



The Interaction Between the Minimum Wage and the Federal EITC

Andrew Schaefer, Jessica Carson, Marybeth J. Mattingly, and Andrew Wink

Increases in the minimum wage are widely assumed to be beneficial for low-income workers, but it is important to consider the effect an increase might have on eligibility for other benefits, particularly the federal Earned Income Tax Credit (EITC). This fact sheet examines the interaction between the minimum wage and the EITC to determine whether a minimum wage increase would produce gains in the sum of earnings plus EITC dollars for low-income workers.¹

Effects of an Increased Minimum Wage Vary by Family Characteristics

Table 1 shows annual earnings and federal EITC benefits for different kinds of families under several possible minimum wage scenarios. It assumes that earners work these hours 50 weeks per year and that in married couple families both adults work.

In no scenario does an increase in the minimum wage result in lower net income for families, though the effects vary substantially by family type and level of work. Increasing the minimum wage to \$9 per hour would generally have the most consistent impact on workers without children, although unmarried, part-time workers with children would also see increases of more than 20 percent. Among full-time married workers with children, the higher wage would result in significantly reduced EITC benefits, but net income would still rise between 16.2 and 18.7 percent.

Gains are considerably larger under the second scenario—increasing the minimum wage to \$12. For unmarried part-time workers with children, these gains are particularly important, as increased earnings also make them eligible for more-valuable EITC credits (although this is true in some cases under the first scenario too). For married workers with children,

KEY FINDINGS



For workers earning the minimum wage, an increase would result in higher income; none would experience a lower net income due to changes in the federal EITC credit (though this may be offset by loss of other safety net program benefits).



For some family types, increased income would come primarily from a higher minimum wage; for others, gains would also come from the higher-value federal EITC triggered by their higher earnings.

however, the dual earnings of even part-time workers are close to the value at which EITC begins to decline for additional wages to result in much higher credits. Instead, earnings gains among married couples with children would be largely derived from the higher earnings of the \$12 minimum wage.

Implications for Policy

For some families, the largest gains from an increase in the minimum wage would come directly from the higher wage itself, while for others gains would come disproportionately from the higher-value EITC derived from their newly risen earnings.² It makes sense that in all scenarios considered here, a higher minimum wage is not associated with lower net income, since the EITC was designed to promote and support work.

However, some caution is needed, since low-income families often participate in social safety net programs besides the EITC that are typically based on pre-tax income. For these families, the loss of benefits like public health insurance and nutrition assistance may substantially offset minimum wage increases.³

TABLE 1: EFFECTS OF A MINIMUM WAGE INCREASE FOR FEDERAL EITC BENEFITS AND OVERALL FAMILY INCOME

	CURRENT POLICY			SCENARIO 1			SCENARIO 2		
	\$7.25			Increase to \$9.00			Increase to \$12.00		
	Earnings	EITC	Total	Earnings	EITC	%	Earnings	EITC	%
Unmarried - no children									
20 hours / week / all year	\$7,250	\$503	\$7,753	\$9,000	\$443	21.8%	\$12,000	\$214	57.5%
40 hours / week / all year	\$14,500	\$23	\$14,523	\$18,000	\$0	23.9%	\$24,000	\$0	65.3%
Unmarried - 1 child									
20 hours / week / all year	\$7,250	\$2,474	\$9,724	\$9,000	\$3,069	24.1%	\$12,000	\$3,359	57.9%
40 hours / week / all year	\$14,500	\$3,359	\$17,859	\$18,000	\$3,359	19.6%	\$24,000	\$2,414	47.9%
Unmarried - 2 children									
20 hours / week / all year	\$7,250	\$2,910	\$10,160	\$9,000	\$3,610	24.1%	\$12,000	\$4,810	65.5%
40 hours / week / all year	\$14,500	\$4,894	\$19,394	\$18,000	\$6,086	24.2%	\$24,000	\$6,242	55.9%
Unmarried - 3 children									
20 hours / week / all year	\$7,250	\$3,274	\$10,524	\$9,000	\$4,061	24.1%	\$12,000	\$5,411	65.4%
40 hours / week / all year	\$14,500	\$6,242	\$20,742	\$18,000	\$6,242	16.9%	\$24,000	\$4,996	39.8%
	\$7.25			Increase to \$9.00			Increase to \$12.00		
	Earnings	EITC	Total	Earnings	EITC	%	Earnings	EITC	%
Married couple - no children									
20 hours / week / all year	\$14,500	\$445	\$14,945	\$18,000	\$140	21.4%	\$24,000	\$0	60.6%
40 hours / week / all year	\$29,000	\$0	\$29,000	\$36,000	\$0	24.1%	\$48,000	\$0	65.5%
Married - 1 child									
20 hours / week / all year	\$14,500	\$3,359	\$17,859	\$18,000	\$3,359	19.6%	\$24,000	\$3,296	52.8%
40 hours / week / all year	\$29,000	\$2,497	\$31,497	\$36,000	\$1,378	18.7%	\$48,000	\$0	52.4%
Married - 2 children									
20 hours / week / all year	\$14,500	\$5,548	\$20,048	\$18,000	\$5,548	17.5%	\$24,000	\$5,465	47.0%
40 hours / week / all year	\$29,000	\$4,412	\$33,412	\$36,000	\$2,938	17.8%	\$48,000	\$410	46.5%
Married - 3 children									
20 hours / week / all year	\$14,500	\$6,242	\$20,742	\$18,000	\$6,242	16.9%	\$24,000	\$6,158	45.4%
40 hours / week / all year	\$29,000	\$5,105	\$34,105	\$36,000	\$3,631	16.2%	\$48,000	\$1,104	44.0%

Less than 20 percent increase

20-40 percent increase

40-60 percent increase

60 percent increase or more

Note: The married-couple earnings calculations assume that both parents work the same amount.

Source: Carsey School of Public Policy analysis of IRS policy regarding EITC credit values.

Data and Methodology

Data on EITC values for different filing types, number of children, and household earnings are provided by the Internal Revenue Service for 2016. All analyses of minimum wage increase values are the authors' own.

About the Authors

Andrew Schaefer is a vulnerable families research scientist at the Carsey School of Public Policy (andrew.schaefer@unh.edu).

Jess Carson is a vulnerable families research assistant professor at the Carsey School of Public Policy (jessica.carson@unh.edu).

Beth Mattingly is director of research on vulnerable families at the Carsey School of Public Policy (beth.mattingly@unh.edu).

Andrew Wink is a student at Cornell University studying Economics and English (aw693@cornell.edu).

Endnotes

1. It is beyond the scope of our current work to look at other safety net programs and how benefit levels may change as earnings rise. However, for most safety net programs, eligibility is determined on pre-tax income, so changes in the EITC would not likely have a large impact the way that changes to the minimum wage might.

2. Not all filers who are eligible for the EITC claim the credit; research from Brookings suggests that fewer than eight in ten do. For filers who do not claim any EITC credit, of course, a minimum wage increase would be especially important. See Natalie Holmes and Alan Berube, "The Earned Income Tax Credit and Community Economic Stability" (Washington, DC: Brookings Institution, 2015), <https://www.brookings.edu/articles/the-earned-income-tax-credit-and-community-economic-stability/>.

3. See Andrajit Dube, "Minimum Wages and the Distribution of Family Incomes," Discussion Paper 10572 (Bonn, Germany: IZA Institute of Labor Economics, 2017), and Michael Reich and Rachel West, "The Effects of Minimum Wages on Food Stamp Enrollment and Expenditures," *Industrial Relations* 54, no. 4 (2015): 668-94.

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