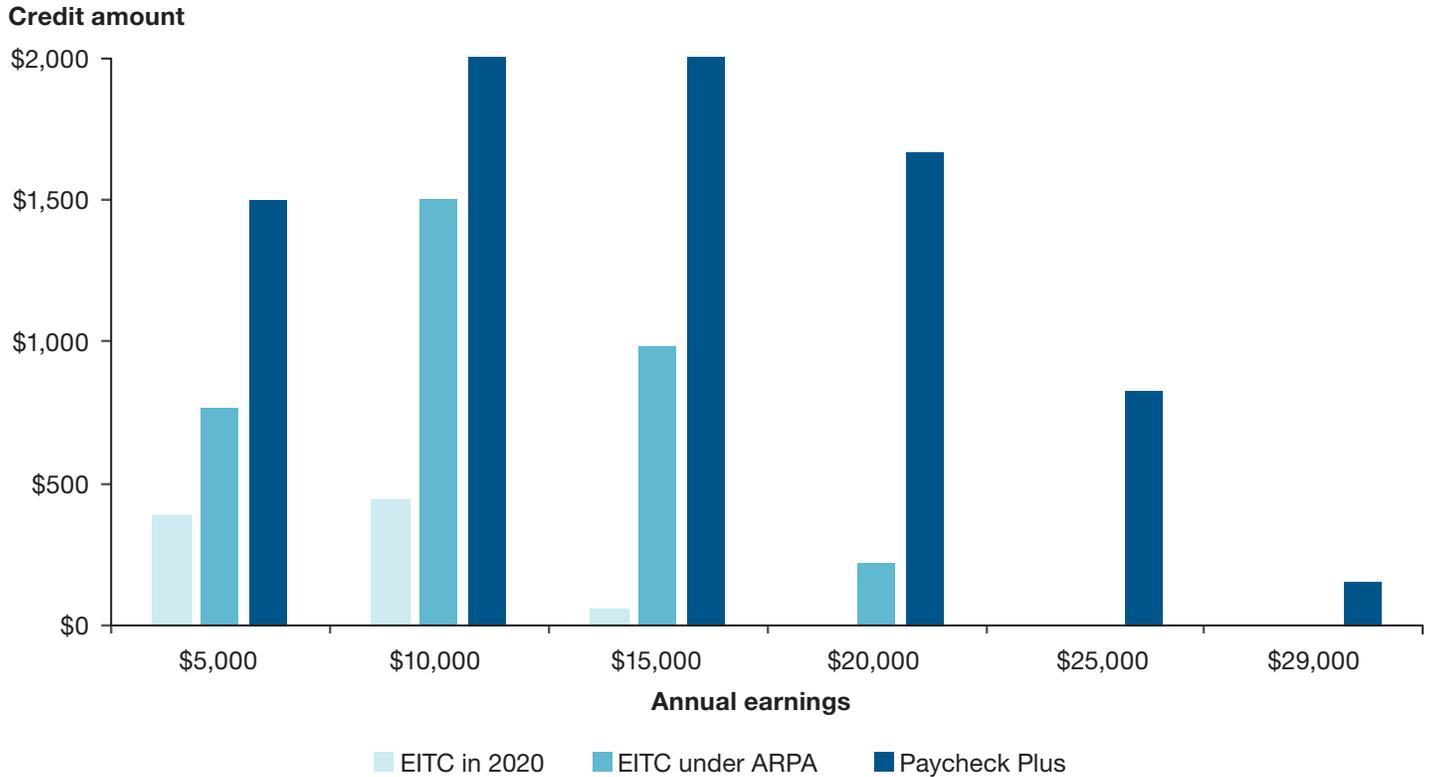
THE STUDY

Paycheck Plus was tested in New York City, starting in 2013, and in Atlanta, starting in 2016. Atlanta was an important addition to the study to provide evidence of the program's effects in a different context from New York City. In particular, Atlanta had a diverse and strong economy but lower average wage rates than New York. Findings from the two cities combined may provide a better estimate of the program's effects were it to become national policy.

FIGURE 1

CREDIT AMOUNT FOR THE EITC, ARPA, AND PAYCHECK PLUS

Paycheck Plus provided a more generous credit and extended eligibility for workers without dependent children.



SOURCES: Urban Institute and Brookings Institution Tax Policy Center, Paycheck Plus program documents.

NOTE: ARPA refers to the American Rescue Plan Act of 2021, which increased the credit for 2021.

MDRC partnered with organizations in each city to run the Paycheck Plus Demonstration. Food Bank for New York City (FBNYC) ran the project in New York, and United Way of Greater Atlanta (UWGA) ran it in Atlanta. Both organizations managed large networks of VITA sites. FBNYC had run VITA sites for many years and was well-known as a VITA provider. UWGA’s work in this area, in contrast, started one year before the demonstration began. Both partners recruited study participants from organizations that served potentially eligible groups, including former VITA clients (in the case of FBNYC), food pantries and soup kitchens, programs that served formerly incarcerated individuals, workforce and job training organizations, one-stop career centers, community colleges, fatherhood programs, and social service agencies. New York City’s Human Resource Administra-

tion also recruited cash assistance recipients, Supplemental Nutrition Assistance Program recipients, and noncustodial parents. The Georgia Department of Human Services Division of Child Support Services recruited individuals from fatherhood programs and noncustodial parents in the child support system.

Individuals were eligible for the study if they were not married, did not have dependent children in the household (although they could be noncustodial parents), and earned less than \$30,000 in the prior year. The research team recruited 6,000 people for the study in New York and 4,000 people in Atlanta. Once people agreed to enroll, half of them were assigned at random to a group that was offered the bonus for three years (called the Paycheck Plus group). Members of this group were provided with take-home materials explaining the bonus and how to claim it. Most of them enrolled in the study near the beginning of the year, and they could claim their first bonus when they filed taxes in the next year. The other half of study enrollees were assigned to a group that was not offered the bonus (the control group) but whose members were still able to claim existing tax credits. The study tracked both groups over time to measure the effects of the program.

The people enrolled in the study reflected the diversity of the low-wage workforce. A slight majority were men, over half had a high school diploma or the equivalent, and about a quarter had completed some college. About half of the participants were working at the time of study enrollment and about a quarter were working full time. Reflecting the racial and ethnic makeup of the two cities together, 75 percent of study participants were Black and about 20 percent were Latino. About 10 percent of participants were noncustodial parents.

The key outcomes studied were employment, earnings, and after-bonus earnings for the three years in which participants would have been eligible for the bonus, or 2014–2016 in New York City and 2016–2018 in Atlanta.⁴ Data on these outcomes were obtained from IRS records, including tax forms, W2 forms, and 1099-MISC forms (for income from self-employment). Employment is defined as having any earnings in a given year, and earnings is the sum of wage and salary earnings and self-employment income. After-bonus earnings is a measure of income and is defined as earnings minus taxes plus any tax credits (including the Paycheck Plus bonus amount, obtained from program participation data).

The program might also have affected a range of other outcomes through its effects on work and income. The studies in both cities looked at effects on child support payments among noncustodial parents. The study in New York City also looked at effects on material hardship, mental and physical health, and involvement with the criminal justice system.⁵

The main findings presented below are based on the pooled sample from both cities, although the findings by city are also discussed briefly and presented in more detail in separate reports. The pooled sample provides the best estimate of the potential effects of an expansion of the credit nationwide as part of the tax code. A simple pooling of the two study samples gave New York somewhat more weight in the analysis, although its larger sample also meant that effects in that city were estimated more precisely and arguably should carry more weight. Other options were to weight each

study equally or weight the sample so that it represented a national sample of people without dependent children. Separate analyses showed that these alternative approaches to weighting the sample resulted in findings very similar to those discussed below.

FINDINGS

- **Most study participants who were eligible and filed taxes received a Paycheck Plus bonus in each year, with an average payment of \$1,400, although eligibility and receipt rates fell over time.**

Well, I received about...\$2,000 back, actually, from the Paycheck Plus. And about \$1,500 of that I saved and the other \$500 I spent on my son. So I just went and bought him clothes, and sneakers, and, you know, things that boys like to do, you know. Stuff like that.

—Paycheck Plus study participant

Tracking receipt of the bonus was the first question of interest for the research team, to assess the ability to engage this group of workers, most of whom were not eligible for federal tax credits or didn't need to file federal taxes. Tracking bonus receipt also helped the team interpret the program's effects on work and income. Bonus receipt might be low compared with a credit that is part of the tax system if it was not viewed as meaningful to study participants, for example, or if they forgot how to claim it. In that case, the expected effects on work and income would be muted relative to the expected effects of an expanded federal EITC of the same generosity.

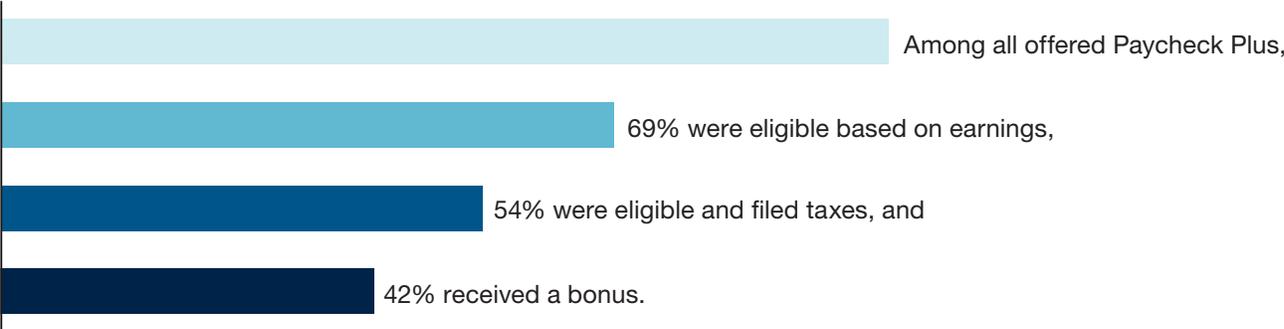
The bonus receipt rate was not expected to be 100 percent, for several reasons. First, not everyone would be eligible in every year. The key eligibility criterion was earning between \$1 and \$30,000 during the year. Over the three-year period of the study, earnings fluctuated for study participants, with some losing their jobs and others moving up in theirs. Second, not all eligible participants were expected to file their taxes. (That is the primary reason for the less than full take-up of the EITC. Although some workers probably do not file when they should, single adults without dependent children are not legally *required* to file until their earnings are above \$12,000.) Third, claiming the Paycheck Plus bonus required additional steps beyond filing taxes. And finally, as a new program, Paycheck Plus faced the typical challenges of building trust among participants and ensuring that they did not forget about the bonus from year to year. The program partners conducted extensive outreach (via mail, text, phone, and email) each year the bonus was offered, in the months leading up to and after tax-filing season. Despite these efforts, some participants had forgotten that they were eligible, and others who claimed the bonus in Year 1 forgot that the bonus was available for two more years. The outreach, along with tests of selected messaging strategies, provided insights on effective engagement strategies that can inform outreach more generally for the EITC.⁶

Bonus receipt was highest in the first year of Paycheck Plus. As shown in Figure 2, 69 percent of the Paycheck Plus group members were eligible for a bonus, 54 percent were eligible and filed taxes, and 42 percent got a bonus. The average bonus paid out was about \$1,400. The fact that not all eligible tax filers got a bonus, in contrast with the EITC, reflects the extra steps needed beyond tax filing. Many participants who filed their taxes but did not get a bonus had probably forgotten about the program, had decided that the benefits were not worth the effort of applying for them, or used a private or non-VITA tax preparation service that did not know about the bonus. Paycheck Plus program partners attempted to reach out to filers to remind them of their eligibility and necessary next steps, but they could not always locate them.

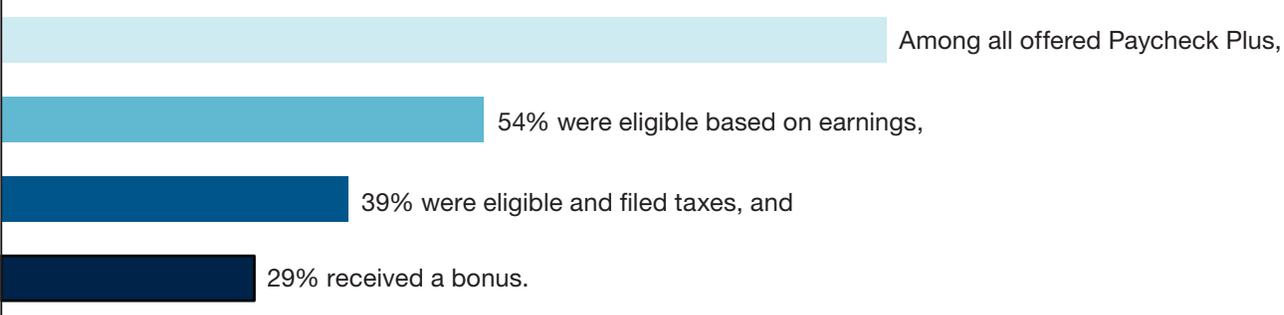
FIGURE 2

PAYCHECK PLUS BONUS ELIGIBILITY AND RECEIPT, BY YEAR

Bonus receipt in Year 1



Bonus receipt in Year 3



SOURCES: IRS tax forms, W-2s, 1040s, and 1099-MISCs; Paycheck Plus program data.

Also shown in Figure 2, eligibility and receipt rates fell over time. By Year 3, about half of the Paycheck Plus group members were eligible for the bonus, 39 percent were eligible and filed taxes, and 29 percent received a bonus. The fall in eligibility reflected job loss for some participants and earnings gains for others, gains that put them over the \$30,000 limit.

Overall, bonus receipt rates among eligible workers were above 50 percent for each of the three years the bonus was offered, and recipients received a sizable sum at tax time. But as this was a randomized controlled trial, the key question is what percentage of the full Paycheck Plus group got the bonus, since that is the group that would be compared with the control group to assess the program's effects on other outcomes. For the full Paycheck Plus group, bonus receipt was 42 percent in Year 1 and had fallen to 29 percent by Year 3. Any effects on income over the three-year period may have been muted because of falling receipt rates. Effects on work might also have been muted if falling bonus receipt was a sign that many study participants had forgotten about it over time.

- **The offer of Paycheck Plus led to a small increase in employment rates.**

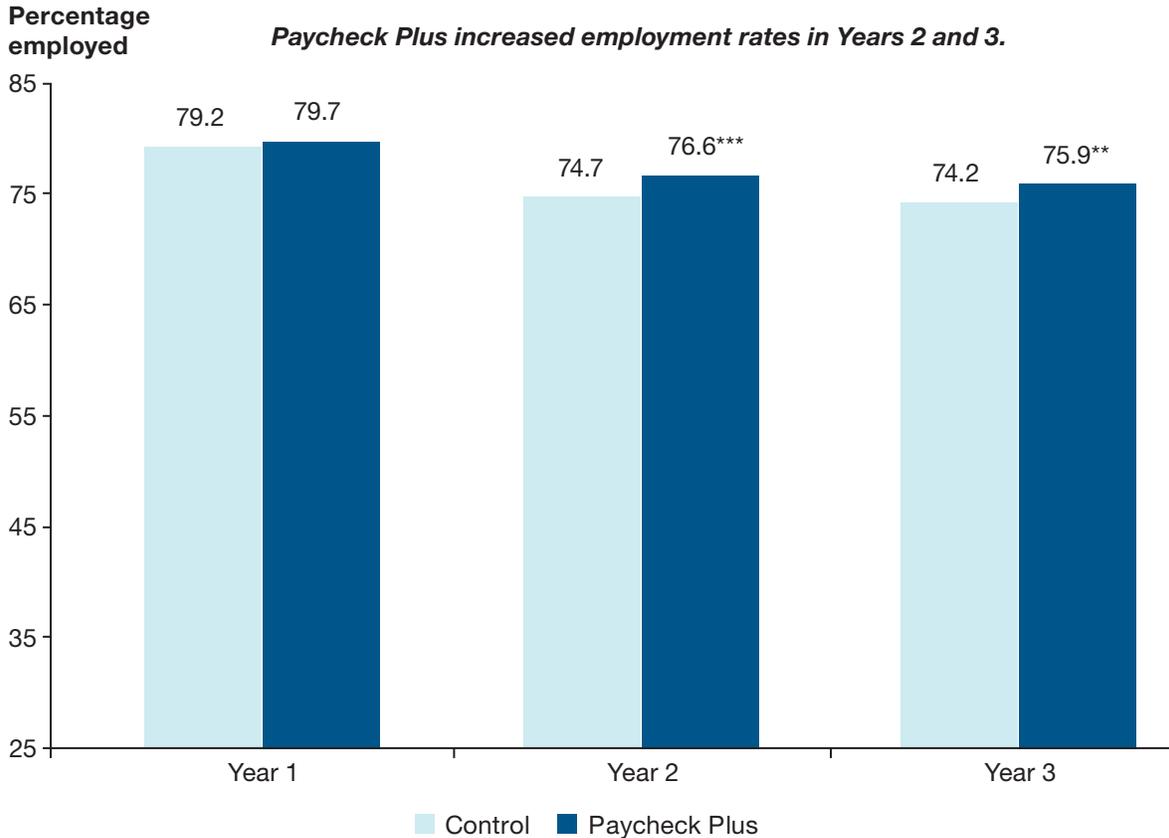
Those who have called for an expanded EITC for adults without dependent children have focused primarily on the boost in income it would provide to these workers. But it is also hoped that the tax credit might encourage more people to work, particularly given that employment rates have fallen among certain groups who would be eligible. Employment rates among men without a high school diploma have fallen over the past several decades, for example, as wages available to them have fallen.

Paycheck Plus and the EITC create an incentive to work because they increase workers' take-home pay and are given only to those with some earnings. A single mother with two children would earn about \$18,000 if she went to work at a job paying \$9 per hour. The EITC would add close to \$6,000 to her take-home pay, increasing it by 33 percent and turning that job effectively into a \$12-per-hour job. Research suggests that employment among single mothers increased when their EITC benefits were increased.⁷ Paycheck Plus adds up to \$2,000 to take-home pay, which, for the average worker in the study sample, is about a 9 percent increase. The question is then how much this increase in pay might increase employment. Research in economics provides some guidance, although the range of estimates is fairly wide, suggesting that a 9 percent increase in pay might increase employment rates by anywhere from 1.5 percent to 9 percent.⁸ One goal of the study was to measure the effect on employment.

The findings show that Paycheck Plus led to a small increase in employment over the three-year period. In what follows, only effects that were statistically significant at the 10 percent level were considered effects of Paycheck Plus. Statistical significance indicates that the observed difference between the Paycheck Plus group and the control group was unlikely to have arisen by chance. As shown in Figure 3, there were no effects in Year 1, but employment rates in Years 2 and 3 were higher for the Paycheck Plus group by just under 2 percentage points. The increase in employment over the full three-year period is within the range of predicted responses. Considering the national number of adults without dependent children and who have low earnings, an effect of this size would mean

FIGURE 3

EFFECTS ON EMPLOYMENT



SOURCES: IRS tax forms, W-2s, 1040s, and 1099-MISCs.

NOTES: Estimates were regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members.

A two-tailed t-test was applied to differences between the outcomes of the program and control groups. Statistical significance levels are indicated as follows: *** = 1 percent, ** = 5 percent; * = 10 percent.

several hundred thousand additional workers, ignoring any possible negative spillover effects on the broader labor market. (Further analyses, not shown, indicate that the positive effects on employment persisted through Years 4 and 5 after study entry.)

- **The offer of Paycheck Plus had no effect on workers' earnings, on average.**

It is hard to predict the effect of a bonus at tax time on workers' earnings, on average. If someone is induced by the bonus to move into work, their earnings will increase. For those already working,

however, the potential effects vary depending on how much they earn. If a worker's earnings are relatively low, for example, she might work more to earn the maximum bonus. On the other hand, if she earns so much that her benefits are phasing down or she has become completely ineligible, she could potentially cut back on work to qualify for some amount or cut back enough to qualify for the maximum bonus. The latter response is one concern with the EITC and any program in which benefits phase out as earnings increase. Research on the credit, however, finds little evidence of this type of behavior, probably because workers don't fully understand the EITC's complicated structure and because it is not very easy for workers, particularly wage and salary workers, to adjust their earnings in this way.⁹

The study found no evidence that Paycheck Plus impacted earnings, on average. Annual earnings were about \$12,000 for all study participants, on average (which included zeros for those who didn't work), or about \$16,000 for those who worked. There were no statistically significant differences between the Paycheck Plus group and the control group. The small increase in employment rates did help raise average earnings for the Paycheck Plus group, as additional workers moved from no earnings to positive earnings, but this increase was not large enough to lead to a statistically significant effect.

In addition, there is no evidence that the program led higher earners to reduce their work time in an effort to lower their earnings. Effects measured at higher earnings levels were negligible and statistically insignificant. In contrast, the program led to positive effects in the lower range of earnings, probably reflecting the positive impact on employment rates.

- **The offer of Paycheck Plus increased workers' after-bonus earnings (earnings after taxes plus the bonus).**

Workers who got a Paycheck Plus bonus received an average of \$1,400 at tax time. With earnings of just under \$16,000 for the typical worker, this represents an increase of about 9 percent. However, in the context of this randomized controlled trial, estimating the program impact requires comparing outcomes for all individuals in the control group with all individuals in the Paycheck Plus group, including those who did not receive a bonus.

Oh, that amount was enough to help me get out of a hole...I don't have that much debt, you know, I was back a couple of months of rent [and] it allowed me to pay what I owed my management and also to clear one of my credit cards off.

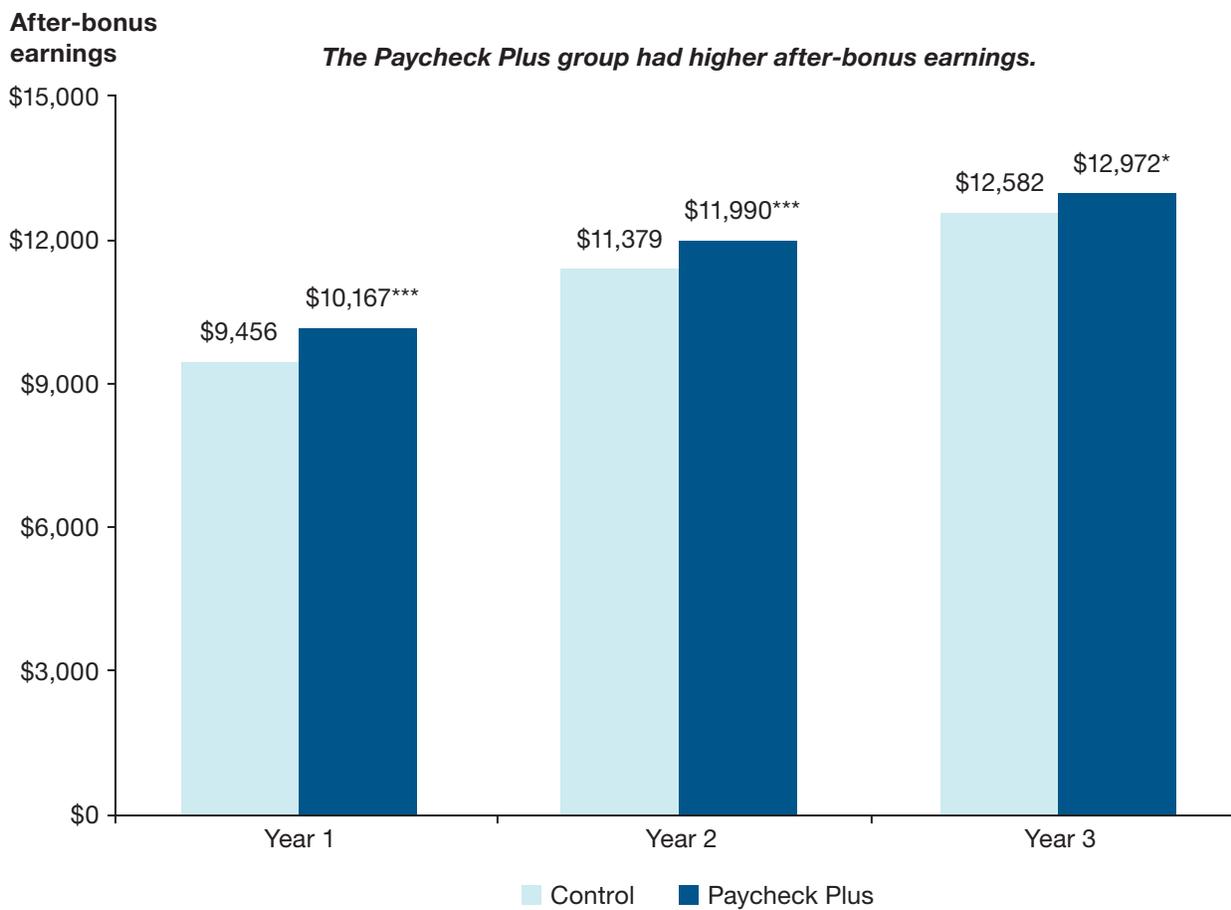
—Paycheck Plus study participant

As an illustration of how the bonus receipt rate affected measured impacts, if about 40 percent of the Paycheck Plus group received a bonus in Year 1, the expected increase in after-bonus earnings for the full sample would be 40 percent of \$1,400, or just under \$600. Falling bonus receipt over time would further dilute the measured effects on after-bonus earnings in Years 2 and 3.

The estimated impacts are roughly consistent with these examples. As shown in Figure 4, comparing everyone in the Paycheck Plus group with everyone in the control group shows that Paycheck Plus increased after-bonus earnings (after taxes plus the bonus) by about \$700 in Year 1, representing an 8 percent increase. By Year 3, the effect had diminished to \$400, for a 3 percent increase.

FIGURE 4

EFFECTS ON WORKERS' AFTER-BONUS EARNINGS



SOURCES: IRS tax forms, W-2s, 1040s, and 1099-MISCs; Paycheck Plus program data.

NOTES: Estimates were regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members.

A two-tailed t-test was applied to differences between the outcomes of the program and control groups. Statistical significance levels are indicated as follows: *** = 1 percent, ** = 5 percent; * = 10 percent.

All dollar amounts are adjusted for inflation using the Consumer Price Index Research Series (CPI-U-RS) and shown in constant 2016 dollars.

- **The offer of Paycheck Plus increased the number of participants who filed taxes and who used free tax preparation services.**

Although not a key focus of the study, Paycheck Plus increased the rate of tax filing by about 10 percent in each of the three years, with effects ranging from 6 to 7 percentage points. The increase in filing was not driven by the people who went to work because of the program, given that the effects started in Year 1, before any effects on employment emerged. A large part of the increase was due to individuals who were already working but who would not have filed without the Paycheck Plus program. Most of these individuals likely had earnings low enough that they were not legally required to file; the program also increased the receipt of the federal EITC (not shown), a byproduct of filing and available only to those with earnings under \$16,000.

Filing taxes can provide benefits beyond tax credits, such as refunds for any surplus withholdings during the tax year. Formalizing any informal self-employment by filing can also increase Social Security benefits in the longer term. Another benefit, highlighted in the wake of the COVID-19 pandemic, is that being connected to the tax system can make it easier to receive stimulus payments.

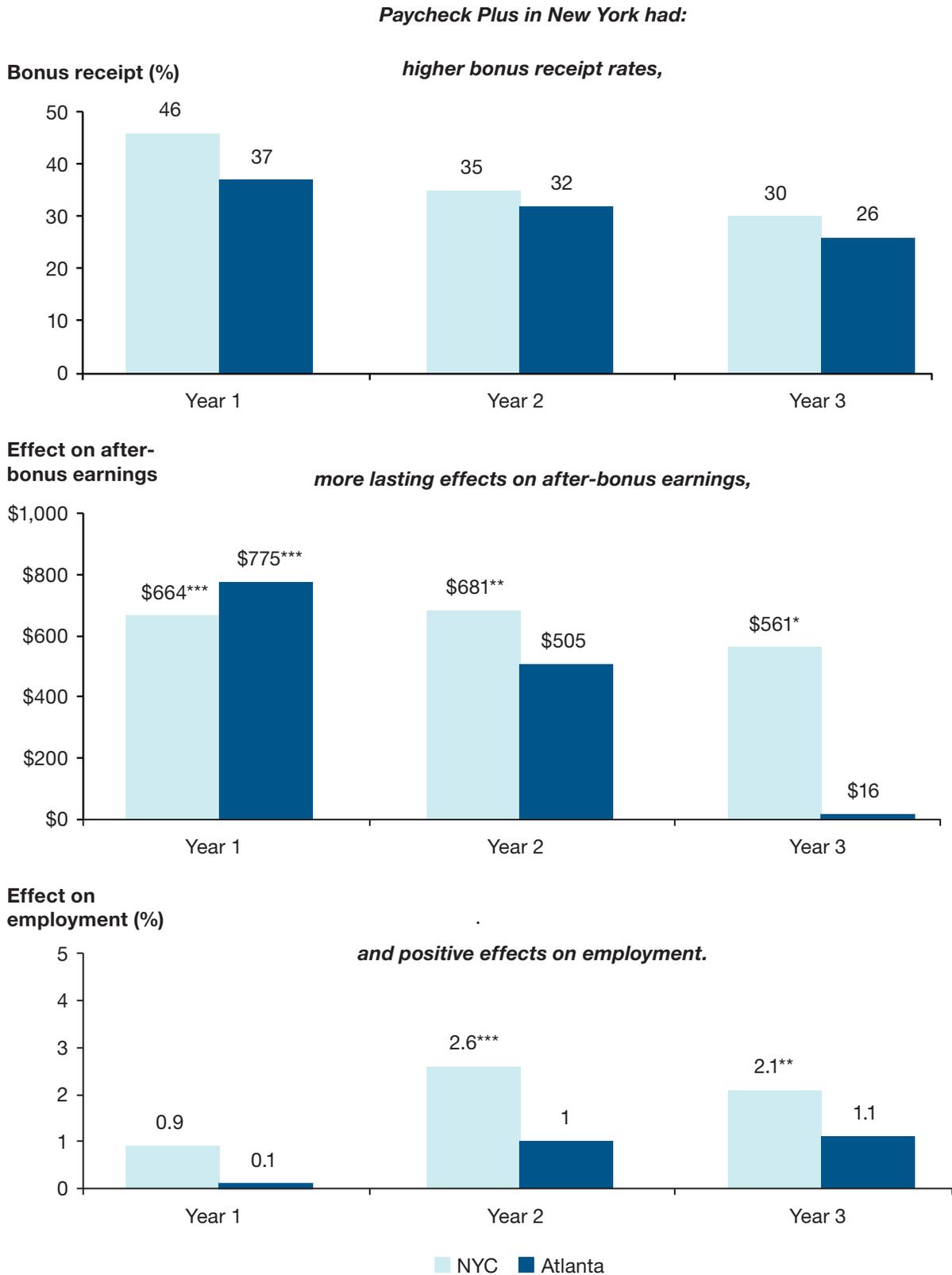
The expansion of the federal credit under ARPA may have similar effects on tax filing. The positive effect on the use of free tax preparation, on the other hand, is unique to Paycheck Plus. Although filing taxes at a VITA site was not a requirement to get the bonus, doing so made the process much easier. As a result, the program more than doubled the use of VITA sites for tax preparation, from 14 percent to 39 percent in Year 1 (not shown). VITA's free tax preparation services are available to families with low earnings, but at a national level, very few eligible filers use VITA to prepare their taxes. Increased VITA use eliminated the monetary cost of tax preparation for these Paycheck Plus filers, allowing them to keep more of their bonuses.

EFFECTS IN EACH CITY

Earlier reports on Paycheck Plus presented the implementation of the program and its effects in each city. The findings in each city were similar, with a few exceptions. In both cities, for example, the majority of eligible filers received the bonus, and eligibility and receipt rates fell over time as people lost jobs or earned too much to qualify.¹⁰ But as shown in Figure 5, bonus receipt rates were lower in Atlanta, particularly in Year 1. It is difficult to link lower rates to a specific factor, but there were some differences in the two cities that may have affected bonus receipt. First, the study participants in Atlanta were less connected to the tax system and had lower tax filing rates prior to the study. Atlanta participants were also much less likely to have used a VITA site in the past, whereas a substantial number of study participants in New York City were previous clients of FNBYC's VITA programs. Both differences made it more challenging to encourage individuals in Atlanta to file taxes and file at a VITA site to claim the bonus. Second, study participants in Atlanta were also more geographically dispersed than those in New York City, having been recruited from 13 metro area counties, which meant longer travel times to available VITA sites.

FIGURE 5

EFFECTS ON BONUS RECEIPT, AFTER-BONUS EARNINGS, AND EMPLOYMENT, BY CITY



(continued)

FIGURE 5 (continued)

SOURCES: IRS tax forms, W-2s, 1040s, and 1099-MISCs; Paycheck Plus program data.

NOTES: Estimates were regression-adjusted using ordinary least squares, controlling for pre-random assignment characteristics of sample members.

A two-tailed t-test was applied to differences between the outcomes of the program and control groups. Statistical significance levels are indicated as: *** = 1 percent, ** = 5 percent; * = 10 percent.

All dollar amounts are adjusted for inflation using the Consumer Price Index Research Series (CPI-U-RS) and shown in constant 2016 dollars.

In both cities, the offer of Paycheck Plus increased after-bonus earnings. In Atlanta, however, the effect diminished over time, with the impact only marginally statistically significant in Year 2 and not statistically significant by Year 3. The positive effect of the bonus in Year 3 in Atlanta was offset by a negative effect, although statistically insignificant, on earnings. There were no effects on average earnings in either city and no evidence of reductions in earnings among higher earners.

The largest difference in findings between the two cities was that positive effects on employment were only observed in New York City. The lack of effects in Atlanta may have been due to the lower bonus receipt rate there, reflecting less engagement with the program more generally. Or it may reflect the fact that responses to a potential increase in take-home pay varied across groups and areas.

Another difference between the cities (not shown in Figure 5) is that Paycheck Plus in New York City led to an increase in child support payments among noncustodial parents—increases of about 10 percent in Years 2 and 3. This group also saw fairly large increases in employment and earnings in Year 3 as a result of the program, which may have contributed to increased child support payments. Similar effects were not found in Atlanta. Finally, the New York study relied on a survey administered to study participants about two and a half years after study entry to measure effects on other outcomes, such as material hardship, involvement with the criminal justice system, and mental and physical health. Few effects were found on these secondary outcomes, except for a reduction in the number of individuals in “severe poverty,” or with incomes below 50 percent of the poverty line. This impact reflects the receipt of the bonus among those with very low earnings. A comparable survey was not available for the study in Atlanta.¹¹

CONCLUSION

I don't feel so trapped. Like, if something comes up, where I'm gonna get the money from? You know, because I have no extra. But I have that [bonus] to fall back on. So I don't feel as stressed, you know? I knocked off some bills, and I still have a little savings, so I'm at ease right now.

—Paycheck Plus participant

As policy makers continue to consider ways to address poverty, inequality, and low wages, findings from Paycheck Plus suggest that an expanded EITC can be an effective part of this effort. The results from both cities combined show that the expanded credit increased after-bonus earnings, led to a small increase in employment rates, did not reduce work effort among higher earners, and encouraged more people to file taxes.

These effects may understate the potential impact of a similar-size expansion of the EITC. Even a carefully run demonstration like Paycheck Plus faced challenges that a national policy change wouldn't. For example, study participants had to take extra steps to get the bonus, beyond filing taxes; they did not always remember that they were eligible for the bonus or how to claim it; and, as a fixed study sample, many of them were not eligible to receive it for all three years.

The findings can also inform the potential effects of the ARPA expansion and discussions about making it permanent. The findings show that the effort to reduce the stark disparity in the credit between workers with and without dependent children can increase workers' after-bonus earnings without reducing work effort.

The findings also suggest that the expansion may increase employment rates, but any effects are likely to be small. Paycheck Plus, a more generous credit than under ARPA, led to a small increase in employment and one that was well within the response predicted by economic research. Moreover, ARPA allowed taxpayers to use 2019 earnings to determine their EITC if their current year's earnings were lower and entitled them to less or no EITC. This feature would likely reduce any positive employment effects.

However, although some people will be drawn into employment as the payoff to work is increased, many people with low incomes face greater barriers to work and will need additional supports to move into work. An expanded EITC is one component of an effective social safety net.

Finally, the findings also can inform efforts to encourage take-up of an expanded credit. The expansion under ARPA offers a more generous benefit to a group that is not used to getting much from the EITC. As with Paycheck Plus, considerable effort will need to be put into marketing and outreach to help these workers become aware of and trust the new policy. Findings from the study suggest that

one effective strategy for marketing and outreach is via community-based organizations that have relationships with eligible workers.

A key challenge will be to encourage workers with low incomes to file taxes, even though many of them earn so little they are not legally required to do so. The potential for a sizable refund at tax time, if workers know about it, should encourage some new filing, as was the case with Paycheck Plus. Another strategy might be to encourage filing more generally, perhaps through easier access to free tax preparation services. Most filers with low incomes don't use VITA sites for tax preparation, and few eligible workers use the free filing options available through the IRS, in part because they are not aware that they exist.¹² An expanded credit can provide an important safety net for the large group of workers without dependent children, but achieving that goal will require that they know about it and can easily claim it.

NOTES AND REFERENCES

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