Blueprint for American Prosperity
Unleashing the Potential of a Metropolitan Nation

METRO RAISE: BOOSTING THE EARNED INCOME TAX CREDIT TO HELP METROPOLITAN WORKERS AND FAMILIES

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EXECUTIVE SUMMARY

To alleviate poverty, make work pay, and help low-wage workers and lower-income families meet rising costs of living, the federal government should expand the **Earned Income Tax Credit (EITC)**.

Targeted expansions to the credit, and new options for workers to receive the EITC's proceeds throughout the year (rather than in a lump sum), would ensure more economically inclusive growth, especially in the major metropolitan areas where the bulk of America's working poor resides.

America's Challenge

Even as the U.S. economy was growing strongly in recent years, median household incomes and average hourly wages stagnated. Today, about one-quarter of the nation's workforce is employed in low-wage jobs, and low-wage occupations are projected to account for 30 percent of U.S. job growth in the coming years. Meanwhile, prices for necessities such as housing, transportation, and child care have continued to rise for lower-income workers and families. Slowing economic growth, and a potential recession, place additional, immediate pressures on the nation's less-skilled, lower-wage workforce.

Limitations of Existing Federal Policy

Because it reduces poverty and inequality while promoting work, the EITC is widely acknowledged as one of the singular successes of American social policy in recent decades. Yet the EITC could do more for certain workers and families to help make work pay and to close the growing gap between stagnant wages and rising prices. Moreover the annual lump sum in which nearly all EITC is delivered is not well-timed to help low-income families meet their year-round needs.

A New Federal Approach

The federal government should expand and modernize the EITC, and in doing so help an estimated 8.4 million tax filers in the nation's 100 largest metropolitan areas, and 14.5 million nationwide, by:

- **Tripling the maximum EITC for low-income, childless workers** to about $1,300 in tax year 2008, boosting the financial return to work and ensuring that the federal government does not tax these workers into deeper poverty

- **Allowing married couples to exclude one-half of a second earner's income** when calculating the EITC, thus reducing economic disincentives for low-income couples to marry and for spouses to join the labor force

- **Expanding the EITC for working families with three or more children**; these families are twice as likely as smaller families to have low incomes, but they receive no incremental assistance under the current EITC

- **Creating a new, streamlined periodic payment option** that would provide eligible tax filers with a portion of the credit's proceeds directly from the IRS throughout the year, as other countries with similar tax credits do

I. INTRODUCTION

Millions of American workers, many of them raising children, earn low wages. Research suggests that at least one in four U.S. workers can be classified as low wage earners.[1]

The U.S. economy has created low-wage jobs at a considerable pace in recent decades, in sectors such as retail, accommodation and food service, health care, child care, and other personal services. Experts have pointed to advances in global trade, technological change, shifting demand among U.S. consumers, and the declining power of unions as factors, among others, that have contributed to the growth in low-wage work.[2] Yet prices for necessities like housing, utilities, transportation, and child care have risen rapidly in recent years, even as wage and income growth has stalled for a large segment of the workforce.[3]

Like most industrialized societies, the United States has adopted policies to help people in low-wage work support themselves and their families, providing many with access to subsidized child care and health insurance, and nutritional assistance. Perhaps most significantly, the federal government subsidizes earnings for low-income workers through the tax code. The Earned Income Tax Credit (EITC), created in 1976, has grown over the past 30 years into the nation's largest program for the so-called "working poor." In tax year 2006, more than 22 million lower-income families claimed over $43 billion via the EITC. Many of these families also benefit from other provisions of the federal tax code for lower-income filers, like the Additional Child Tax Credit. Moreover, working families in nearly half of all U.S. states can now qualify for a supplement to the federal EITC through their own states' income tax codes. The support provided to low-income workers via the EITC is widely regarded as a singular success of American social policy in recent decades, and has prompted other nations to adopt similar strategies.

Yet the EITC, which last underwent a significant expansion in 1993, has not kept up with the growing gap between wages and prices for many working families, particularly those in major metropolitan areas. The credit exhibits particular limitations for certain categories of lower-income tax filers: childless workers; dual-earner couples; and families with three or more children. In addition, the lump-sum tax refund by which 99 percent of EITC recipients gain access to the credit is ill-suited to help workers meet the rising day-to-day, month-to-month costs of providing for themselves and their children.

Policies to achieve more inclusive growth in metropolitan areas form a central concern of the *Blueprint for American Prosperity*, an initiative launched by the Metropolitan Policy Program at Brookings. This paper asserts that the federal government has a unique responsibility and ability to address the wage stagnation confronting American workers, and to improve labor market incentives that can help the nation achieve more robust, broad-based economic growth. Such policies are of particular importance to the nation's large metropolitan areas, which exhibit some of the widest degrees of economic inequality, have among the highest relative prices for housing and transportation, and house large concentrations of low-income working families.

To that end, Congress and the next administration should expand the EITC, and create a new method for delivering the credit's proceeds to low-income workers throughout the year. This report illustrates the impacts that these proposed expansions would have on working families in each of the 100 largest metro areas in the United States, using the results from a new EITC eligibility model. The proposed expansions would together cost about $12 billion in 2008, and provide roughly 60 percent of their benefits to tax filers in the nation's 100 largest metro areas. Expanding the EITC for these workers and families would make those in 39 of the 100 largest metro areas eligible for a further $358 million in state and local versions of the credit.

With nearly all the economic gains of this decade accruing to earners near the top of the income distribution, and with prices of basic necessities continuing to rise, the federal government should re-commit itself to achieving a broader distribution of the rewards from economic growth. Expanding the EITC represents an efficient and effective means to meeting that goal.

II. Low-Wage Work Persists Amid Rising Prices

At the moment, the United States faces the prospect of slowed economic growth and a possible recession, precipitated by problems in the mortgage market. Such a downturn could place new pressures on the nation's less-skilled, lower-wage workforce, whose members in past recessions have been among the first to suffer the ill effects of economic turmoil.[4]

To some degree, workers are already feeling the effects of a slowdown in growth. As of April 2008, workers spent an average of 16.9 weeks unemployed, compared to 12.5 weeks in December 2000. Roughly 18 percent of unemployed workers were still looking for jobs after 27 weeks out of work, up from 11 percent in 2000.[5] Moreover, workers who lost their full-time jobs in the early 2000s were not always able to find new full-time work or a job that offered the same pay. Farber finds that 13 percent of these workers ended up taking part-time jobs, while those who managed to find full-time work earned about 13 percent less on average in their new positions.[6]

Yet the economic issues facing America's workers, especially those at the lower end of the wage spectrum, predate current market instability. To be sure, the U.S. economy has expanded at a healthy pace overall in recent years. After a brief downturn in 2001, real Gross Domestic Product (GDP) grew relatively rapidly from 2002 to 2006, at an annualized rate of 3 percent.[7] During the same time period, however, real U.S. median household income rose by only 0.4 percent annually.[8] Real average hourly earnings for private-sector U.S. workers failed to grow, and the most recent evidence suggests that wages have begun to fall in recent months.[9] As a result, the gap between productivity growth and median family income growth has reached its widest point in the postwar era.[10]

Wage stagnation among less-educated American workers traces an even longer history. Between 1973 and 2005, average hourly wages for workers without a high school diploma dropped precipitously, while those for workers with only a diploma or some college remained virtually the same (Figure 1). Meanwhile, earnings for workers with at least a college degree rose significantly. Economists generally attribute this rise in wage inequality to a combination of factors, including increased global trade, technological advancements, declines in unionization and the real value of the minimum wage, and shifts in U.S. demand toward services.[11] While wages for these types of workers did manage to increase during periods with very tight labor markets, such as the late 1990s, the long-term trend has clearly disadvantaged workers with fewer credentials.

How prevalent is low-wage work in the American labor market today? The answer depends on the exact definition used; estimates include:

- 35 million workers (26 percent) who earned less than $9.83 hourly in 2006, equivalent to a poverty-level income for a family of two adults and two children at full-time, year-round work;[12]

- 44 million workers (33 percent) who earned less than $11.11 hourly in 2006, equivalent to two-thirds of the median wage for men ($16.66 hourly);[13]

- 9.2 million working families (27 percent) who had incomes under 200 percent of the federal poverty threshold in 2002[14]

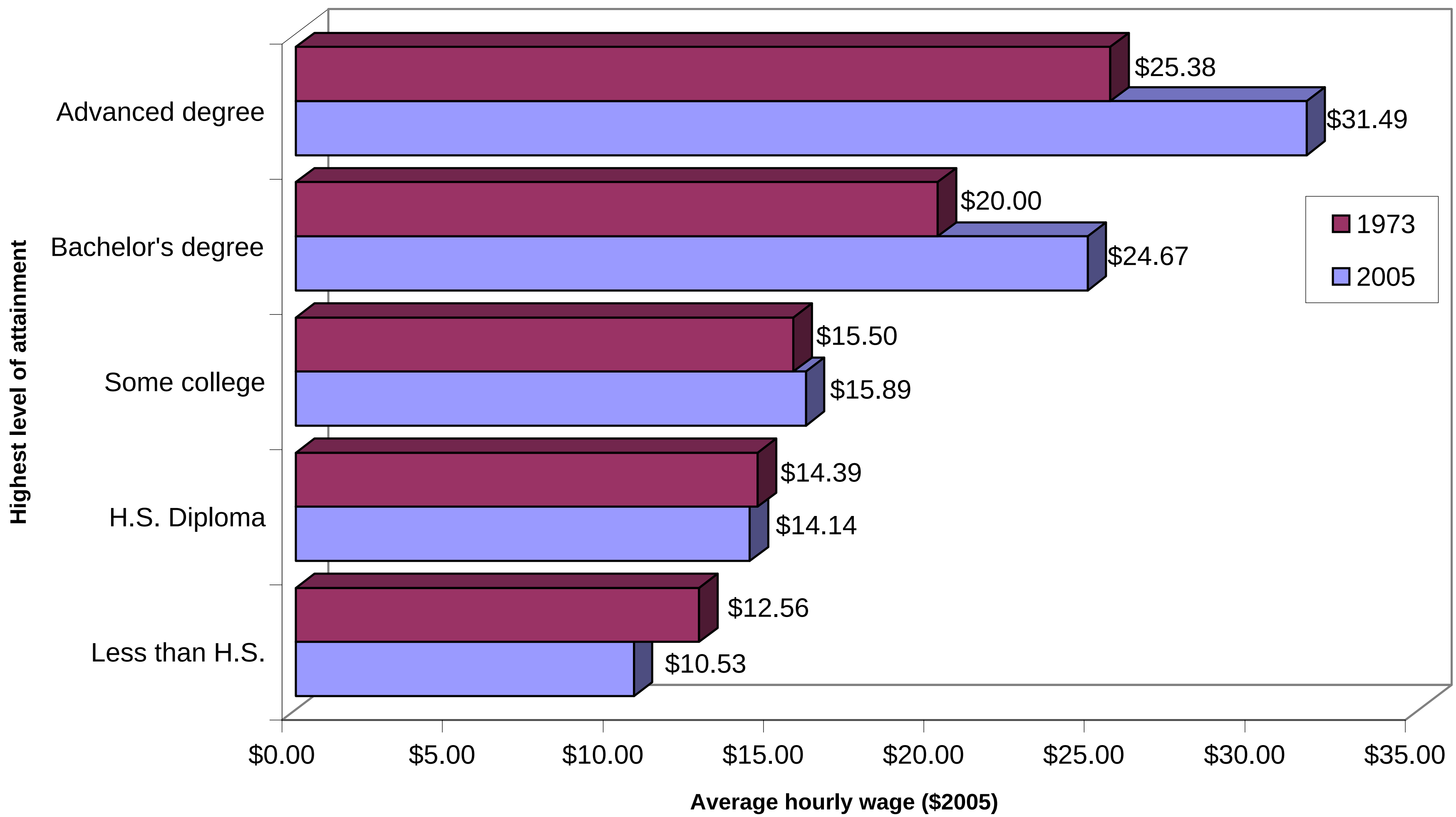
Thus, research generally reflects that at any given time, at least one-quarter of the U.S. workforce, and a similar percentage of working families with children, is employed in low-wage jobs.[15] Whether and how much the low-wage labor market has grown over time depends on the definition used, but by one measure, the share of workers earning poverty-level wages or less grew from 24 percent in 1973 to 29 percent in 1997.[16]

The U.S. economy is projected to continue creating low-wage jobs at a brisk pace. According to Bureau of Labor Statistics projections, about 30 percent of net job growth between 2006 and 2016 (roughly 4.6 million new jobs) will occur in occupations that require only short-term, on-the-job training. In May 2006, median annual earnings from these jobs were less than $20,000.[17]

Wage stagnation in the lower ranks of the wage distribution has affected workers in most major metropolitan areas during the current decade. In 81 of the 88 largest metro areas for which data are available, workers at the 20th percentile

FIGURE 1.
Wages Have Stagnated for Less-Educated Workers

Average real hourly wage by educational attainment, U.S. workers, 1975 and 2005



Source: Lawrence Mishel and others, The State of Working America 2006/2007 (*Ithaca, NY: ILR Press, 2007)* of the wage distribution experienced real declines in the value of their wages from 1999 to 2005. In 8 of these metro areas, the real wage decline exceeded 10 percent (Table 1).

Amid this persistence in low-wage work, and stagnating wages at the lower end of the wage distribution, costs of living continue to rise for lower-income working families:[18]

- On housing, median rental costs increased almost 5 percent between 2000 and 2006, at the same time that median family income dropped by more than 3 percent. In 71 of the nation's 100 largest metro areas, HUD fair market rents for 2-bedroom apartments rose by more than the rate of inflation between 1999 and 2005. In several large metros, including San Diego, Los Angeles, San Francisco, Washington, Denver, and Minneapolis-St. Paul, the inflation-adjusted increases exceeded 20 percent (Table 1). In nearly all of these metro areas, wages at the 20th percentile fell over the same period. In Ventura County, CA, fair market rents rose an astounding 43 percent, even as wages for less-skilled workers fell 12 percent.

- Working families bear the burden of rising energy costs, too. Between 2000 and 2006, the price of utilities increased at double the rate of inflation. Meanwhile, the rising cost of oil translated into much higher gas prices, which rose at 3.5 times the rate of inflation.[19] Despite depending more heavily on public transportation than other groups, 72 percent of lower-income workers still rely on private vehicles for their commutes, and are thus heavily affected by rising gas prices.[20]

- Child care represents another significant cost for many working families.[21] Between 2000 and 2007, the inflation-adjusted cost of full-time care for an infant or preschool-age child increased by 14 percent.[22] In fact, in 43 states the average cost of keeping an infant in full-time care at a center in 2006 exceeded the average tuition and fees at a public college. Family child care arrangements offer a less expensive option than child care centers for working parents, but licensed homes on average still cost between $3,500 and $9,500 a year for one child.[23]

To be sure, these rising prices affect families throughout the earnings distribution, but they arguably exact the greatest toll on those who have the least room for error in their budgets. In short, the nation's low-wage workers—especially those in major metropolitan areas—are swimming upstream, contending with rising costs for basic necessities even as their earnings flatten, and the labor market picture sours further.

TABLE 1.
Wages Have Stalled Recently for Many Workers, While Rental Costs Continued to Rise

Metro areas with largest declines in real wages at 20th percentile, and largest increases in 2-bedroom Fair Market Rents, 1999 to 2005

Metro Area	**Wages ($)***		**Change (%)**	**Fair Market Rent ($)****		**Change (%)**
	1999	**2005**	**1999-2005**	**1999**	**2005**	**1999-2005**
Metro Areas with Largest Declines in Wages at 20th Percentile of Distribution						
Bridgeport-Stamford-Norwalk, CT	11.22	9.84	-12.3	1089	1168	7.3
Oxnard-Thousand Oaks-Ventura, CA	9.23	8.13	-11.9	963	1382	43.4
El Paso, TX	6.69	5.91	-11.7	613	548	-10.5
Charlotte-Gastonia-Concord, NC-SC	9.22	8.17	-11.4	637	714	12.0
Trenton-Ewing, NJ	11.20	9.97	-11.0	973	977	0.4
Boston-Cambridge-Quincy, MA-NH	11.51	10.27	-10.8	1050	1201	14.4
Houston-Baytown-Sugar Land, TX	8.23	7.35	-10.6	706	726	2.8
Greensboro-High Point, NC	8.59	7.72	-10.2	616	609	-1.2
Raleigh-Cary, NC	9.58	8.66	-9.6	750	779	3.9
Lansing-East Lansing, MI	8.34	7.57	-9.2	691	645	-6.7
Metro Areas with Largest Increases in Fair Market Rents for 2-Bedroom Apartments						
Oxnard-Thousand Oaks-Ventura, CA	9.23	8.13	-11.9	963	1382	43.4
Sacramento--Arden-Arcade--Roseville, CA	9.16	9.02	-1.5	728	960	31.9
San Diego-Carlsbad-San Marcos, CA	9.29	8.85	-4.8	931	1183	27.1
St. Louis, MO-IL	8.91	8.37	-6.0	587	731	24.7
Los Angeles-Long Beach-Santa Ana, CA	8.41	7.94	-5.6	944	1168	23.8
San Francisco-Oakland-Fremont, CA	11.05	10.50	-5.0	1163	1425	22.5
Washington-Arlington-Alexandria, DC-VA-MD	10.97	10.46	-4.6	962	1178	22.4
Denver-Aurora, CO	9.59	9.61	0.1	744	884	18.7
Minneapolis-St. Paul-Bloomington, MN-WI	10.96	9.96	-9.1	788	928	17.8
Virginia Beach-Norfolk-Newport News, VA-NC	7.81	8.42	7.8	669	787	17.6

** Wages at 20th percentile of all wages earned in metro area. Brookings analysis of Census 2000 and American Community Survey data*
*** HUD fair market rent for 2-bedroom apartment. FMRs estimated for new metro area definitions based on population-weighted average of county FMRs.*
All dollar amounts reported in 2005 dollars, deflated using applicable regional CPIs.

III. Boosting Incomes through the EITC Promotes Better Social and Economic Outcomes

Like most industrialized nations, the United States—at multiple levels of its federal system—has adopted policies and programs to help ameliorate the side effects of economic downturn and persistently low wages on the well-being of workers and their families.

For instance, the federal Child Care Development Fund supports the provision of free and low-cost child care for lower-income working parents. Medicaid and the State Children's Health Insurance Program (SCHIP) provide access to subsidized health insurance for children in such families. Low-wage workers can qualify for nutritional assistance such as Food Stamps and the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The Low Income Heating Assistance Program (LIHEAP) assists many lower-income working households in meeting their home energy costs. And many working families benefit from programs that subsidize their housing costs, such as the Housing Choice Voucher Program and the Low Income Housing Tax Credit. For various reasons, however, these programs fail to reach all eligible families (see section V).

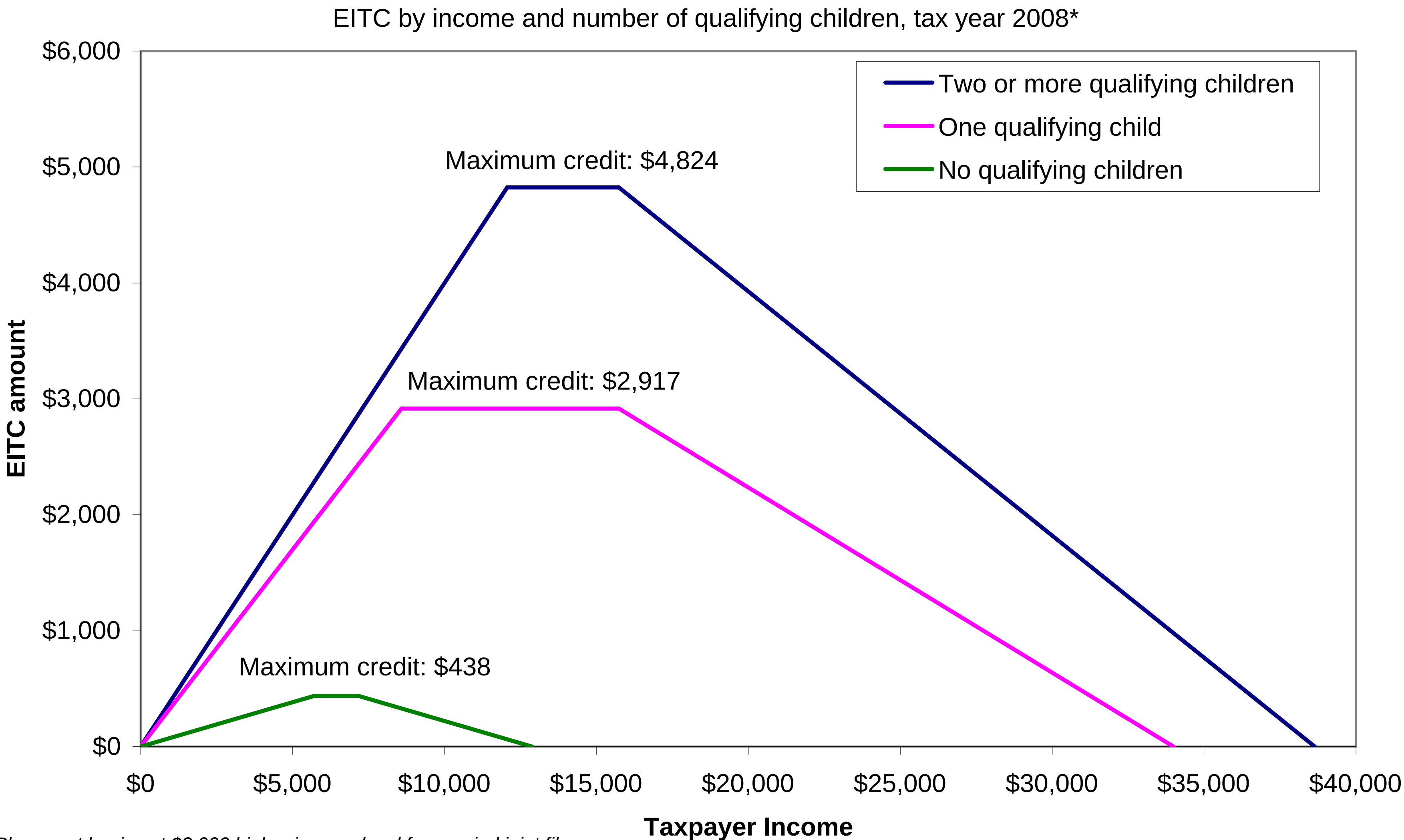
Perhaps the most significant support for working families is embodied in the federal income tax code. The Earned Income Tax Credit (EITC) provides a wage subsidy, in the form of a tax refund, to more than 22 million working families annually. In tax year 2006, those tax filers claimed over $43 billion in credits via the EITC.

To qualify for the EITC, one or more members of a tax filing unit *must* work. As shown in Figure 2, families with two children and earnings up to about $40,000 can claim the credit for tax year 2007. The largest credits are available to filers with incomes in the $10,000 to $15,000 range. For the lowest-income families with children, the EITC can represent 34 to 40 percent of annual earnings.[24] Unlike most federal tax credits which apply only to the extent they reduce a filer's tax liability, the EITC is refundable. This means that eligible claimants can receive the full value of the credit for which they qualify, regardless of their bottom-line income tax liability. About half of the EITC's benefits go to working families with children earning less than $15,000 annually, most of whom owe no federal income tax, but all of whom face payroll tax burdens.[25]

By helping "make work pay" for low-income families, the EITC addresses a number of problems that face less-skilled workers and those in lower-wage occupations, while benefiting the economy and society as a whole. The EITC:

- *Reduces poverty, especially among children*. The EITC reduced the total poverty gap—the aggregate difference between poor families' resources and the poverty threshold—for families with children by 20 percent in 1999.[26] According to the Center on Budget and Policy Priorities, in 2003, the EITC

FIGURE 2.
The Earned Income Tax Credit Provides up to $4,800 to Working Families in Tax Year 2008



**Phase-out begins at $3,000 higher income level for married joint filers*
Source: Internal Revenue Service

lifted 4.4 million people out of poverty, including 2.4 million children. The program lifts more children out of poverty than any other single program or category of programs.[27] In doing so, the EITC may also reduce the long-term economic and social costs of child poverty, which economist Harry Holzer and colleagues have estimated at roughly 4 percent of GDP.[28]

- *Promotes labor force attachment*. Several studies have concluded that expansions to the EITC during the 1980s and 1990s were responsible for increasing employment among single mothers.[29] One study estimates that the EITC and other tax changes accounted for more than 60 percent of the increase in single mothers' work between 1984 and 1996.[30] Another attributes 34 percent of the increase in employment among single mothers between 1993 and 1999 to EITC expansions.[31] Furthermore, during an economic downturn, the EITC can improve the financial return to employment for workers who may experience a drop in earnings due to cutbacks in hours, lowered wages, or a lack of full-time job opportunities.[32] Strategies that promote sustained employment have shown promise in growing the earnings of less-skilled workers.[33]

- *Reduces inequality and spreads the benefits of growth*. The EITC helps to reduce income inequality, which has reached record levels in the United States in recent years.[34] The Congressional Budget Office finds that the EITC and related low-income credits boost the share of total income received by households with children in the bottom fifth of the income distribution by 1.2 percent.[35] While this still leaves average after-tax income in the top quintile 10 times that in the bottom quintile, the EITC clearly helps to mitigate high and rising levels of inequality. Efforts to reduce high levels of inequality may also help to sustain the political consensus for policies that aim to promote economic growth generally, and ensure that the economy makes the most of all citizens' productive potential.[36]

Other aspects of the federal tax code complement the EITC's support for lower-income working families, and also help to reduce poverty, promote work, and achieve more broad-based growth. In particular, since 2001 working families with earnings of at least $10,000 (adjusted annually for inflation) have benefited from a refundable portion of the Child Tax Credit. In tax year 2005, the Additional Child Tax Credit (ACTC) provided refunds totaling nearly $15 billion, over $9 billion of which was claimed by families with children who also earned the EITC. Because filers do not qualify for the ACTC until they earn at least $11,000, the EITC provides stronger work incentives for the significant share of low-income filers who earn below that amount.[37]

In addition to helping families, the EITC acts as an economic boon to the local communities where low-income working families live.[38] The large concentrations of low-wage workers residing in the nation's major metropolitan areas translate into large financial infusions via the EITC. In that respect, proposals to strengthen the EITC to address the limitations of the credit described above are *de facto* metropolitan policies. The proceeds of the federal EITC go, of course, to individual workers families, rather than to state, regional, or local governments. But by supporting the ability of low-income families to meet rising costs of living, the EITC stimulates regional economies, and alleviates the fiscal burdens that poverty can impose on lower levels of government.[39]

For several reasons, it is appropriate that the federal government assume particular responsibility for policy efforts like the EITC aimed at supplementing wages for low-income workers and families:

- The economic and demographic dynamics that have given rise to a growing supply of low-wage jobs, and stagnant wages for less-educated workers, are widespread. With wages for workers near the bottom of the distribution dropping in 81 of the 88 largest metropolitan areas between 1999 and 2005, and failing to keep pace with rental costs in 78 of these areas, a problem of clearly national scope merits a nationwide response.

- While state and local governments are taking steps themselves to help supplement wages for working families (see Section V), these actors lack the economic stability and fiscal capacity to provide tax relief and wage subsidies at levels sufficient to address the full range of challenges described above. Unlike at the federal level, state and local fiscal policy tends to be counter-cyclical, which means that support for low-income workers and families often contracts during lean economic times, when it is needed the most. Tax competition with other jurisdictions and balanced budget requirements also constrain the ability of states and localities to significantly augment the incomes of low-wage workers.[40] And several states lack an income tax altogether, limiting the policy tools at their disposal to help low earners.[41] Finally, the federal government simply has more capacity than other levels of government to address these challenges; all U.S. state and local governments combined raised $1.6 trillion in general revenue from their own sources in 2004-05, compared to federal revenues of $2.2 trillion that year.[42]

- Notwithstanding the national scope of the challenges described above, some areas of the country clearly face larger challenges than others in supporting low-wage workers and families due to variable price pressures for goods and services like housing, health care, and utilities. For this reason, state and local supplements to the EITC are important platforms for addressing the variable gap between wages and prices across the country. Yet the labor markets within which workers face these challenges often encompass hundreds of local governments, and many—including 20 of the 100 largest metro areas—cross state boundaries. Thus, the geographic reach of these problems across jurisdictional lines provides a further basis for a robust response at the national level, upon which higher-cost states and localities can and should build.

IV. The EITC Could Do More to Support Workers and Families

The EITC stands out as one of the singular successes of recent American social policy. Researchers and policymakers of all political persuasions have hailed the credit's success in reducing poverty and promoting work, achieved with minimal bureaucratic overhead through the tax code.[43] As Section V notes, the credit has inspired a growing number of U.S. states, and even other nations, to provide their own tax code benefits for lower-income workers and families.

Yet there remain areas in which the credit could do more to help America's low-wage workforce achieve better economic and social outcomes. In particular, certain categories of low-wage workers and low-income families could use a further leg up from the EITC to help them succeed in the labor market and meet rising costs of living.[44]

1. The EITC for childless workers is very small

The last significant expansion of the EITC occurred in 1993. That year's Omnibus Budget Reconciliation Act (OBRA-1993) increased credit rates for families with children, especially for those with two or more children.[45] Those changes effectively doubled the size of the credit over the subsequent few years.

OBRA-1993 also created a new EITC for workers without qualifying children who had incomes of $9,000 or less. This "childless worker credit" (for which, despite its common moniker, a significant number of non-custodial parents also qualify) was designed to offset the employee's share of payroll tax for very low earners, phasing in at a rate of 7.65 percent. At the time, the credit had a maximum value of about $300 (for workers with incomes of $4,000 to $5,000), less than 10 percent of the maximum credit value for families with two or more children. As shown in Figure 2, the childless worker credit's maximum value today is $438. Thus, the credit for childless workers provides a modest boost, at best, to the wages of workers at the very bottom of the earnings distribution.

There are several reasons why the federal government should increase the EITC for childless workers:

- Many of these workers face significant challenges in the labor market. While employment rates have increased over the past 20 years for less-educated women, employment among less-educated men has actually declined.[46] Table 2 shows that in many major metropolitan areas, especially those of the older industrial Northeast and Midwest, young less-educated males exhibit low employment rates. Boosting the EITC for childless workers could make work more attractive to less-skilled males, encouraging more to enter the labor market, as an expanded EITC did for single mothers in the 1990s.[47]

TABLE 2.
In Several Large Metro Areas, At Least One-Quarter of Young, Less-Educated Men Are Not Working

Large metro areas with civilian employment rates of 75% or less for men aged 21-40, not in school, with no more than high school diploma, 2005

Metro Area	Total	Employed	Unemployed	Not in Labor Force	Employed (%)	Unemployed (%)	Not in Labor Force (%)
Louisville, KY-IN	57,211	42,932	5,614	8,665	75.0	9.8	15.1
Augusta-Richmond County, GA-SC	25,742	19,294	2,805	3,643	75.0	10.9	14.2
Wichita, KS	26,655	19,967	4,475	2,213	74.9	16.8	8.3
Cleveland-Elyria-Mentor, OH	104,229	77,955	11,386	14,888	74.8	10.9	14.3
Jackson, MS	22,004	16,161	1,389	4,454	73.4	6.3	20.2
Philadelphia-Camden-Wilmington, PA-NJ-DE	283,621	208,110	31,784	43,727	73.4	11.2	15.4
Hartford-West Hartford-East Hartford, CT	46,035	33,778	5,249	7,008	73.4	11.4	15.2
Memphis, TN-MS-AR	77,662	56,364	8,374	12,924	72.6	10.8	16.6
New Orleans-Metairie-Kenner, LA	73,136	52,976	8,175	11,985	72.4	11.2	16.4
Springfield, MA	41,263	29,828	5,043	6,392	72.3	12.2	15.5
Milwaukee-Waukesha-West Allis, WI	65,630	46,974	10,219	8,437	71.6	15.6	12.9
Detroit-Warren-Livonia, MI	226,997	162,400	30,586	34,011	71.5	13.5	15.0
Pittsburgh, PA	89,854	63,578	9,784	16,492	70.8	10.9	18.4
Lansing-East Lansing, MI	19,636	13,874	1,508	4,254	70.7	7.7	21.7
Buffalo-Niagara Falls, NY	51,563	35,284	8,610	7,669	68.4	16.7	14.9
100 Largest Metro Areas	**10,539,885**	**8,509,759**	**835,973**	**1,194,153**	**80.7**	**7.9**	**11.3**

Source: Brookings Institution analysis of American Community Survey data

- Low-income childless workers face much higher tax burdens than their counterparts with children. According to the Center on Budget and Policy Priorities, the poorest fifth of non-elderly childless adults pay, on average, more than four times as large a share of their income in federal taxes as do low-income families with children.[48] The disparity widened in 2001 when the Child Tax Credit was made partially refundable, a step that delivered additional tax relief to some low and moderate-income working families with children, but did not benefit childless workers.

- As a result, poor childless workers—unlike families with children—are actually taxed *deeper into poverty* by federal taxes. Under current law in 2008, a single worker with no children and a poverty-line income ($11,014) would owe federal income and payroll taxes of $949, even after accounting for the EITC.[49] By contrast, a single mother with two children at the poverty line ($17,056) in 2008 would receive a net federal tax benefit of almost $4,000 (Figure 3).

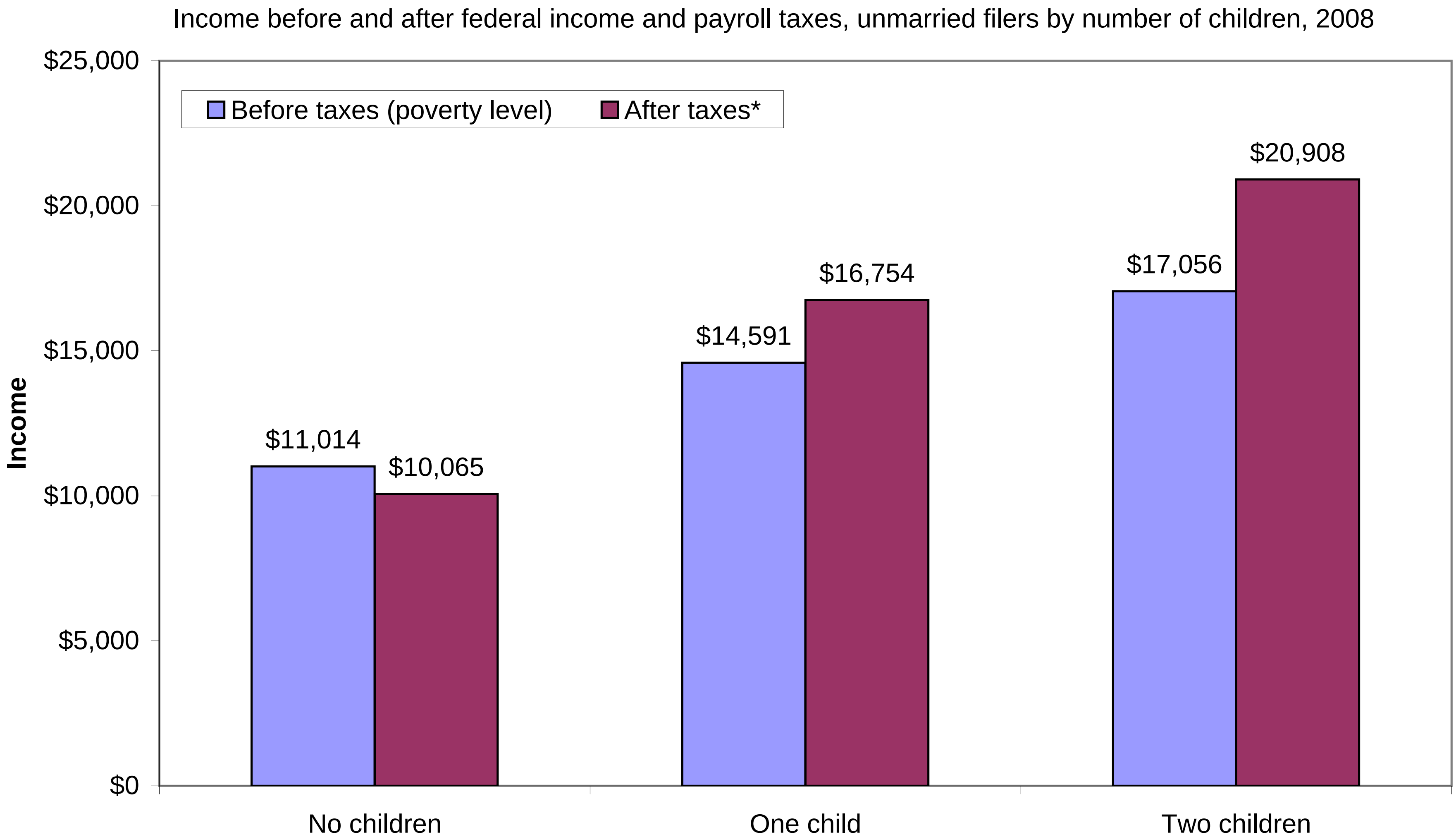
The small value of the EITC for childless workers contributes to low take-up of the credit among these filers, many of whom are therefore not part of the tax system. The GAO/IRS estimates that only 45 percent of workers without qualifying children who were eligible for the EITC claimed the credit. The modest amount of the EITC available to these filers could be eroded quickly by fees for tax preparation and associated financial products, further lowering their incentives to file. Boosting the credit for these workers may make it more worthwhile for them to file, and eventually help bring more of them into compliance with the tax system.

For numerous reasons, it is appropriate for government to invest considerably in the well-being of families with children, most importantly to improve children's life chances.[50] In fact, this paper argues below that government should do more through the EITC for certain types of families with children. The question is how to strike the right balance between support for low-income workers with, and low-income workers without, children. In light of the successful efforts we have made to reduce tax burdens for low-income parents with children in recent years, there is now a strong argument to bolster tax-code assistance for childless workers.

2. The EITC creates an implicit tax penalty on low-income, dual-earner couples

A second issue with the current EITC concerns its treatment of two-earner couples, and the "marriage penalty" it implies for some single-parent families. Most EITC recipients are working single parents with children.[51] Such filers face the prospect of losing most, if not all, of their EITC if they marry another low earner. For instance, a married couple filing jointly, raising two children, and earning $30,000 would qualify for an EITC of $2,453 in 2008. As two single filers earning $15,000 each, however, the parent with two children would qualify for an

FIGURE 3.
At the Poverty Line, Childless Workers Are Taxed Deeper Into Poverty



** Represents impact of worker share of payroll taxes and federal income tax, including EITC and Child Credit*
Source: Brookings Institution analysis of Census Bureau and IRS data

EITC of $4,824—nearly $2,400 more than in the married case.[52] To the extent that the credit's current structure makes marriage less attractive for such couples, it may frustrate efforts to increase the share of children growing up in married-couple households, which research has shown improves their long-term outcomes.[53]

Additionally, the current structure of the EITC may reduce labor force participation and/or hours worked by modest amounts for second earners in married-couple households, due to the implicit tax on their earnings associated with the phase-out of the credit.[54] This could be viewed positively, to the extent that EITC proceeds allow non-working parents to spend more time with their children. At the same time, one must weigh these effects in light of the credit's goal to promote work in lower-income families.

With respect to either couples considering marriage, or already-married couples, the federal government could do more to ensure that the EITC reduces existing disincentives to marriage and work, and supports low-income dual-earner couples in their efforts to provide for themselves and their families.

3. The EITC offers no incremental assistance to large families

A third limitation of the existing EITC is that it makes no incremental effort to reduce poverty among working families most likely to experience it—those with three or more children. The credit has tiers of increasing generosity for childless workers, families with one child, and families with two or more children. Families with three or more children qualify for no additional EITC benefits beyond what families with two children may claim.

However, families with three or more children are much more likely to have low incomes than other types of families, even when they are working. In 2000, 28 percent of employed families with three or more children had incomes below 150 percent of poverty, compared to 12 percent of one-child families and 14 percent of two-child families.[55] In addition, certain costs of living are higher for low-income families with three or more children, though wages are generally not. Housing, child care, and food expenses can all consume larger proportions of these families' budgets, but the current structure of the EITC makes no adjustment to help them meet those higher costs.

The state of Wisconsin recognized the special economic burdens borne by large families when it created the first state-level version of the EITC in 1989. Wisconsin's EITC provides a much more generous credit for families with three or more children than for families with two children.[56] The federal government could take a similar step to ease the financial burdens on these working families nationwide.

4. *The benefits of the EITC are not timed to coincide with household needs*

A final shortcoming of the EITC concerns how and when low-income workers and families receive its proceeds.[57] Because the EITC is part of the federal income tax code, the overwhelming majority of recipients gain access to the credit in the same way that taxpayers generally benefit from tax credits—through their annual tax refunds. But a once-a-year lump sum fails to strike an appropriate balance between recipients' desire to accumulate savings, and their need to meet ongoing expenses.

Research suggests that EITC recipients use the bulk of their tax refunds to finance consumption, such as paying everyday bills like rent and utilities, often overdue by the time their refunds arrive.[58] This is not surprising, because for many families, the EITC makes up the difference between their earnings and the poverty line. The credit can account for as much as 43 percent of a family's earnings net of taxes in 2008. That almost one-half of EITC recipients pay a commercial tax preparer for a refund anticipation loan (RAL) or refund anticipation check (RAC) suggests that these households face liquidity constraints, and exhibit a demand to accelerate their EITC payments to meet immediate household needs.[59]

Low-income workers with children do have the option under current law to receive a portion of their projected EITC in their paychecks—up to $34 per week in 2008 via the Advance EITC. Yet in tax year 2004, an extremely small share of EITC recipients used this option, and total reported advance payments represented between 0.2 percent and 0.4 of EITC claims for families with qualifying children.[60] Despite existing since 1979, advance payments have never been a significant feature of EITC administration.

Most EITC recipients express a preference for receiving their payments via lump sum.[61] Those preferences are shaped in part by the several problems that limit the utility of the current advance payment option for lower-income taxpayers, and contribute to its very low take-up:

- *Lack of awareness*. A 2005 survey at a community tax return preparation program found less than one-third of respondents were aware of the advance payment option.[62] Although experiments aimed at increasing awareness have produced statistically significant increases in utilization of the Advance EITC, those increases amount to small increments in the number of taxpayers enrolled in the option.[63]

- *Fear of overpayment*. Because the Advance EITC is based on a taxpayer's projected earnings, changes in family or economic circumstances during the year could result in a taxpayer receiving credits through her paycheck that exceed the credit amount for which she is eligible. Such amounts must be reconciled on the tax return, and can result in a decreased refund or increased payment to the IRS. To minimize this overpayment risk, current law caps advance payments at 60 percent of the EITC for one qualifying child, or $1,750 in 2008. That is only a little more than one-third the maximum credit available to families with two or more children. The lack of any tolerance for modest overpayment, and the highly conservative advance payment cap, arguably lead many taxpayers to eschew the option altogether.

- *Transaction costs*. To receive advance payments, a taxpayer must complete IRS Form W-5 and submit it to her employer, who then calculates the appropriate advance credit amount and adds it to the worker's paycheck. In addition to perhaps being reluctant to involve one's employer in the transaction, taxpayers must submit a revised form if their circumstances change during the year, and must re-enroll each new calendar year to continue receiving the payments. The difficulty of calibrating payments correctly, especially if the taxpayer holds more than one job, or has a spouse or other family member who works, may frustrate participation as well. A network of large employers have come to see advantages in the existing Advance EITC as an additional support for their workers, but most employers—especially smaller ones—see little incentive in promoting the option and assisting workers in accessing it.

The lack of viability of the current advance payment option suggests that many lower-income working families forego expenditures that they might be able to make if a more effective option existed for making EITC payments periodically. This is especially relevant for families who live in high-cost areas of the United States. In the San Diego region, for instance, the fair market rent for a 2-bedroom apartment in 2005 was $1,183, or $14,200 annually. In the absence of periodic assistance, EITC-eligible families in the that area are likely greatly constrained in their housing and neighborhood choices, or forego other necessities in order to afford decent shelter.

These taxpayers, like American taxpayers generally, will certainly continue to exhibit some demand for forced savings that lump-sum EITC payments provide.[64] Yet a better designed advance EITC could appeal to a much broader cross-section of recipients, enabling them to exercise greater choice in their purchase of day-to-day, month-to-month necessities such as housing or child care.[65] Devising a new periodic payment option becomes even more important as lawmakers consider proposals to expand the EITC, and to create or expand other refundable tax credits.[66]

Despite the limitations explored here, the EITC remains better designed to respond to the economic challenges facing lower-income working families than many other programs. Because it operates through the tax code, the credit has low administrative costs compared to most other income-transfer programs.[67] Partly as a result, the credit also exhibits a higher participation rate among eligible workers and families, especially those with children, than do other means-tested programs like TANF, Food Stamps, and subsidized health insurance.[68] Still other programs, such as subsidized child care and housing vouchers, serve one-quarter or less of income-eligible families because of funding limitations.[69] And as noted above, the EITC also continues to enjoy well-deserved bipartisan support due to its effectiveness in reaching low-income families, and in supporting work as the best route out of poverty.

V. States, Localities, and Other Countries Have Increased Their Efforts to Help Working Families Through the Tax Code

While the federal government has not expanded the EITC significantly since 1993, state governments, and even a few local governments, have filled the breach by enacting EITCs of their own that build on the federal credit. In addition, other nations have witnessed our success with the EITC and have themselves provided new support for workers through their own tax codes, in some cases going further than the United States to make work pay for their lower-income families.

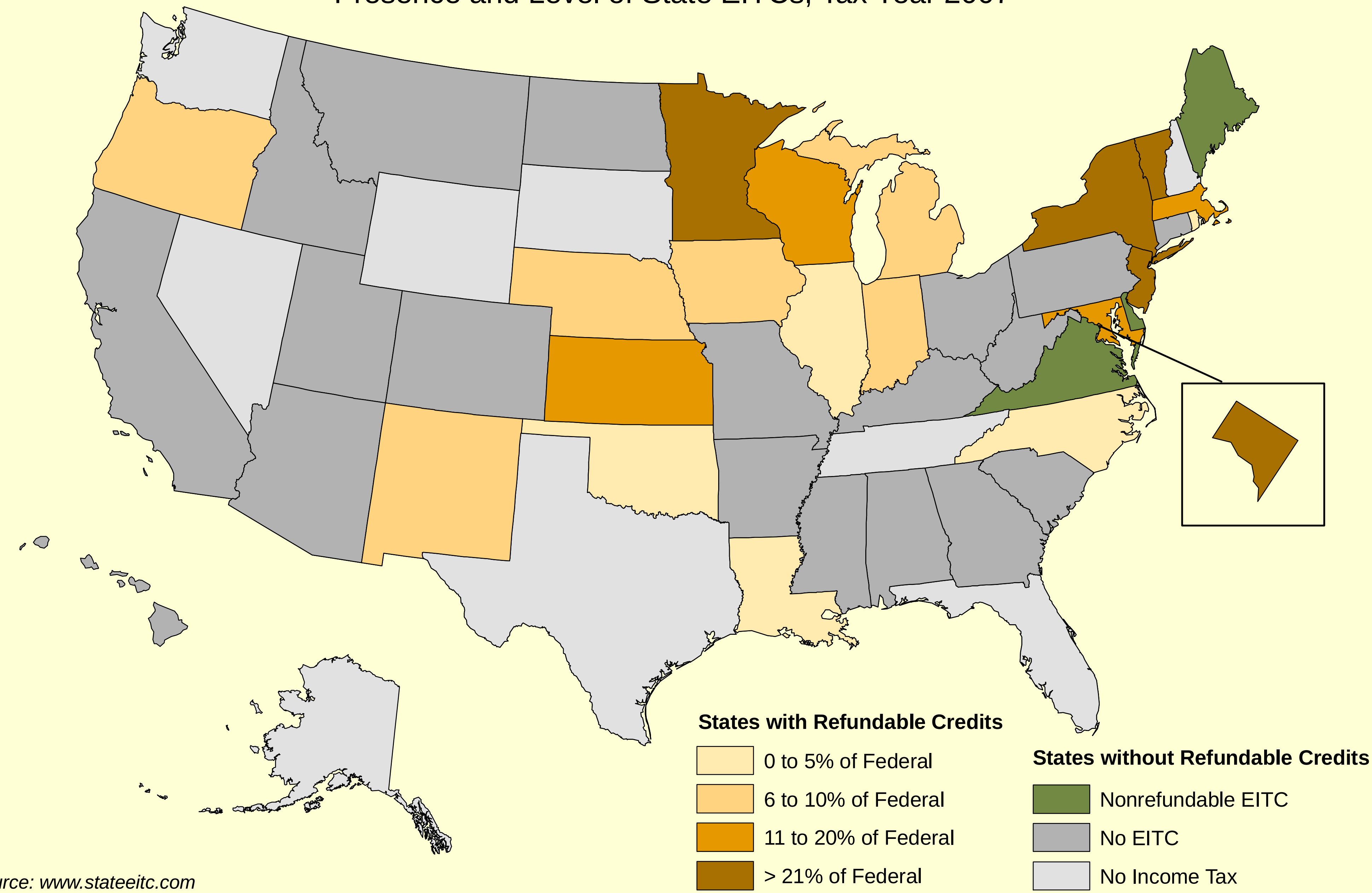
In 1993, at the time of the last major federal EITC expansion, six states had their own version of the EITC within their state income tax codes. Three were refundable like the federal credit, providing the full value of the EITC to filers regardless of tax liability; and three were nonrefundable, providing the EITC only to the extent that it reduced credit recipients' tax owed.[70] Today, 22 states and the District of Columbia have EITCs, and fully 20 of those EITCs are refundable (Map 1). Almost all of the refundable credits "piggyback" on the federal income tax code by making filers who qualify for the federal EITC eligible for a percentage of that credit on their state income tax forms.[71] The generosity of state EITCs ranges from 3.5 percent of the federal credit in Louisiana and North Carolina to 35 percent in the District of Columbia.[72]

States have used EITCs to make their own income tax codes less regressive, to augment welfare reform strategies, and to make work pay better while helping their low-wage workers and families keep up with rising costs of living.[73] In general, states with higher costs of living, such as New York, Maryland, New Jersey, and the District of Columbia tend to provide larger EITCs as a percentage of the federal credit. Somewhat less expensive parts of the country, such as Nebraska, Indiana, Oklahoma, and Iowa tend to provide smaller credits.[74]

A few U.S. localities have gotten into the EITC act, too. In 1999, Montgomery County, MD, just outside of Washington, DC, became the first local jurisdiction in the nation to offer a refundable EITC. The program matches the refundable Maryland EITC dollar-for-dollar, at 20 percent of the federal credit.[75] In 2002, the city/county of Denver followed suit with a 20 percent match to the federal credit, using funds available through the TANF block grant.[76] New York City implemented a refundable EITC through its local income tax that year, at 5 percent of the federal credit, that augments the state's 30 percent EITC. And in

Map 1. 22 States and the District of Columbia Offer EITCs that Build On the Federal Credit

Presence and Level of State EITCs, Tax Year 2007



Source: www.stateeitc.com

*Wisconsin's refundable EITC is 4% for families with one qualifying child, 14% for families with two qualifying children, and 43% for families with three or more qualifying children.
*Rhode Island has a nonrefundable EITC equal to 25% of the federal credit; of that portion, 15% is refundable, so that 3.75% of the federal credit is effectively refundable.
*In tax year 2007, Maryland taxpayers could claim either a 50% nonrefundable EITC or a 20% refundable EITC; the refundable credit rate was increased to 25% for tax year 2008.
*Colorado has a 10% refundable EITC which has been suspended since tax year 2001.

2005, the city/county of San Francisco introduced the Working Families Credit, which in its first two years matched the federal credit at about 10 percent.[77]

States have not stopped at providing a simple match to the federal credit. Two have gone further to increase the size of their credits for low-earning noncustodial parents, thereby significantly augmenting the state analog to the federal EITC for childless workers for which these filers would otherwise qualify. In New York State, noncustodial parents who are current on their child support orders are eligible for a state EITC equal to the greater of 2.5 times the federal credit for childless workers, or 20 percent of the federal EITC for workers with one qualifying child.[78] The District of Columbia provides a similar credit for younger noncustodial parents. And as noted earlier, the state of Wisconsin has long provided a larger match rate for families with three or more children, recognizing the particular burdens of working poverty that they face.

The influence of the EITC has extended beyond the United States. The success of the credit has helped to stimulate the growth of so-called "in-work benefits" in other developed nations. These include, among others, the Working and Child Tax Credits in the United Kingdom; the *Prime Pour L'Emploi* in France; the Employed Persons Tax Credit in the Netherlands; and the Working for Families Tax Credits in New Zealand.[79] Holt shows that in-work benefits in many of these countries for low-wage workers with children have come to exceed those which the United States provides via the EITC and Child Tax Credit. Moreover, many countries (including Australia, Canada, Ireland, New Zealand, and the UK) all use mandatory or optional periodic payment mechanisms that allow recipients to access a much larger proportion of their benefits throughout the year than EITC recipients (Table 3).

The experiences of an increasing number of U.S. states and localities, and other nations, affirm the efficacy of the EITC and making work pay through the tax code. They also suggest new directions for federal policy, including expanding the EITC for childless workers and larger families, and improving periodic payment options to better align the timing of EITC benefits with family needs.

VI. Changes to the EITC Would Benefit Millions of Workers and Families in the Nation's Major Metropolitan Areas

Several proposals have been advanced by poverty and tax policy researchers, on Capitol Hill, and by the presidential campaigns to expand the EITC to address the limitations of the credit described in the previous section (see Table 4). Information about the projected effects of these proposals typically characterizes their benefits for workers and families nationwide. Yet much of the proposals' eventual impacts will be felt in the major metropolitan areas where these taxpayers are concentrated. Moreover, a growing number of public, private, and non-profit leaders are working within major cities and suburbs

TABLE 3.
Other Countries Provide More Generous In-Work Tax Benefits Periodicially Throughout the Year

	Australia	Canada	New Zealand	United Kingdom	United States
Relative Poverty Rate (under 50% median income)*	12.2% (2003)	12.4% (2000)	n/a	12.5% (1999)	17.3% (2004)
Program Name	Family Tax Benefit, Parts A&B	Child Tax Benefit; National Child Benefit Supplement	Working For Families Tax Credits	Child Benefit; Child Tax Credit; Working Tax Credit	Earned Income Tax Credit; Child Tax Credit
Administering Agency	Family Assistance Office; Australian Taxation Office	Canada Revenue Agency	Inland Revenue; Ministry of Social Development	HM Revenue and Customs	Internal Revenue Service
Annual Benefit Amount**	$9,432	$5,557	$7,262	$17,599	$5,271
Periodic Payments	Optional	Mandatory	Optional	Mandatory	Optional
Payment Frequency Options	Biweekly direct payment; reduced withholding	Monthly direct payment	Weekly or biweekly direct payment	Weekly or monthly direct payment	Same as payroll frequency
Periodic Payment Amount	$322 (biweekly)	$463 (monthly)	$279 (biweekly)	$1,354 (monthly)	$66 (biweekly)
Periodic Disbursement Method	Direct deposit to financial institution	Direct deposit to financial institution, or check	Direct deposit to financial institution	Direct deposit to financial institution	Addition to paycheck by employer

** Percentage of individuals with disposable income (after taxes) under 50% of national median income*
Source: Luxembourg Income Study (LIS) Key Figures, accessed at ***www.lisproject.org/keyfigures.htm*** *[April 2008]*
*** Calculated for single parent, two pre-school children, full-time work, earning $15,000 (child care components excluded)*
Source: Holt, "Periodic Payment of the Earned Income Tax Credit"

TABLE 4.
Presidential Candidates, Members of Congress, and Research/Advocacy Organizations Have Advanced Several Similar Proposals to Expand the EITC

	Target of Expansion				
Author	**Childless Workers**	**Married Couples**	**Families with Three or More Children**	**Other**	**Cost Estimate**
Presidential Candidate Proposals					
Hillary Rodham Clinton	Triple the maximum credit amount		Add a third tier for families with three or more children		not available
John Edwards	Triple the maximum credit amount	Reduce the marriage penalty			not available
Barack Obama	Increase the maximum credit by 16%; Phase-out begins after reaching the equivalent of a full-time minimum wage worker's earnings; Non-custodial parents who meet child support obligations will receive double the expanded benefit	Reduce the marriage penalty	Increase the benefit for families with three or more children		not available
Legislation Introduced in the 110th Congress					
Senator Evan Bayh (and co-sponsors Senators Blanche Lincoln and Barack Obama)	By 2012, increase the maximum credit by 16%; Phase out begins after reaching the equivalent of a full-time minimum wage worker's earnings; Double the credit for non-custodial parents who meet child support obligations	Raise the phase-out points by an additional $1,000			not available
Representative Danny Davis (and 11 co-sponsors)	Increase phase-in income limit and maximum credit amount	Raise the phase-out points by an additional $1,000			not available
Senator John Kerry; Representative Bill Pascrell, Jr.	Double the phase-in and phase-out rates to 15.3%; Double the maximum credit amount	After 2009, raise the phase-out points by an additional $2,000	Add a third tier with a phase-in rate of 45% and a phase-out rate of 21.06%	Permanently extend the special rule that treats combat pay as earned income for the purpose of the EITC	not available
Reresentative Charles Rangel	Double phase-in rate to 15.3% and double the maximum credit amount			Extends special rule that treats combat pay as earned income for the purpose of the EITC	not available
Senator Charles Schumer	Lower age requirement from 25 to 21, except for full-time students; Double the phase-in rate to 15.3% and change the phase-out amount to equal 200% of the phase-in income limit; Double the maximum credit amount; For non-custodial parents paying child support, increase phase-in rate to 30.6% and quadruple the maximum credit amount				not available
Research and Advocacy Proposals					
Gordon Berlin (2007)	Make the credit amount between 50 and 100% of the current EITC payment for families with one child; Change age requirement to include filers aged 21 to 54; Filers must work at least 30 hours a week to qualify	Couples can claim the credit as individuals. For couples with children, the principal earner claims the children using current credit parameters, while the lower-earning spouse claims the new individual credit		For workers who owe child support, the EITC would be used to cover child support obligations	$29 billion ($33 billion if accounting for work effects)
Mayor Michael Bloomberg	Lower age requirement from 25 to 21; Double the phase-in/phase-out rates to 15.3%; Triple the maximum credit amount	Couples can claim the credit as individuals. One earner claims the children, while the other claims the childless worker credit		To be eligible for the EITC, workers without qualifying children and at least one parent in married families with children must work at least 30 hours a week for half of the year (26 weeks). Married couples with children not meeting this requirement will not be eligible for marriage penalty relief but can still claim the current credit; Non-custodial parents who are not current on child support obligations will not be eligible for the credit	$8.5 billion

	Target of Expansion				
Author	**Childless Workers**	**Married Couples**	**Families with Three or More Children**	**Other**	**Cost Estimate**
Leonard Burman, Elaine Maag, and Jeffrey Rohaly (2005)		Extend point at which the credit is complete phased out by 10% (in lieu of a general expansion of phase-out rates by 10%)	Add a third tier with a phase-in rate of 50%. Same phase-in range for families with 2 children applies, as does the 21.6% phase-out rate.	Extend the points at which the credit is completely phased out by 10%	Over 10 years, extending the phase out points would cost $46.2 billion ($20.6 just for married couples); Third tier would cost $35.3 over 10 years. See Table 9 in the paper for year by year breakdown
Center for American Progress (2007)	Increase the phase-in rate to 20% of initial earnings; Make the credit available to workers between 18 and 24 who are not full-time students	Disregard half of the earnings of the lower-earning spouse if it results in a higher credit	Add a third tier with a phase-in rate of 45%		$22.2 billion (in 2003 dollars, assuming employment effects)
Peter Edelman, Harry Holzer, and Paul Offner (2006)	Increase the phase-in rate to 20% of initial earnings, up to the same phase in limit as filers with one qualifying child; Increase phase-out rate to 15.98; Potentially limit the credit to workers between 21 and 45 years of age; Alternative option to limit the cost of EITC expansion: Cap the credit amount for non-custodial fathers at the amount they pay for child support. (Roughly 70 percent of non-custodial fathers could receive an average credit of $1,600.)	Disregard half of the earnings of the lower-earning spouse for couples in the phase-out range of the credit			$4.3 billion for childless worker expansion ($8.6 billion without age limit); $1 billion for marriage penalty relief; $1.2 to $2 billion for non-custodial father credit
Jason Furman/Center on Budget and Policy Priorities (2006)	Double phase-in rate to 15.3%, up to the same phase-in limit as filers with one qualifying child ($8,580 in TY2008), and triple the maximum credit	Raise the phase-out points by an additional $2,000	Add a third tier with a phase-in rate of 50%		$3 billion for childless worker expansion (including the married adjustment); $1.5 billion for the marriaged penalty relief; $3 billion for the 3rd tier (keeping other EITC parameters the same)
Daniel Gitterman, Lucy Gorham, and Jessica Dorrance (2007)	Double the phase-in rate to 15.3%, up to the same phase-in limit as filers with one qualifying child ($8,580 in TY2008), and triple the maximum credit; Lower the minimum age requirement from 25 to 21				$4.3 billion
Katie McMinn Campbell and Will Marshall (2007)	Double the phase-in rate to 15.3%, up to the same phase-in limit as filers with one qualifying child ($8,580 in TY2008), and triple the maximum credit			The expansion for childless workers would be coupled with larger tax reforms that fold the EITC, Child Tax Credit, and Child and Dependent Care Credit into one Family Tax Credit. Families would receive one dollar for every two dollars earned, up to $3,500 for families with one child, $5,200 for two children, and $7,000 for three children.	$3 billion for childless worker expansion; $28 billion total for complete reform
Wendell Primus (2006)	Double phase-in rate to 15.3%, up to $7,000, and phase-out at $10,000 at a rate of 10 percent; Eliminate the age requirement for non-custodial parents who can show that they paid at $400 in child support			The childless worker expansion represents one possible option to increase the EITC for non-custodial parents and ideally would be paired with a child support incentive payment or a separate non-custodial parent tax credit for parents who meet child support obligations	not available

	Target of Expansion				
Author	**Childless Workers**	**Married Couples**	**Families with Three or More Children**	**Other**	**Cost Estimate**
John Karl Scholz (2007)	Double the phase-in rate to 15.3% and double the maximum credit amount; Change phase-out rate to 19.125%; Double the income thresholds for childless married couples; Lower the age threshold to 18; Make full-time students ineligible for the childless EITC; For taxpayers under 30, provide a 25% phase-in rate and a 32.15% phase-out rate as an early career employment incentive	Double the income thresholds for childless married couples			$7.3 billion at full participation; $5.8 billion at 80% participation
Carasso, Holzer, Maag, and Steuerle (2008)	New individual worker credit equal to 15.3% of earnings, up to maximum of $1,284. Phase out begins at $15,390, ends at $37,783. Credit for family phases out at 5% of joint earnings over $50,000.			Reduces phase-in and phase-out rates for 1-child credit; reduces phase-in range for 2-child credit	$30.8 billion
U.S. Conference of Mayors (2007)	Quadruple the maximum benefit for childless, single adults	Deduct the lower of the two incomes			$19 billion

Source: Brookings Institution analysis

Gordon Berlin, "Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families." The Future of Children *17 (2) (2007)*.

Speech by New York City Mayor Michael Bloomberg to the Brookings Center on Children and Families, Washington, DC, August 28, 2007.

Leonard Burman, Elaine Maag, and Jeffrey Rohaly, "Tax Subsidies to Help Low-Income Families Pay for Child Care" (Washington: Urban-Brookings Tax Policy Center, 2005).

The Center for American Progress Taskforce on Poverty, "From Poverty to Prosperity: A National Strategy to Cut Poverty in Half" (Washington, 2007).

Peter Edelman, Harry Holzer, and Paul Offner, Reconnecting Disadvantaged Young Men *(Washington: Urban Institute Press, 2006).*

Jason Furman, "Tax Reform and Poverty" (Washington: Center on Budget and Policy Priorities, 2006).

Daniel Gitterman, Lucy Gorham, and Jessica Dorrance, "Expanding the EITC for Single Workers and Couples Without Children (aka Tax Relief for Low-Wage Workers)" (Chapel Hill: Center on Poverty, Work and Opportunity at the University of North Carolina, 2007).

Katie McMinn Campbell and Will Marshall, "Making Work Pay: For Men, Too" (Washington: Progressive Policy Institute, 2007).

Wendell Primus, "Improving Public Policies to Increase the Income and Employment of Low-Income and Nonresident Fathers." In Ronald Mincy, ed., Black Males Left Behind *(Washington: Urban Institute Press, 2006).*

John Karl Scholz, "Employment-Based Tax Credits for Low-Skilled Workers" (Washington: Brookings Institution, 2007).

Adam Carasso, Harry Holzer, Elaine Magg, and C. Eugene Steuerle, "The Next Stage for Social Policy: Encouraging Work and Family Formation Among Low-Income Men" (Washington: Urban-Brookings Tax Policy Center, forthcoming 2008); personal communication with Maag.

U.S. Conference of Mayors Taskforce on Poverty, Work, and Opportunity, "Repairing the Economic Ladder: A Transformative Investment Strategy to Reduce Poverty and Expand America's Middle Class" (2007).

to connect low-income filers to the credit, and to educate lawmakers and the general public about the benefits of the EITC for their families and communities.

To that end, this section presents new research findings on how the current EITC, and proposals to expand the credit, would benefit workers and families in each of the nation's 100 largest metro areas. These findings reflect analysis generated by a new Brookings Institution tax model, based on microdata from the Census Bureau's American Community Survey (ACS). Unlike the data sources that undergird most other tax models, which provide estimates at the national level, the ACS provides a sufficient sample size to model EITC eligibility for workers and families within individual large metropolitan areas (see Box 1 for a brief account of the methodology; the Technical Appendix posted on the Brookings website provides a more detailed description of the tax model).

BOX 1. METROTAX: A NEW METROPOLITAN-FOCUSED FEDERAL INCOME TAX MODEL[a]

The metropolitan area-specific estimates in this report derive from a new model constructed by the Brookings Metropolitan Policy Program using Public Use Microdata (PUMS) from the 2005 American Community Survey (ACS). The model is a static simulation used to estimate federal individual income tax filers, income tax liability, and eligibility for the Earned Income Tax Credit (EITC) under current law and proposed expansions.

The ACS is an annual national survey conducted by the U.S. Census Bureau encompassing roughly 3 million residents in 1.3 million households, or roughly 1 percent of the population.[b] It provides data on a number of socio-economic and demographic characteristics useful for estimating EITC eligibility, such as age, marital status, family composition, and income by source. Its large sample size affords an advantage over smaller surveys like the Current Population Survey, and permits us to examine sub-national geographies including cities, counties, metropolitan areas, and states.

Using both the ACS PUMS housing and population records, the analysis examines household relationships (e.g., spouse, child, other relative, roommate) and marital status. Using that information, and IRS information on filing thresholds, tax filing units are identified and assigned a filing status (non-filer, married couple filing jointly, head of household, married filing separately, and single).

Based on household relationships, filing status, age, and income, the model then determines likely dependents both for tax filing and EITC eligibility purposes. The routine to estimate tax filers and filing units was adapted from work performed at the Census Bureau and at the Urban-Brookings Tax Policy Center.[c] Additionally, the model examines filing units headed by foreign-born persons to estimate legal status. Non-citizen low earners and their dependents must be legal immigrants with Social Security numbers valid for employment in order to be eligible for the credit.[d]

Several caveats to the analysis should be noted:

- The ACS is a mostly self-reported survey, so populations can be underrepresented, overrepresented, or misrepresented, and incomes may be under-reported compared to what is reported on tax returns.[e] All results are subject as well to sampling and non-sampling error; confidence intervals are not reported in this paper but are discussed further in the Technical Appendix

- Some data needed to affirmatively establish EITC eligibility, such as the presence of children in the home for more than 6 months during the tax year, and limitations on investment income, are not reported completely in the ACS. The ACS also lacks information necessary to estimate tax liability accurately, such as deductions from income for health and retirement contributions, is not available in the ACS. Future iterations of the model will attempt to adjust for these items; one result is that the current analysis makes no estimate of the effects of the refundable portion of the Child Tax Credit, claimed by many of the same families who benefit from the EITC

- Estimates of EITC eligibility from the ACS model should not be compared to actual IRS EITC payments, at any level of geography, to calculate EITC participation rates. To calculate an EITC participation rate, one must match data that establish eligibility for the credit to data that identify whether those same eligible filers claimed the credit[f]

- Because the model is static, the estimates presented here reflect the effects of current law and proposals as they would have affected metropolitan tax filers in 2005. Changes in population and the economy since then, as well as changes in behavior that may be induced by changes in tax law, are not reflected in this analysis

- The model is an eligibility model, rather than one designed to predict actual program participation. Actual increases in the number of filers receiving the EITC under these proposals, and in EITC dollars received, will depend upon the rates at which eligible (and ineligible) workers and families participate in the program

Despite possible measurement error, the results derived from the MetroTax model offer a reasonably robust snapshot of probable tax filers and EITC eligibility at the metropolitan and state levels.[g] For the nationwide effects of these proposals, readers should refer to estimates generated by more complete, sophisticated models such as those operated by the Urban-Brookings Tax Policy Center.[h]

[a] For more details, see the expanded Technical Appendix on the Brookings Metropolitan Policy Program website, **www.brookings.edu/metro**

[b] For general background on the ACS, see **www.census.gov/acs/www**

[c] Amy O'Hara, "New Methods for Simulating CPS Taxes" (U.S. Census Bureau, 2004); Jeff Rohaly, Adam Carasso, and Mohammed Adeel Saleem, "The Urban-Brookings Tax Policy Center Microsimulation Model: Documentation and Methodology for Version (0304)" (Washington: Urban Institute, 2004).

[d] The routine to estimate foreign-born tax filers' legal status is based on work by Jeff Passel and others; see Jeff Passel, Jennifer Van Hook, and Frank Bean, "Estimates of the Legal and Unauthorized Foreign-Born Population for the United States and Selected States, based on Census 2000 (Sabresystems Inc., 2004).

[e] Kirby G. Posey, Edward Welniak, and Charles Nelson, "Income in the American Community Survey: Comparisons to Census 2000." Paper prepared for the American Statistical Association Meetings, San Francisco, CA, 2003.

[f] Alan Berube, "Earned Income Credit Participation—What We (Don't) Know" (Washington: Brookings Institution, 2005)

[g] For instance, the correlations at the metropolitan level between tax filers and EITC-eligible filers estimated by the MetroTax model, and tax returns and EITC recipients reported by the IRS, are 0.999.

[h] See Tax Policy Center, "Overview of the Tax Policy Center Microsimulation Model" (2007).

This paper focuses on the metropolitan impacts of these proposals here for a few reasons.[80] First, the EITC is essentially a labor market program. It subsidizes wages, and thereby promotes labor market participation and work effort. It is thus instructive to analyze the credit's effects within individual labor markets, which correspond most closely with metropolitan areas. Second, the EITC is arguably even more "metro" given the continued suburbanization of working poverty. About half the increase in EITC participation from 2000 to 2005 occurred in suburbs of the nation's large metropolitan areas.[81] Third, as labor and media markets, metro areas represent a common locus for public/private/nonprofit partnerships aimed at boosting take-up of the EITC among eligible workers and families.[82]

These reasons noted, the benefits of the current EITC, and proposals to expand it explored below, would by no means be limited to the 100 largest metropolitan areas. In fact, data from the most recent tax year (2005) reflect that tax filers in large metro areas are somewhat *less* likely to receive the EITC than their counterparts in smaller metro areas and rural areas. Indeed, rural areas of the South show the highest rates of EITC receipt in the country.[83] Yet proposals to strengthen the EITC would provide much-needed help to residents in many major metro areas, who bear some of the highest and fastest-rising costs for necessities like housing and child care. In the context of a slowing economy, such proposals would also provide a useful fiscal jolt to the metro areas where low-income filers are geographically concentrated, as the benefits of the EITC dollars multiply through regional and sub-regional economies.[84] (Results for all 100 metro areas can be found in Appendix Tables A and B; results for all U.S. states and some central cities can be found at **www.blueprintprosperity.org**.)

1. In 2005, nearly 14 million tax filers living in the nation's 100 largest metro areas were eligible for Earned Income Tax Credits totaling $23 billion.

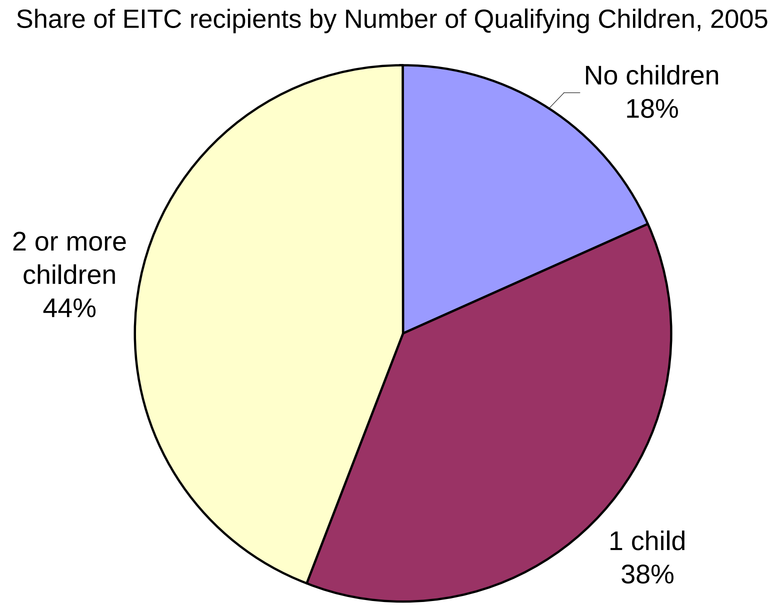
The nation's 100 largest metro areas were home to an estimated 13.8 million EITC-eligible tax filers in 2005. That represents about 16 percent of their estimated 86 million tax filers that year. Overall, those workers and families were eligible to claim EITC amounts totaling $25.1 billion, or an average of more than $1,800 per filer.

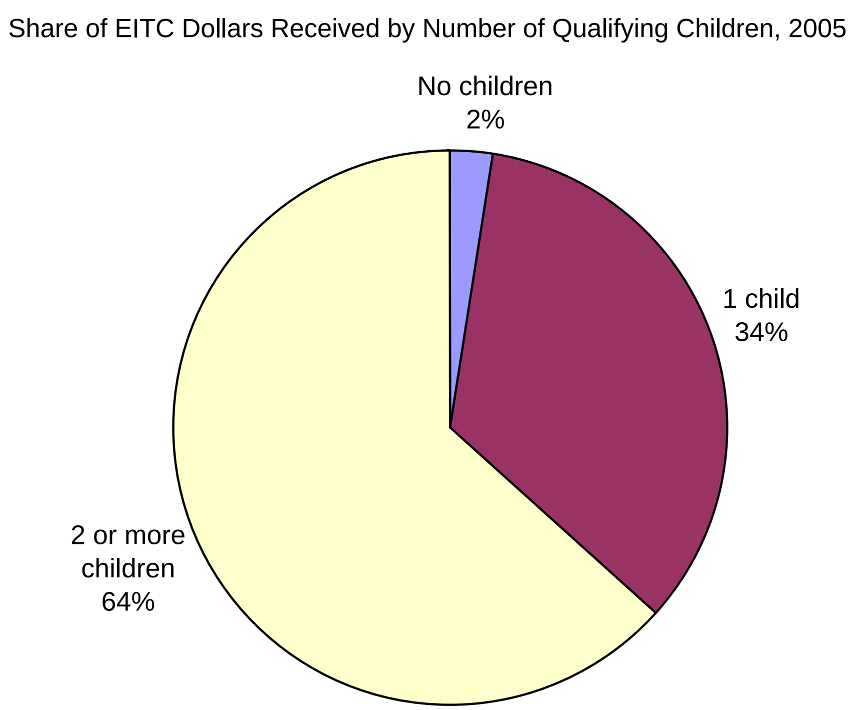
As noted above, the amount of EITC for which a tax filer is eligible varies by the number of qualifying children claimed. Currently, families with one or more children can claim much larger credits than workers without children. Childless workers can only qualify for the EITC over a much smaller range of income, up to about $12,500 in 2008. In the 100 largest metros, a sizable number of low-income workers without qualifying children—an estimated 2.5 million—were eligible for the credit in 2005, about 18 percent of all EITC eligible filers (Figure 4). However, they were able to claim a much smaller proportion—2 percent—of overall EITC dollars. The average credit for childless workers in the top 100 metros was about $240 in 2005, versus $1,660 for families with one child, and $2,600 for families with two or more children.

Consistent with research analyzing the regional distribution of credit receipt, metropolitan areas in the southern states and in California's Central Valley exhibit among the highest shares of their tax filers qualifying for the EITC (Table 5).[85] The metropolitan areas with 20 percent or more of their filing populations eligible for the credit include places like El Paso and San Antonio in Texas; Augusta, New Orleans, Baton Rouge, Jackson, Memphis, and Greensboro elsewhere in the South; and Bakersfield and Fresno in California. Those with low shares of filers eligible for the EITC include a few large metros with wealthy suburbs, such as Boston, San Francisco, Minneapolis-St. Paul, and Washington. Nonetheless, these metro areas still have large absolute numbers of low-income workers and families who qualify for the credit.

In many of the metropolitan areas analyzed, state and local EITCs provide a further boost to eligible taxpayers' incomes.[86] In 39 of the top 100 metro areas, families qualify for a state (and in some cases, local) version of the EITC that "piggybacks" on the federal credit.[87] An estimated 4.9 million lower-income taxpayers in these 39 metro areas are eligible for an additional $1.4 billion via these supplemental credits. The estimated average benefit for qualifying filers varies widely, from a low of $57 per family in Durham, NC (where the state EITC is 3.5 percent of the federal credit), to a high of $549 in the Albany, NY area (where the state EITC is 30 percent of the federal credit).

FIGURE 4.
Childless workers make up 18% of EITC-eligible filers in the 100 largest metro areas, but are eligible for just 2% of EITC benefits





Source: Brookings Institution analysis of Internal Revenue Service data

TABLE 5.
Metro Areas in the South and California's Central Valley Have the Highest Shares of Their Filers Qualifying for the EITC

Metro Areas with Highest and Lowest Shares of Tax Filers Qualifying for EITC, 2005

Metro Area	**Tax Filers**	**EITC-eligible**	**% Eligible**
Ten Highest Shares			
El Paso, TX	253,178	85,694	33.8
Bakersfield, CA	288,332	75,674	26.2
Fresno, CA	344,293	88,973	25.8
Augusta-Richmond County, GA-SC	199,586	47,251	23.7
New Orleans-Metairie-Kenner, LA	624,497	144,190	23.1
San Antonio, TX	774,421	177,579	22.9
Baton Rouge, LA	312,414	71,551	22.9
Jackson, MS	201,318	45,417	22.6
Memphis, TN-MS-AR	520,017	114,062	21.9
Greensboro-High Point, NC	335,461	71,926	21.4
Ten Lowest Shares			
Harrisburg-Carlisle, PA	239,898	31,183	13.0
Minneapolis-St. Paul-Bloomington, MN-WI	1,403,636	170,616	12.2
San Jose-Sunnyvale-Santa Clara, CA	746,320	87,700	11.8
Des Moines, IA	193,631	22,521	11.6
Hartford-West Hartford-East Hartford, CT	541,122	62,304	11.5
Boston-Cambridge-Quincy, MA-NH	2,148,049	243,968	11.4
San Francisco-Oakland-Fremont, CA	1,955,605	219,944	11.2
Bridgeport-Stamford-Norwalk, CT	397,735	42,674	10.7
Madison, WI	220,849	23,262	10.5
Washington-Arlington-Alexandria, DC-VA-MD	2,383,640	236,976	9.9
100 largest metro areas	**85,525,140**	**13,840,624**	**16.2**

Source: Brookings Institution MetroTax model

2. Taken together, three proposals to expand the EITC would benefit an estimated 8.4 million filers in the 100 largest metro areas, boosting their credit amounts by $6.4 billion.

While the federal tax code does help many lower-income families a great deal via the EITC, it could do more for certain segments of the low-wage worker population, as outlined above. This section examines the impacts of three proposals to expand the EITC on taxpayer eligibility and benefits in the 100 largest metro areas (see Box 2 for a summary of each).[88]

BOX 2: THREE PROPOSALS TO STRENGTHEN THE EITC

This section examines the impact of three proposals to strengthen the EITC for certain workers and families. It presents estimates, based on 2005 data, on the number of filers who would benefit from these proposals, and the additional EITC dollar amounts for which they would qualify as a result. Data are presented variously for the nation's 100 largest metro areas in the aggregate; the United States as a whole; and individual metro areas. The three proposals, described further below, would:

- *Triple the maximum EITC for low-income, childless workers* to about $1,300 in tax year 2008, double the rate at which the credit phases in, and raise the maximum income level at which filers can receive the credit from $12,880 to $19,200

- *Allow married couples to exclude one-half of a second earner's income* when calculating the EITC, effectively extending the income range over which these couples can receive the maximum EITC amount, and making equal-earning couples with one child eligible for the credit at incomes up to about $50,000

- *Create an additional "tier" in the credit for families with three or more qualifying children*, boosting the credit phase-in rate from 40 percent to 50 percent, and the maximum credit amount in tax year 2008 for these families by about $1,500

This section also estimates the "bump" filers would receive in state and local EITC benefits if these federal EITC changes were adopted. State and local EITC parameters as of tax year 2007 are used to develop these estimates.

As noted in Box 1, these estimates do not incorporate the effects of possible behavioral changes that would result from the tax changes outlined. They may thus understate the ultimate impacts if, for instance, people respond to an enhanced EITC for childless workers by joining the labor force, or spouses in low-income married couples increase their work effort in response to the opportunity to exclude half their income for purposes of figuring the EITC.

Childless workers

In tax year 2008, the maximum EITC available to workers without qualifying children is $438, for those with incomes between roughly $6,000 and $7,000. The small credit relieves a portion of payroll tax burdens for these workers, but does little beyond that to help them meet their day-to-day costs of living.

In response, policymakers, researchers, and some presidential candidates have advanced proposals to greatly expand the EITC for childless workers.[89] Several of these proposals would double the rate at which the credit phases in, from 7.65 percent to 15.3 percent.[90] In addition, many of these proposals would widen the income range over which workers are eligible for the credit.

To assess the impacts of this proposal on workers in large metro areas, this section models a proposal that would, in 2008, boost the maximum EITC for childless workers to $1,313, and begin to phase out the credit at $10,620 (see Figure 5).[91] In doing so, it would effectively triple the size of the childless worker credit, and make such workers with incomes of up to $19,200 eligible for the EITC.

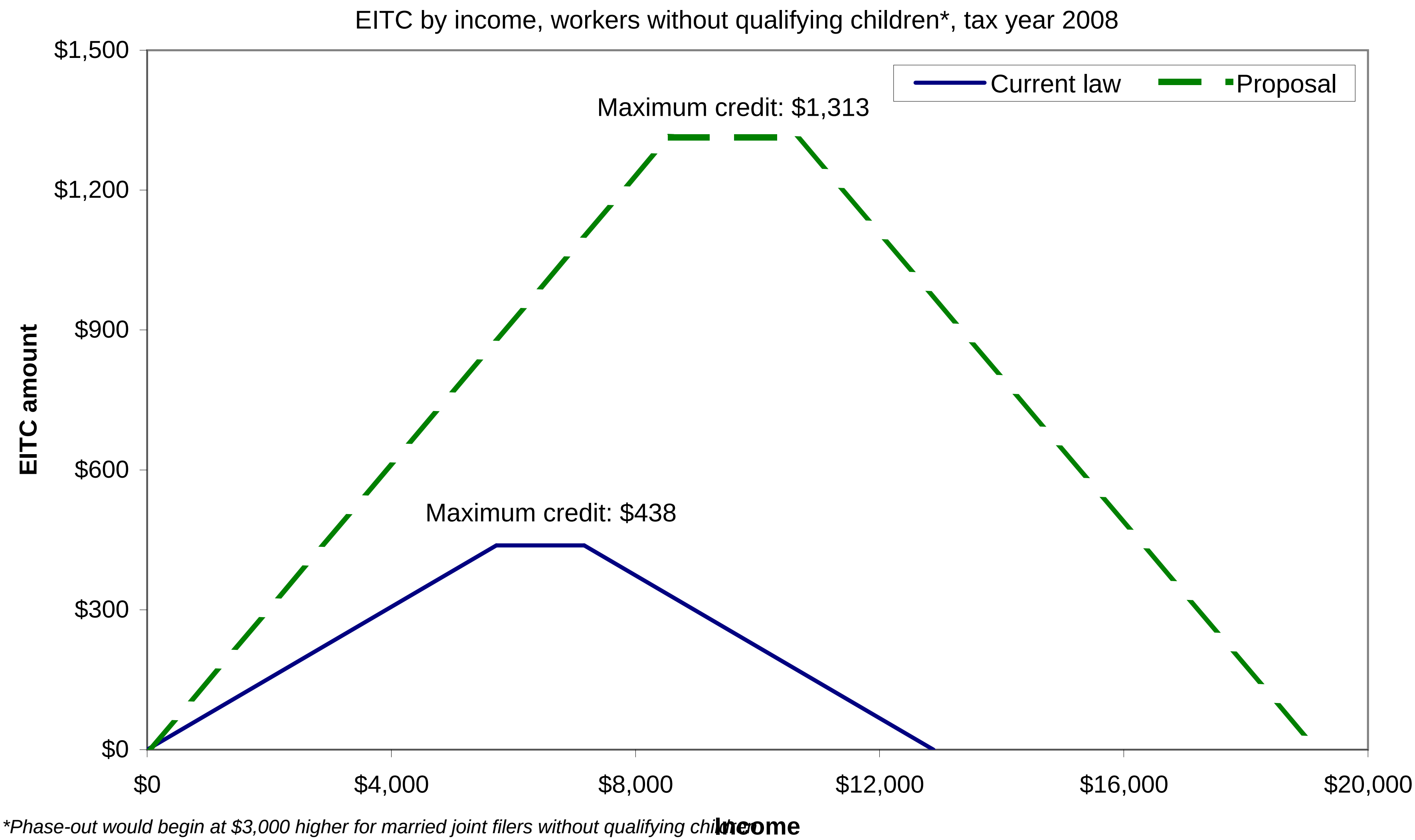
Nearly 4.1 million taxpayers in the 100 largest metropolitan areas would benefit from this proposal, receiving a larger EITC or becoming newly eligible for the credit (under current law, roughly 2.6 million taxpayers in these metros qualify for the childless worker credit). From $237 under current law, the average credit from which these low-income workers would benefit would roughly triple, to $705.

The total amount of credit available to childless workers in the 100 largest metro areas would grow considerably, from $605 million under current law to $2.9 billion under the proposal. That represents a roughly 9 percent increase in the total EITC (for families of all sizes) available to be claimed by residents of these areas. Among the areas that would experience the greatest increases in EITC benefits are older industrial metros with less vibrant labor markets, such as Springfield, MA; Buffalo, NY; Syracuse, NY; and Pittsburgh, PA (Table 6). Many of these are the same metro areas that show low rates of employment among less-educated young males (Table 2), and part-time and low-wage employment may also be more prevalent there. Other metro areas with large populations of younger and/or single low-income workers, such as Madison, WI; Portland (ME and OR), and Boise, ID, would see significant boosts in EITC receipt as well.

Dual-earner married couples

As described above, researchers have noted that the current structure of the EITC may provide a financial disincentive to marriage. Similarly, the credit might also dissuade a non-working spouse in a lower-income family from entering the labor market, or increasing his/her earnings.

FIGURE 5.
Expanding the EITC for childless workers would boost eligibilty and average credit amount



**Phase-out would begin at $3,000 higher for married joint filers without qualifying children*
Source: Brookings Institution analysis

TABLE 6.
Different Large Metro Areas Would Benefit Most from the Three Proposals to Expand the EITC

Metro areas experiencing largest estimated increase in EITC benefits from three proposals to expand the EITC, 2005

Metro Area	**Current Law EITC**		**Proposed EITC**				
	Filers	Amount ($1000s)	Filers	Amount ($1000s)	# Benefiting*	Benefit Amount ($1000s)	$ Increase (%)
Increase the credit for workers without qualifying children							
Madison, WI	23,262	36,052	29,016	43,633	13,963	7,581	21.0
Springfield, MA	50,523	84,001	59,062	97,443	21,887	13,442	16.0
Portland-South Portland-Biddeford, ME	39,849	57,912	45,358	66,626	17,327	8,714	15.0
Buffalo-Niagara Falls, NY	93,109	151,482	106,537	174,122	38,103	22,640	14.9
Portland-Vancouver-Beaverton, OR-WA	159,750	258,266	181,993	296,340	67,463	38,074	14.7
Syracuse, NY	49,063	79,192	56,594	90,583	20,129	11,391	14.4
Seattle-Tacoma-Bellevue, WA	212,067	341,939	241,842	389,693	85,961	47,754	14.0
Boise City-Nampa, ID	36,709	65,827	43,189	74,944	15,820	9,117	13.8
Pittsburgh, PA	163,085	268,981	185,688	305,787	63,064	36,806	13.7
Knoxville, TN	50,862	85,216	58,799	96,789	19,744	11,574	13.6
100 largest metro areas	**13,840,624**	**$25,117,272**	**15,372,786**	**$27,388,770**	**4,074,139**	**$2,271,498**	**9.0%**
Allow second earners in married couples to deduct half their earnings for calculating the EITC							
Oxnard-Thousand Oaks-Ventura, CA	48,693	99,696	53,567	110,533	11,989	10,836	10.9
Salt Lake City, UT	78,706	140,075	83,676	151,742	15,975	11,668	8.3
Durham, NC	31,202	50,191	33,687	54,348	5,227	4,157	8.3
Fresno, CA	88,973	187,356	94,155	202,673	17,522	15,318	8.2
Des Moines, IA	22,521	38,906	25,268	42,002	4,971	3,096	8.0
Omaha-Council Bluffs, NE-IA	61,327	103,273	65,730	110,260	9,720	6,987	6.8
Dallas-Fort Worth-Arlington, TX	457,026	870,982	483,772	929,848	80,835	58,867	6.8
Tulsa, OK	86,339	155,266	90,310	165,681	16,620	10,415	6.7
Greensboro-High Point, NC	71,926	126,133	76,245	134,502	10,012	8,368	6.6
Boise City-Nampa, ID	36,709	65,827	40,126	70,179	6,767	4,352	6.6
100 largest metro areas	**13,840,624**	**$25,117,272**	**14,489,341**	**$26,418,126**	**1,788,172**	**$1,300,854**	**5.2%**
Create additional EITC tier for families with three or more children							
Lancaster, PA	29,893	52,401	30,475	60,244	8,783	7,843	15.0
Riverside-San Bernardino-Ontario, CA	337,174	660,726	350,845	759,253	104,920	98,527	14.9
Fresno, CA	88,973	187,356	91,136	213,779	27,736	26,423	14.1
Phoenix-Mesa-Scottsdale, AZ	279,329	512,409	287,252	583,386	72,109	70,976	13.9
Salt Lake City, UT	78,706	140,075	81,540	158,582	19,732	18,508	13.2
Harrisburg-Carlisle, PA	31,183	53,268	32,068	60,157	7,888	6,890	12.9
San Diego-Carlsbad-San Marcos, CA	189,335	349,196	195,553	394,092	48,892	44,896	12.9
Houston-Baytown-Sugar Land, TX	450,206	899,890	460,991	1,015,429	124,883	115,540	12.8
New Haven-Milford, CT	53,244	90,738	54,620	102,264	12,153	11,526	12.7
San Antonio, TX	177,579	343,534	182,696	386,884	46,310	43,351	12.6
100 largest metro areas	**13,840,624**	**$25,117,272**	**14,140,748**	**$27,754,753**	**2,901,235**	**$2,637,481**	**10.5%**
Three proposals combined							
Madison, WI	23,262	36,052	29,988	48,894	19,785	12,842	35.6
Boise City-Nampa, ID	36,709	65,827	48,582	87,840	27,835	22,013	33.4
Durham, NC	31,202	50,191	38,329	66,756	28,808	16,565	33.0
Portland-South Portland-Biddeford, ME	39,849	57,912	47,560	76,819	111,687	18,907	32.6
Portland-Vancouver-Beaverton, OR-WA	159,750	258,266	192,153	341,183	20,997	82,917	32.1
Salt Lake City, UT	78,706	140,075	97,355	184,175	53,828	44,101	31.5
Omaha-Council Bluffs, NE-IA	61,327	103,273	78,335	135,693	42,407	32,419	31.4
Harrisburg-Carlisle, PA	31,183	53,268	39,105	69,325	123,620	16,058	30.1
Phoenix-Mesa-Scottsdale, AZ	279,329	512,409	337,760	666,684	186,264	154,275	30.1
Las Vegas-Paradise, NV	137,672	233,654	168,615	303,546	20,328	69,892	29.9
100 largest metro areas	**13,840,624**	**$25,117,272**	**16,398,315**	**$31,562,493**	**8,388,510**	**$6,445,221**	**25.7%**

** Filers experiencing an increase of $1 or more in the EITC for which they qualify*
Source: Brookings Institution MetroTax model

One proposal to address these shortcomings in the credit would allow married couples to disregard one-half of the lower-earning spouses' income for purposes of calculating the EITC, if doing so would result in an increased EITC for the family.[92] This would extend the income range over which the credit "plateaus," and lower the rate at which the credit phases out (Figure 6). Working spouses with equal incomes could then earn the EITC up to a family income of about $55,000. Researchers have noted that such a "married earnings deduction" is an effective and targeted way to alleviate marriage penalties in the EITC.[93] This section models the effects of this policy change on EITC eligibility and benefits available to families in the 100 largest metro areas.[94]

Overall, an estimated 1.8 million filers in the 100 largest metros would receive a larger EITC under this proposal. About 650,000 of these filers would become newly eligible for the credit as a result of the expansion. Altogether, allowing secondary earners to exclude half their income for purposes of calculating the EITC would provide families in the 100 largest metro areas an additional estimated $1.3 billion in tax savings. Among the large-metro families that would benefit, their average EITC would increase by more than $700.

The $1.3 billion in additional EITC would boost the total amount of credit for which families in the top 100 metros are eligible by 5 percent. Metropolitan areas in which a larger share of existing eligible filers are dual-earner couples, or those housing many dual-earner couples who would become eligible for the credit under the proposal, would experience above-average increases in the amount of EITC for which their families qualify (Table 6). These include somewhat more mid-sized metro areas such as Oxnard-Thousand Oaks-Ventura, CA; Salt Lake City, UT; Fresno, CA; and Des Moines, IA.

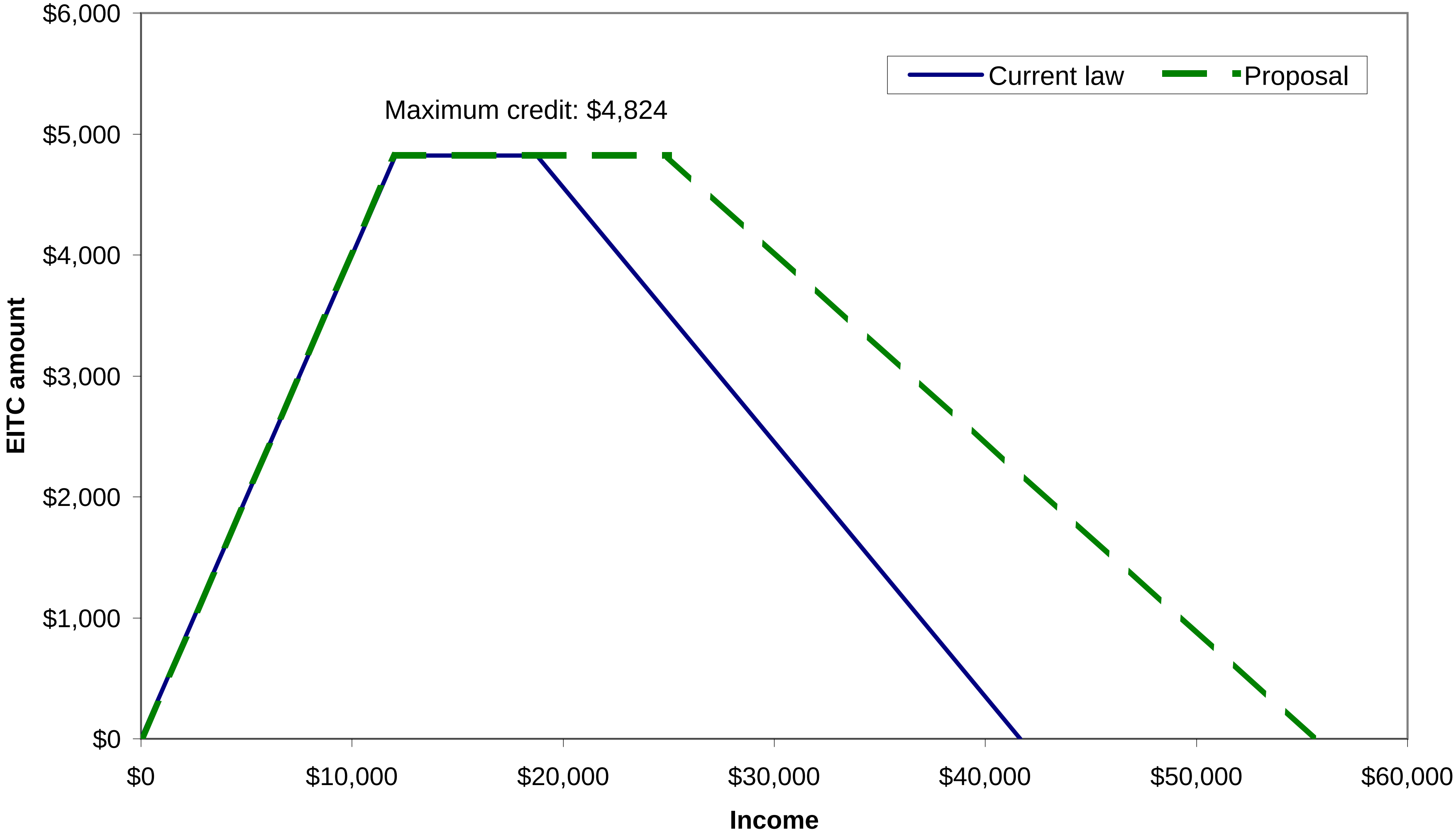
Families with three or more children

A third limitation in the EITC noted earlier concerns its treatment of large families, who are much more likely to experience poverty than families with one or two children. Recognizing this, some experts have called for the federal government to establish an additional "tier" in the credit for families with three or more children.[95] This section models the effects of creating such a tier, in which the EITC phases in at a higher rate for these larger families, reaching a higher maximum amount, then phasing out at the same rate as for families with two children (Figure 7).

Across the 100 largest metro areas, we estimate that 2.9 million filers would benefit from a new segment of the EITC dedicated to larger families. A relatively small number (300,000) would become newly eligible for the credit, due to the expansion of the income range over which the EITC for these families would phase out. Most of the additional $2.6 billion in estimated benefits from the proposal in the 100 largest metro areas would accrue to taxpayers already receiving the credit for families with two or more qualifying children. For eligible

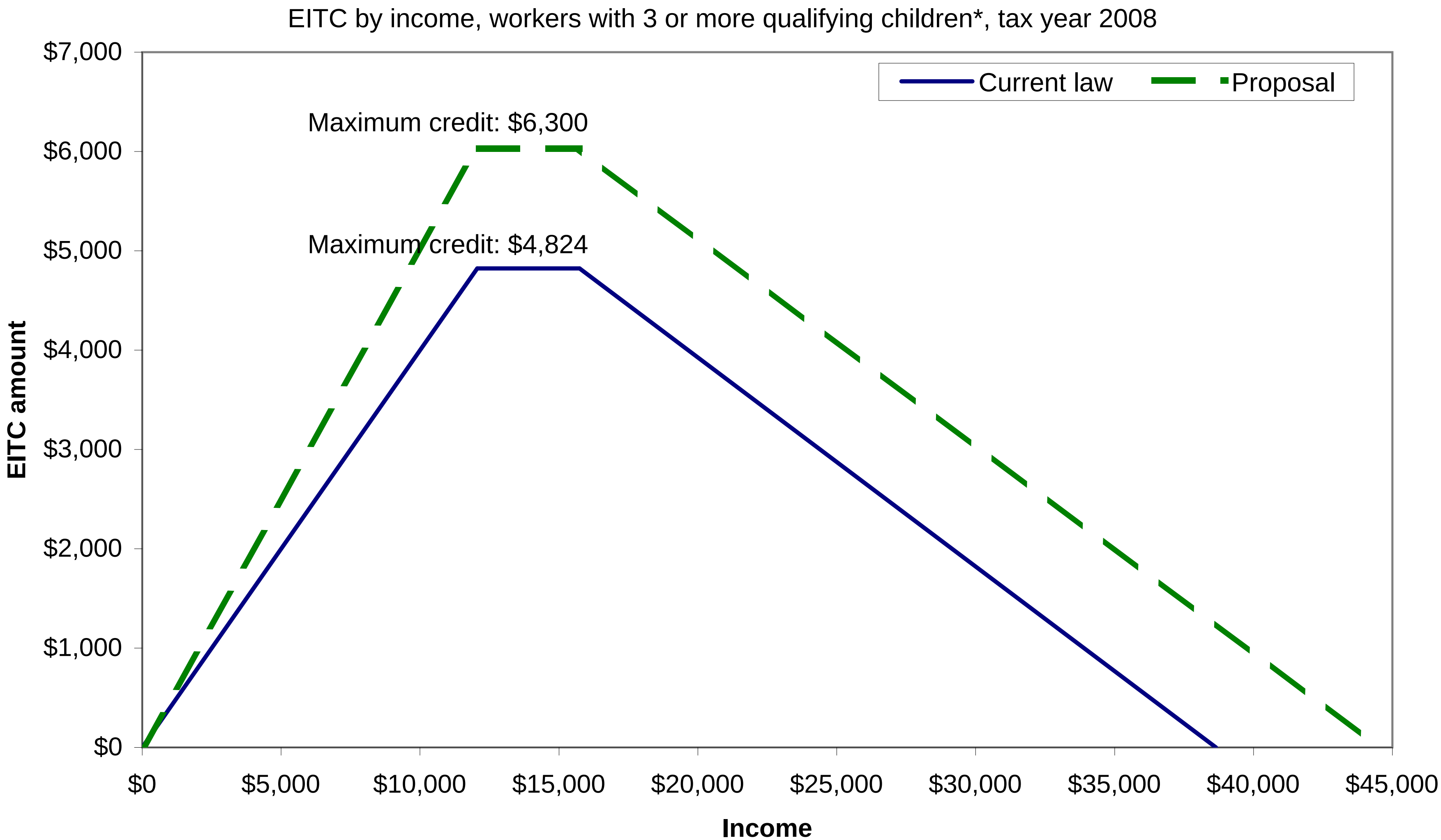
FIGURE 6.
Allowing Second Earners to Deduct Half Their Income When Calculating the EITC Would Reduce Tax Burdens on Lower-Income Working Married Couples

EITC by family income, married couple with equal-earning spouses and two children, tax year 2008



Source: Brookings Institution analysis

FIGURE 7.
Creating a larger credit for families with three or more children would increase the maximum EITC by almost $1,500



**Phase-out would begin at $3,000 higher for married joint filers with three or more qualifying children*
Source: Brookings Institution analysis

families with three or more children, their average credit would rise by about $650, from $2,630 to $3,280.

The additional $2.6 billion in EITC for which filers in the 100 largest metros would qualify as a result of this proposal would amount to more than a 10 percent increase over the credit amount for which they are currently eligible. Several metro areas with significant lower-income Latino populations would receive even more significant boosts, because of the larger average family sizes that prevail there (Table 6). These include Riverside-San Bernardino, CA; Fresno, CA; Phoenix, AZ; San Diego, CA; Houston, TX; and San Antonio, TX. (Recall that immigrants must be U.S. citizens, or have temporary or permanent legal status, in order to qualify for the EITC.) Smaller areas with larger low-income families, such as Lancaster, PA; Harrisburg, PA; and New Haven, CT, would receive a significant boost in tax benefits, too.

Combination of three proposals

Given the range of issues these EITC expansions are designed to address, and the differing low-income populations they would benefit, it is instructive to see how the 100 largest metro areas would gain from the enactment of all three proposals together.

Proposals to substantially increase the childless worker credit, boost the credit for dual-earner couples, and create an additional credit tier for large families overlap with one another in small ways. Some childless married couples, for instance, could benefit from the first two proposals. Similarly, dual-earner couples with three or more qualifying children could benefit from both the second and third proposals. Therefore, the three EITC expansions together would act as more than a simple arithmetic sum of the individual proposals.

Taken together, these three proposals would result in new or increased EITC eligibility for an estimated 8.4 million tax filers in the nation's 100 largest metro areas. About 2.5 million would become eligible for the credit as a result, while the remainder would qualify for a larger credit amount. For these tax filers, the expansions would boost the size of the EITC in their metro areas by about 26 percent, or $6.4 billion. A little under 60 percent of the total benefits nationwide from the three proposals combined ($11.0 billion) would accrue to taxpayers in these large metropolitan areas.

Because somewhat different types of workers and families would benefit from each of the three proposals, the metro areas that would benefit most are themselves a diverse group (Table 6). Again, several with larger childless-worker populations among their EITC recipients would receive significant boosts in their benefit levels, such as Madison, WI; Boise, ID; and Portland (both ME and OR). A couple with lower-income Latino populations, including San Diego, CA; and Las Vegas, NV, also rank among those with the largest projected increases in EITC dollars received. And a couple of mid-sized metro areas in other parts of the United States, such as Omaha, NE; and Harrisburg, PA, rank high for projected EITC increases, as does Salt Lake City, UT. Overall, the 100 largest metro areas would see the amount of EITC for which their tax filers qualify rise anywhere from 16 percent to 36 percent under these three proposals.

State/local benefits

Proposals to boost the federal EITC are implicitly federalist, in that they generate a response at the state level in the form of expanded state EITCs, nearly all of which "piggyback" on the federal credit in some way.[96]

The enactment of all three proposals outlined above would enable workers and families in 39 of the 100 largest metro areas to claim an estimated additional $324 million through state and local EITCs, on top of the $1.4 billion for which they currently qualify. An estimated 815,000 workers and families would become newly eligible for state and local credits as a result of federal EITC changes. By far, the largest aggregate "bump" would accrue to taxpayers in the greater New York area, who would benefit from—depending on their location—state EITCs in New York and New Jersey, and a local EITC in New York City, amounting to an additional $145 million overall (Table 7).

Benefits beyond the 100 largest metro areas

As noted above, while this paper focuses on the EITC as a particularly important tool for ensuring more inclusive metropolitan economic growth, the credit's benefits extend well beyond the nation's largest urban areas. Indeed, the fact that the federal EITC is *not* adjusted for regional cost-of-living differences makes it an even more powerful support for smaller areas of the country, which typically have lower wage structures. The MetroTax model results indicate that about 58 percent of filers who benefit from the three proposals examined here, and 58 percent of the increased credit dollars, would accrue to the 100 largest metro areas in the United States (Table 8). This means that smaller metropolitan and non-metropolitan areas would capture fully 42 percent of the benefits from these expansions, or $4.6 billion in 2005. The benefits of the proposal to expand the EITC for families with three or more children skew somewhat more towards large metro areas, while those from the dual-earner deduction proposal would favor other parts of the country. Only the increased state and local earned income credits that would follow from the federal proposals would clearly advantage the 100 largest metro areas over other places, as these credits tend to cluster in higher-cost areas of the nation.

3. The three proposals would provide important benefits to working-poor families, workers earning very low wages, and households facing severe housing-cost burdens in major metropolitan areas.

Under current law, the EITC is available to childless workers with incomes of less than $13,000, and to families with children and incomes of generally less

TABLE 7.
Federal EITC Expansions Would Provide Filers in Several Large Metro Areas With Significant Boosts in State/Local EITCs

Metro Areas With Largest Estimated Dollar Increase in State/Local EITC Benefit Eligibility Resulting from Federal Enactment of All Three Proposals

Metro Area	**Current Law EITC**		**Proposed EITC**			
	State/Local EITC Filers	Amount ($1000s)	State/Local Filers	Amount ($1000s)	$ Increase	$ Increase (%)
New York-Northern New Jersey-Long Island, NY-NJ-PA	1,162,829	650,660	1,323,053	795,400	144,740	22.2
Washington-Arlington-Alexandria, DC-VA-MD	142,472	63,294	168,001	81,457	18,163	28.7
Chicago-Naperville-Joliet, IL-IN-WI	641,932	62,120	751,832	77,702	15,582	25.1
Detroit-Warren-Livonia, MI	358,368	62,661	416,809	77,731	15,070	24.1
Boston-Cambridge-Quincy, MA-NH	214,771	54,275	250,107	67,827	13,552	25.0
Baltimore-Towson, MD	174,053	60,807	199,348	73,835	13,027	21.4
Buffalo-Niagara Falls, NY	92,957	45,445	112,618	58,025	12,580	27.7
Milwaukee-Waukesha-West Allis, WI	98,619	43,198	104,479	55,408	12,210	28.3
Rochester, NY	77,457	39,696	96,700	51,243	11,547	29.1
Philadelphia-Camden-Wilmington, PA-NJ-DE	94,163	38,365	109,765	46,364	7,999	20.8
39 Large Metro Areas with State/Local EITCs	**4,911,133**	**$1,466,473**	**5,725,673**	**$1,803,058**	**$336,585**	**23.0%**

Source: Brookings Institution MetroTax model

TABLE 8.
Expanding the EITC Would Benefit Millions of Workers and Families in the Largest Metropolitan Areas, and Nationwide

Taxpayers benefiting, and additional benefits (federal and state) from EITC expansion proposals, 2005

Proposal	**Taxpayers benefiting (1000s)**			
	100 metros	Rest of U.S.	Nation	100-metro share
Triple maximum credit for childless workers	4,074	3,039	7,113	57.3
Allow second earners to exclude half of income	1,789	1,488	3,277	54.6
Expand credit for families with 3 or more children	2,901	1,828	4,729	61.3
All 3 proposals combined*	**8,389**	**6,062**	**14,451**	**58.1**

Proposal	**Additional Federal EITC ($millions)**			
	100 metros	Rest of U.S.	Nation	100-metro share
Triple maximum credit for childless workers	$2,271	$1,725	$3,996	56.8
Allow second earners to exclude half of income	$1,301	$1,031	$2,332	55.8
Expand credit for families with 3 or more children	$2,637	$1,639	$4,276	61.7
All 3 proposals combined*	**$6,445**	**$4,587**	**$11,032**	**58.4**

Proposal	**Additional State EITC ($millions)**			
	100 metros	Rest of U.S.	Nation	100-metro share
Triple maximum credit for childless workers	$116	$52	$168	69.0
Allow second earners to exclude half of income	$60	$41	$101	59.4
Expand credit for families with 3 or more children	$137	$62	$199	68.8
All 3 proposals combined*	**$324**	**$161**	**$485**	**66.8**

**3-proposal combination estimates differ from sums of individual proposals because some taxpayers benefit from more than one proposal*
Source: Brookings Institution MetroTax model

than $40,000. The proposed expansions outlined in this section would all have the practical effect of increasing not only EITC credit amounts for currently eligible recipients, but also expanding the range of income over which filers can claim the credit, and thus making somewhat higher-income workers and families eligible.

In light of the dual effects of these proposals, it is useful to ask how much they benefit workers and families who face the greatest challenges, including those with low incomes, those earning low wages, and those paying a considerable share of their income for housing costs. This section provides some answers to these questions by examining the profile of filers projected to benefit from each of the proposals, and the three proposals combined, in the 100 largest metro areas.

Families with low incomes

To assess how well the proposals reach families who have low incomes, this section examines the share of filers benefiting from the proposals (that is, receiving at least a $1 increase in the EITC for which they qualify) who have incomes below 150 percent of the applicable poverty level.[97]

If all three proposals outlined above were enacted, an estimated 71 percent of workers and families who would benefit have incomes below 150 percent of the applicable federal poverty threshold—similar to the 77 percent of EITC-eligible filers under current law who have such low incomes. Families with three or more children, who are much more likely to experience working poverty than families with one or two children, are especially well targeted by this standard. Fully 86 percent of large-metro families benefiting from the proposal to create an additional EITC tier for families with three or more children have incomes below 150 of poverty. This is also true for three-quarters of those filers who would benefit from the proposal to help childless workers, and 43 percent of those benefiting from the relief for dual-earner married couples.

The share of filers who gain from the combination of the three proposals who have incomes below 150 percent of poverty ranges between 58 percent and 78 percent across the 100 largest metro areas. That share depends not only on the incomes earned by EITC-eligible residents of these areas, but also the mix of filers likely to benefit most from the proposals. Thus, the mix of metro areas in which the largest shares of filers reached have incomes below 150 percent of poverty include a few in which larger families make up a significant share of EITC-eligible filers (e.g., El Paso, TX and Albuquerque, NM); and several where most of the filers helped would be very low-income childless workers (e.g., Toledo, OH; Lansing, MI; Springfield, MA; and Baltimore, MD) (see Table 9).

TABLE 9.
EITC Expansions Would Provide Much-Needed Help to Low-Income Families, Low-Wage Earners, and Families with Severe Housing Cost Burdens

Metro areas in which largest share of tax filers benefit* from three EITC proposals combined, by characteristic, 2005

Share with incomes below 150 percent of poverty level

Metro area	Filers benefiting	With incomes < 150% poverty	% Low-income
Trenton-Ewing, NJ	8,630	6,756	78.3
El Paso, TX	46,377	35,695	77.0
Portland-Vancouver-Beaverton, OR-WA	115,610	88,409	76.5
Toledo, OH	28,225	21,475	76.1
Lansing-East Lansing, MI	20,849	15,823	75.9
Springfield, MA	35,313	26,726	75.7
Albuquerque, NM	46,916	35,399	75.5
Portland-South Portland-Biddeford, ME	28,541	21,456	75.2
Baltimore-Towson, MD	89,707	67,314	75.0
Madison, WI	20,078	14,966	74.5
100 largest metro areas	**8,328,667**	**5,856,232**	**70.3%**

*Share with effective wages below $9.00 an hour***

Metro area	Filers benefiting	With wages < $9.00 an hour	% Low wage
Madison, WI	20,078	8,952	44.6
Palm Bay-Melbourne-Titusville, FL	26,873	11,641	43.3
Memphis, TN-MS-AR	69,408	29,664	42.7
New Orleans-Metairie-Kenner, LA	79,590	32,739	41.1
El Paso, TX	46,377	19,043	41.1
Dayton, OH	36,262	14,657	40.4
Lansing-East Lansing, MI	20,849	8,407	40.3
Virginia Beach-Norfolk-Newport News, VA-NC	61,016	24,556	40.2
Kansas City, MO-KS	81,891	32,937	40.2
Akron, OH	35,163	14,082	40.0
100 largest metro areas	**8,384,085**	**2,818,549**	**33.6%**

Share in households with housing costs equal to at least 50% of household income

Metro area	Filers benefiting	In HHs w/ housing costs > 50% of income	% w/ severe housing cost burdens
Trenton-Ewing, NJ	8,442	5,671	67.2
Madison, WI	19,785	11,360	57.4
San Jose-Sunnyvale-Santa Clara, CA	46,838	25,234	53.9
San Francisco-Oakland-Fremont, CA	141,397	70,739	50.0
New York-Northern New Jersey-Long Island, NY-NJ-PA	599,228	284,284	47.4
Cleveland-Elyria-Mentor, OH	99,591	45,518	45.7
Boston-Cambridge-Quincy, MA-NH	137,086	62,281	45.4
Denver-Aurora, CO	91,522	41,577	45.4
Chicago-Naperville-Joliet, IL-IN-WI	366,333	166,346	45.4
San Diego-Carlsbad-San Marcos, CA	123,620	55,215	44.7
100 largest metro areas	**8,104,453**	**3,098,527**	**38.2%**

** Filers experiencing an increase of $1 or more in the EITC for which they qualify*
*** Effective wage calculated as total filer unit earnings divided by product of weeks worked and usual hours worked per week*
Source: Brookings Institution MetroTax model

Families earning low wages

The three proposals would also do a fairly good job of reaching workers who earn low wages. To examine this question, an effective wage for all tax units is calculated based on their total earnings, divided by an estimate of the hours they worked, for the previous year. The analysis focuses on tax units that had effective wages in 2005 below $9.00 an hour, a common standard for identifying low-wage workers (see Section II).

Rather than simply subsidizing workers who earn good wages and have low incomes because they work part-time or part-year, the EITC proposals analyzed benefit many filers who work in low-wage jobs. Thirty-six percent of all tax units who benefit from the current-law EITC have earnings below $9.00 an hour, as would 34 percent of all filers who would gain from the enactment of the three proposals outlined above. Childless workers who benefit are, not surprisingly, the most likely to earn low wages (48 percent); a significant share (30 percent) of filers helped by the proposal for families with three or more children work in low-wage jobs as well.

The metro areas in which these proposals would reach above-average shares of low-wage workers are thus a mix of those in which low-income childless workers predominate among EITC recipients, and those in which low-wage work is especially plentiful (Table 9). The ten with the highest shares of these workers are all located in the South and Midwest.

Families with severe housing-cost burdens

A third group that policymakers may wish to target through an EITC expansion is families who face high and rising costs for housing. According to the National Low Income Housing Coalition, the number of households facing a severe housing cost burden—that is, paying at least half of their income for housing costs—increased by 23 percent nationwide between 2001 and 2005, and even more rapidly for those households *not* in the lowest part of the income distribution.[98] Previous research has established that the EITC is an effective tool for helping alleviate housing-cost burdens for lower-income working families.[99]

On this count, the three proposals to expand the credit collectively reach an even higher percentage of burdened households than the existing EITC. An estimated 38 percent of those who would benefit from the expansions live in households that pay more than half their income for housing costs (compared to 35 percent for the current EITC). Both childless workers (45 percent) and families with three or more children (43 percent) helped by these proposals are especially likely to face such cost burdens.

The metro areas in which the largest shares of filers benefiting from the proposals are severely burdened by housing costs include, not surprisingly, several of the nation's largest metro areas (Table 9). These dot the West Coast (San Jose, San Francisco, San Diego), the East Coast (Trenton, New York, Boston), and the nation's interior (Madison, Denver, Chicago). In these metro areas, 45 percent or more of all filers helped by the three proposals are in households that pay at least half their income for housing costs. This is perhaps not surprising, since high rental prices in these cities and suburbs mean that many families confront significant issues related to housing costs. Yet the figures also serve as a reminder that the EITC is a useful vehicle for tackling affordable housing problems that stem from low incomes—an argument advanced by other work in the *Blueprint* policy series.[100]

In this way, proposals to expand the EITC are very much metropolitan-focused in helping families to afford better housing. As noted above, however, the credit's delivery method is not particularly well-suited to helping families cope with the challenge of meeting these monthly costs.

VII. The Federal Government Should Expand the EITC and Develop a New Way for Recipients to Access the Credit's Proceeds Throughout the Year

In light of the significant and growing economic problems facing low-wage workers across the United States, the next administration and Congress should build on the success of the Earned Income Tax Credit, enabling the credit to do more for workers and families who face particular challenges:

- Very low-income childless workers, who benefit from only a small EITC, and who are taxed further into poverty via federal payroll and income taxes under current law;
- Dual-earner couples, who because of the EITC's phase-out may face a considerable economic disincentive to marry, or to have a second spouse in a married couple join the labor force; and
- Working families with three or more children, who receive no more assistance from the EITC than do families with two children, even though they are twice as likely to have incomes below 150 percent of poverty

In addition to expanding the credit for these types of workers and families, the next administration and Congress should consider overhauling the Advance EITC, and creating a more viable periodic payment option through which workers and families could access the proceeds of the EITC throughout the year.[101] For an estimated 38 percent of EITC-eligible workers and families in the 100 largest metro areas, the credit represented at least 20 percent of their gross annual income in 2005. Clearly, it would benefit society to devise some way for families to access at least a portion of that significant fraction of their annual income periodically throughout the year.

Principles for designing such a new option are detailed in an accompanying Brookings discussion paper by Steve Holt, and outlined briefly here:[102]

- *Make periodic payment an "opt-in" to start.* Research has pointed to the advantages of presumptive participation (or "opt-out") design for pensions. It would be beneficial, however, to operate this new periodic payment and evaluate its performance for a few tax seasons before making it the default option for filers. The design for a new system should aim to give recipients a viable *choice* between lump-sum and periodic payments. This may lead to low initial take-up, but could provide useful feedback for revising the design over time.

- *Retain the IRS as the administrative agency.* The success of the EITC in reaching eligible families owes much to its inclusion in the tax code. Most EITC recipients are not now the clients of other social welfare agencies, where benefit enrollment procedures are more burdensome and carry greater stigma. The IRS should remain the lead agency in administering a new periodic EITC payment system. This would inevitably increase EITC administrative costs, so the system's design should, to the maximum extent possible, build on existing IRS processes to minimize additional expenditures.

- *Make payments directly to recipients, not through employers*. Workers—in the United States and abroad—appear to have little appetite for interacting with their employers to provide the information needed to establish tax credit eligibility and calculate payments accurately. In other countries, direct deposit to a financial institution account is most often the only payment vehicle for in-work benefits, and has several advantages over processing paper checks. Direct deposit could be the best method for making periodic EITC payments here, if the many unbanked households who receive the credit were provided viable options for receiving their benefits in this way.[103]

- *Take steps to minimize repayment obligations*. In general, the American tax system is retrospective; actual taxes due (and, by extension, eligibility for credits) are not known until the end of the year. A periodic payment mechanism for the EITC would likely involve some prospective prediction of eligibility tied to current income and family circumstances. Minimizing the risk of having to repay EITC proceeds due to prediction errors is a critical element of periodic payment design.[104] Some steps to consider include: (a) creating a "safe harbor" from repayment for workers who request periodic payments in good faith; (b) adopting some tolerance for overpayments that result from data chosen for administrative simplicity;[105] (c) providing opportunities for taxpayers to communicate to the IRS, including via their tax return, their expectation of, or changes in, EITC eligibility; and (d) limiting the amount of expected EITC that can be claimed throughout the year, perhaps to 50 percent. Alternatively, the EITC could be paid out on a periodic basis retrospectively, based on the previous years' earnings, effectively eliminating the possibility that recipients might have to repay the proceeds.[106] However, this would de-link receipt of the EITC from current income needs, and potentially deliver the credit to workers and families who no longer have low incomes, or prevent newly low-income filers from accessing the credit when they need it most.[107]

- *Balance competing priorities in payment frequency*. A periodic payment system focused on helping households with everyday needs would argue for weekly or biweekly disbursement (as in other countries). But such frequent payments would ignore EITC recipients' demonstrated desire for some degree of accumulation, and would increase administrative costs. Building on the IRS' quarterly payments schedule for estimated taxes could represent a middle ground that enhances recipients' liquidity, preserves their ability to accumulate modest credit amounts for larger purchases or investments, and reduces new processing costs for the IRS.

As the next administration and Congress debate proposals to increase the EITC and enhance the refundability of other tax credits, they should carefully consider the evidence on the shortcomings of the current Advance EITC, the case for a renewed approach to periodic payments, and emerging policy options that would make the credit a more effective tool in helping low-income households meet their ongoing needs.

<u>What it would cost</u>

Based on estimates from the Brookings MetroTax model, the three EITC expansions recommended above would have increased the amount of credit eligible to be claimed by $11.0 billion nationwide in 2005, or 26 percent of estimated eligible claims that year. Applying an equivalent percentage increase to estimated program size in 2008 yields an estimated cost of approximately $12.3 billion.[108] This estimate is generally in line with estimates produced by other researchers and policymakers advancing similar proposals.

The ultimate cost of administering a new periodic payment system for the EITC would depend on the specifics of system design, and the share of eligible taxpayers who chose to receive payments periodically. The United Kingdom government spent an estimated £587 million in 2006-07 to administer its Child and Working Tax Credits, or roughly 3 percent of the total credits paid that year.[109] However, a periodic payment system for the EITC would cost much less as a share of program expenditures if the system were made optional for recipients (versus mandatory in the UK), and if payments were made on a quarterly basis (versus weekly or monthly in the UK).[110]

Even if these are judged to be modest expenditures in light of the pressing problems facing low-income workers and families, the nation's precarious fiscal situation nonetheless obligates the next administration and Congress to consider ways to offset these costs that do not add to the long-run budget deficit.[111]

Events on the tax policy horizon may create opportunities to ensure that proposals to expand the EITC do not worsen the federal fiscal picture. Most notably, the major income tax cuts enacted in 2001—including across-the-board rate reductions—are due to expire in 2010. This will set off a furious debate in the next two years about which of these cuts should be extended, which should be allowed to expire, and how to provide relief to the millions more Americans who have become subject to the Alternative Minimum Tax (AMT) as a result of these cuts. Overall, these cuts disproportionately benefited high-income taxpayers, and exacerbated the trend in after-tax income inequality.[112] With mounting challenges facing low-wage workers and families, and the wealthiest taxpayers now holding a larger share of income than at any time since the Great Depression, the next Congress and administration should consider enacting an EITC expansion as part of broader efforts to restore greater progressivity to the federal tax code.[113]

The expiration of these tax cuts would, on balance, make the tax code more progressive, but it would also affect EITC recipients in two important ways.[114] First, it would eliminate the extended "plateau" range in the EITC for married filers, which acts to reduce some of the marriage penalties imposed by the structure of the credit. Second, it would do away with the refundable portion of the Child Tax Credit, which provides additional help to many low- and moderate-income filers with children who have earnings in the "phase-out" range of the EITC. The dual-earner deduction and large-family proposals evaluated in this paper are designed to help many of the same families assisted by these provisions. While these existing provisions should be retained post-2010, it may also make sense to help families through the EITC now who could be affected adversely by the expiration of, or changes to, these provisions in the future.

Responses to possible objections

Some might raise objections to these proposals for going too far, not going far enough, or missing the point. Possible criticisms, and responses, include:

- *The proposals are too small to make much of a difference*. A 26 percent overall increase in the size of the EITC, and a new periodic payment option, would admittedly only go so far toward boosting stagnant wages and ameliorating rising income inequality. However, the state of the U.S. economy and the attendant federal fiscal environment likely preclude a much more considerable increase in the size of the credit in the near term. The size of the overall increase notwithstanding, these proposals do envision a significant boost in the EITC for very low-income childless workers, equivalent to a tripling of the credit. Moreover, the analysis here has shown that the proposals under consideration are relatively well-targeted toward low-income families, those with low wages, and those facing the burdens of high housing costs. To be sure, the EITC expansion contemplated here should augment, rather than substitute for, other policies to assist working families cope with the rising costs of health care, child care, and housing.

- *The EITC has too high an error rate and should not be increased*. The federal EITC is sometimes criticized for having a high rate of "overpayments;" that is, credits claimed by taxpayers who are technically ineligible for the EITC. These arguments against the credit overlook a few key facts, however. First, the actual level of EITC overpayments is in doubt. Although the IRS estimates that overpayments accounted for 23 to 28 percent of EITC amounts paid in tax year 2004, evidence suggests that the methods used to derive that estimate suffer from numerous weaknesses and very likely lead the IRS to overstate error in credit claims.[115] Second, the IRS has made numerous administrative improvements in recent years that have likely led to a further reduction in EITC payment errors. Third, the IRS and federal policymakers are considering ways to simplify the EITC that would make it less error-prone in the future. For these reasons, the EITC retains strong support among current and former IRS and Treasury Department officials.[116] Further reductions in the EITC error rate could be achieved by simplifying the credit's complex rules.[117]

- *An expanded EITC for childless workers should include additional rules to ensure that eligible claimants are "deserving."* With maximum EITC amounts available to childless workers with incomes between $8,600 and $10,600 under the proposal examined here, some argue that additional rules are necessary to prevent voluntary part-time or part-year workers from benefiting from the expanded credit.[118] Some other countries, such as Ireland, New Zealand, and the United Kingdom impose these types of requirements.[119] Others argue that for non-custodial parents, who represent a significant share of individuals potentially eligible for such an EITC, the expanded credit should only be extended to those who are current on their child-support obligations.[120] As noted earlier, New York and Washington, D.C. have expanded their EITCs specifically for non-custodial parents who are meeting these obligations. At the U.S. federal level, however, eligibility requirements regarding work effort and child-support payments are unlikely to be enforceable or verifiable. No administrative data capture information on hours worked.[121] States maintain child-support data, at varying levels of quality, but these data are not aggregated in a timely or reliable fashion at the national level. New investments to gather these data and use them in EITC enforcement would likely add considerably to EITC administrative costs. Furthermore, conditioning the EITC on work effort (either hours per week, or weeks per year) could potentially penalize those individuals at the margins of the labor market who are only able to find part-time or seasonal work, and thus need even more the work support that an expanded credit would provide.

- *States, rather than the federal government, should address the issue by creating or expanding their own EITCs*. States can and should do more to help low-income working families through their own tax codes. Map 1 shows that 19 states that have income taxes lack a state EITC altogether, 3 have only nonrefundable credits, and a few provide refundable EITCs at only very small percentages of the federal credit. However, due to states' more limited fiscal capacity, and the balanced budget requirements under which they operate, there is a natural limit to what states can do through their tax codes on behalf of low-income working families. State EITCs cannot by themselves substitute for meaningful efforts at the federal level to ensure a decent income floor for all working Americans. State and local EITCs do remain a smart and effective way to augment federal antipoverty efforts, especially in regions of the country where working families face above-average costs of living.

- *Taxpayers don't want periodic EITC payments*. The very low usage of the current Advance EITC does not, on its own, prove that a better-designed periodic payment system for the EITC would not appeal to many lower-income taxpayers. The Advance EITC suffers from several shortcomings, including involving employers in the enrollment and disbursement process, requiring re-enrollment each year, providing only a small proportion of the credit to workers with two or more children, and offering no mechanism for modest accumulation of periodic payments. EITC recipients' liquidity constraints, demonstrated in their use of RALs and their application of most credit dollars to pay bills, strongly argue for developing a more functional option that would allow filers access to a significant share of their anticipated credit a few times during the year. The design of a new periodic payment option must, however, take full account of recipients' understandable reluctance to pay back credits at the end of the year due to unforeseeable changes in circumstance.

VIII. CONCLUSION

The uneven character of the recent economic expansion, the widening gap between wages and prices, and the precarious outlook for the American economy in the near term compel federal policymakers to explore anew strategies to assist the nation's low-income workers and families. In doing so, they should build upon the proven success of the Earned Income Tax Credit, arguably our nation's most potent tool for alleviating poverty, promoting work, and securing more inclusive economic growth. The EITC expansion and modernization recommended here will, of course, go only part of the way toward ensuring more inclusive economic growth. To fully realize that goal, the federal government should accompany these changes to the EITC with stronger commitments to raise the skills of American workers (the subject of other papers in the Blueprint Policy Series) and to provide them with access to needed supports like health care, child care, and retirement savings. As a major tax bill takes shape in the next administration and Congress, however, the EITC should rank high among the policy instruments deployed to widen the benefits of economic growth, and to soften the blows of a sluggish economy on U.S. workers.

APPENDIX A.
EITC-Eligible Tax Units and Credit Amounts Under Current Law and Expansion Proposals, 100 Largest Metropolitan Areas, 2005

	Current EITC				Expansion Proposals: A. Increase Childless Worker Credit				B. Allow 2nd-Earner Deduction				C. Increase Credit for Large Families				D.Combination of 3 Proposals			
	EITC-Eligible Tax Units	EITC-Eligible Tax Units (%)	EITC Sum ($1,000s)	Average EITC ($)	Tax Units Benefiting from Proposal*	Newly EITC-Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount	Tax Units Benefiting from Proposal*	Newly EITC Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount	Tax Units Benefiting from Proposal*	Newly EITC-Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount	Tax Units Benefiting from Proposal*	Newly EITC-Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount
Nation	**23,154,501**	**17.7%**	**41,814,945**	**1,806**	**7,112,735**	**2,687,115**	**3,996,297**	**9.6%**	**3,277,044**	**1,196,311**	**2,331,860**	**5.6%**	**4,729,441**	**495,598**	**4,266,327**	**10.2%**	**14,450,518**	**4,513,651**	**11,032,332**	**26.4%**
100 Largest Metro Areas	**13,840,624**	**16.2%**	**25,117,272**	**1,815**	**4,074,139**	**1,532,162**	**2,271,498**	**9.0%**	**1,788,762**	**648,717**	**1,300,853**	**5.2%**	**2,901,235**	**300,124**	**2,631,966**	**10.5%**	**8,388,510**	**2,557,691**	**6,445,220**	**25.7%**
Akron, OH	54,002	16.5%	95,357	1,766	19,319	8,178	11,635	12.2%	7,093	1,651	5,123	5.4%	10,222	826	9,874	10.4%	35,163	11,758	27,797	29.2%
Albany-Schenectady-Troy, NY	55,057	14.1%	100,695	1,829	13,996	5,323	8,634	8.6%	3,988	1,799	2,568	2.5%	9,476	758	9,236	9.2%	26,874	8,247	20,991	20.8%
Albuquerque, NM	73,544	20.4%	129,085	1,755	26,160	8,186	15,028	11.6%	8,404	2,058	5,387	4.2%	13,544	989	11,971	9.3%	46,916	11,529	33,887	26.3%
Allentown-Bethlehem-Easton, PA-NJ	49,590	13.8%	97,955	1,975	14,067	6,951	7,719	7.9%	6,453	2,623	5,230	5.3%	6,632	743	5,761	5.9%	27,091	11,660	20,129	20.5%
Atlanta-Sandy Springs-Marietta, GA	359,487	16.7%	627,082	1,744	100,302	40,044	58,102	9.3%	48,628	19,416	33,532	5.3%	70,991	5,702	64,214	10.2%	212,965	67,831	161,204	25.7%
Augusta-Richmond County, GA-SC	47,251	23.7%	90,400	1,913	12,260	3,576	6,834	7.6%	4,917	1,842	3,578	4.0%	9,930	477	9,338	10.3%	26,752	6,686	20,148	22.3%
Austin-Round Rock, TX	106,753	15.5%	195,531	1,832	39,107	17,213	21,029	10.8%	15,672	5,412	9,540	4.9%	26,037	3,739	22,386	11.4%	74,347	25,813	54,954	28.1%
Bakersfield, CA	75,674	26.2%	158,144	2,090	17,067	6,727	9,340	5.9%	12,405	3,465	9,497	6.0%	18,770	1,851	17,117	10.8%	46,055	13,501	38,191	24.1%
Baltimore-Towson, MD	174,950	14.5%	304,037	1,738	50,999	17,495	29,867	9.8%	13,093	4,752	7,732	2.5%	30,702	2,138	25,867	8.5%	89,772	24,551	65,132	21.4%
Baton Rouge, LA	71,551	22.9%	141,099	1,972	16,514	6,694	9,331	6.6%	9,784	3,013	5,859	4.2%	12,381	766	11,271	8.0%	37,016	10,882	27,496	19.5%
Birmingham-Hoover, AL	92,505	20.2%	174,952	1,891	27,132	11,706	14,070	8.0%	12,448	4,413	9,863	5.6%	17,325	1,112	14,217	8.1%	53,866	17,322	39,058	22.3%
Boise City-Nampa, ID	36,709	16.6%	65,827	1,793	15,820	6,480	9,117	13.8%	6,767	3,417	4,352	6.6%	7,795	1,127	6,984	10.6%	30,045	11,873	22,013	33.4%
Boston-Cambridge-Quincy, MA-NH	243,968	11.4%	409,642	1,679	80,980	26,644	42,351	10.3%	23,657	9,199	18,350	4.5%	41,623	5,195	36,776	9.0%	139,722	40,413	100,128	24.4%
Bridgeport-Stamford-Norwalk, CT	42,674	10.7%	68,611	1,608	10,525	2,629	5,392	7.9%	4,917	1,218	3,919	5.7%	8,975	856	8,367	12.2%	24,291	5,653	18,991	27.7%
Buffalo-Niagara Falls, NY	93,109	17.4%	151,482	1,627	38,103	13,428	22,640	14.9%	8,905	3,147	6,017	4.0%	14,393	2,347	12,471	8.2%	60,025	19,712	41,936	27.7%
Cape Coral-Fort Myers, FL	40,149	15.0%	77,136	1,921	12,006	4,347	7,399	9.6%	4,662	1,626	3,575	4.6%	8,360	232	7,453	9.7%	24,425	7,093	19,472	25.2%
Charleston-North Charleston, SC	59,820	20.8%	111,684	1,867	17,674	6,420	10,012	9.0%	5,340	1,981	2,993	2.7%	8,518	582	8,252	7.4%	31,104	9,661	22,495	20.1%
Charlotte-Gastonia-Concord, NC-SC	122,149	17.5%	227,110	1,859	36,927	15,720	20,029	8.8%	19,888	6,524	14,465	6.4%	24,470	2,100	22,276	9.8%	79,076	26,662	59,718	26.3%
Chattanooga, TN-GA	37,869	18.6%	67,878	1,792	13,739	6,929	8,198	12.1%	5,267	2,433	3,229	4.8%	7,342	448	6,446	9.5%	25,970	10,175	18,331	27.0%
Chicago-Naperville-Joliet, IL-IN-WI	648,086	15.7%	1,181,506	1,823	170,568	61,982	94,117	8.0%	78,115	26,021	60,745	5.1%	145,715	16,577	129,076	10.9%	380,585	110,101	297,345	25.2%
Cincinnati-Middletown, OH-KY-IN	154,331	17.2%	296,374	1,920	44,504	16,803	23,527	7.9%	15,085	5,432	8,816	3.0%	26,738	2,720	23,636	8.0%	84,048	25,579	57,735	19.5%
Cleveland-Elyria-Mentor, OH	174,387	17.8%	297,047	1,703	59,997	22,636	36,719	12.4%	14,906	4,805	8,735	2.9%	30,229	2,134	25,612	8.6%	102,623	30,945	73,318	24.7%
Colorado Springs, CO	36,429	15.0%	65,187	1,789	11,665	4,994	6,543	10.0%	5,165	1,501	3,435	5.3%	6,761	819	5,809	8.9%	22,881	7,544	16,493	25.3%
Columbia, SC	42,428	17.0%	78,760	1,856	15,154	6,363	8,673	11.0%	4,752	2,060	4,324	5.5%	9,428	1,026	7,705	9.8%	28,278	9,791	21,617	27.4%
Columbus, OH	125,579	16.7%	222,211	1,769	41,237	14,387	22,082	9.9%	14,664	6,430	9,275	4.2%	22,370	2,253	19,375	8.7%	76,828	24,535	54,127	24.4%
Dallas-Fort Worth-Arlington, TX	457,026	18.3%	870,982	1,906	116,942	46,914	64,023	7.4%	80,835	26,746	58,867	6.8%	111,362	12,716	102,305	11.7%	287,195	86,582	234,570	26.9%
Dayton, OH	61,412	16.5%	105,820	1,723	21,772	6,578	11,607	11.0%	6,667	2,695	3,504	3.3%	9,183	516	7,811	7.4%	36,262	9,713	24,113	22.8%
Denver-Aurora, CO	146,982	13.4%	251,297	1,710	49,040	20,040	26,673	10.6%	23,725	9,319	15,948	6.3%	27,629	2,739	25,900	10.3%	95,415	32,915	70,174	27.9%
Des Moines, IA	22,521	11.6%	38,906	1,728	8,083	3,606	4,576	11.8%	4,971	2,747	3,096	8.0%	3,432	371	3,216	8.3%	15,108	6,485	11,236	28.9%
Detroit-Warren-Livonia, MI	360,029	17.6%	626,620	1,740	107,041	38,151	61,185	9.8%	32,142	12,776	25,029	4.0%	73,392	5,939	59,504	9.5%	203,599	58,490	150,687	24.0%
Durham, NC	31,202	16.5%	50,191	1,609	12,805	4,286	6,798	13.5%	5,227	2,485	4,157	8.3%	5,177	203	4,588	9.1%	21,918	7,127	16,565	33.0%
El Paso, TX	85,694	33.8%	190,168	2,219	13,177	5,122	8,120	4.3%	12,542	3,507	9,311	4.9%	23,568	2,578	19,300	10.1%	46,377	11,781	38,755	20.4%
Fresno, CA	88,973	25.8%	187,356	2,106	16,529	7,177	9,033	4.8%	17,522	5,182	15,318	8.2%	27,736	2,163	26,377	14.1%	56,199	14,292	52,601	28.1%
Grand Rapids-Wyoming, MI	55,750	18.0%	104,396	1,873	17,404	8,034	9,799	9.4%	7,945	1,837	4,796	4.6%	13,136	1,325	12,617	12.1%	37,435	11,813	28,766	27.6%
Greensboro-High Point, NC	71,926	21.4%	126,133	1,754	19,435	7,386	12,045	9.5%	10,012	4,319	8,368	6.6%	13,561	1,060	11,959	9.5%	42,406	13,872	35,210	27.9%
Greenville, SC	63,714	19.9%	112,078	1,759	21,380	8,040	11,896	10.6%	8,163	2,892	6,147	5.5%	8,515	1,023	7,179	6.4%	37,245	12,798	26,157	23.3%
Harrisburg-Carlisle, PA	31,183	13.0%	53,268	1,708	10,055	4,644	5,885	11.0%	3,433	1,854	2,447	4.6%	7,888	885	6,872	12.9%	21,589	7,922	16,058	30.1%
Hartford-West Hartford-East Hartford, CT	62,304	11.5%	106,840	1,715	16,935	7,249	9,208	8.6%	5,288	2,549	4,295	4.0%	10,841	1,216	10,553	9.9%	32,763	11,419	24,619	23.0%
Honolulu, HI	65,384	16.2%	113,711	1,739	15,954	6,194	9,019	7.9%	8,528	4,793	6,362	5.6%	13,212	1,642	11,694	10.3%	37,476	13,615	28,972	25.5%
Houston-Baytown-Sugar Land, TX	450,206	20.6%	899,890	1,999	101,776	40,823	58,992	6.6%	74,888	23,237	49,307	5.5%	124,883	10,785	115,378	12.8%	281,865	77,973	233,984	26.0%
Indianapolis, IN	108,867	15.5%	186,262	1,711	37,593	13,766	17,894	9.6%	13,582	4,350	9,560	5.1%	22,115	3,619	21,341	11.5%	70,044	22,560	49,488	26.6%
Jackson, MS	45,417	22.6%	84,578	1,862	10,398	4,372	6,097	7.2%	7,146	2,716	4,936	5.8%	9,285	258	8,149	9.6%	25,778	7,330	19,149	22.6%
Jacksonville, FL	97,185	17.5%	160,805	1,655	35,016	15,517	19,312	12.0%	12,662	4,160	8,824	5.5%	13,931	2,525	11,983	7.5%	60,964	23,790	41,686	25.9%
Kansas City, MO-KS	129,673	15.9%	230,779	1,780	41,434	15,927	22,747	9.9%	19,028	6,027	12,300	5.3%	27,475	2,141	24,355	10.6%	81,891	23,444	62,077	26.9%
Knoxville, TN	50,862	18.3%	85,216	1,675	19,744	7,937	11,573	13.6%	8,666	3,438	5,507	6.5%	7,976	1,540	6,399	7.5%	35,784	13,268	24,777	29.1%
Lancaster, PA	29,893	14.0%	52,401	1,753	9,850	4,882	4,529	8.6%	3,613	1,092	2,361	4.5%	8,783	582	7,836	15.0%	21,693	6,999	15,560	29.7%
Lansing-East Lansing, MI	31,946	16.4%	55,730	1,745	12,266	4,077	7,402	13.3%	2,767	849	2,477	4.4%	5,916	214	5,611	10.1%	20,849	5,800	16,081	28.9%
Las Vegas-Paradise, NV	137,672	17.0%	233,654	1,697	43,226	18,197	24,934	10.7%	17,205	8,357	13,404	5.7%	28,745	3,726	27,983	12.0%	86,128	30,943	69,892	29.9%
Lexington-Fayette, KY	16,580	13.5%	25,020	1,509	7,258	2,812	3,291	13.2%	2,111	916	1,593	6.4%	2,562	73	2,392	9.6%	11,355	3,981	7,376	29.5%
Little Rock-North Little Rock, AR	52,582	18.7%	98,383	1,871	17,747	8,598	10,418	10.6%	5,988	2,799	4,458	4.5%	10,122	1,049	9,304	9.5%	33,487	13,259	25,140	25.6%
Los Angeles-Long Beach-Santa Ana, CA	1,009,237	18.1%	2,030,696	2,012	235,698	86,435	133,125	6.6%	163,437	53,438	134,143	6.6%	270,343	27,454	254,378	12.5%	621,018	166,508	542,152	26.7%
Louisville, KY-IN	96,586	18.5%	156,666	1,622	34,193	11,612	19,456	12.4%	11,096	4,885	9,245	5.9%	16,921	1,449	13,780	8.8%	59,966	18,568	44,682	28.5%
Madison, WI	23,262	10.5%	36,052	1,550	13,963	5,754	7,581	21.0%	2,061	340	1,422	3.9%	3,982	42	3,551	9.8%	20,078	6,726	12,842	35.6%
Memphis, TN-MS-AR	114,062	21.9%	207,593	1,820	39,200	17,533	22,700	10.9%	9,109	3,018	6,960	3.4%	23,591	2,279	21,244	10.2%	69,433	24,066	52,778	25.4%
Miami-Fort Lauderdale-Miami Beach, FL	416,987	17.2%	754,108	1,808	124,857	50,423	69,982	9.3%	68,011	27,312	49,442	6.6%	70,324	6,703	64,778	8.6%	252,221	85,910	193,189	25.6%
Milwaukee-Waukesha-West Allis, WI	120,938	17.2%	227,332	1,880	34,691	12,372	20,342	8.9%	9,495	4,512	4,562	2.0%	28,006	1,463	24,429	10.7%	70,191	18,861	51,799	22.8%
Minneapolis-St. Paul-Bloomington, MN-WI	170,616	12.2%	293,941	1,723	59,442	23,147	30,622	10.4%	22,141	10,390	15,686	5.3%	39,253	5,151	36,928	12.6%	115,595	39,407	87,125	29.6%
Nashville-Davidson--Murfreesboro, TN	104,469	17.1%	185,683	1,777	34,059	15,292	19,950	10.7%	11,484	4,778	7,533	4.1%	17,517	1,889	15,028	8.1%	62,120	23,260	44,180	23.8%
New Haven-Milford, CT	53,244	13.7%	90,738	1,704	13,735	4,561	8,625	9.5%	4,781	1,963	2,948	3.2%	12,153	1,376	11,518	12.7%	29,481	8,280	23,528	25.9%
New Orleans-Metairie-Kenner, LA	144,190	23.1%	268,046	1,859	47,514	22,733	26,267	9.8%	10,956	4,145	7,760	2.9%	22,206	950	17,887	6.7%	79,590	28,349	53,104	19.8%
New York-Northern New Jersey-Long Island, NY-NJ-PA	1,165,554	14.0%	2,135,062	1,832	292,649	92,950	161,393	7.6%	120,181	40,169	90,679	4.2%	232,360	21,468	213,663	10.0%	619,331	160,753	478,439	22.4%
Oklahoma City, OK	112,620	20.5%	195,039	1,732	37,500	13,744	20,552	10.5%	16,939	5,837	11,185	5.7%	21,479	2,791	19,157	9.8%	72,226	22,653	53,701	27.5%
Omaha-Council Bluffs, NE-IA	61,327	15.3%	103,273	1,684	21,484	10,028	10,636	10.3%	9,720	4,403	6,987	6.8%	14,952	1,575	12,022	11.6%	44,630	17,008	32,419	31.4%
Orlando, FL	153,266	17.2%	292,671	1,910	46,404	19,553	24,513	8.4%	26,092	10,427	19,186	6.6%	30,616	2,425	29,744	10.2%	100,826	35,083	76,508	26.1%
Oxnard-Thousand Oaks-Ventura, CA	48,693	14.2%	99,696	2,047	11,449	5,713	6,019	6.0%	11,989	4,874	10,836	10.9%	12,126	2,007	11,530	11.6%	32,602	12,042	29,621	29.7%
Palm Bay-Melbourne-Titusville, FL	44,494	17.6%	76,585	1,721	16,680	6,396	8,243	10.8%	5,119	1,557	3,459	4.5%	5,040	379	4,146	5.4%	26,873	9,237	16,702	21.8%
Philadelphia-Camden-Wilmington, PA-NJ-DE	398,052	15.0%	716,394	1,800	109,957	37,401	62,209	8.7%	34,844	15,056	25,263	3.5%	81,550	7,071	74,592	10.4%	220,318	61,967	167,183	23.3%
Phoenix-Mesa-Scottsdale, AZ	279,329	15.9%	512,409	1,834	87,853	35,205	49,301	[illegible]	41,881	14,946	29,972	5.8%	72,109	7,923	70,884	13.8%	191,986	58,431	154,275	30.1%

	Current EITC				Expansion Proposals: A. Increase Childless Worker Credit				Expansion Proposals: B. Allow 2nd-Earner Deduction				Expansion Proposals: C. Increase Credit for Large Families				Expansion Proposals: D.Combination of 3 Proposals			
	EITC-Eligible Tax Units	EITC-Eligible Tax Units (%)	EITC Sum ($1,000s)	Average EITC ($)	Tax Units Benefiting from Proposal*	Newly EITC-Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount	Tax Units Benefiting from Proposal*	Newly EITC Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount	Tax Units Benefiting from Proposal*	Newly EITC Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount	Tax Units Benefiting from Proposal*	Newly EITC-Eligible Tax Units	Additional EITC Amount ($1,000s)	%Increase in EITC Amount
Pittsburgh, PA	163,085	15.4%	268,981	1,649	63,064	22,603	36,808	13.7%	18,416	8,283	12,637	4.7%	24,573	2,819	22,703	8.4%	105,240	36,607	74,953	27.9%
Portland-South Portland-Biddeford, ME	39,849	15.0%	57,912	1,453	17,327	5,509	8,713	15.0%	3,827	1,536	3,357	5.8%	7,919	638	6,431	11.1%	28,541	7,711	18,907	32.6%
Portland-Vancouver-Beaverton, OR-WA	159,750	16.5%	258,266	1,617	67,463	22,243	38,073	14.7%	24,025	7,555	15,947	6.2%	30,831	2,518	26,839	10.4%	115,610	32,403	82,917	32.1%
Poughkeepsie-Newburgh-Middletown, NY	40,583	14.0%	67,680	1,668	12,377	5,163	7,070	10.4%	3,076	1,405	1,427	2.1%	7,011	1,010	7,434	11.0%	22,076	7,880	16,534	24.4%
Providence-New Bedford-Fall River, RI-MA	105,666	14.2%	185,426	1,755	36,952	14,659	18,894	10.2%	9,554	2,864	8,465	4.6%	18,570	2,048	16,922	9.1%	62,236	20,122	45,344	24.5%
Raleigh-Cary, NC	63,530	15.1%	108,835	1,713	18,436	6,344	10,440	9.6%	9,535	3,312	5,512	5.1%	11,273	1,288	9,504	8.7%	37,393	11,064	27,305	25.1%
Richmond, VA	68,451	14.2%	115,115	1,682	21,678	8,019	12,147	10.6%	9,971	4,445	5,382	4.7%	10,438	907	9,716	8.4%	41,443	13,805	28,814	25.0%
Riverside-San Bernardino-Ontario, CA	337,174	21.1%	660,726	1,960	69,310	24,322	36,997	5.6%	47,090	15,857	37,439	5.7%	104,920	13,671	98,394	14.9%	207,589	54,083	179,796	27.2%
Rochester, NY	77,807	16.8%	132,319	1,701	28,700	11,525	16,781	12.7%	11,360	5,007	7,404	5.6%	13,812	2,703	12,450	9.4%	51,526	18,991	38,490	29.1%
Sacramento--Arden-Arcade--Roseville, CA	143,564	15.6%	256,602	1,787	39,252	11,839	21,632	8.4%	16,190	6,618	13,170	5.1%	31,159	3,249	29,504	11.5%	81,985	21,383	65,772	25.6%
St. Louis, MO-IL	203,050	16.6%	368,745	1,816	58,779	21,404	32,348	8.8%	24,840	12,390	15,775	4.3%	38,234	3,568	33,294	9.0%	119,149	39,207	85,458	23.2%
Salt Lake City, UT	78,706	18.9%	140,075	1,780	23,838	9,957	11,886	8.5%	15,975	4,970	11,668	8.3%	19,732	2,834	18,438	13.2%	55,806	18,649	44,101	31.5%
San Antonio, TX	177,579	22.9%	343,534	1,935	41,079	16,555	22,593	6.6%	28,918	8,102	21,647	6.3%	46,310	5,117	43,228	12.6%	104,943	30,627	89,216	26.0%
San Diego-Carlsbad-San Marcos, CA	189,335	14.6%	349,196	1,844	56,660	20,767	33,490	9.6%	28,586	8,756	21,222	6.1%	48,892	6,218	44,726	12.8%	126,525	35,397	103,630	29.7%
San Francisco-Oakland-Fremont, CA	219,944	11.2%	367,045	1,669	82,072	27,959	46,797	12.7%	24,868	8,248	18,205	5.0%	44,555	6,633	38,184	10.4%	146,019	43,316	106,149	28.9%
San Jose-Sunnyvale-Santa Clara, CA	87,700	11.8%	159,278	1,816	21,994	6,649	12,488	7.8%	9,872	3,527	7,378	4.6%	19,225	4,116	16,687	10.5%	48,185	13,787	38,781	24.3%
Sarasota-Bradenton-Venice, FL	43,790	13.2%	74,267	1,696	16,283	6,176	9,571	12.9%	5,539	1,812	3,376	4.5%	7,164	312	6,211	8.4%	27,670	8,951	20,138	27.1%
Scranton--Wilkes-Barre, PA	52,355	18.4%	98,621	1,884	17,654	6,737	8,820	8.9%	6,406	3,039	4,576	4.6%	9,895	1,073	9,950	10.1%	34,495	12,231	24,569	24.9%
Seattle-Tacoma-Bellevue, WA	212,067	13.9%	341,939	1,612	85,961	29,775	47,756	14.0%	27,930	9,524	19,316	5.6%	29,702	4,100	27,253	8.0%	137,458	44,284	98,367	28.8%
Springfield, MA	50,523	15.4%	84,001	1,663	21,887	8,539	13,442	16.0%	5,670	2,767	3,559	4.2%	8,888	434	6,794	8.1%	35,313	11,770	24,870	29.6%
Stockton, CA	51,627	19.2%	102,485	1,985	11,692	5,158	6,531	6.4%	7,828	1,915	5,059	4.9%	12,389	750	10,279	10.0%	30,761	8,678	22,982	22.4%
Syracuse, NY	49,063	17.4%	79,192	1,614	20,129	7,531	11,391	14.4%	4,419	1,776	3,155	4.0%	9,137	1,163	7,477	9.4%	32,717	10,624	22,781	28.8%
Tampa-St. Petersburg-Clearwater, FL	204,467	16.2%	346,390	1,694	71,010	26,487	40,190	11.6%	26,220	8,851	19,632	5.7%	33,992	3,096	28,272	8.2%	126,499	41,199	91,159	26.3%
Toledo, OH	51,207	18.6%	98,700	1,927	15,396	4,745	8,633	8.7%	5,916	2,355	3,977	4.0%	8,613	546	6,835	6.9%	28,225	7,821	20,111	20.4%
Trenton-Ewing, NJ	20,886	13.2%	34,277	1,641	5,284	1,426	2,849	8.3%	898	192	493	1.4%	2,828	223	2,214	6.5%	8,630	1,841	5,556	16.2%
Tucson, AZ	81,278	19.3%	148,695	1,829	25,887	11,206	14,281	9.6%	10,388	3,422	8,761	5.9%	17,396	997	15,357	10.3%	51,017	15,944	40,183	27.0%
Tulsa, OK	86,339	20.6%	155,266	1,798	27,120	10,659	13,820	8.9%	16,620	3,971	10,415	6.7%	18,430	2,160	17,094	11.0%	59,606	17,724	43,144	27.8%
Virginia Beach-Norfolk-Newport News, VA-NC	117,634	16.3%	213,162	1,812	31,527	12,931	17,538	8.2%	11,192	5,067	7,808	3.7%	20,324	3,274	19,016	8.9%	62,210	22,052	45,193	21.2%
Washington-Arlington-Alexandria, DC-VA-MD	236,976	9.9%	386,998	1,633	71,398	25,548	37,611	9.7%	29,672	14,057	23,601	6.1%	45,860	6,116	45,866	11.9%	141,399	46,497	107,381	27.7%
Wichita, KS	44,021	17.8%	79,618	1,809	15,208	5,122	8,884	11.2%	6,618	3,079	5,170	6.5%	8,073	2,276	7,238	9.1%	29,671	11,361	22,802	28.6%
Worcester, MA	41,047	13.4%	76,628	1,867	10,869	5,385	6,109	8.0%	3,718	2,172	2,504	3.3%	6,916	813	6,210	8.1%	20,392	7,657	15,324	20.0%
Youngstown-Warren-Boardman, OH-PA	51,611	19.3%	90,101	1,746	17,843	6,184	9,967	11.1%	4,658	1,913	2,955	3.3%	10,494	654	9,982	11.1%	32,153	9,228	23,886	26.5%

Source: Brookings Institution MetroTax model

**Units "benefit" from an expansion proposal if (A) their EITC credit amount increases; or (B) they become eligible for the EITC under the new parameters*

APPENDIX B.

Share of Tax Units Benefiting from EITC Expansion Proposals* with Selected Characteristics, 100 Largest Metro Areas, 2005

Tax Unit Characteristic:	Below 150% of the Poverty Level				Earning Less than $9.00 an Hour**				With Severe Housing-Cost Burdens***			
	Increase Childless Worker Credit	Allow 2nd-Earner Deduction	Increase Credit for Large Families	Combination of 3 Proposals	Increase Childless Worker Credit	Allow 2nd-Earner Deduction	Increase Credit for Large Families	Combination of 3 Proposals	Increase Childless Worker Credit	Allow 2nd-Earner Deduction	Increase Credit for Large Families	Combination of 3 Proposals
Nation	**74.4%**	**41.4%**	**85.6%**	**68.7%**	**65.1%**	**8.0%**	**34.6%**	**41.6%**	**38.8%**	**16.2%**	**30.9%**	**31.5%**
100 Largest Metro Areas	**75.4%**	**43.3%**	**85.7%**	**70.3%**	**47.5%**	**7.4%**	**30.3%**	**34.2%**	**44.7%**	**22.2%**	**36.0%**	**37.2%**
Akron, OH	73.4%	47.5%	86.8%	68.7%	51.3%	5.0%	40.6%	40.1%	30.1%	14.3%	34.2%	28.3%
Albany-Schenectady-Troy, NY	68.2%	38.5%	89.3%	69.6%	44.3%	8.6%	36.9%	37.7%	29.8%	15.4%	38.7%	31.3%
Albuquerque, NM	83.6%	33.0%	89.5%	75.3%	47.5%	10.9%	33.4%	37.4%	42.6%	16.7%	23.7%	33.0%
Allentown-Bethlehem-Easton, PA-NJ	65.0%	39.9%	83.5%	59.1%	45.4%	11.5%	29.2%	32.5%	37.8%	21.6%	36.7%	32.9%
Atlanta-Sandy Springs-Marietta, GA	77.1%	37.0%	84.8%	68.5%	53.8%	6.7%	28.6%	35.6%	52.7%	19.4%	37.7%	40.3%
Augusta-Richmond County, GA-SC	78.8%	23.6%	97.1%	72.7%	50.9%	4.0%	35.8%	36.9%	35.8%	6.3%	29.8%	28.6%
Austin-Round Rock, TX	80.8%	45.0%	83.5%	74.0%	50.9%	8.2%	32.0%	37.9%	50.2%	15.4%	29.5%	38.2%
Bakersfield, CA	71.4%	51.5%	89.5%	69.1%	44.4%	4.7%	29.5%	29.2%	35.5%	13.8%	31.1%	28.0%
Baltimore-Towson, MD	74.1%	49.8%	90.1%	74.8%	38.8%	7.0%	32.9%	32.8%	44.0%	29.5%	32.7%	38.0%
Baton Rouge, LA	76.3%	48.9%	89.5%	71.3%	47.0%	4.5%	33.3%	32.3%	37.3%	13.5%	32.3%	29.8%
Birmingham-Hoover, AL	73.2%	37.6%	91.2%	69.9%	50.9%	10.0%	52.8%	42.1%	34.0%	11.3%	33.5%	30.1%
Boise City-Nampa, ID	80.5%	31.5%	83.6%	67.4%	50.1%	4.3%	39.7%	36.7%	46.7%	17.5%	37.0%	35.7%
Boston-Cambridge-Quincy, MA-NH	74.9%	44.8%	81.9%	71.3%	40.1%	7.8%	22.3%	30.3%	48.1%	34.6%	44.1%	44.9%
Bridgeport-Stamford-Norwalk, CT	78.8%	33.1%	69.8%	63.6%	42.9%	3.2%	19.2%	25.3%	49.9%	44.2%	38.6%	42.8%
Buffalo-Niagara Falls, NY	68.6%	36.1%	84.7%	65.7%	45.3%	2.3%	38.9%	37.6%	44.3%	9.3%	27.8%	35.4%
Cape Coral-Fort Myers, FL	69.7%	52.2%	95.6%	71.4%	41.5%	7.2%	30.3%	30.4%	35.2%	29.8%	32.3%	32.3%
Charleston-North Charleston, SC	74.3%	49.5%	90.2%	71.9%	46.6%	3.4%	32.7%	35.4%	38.0%	6.9%	20.2%	28.0%
Charlotte-Gastonia-Concord, NC-SC	71.4%	43.3%	87.8%	66.9%	52.8%	11.1%	30.5%	36.2%	44.1%	17.1%	31.4%	33.2%
Chattanooga, TN-GA	79.1%	24.9%	93.7%	70.7%	52.0%	8.2%	26.5%	36.2%	35.0%	2.6%	21.4%	25.2%
Chicago-Naperville-Joliet, IL-IN-WI	78.1%	45.0%	85.9%	72.1%	46.8%	7.7%	33.7%	34.2%	50.7%	30.4%	44.1%	44.1%
Cincinnati-Middletown, OH-KY-IN	72.8%	36.8%	85.6%	68.6%	49.8%	7.2%	31.7%	37.3%	42.3%	14.5%	31.2%	34.0%
Cleveland-Elyria-Mentor, OH	77.4%	40.5%	88.9%	73.3%	50.3%	5.3%	35.6%	40.3%	47.4%	32.7%	49.2%	44.5%
Colorado Springs, CO	74.3%	29.7%	76.3%	64.3%	41.6%	0.0%	26.8%	28.9%	41.7%	21.4%	29.1%	32.9%
Columbia, SC	75.1%	29.8%	85.0%	68.9%	48.5%	0.0%	40.4%	38.6%	44.2%	4.2%	31.5%	34.7%
Columbus, OH	77.7%	36.0%	85.9%	69.8%	53.9%	1.4%	34.8%	38.8%	44.4%	15.6%	28.9%	34.0%
Dallas-Fort Worth-Arlington, TX	81.4%	45.3%	85.7%	71.7%	54.0%	7.4%	30.3%	34.7%	46.6%	15.8%	34.1%	34.5%
Dayton, OH	75.8%	34.8%	86.9%	71.3%	54.3%	6.7%	30.8%	41.1%	42.6%	18.1%	39.9%	36.9%
Denver-Aurora, CO	70.0%	37.3%	84.3%	64.3%	49.3%	3.6%	24.6%	33.0%	49.0%	33.9%	43.0%	44.0%
Des Moines, IA	70.9%	31.6%	72.5%	57.5%	54.2%	14.1%	29.9%	38.1%	41.4%	14.4%	45.1%	32.9%
Detroit-Warren-Livonia, MI	72.8%	40.3%	88.2%	72.0%	43.8%	7.8%	34.4%	35.5%	47.4%	21.8%	42.0%	42.0%
Durham, NC	80.4%	37.3%	92.9%	71.9%	53.4%	8.8%	29.7%	38.2%	42.6%	8.4%	31.6%	33.0%
El Paso, TX	83.1%	58.1%	90.2%	76.7%	57.7%	9.6%	48.2%	41.7%	25.7%	2.2%	22.5%	18.9%
Fresno, CA	73.4%	56.2%	88.9%	72.4%	53.6%	8.3%	36.3%	33.8%	35.5%	15.1%	32.1%	29.0%
Grand Rapids-Wyoming, MI	69.6%	51.0%	77.6%	65.7%	40.9%	8.0%	23.1%	28.6%	20.5%	11.3%	19.4%	19.5%
Greensboro-High Point, NC	66.6%	29.9%	85.3%	61.0%	52.5%	10.8%	36.4%	37.4%	40.9%	9.9%	20.6%	27.2%
Greenville, SC	71.4%	39.9%	83.1%	64.5%	51.1%	5.7%	37.8%	38.7%	22.9%	8.6%	21.7%	19.1%
Harrisburg-Carlisle, PA	72.0%	32.6%	89.3%	69.7%	42.3%	8.3%	28.2%	31.4%	25.0%	33.3%	23.4%	24.1%
Hartford-West Hartford-East Hartford, CT	64.0%	16.1%	79.3%	60.0%	38.2%	7.1%	23.9%	28.3%	46.0%	20.9%	34.2%	37.4%
Honolulu, HI	74.7%	31.7%	85.5%	65.2%	50.9%	11.6%	31.1%	34.6%	42.3%	17.0%	20.2%	29.6%
Houston-Baytown-Sugar Land, TX	77.7%	54.2%	89.6%	74.0%	51.9%	9.7%	35.0%	35.4%	44.3%	15.9%	31.9%	32.2%
Indianapolis, IN	69.9%	42.4%	76.2%	64.5%	52.3%	10.0%	29.2%	37.9%	36.9%	16.0%	33.1%	31.6%
Jackson, MS	73.5%	51.9%	85.5%	71.0%	55.6%	6.9%	40.6%	37.4%	32.7%	6.9%	24.9%	23.6%
Jacksonville, FL	71.6%	33.4%	73.2%	62.2%	52.8%	5.4%	33.6%	38.5%	39.9%	10.2%	27.1%	30.8%
Kansas City, MO-KS	75.5%	38.3%	87.0%	69.6%	58.7%	10.0%	29.4%	40.9%	45.8%	14.7%	34.4%	35.3%
Knoxville, TN	70.2%	44.2%	77.1%	63.0%	48.2%	9.6%	23.5%	32.9%	33.2%	8.1%	20.0%	24.0%
Lancaster, PA	69.3%	45.6%	86.2%	69.1%	55.2%	5.6%	34.1%	39.7%	31.5%	6.6%	29.2%	26.8%
Lansing-East Lansing, MI	77.9%	51.0%	92.1%	75.8%	52.0%	23.8%	32.4%	40.9%	46.6%	26.5%	44.7%	43.5%
Las Vegas-Paradise, NV	74.2%	39.0%	83.1%	67.8%	46.0%	3.6%	18.3%	29.3%	46.6%	20.1%	32.3%	36.9%
Lexington-Fayette, KY	73.6%	36.4%	85.9%	69.0%	49.9%	0.0%	36.5%	40.0%	36.5%	2.8%	6.1%	25.2%
Little Rock-North Little Rock, AR	78.1%	35.4%	91.0%	71.6%	53.8%	2.7%	33.2%	38.6%	38.2%	13.5%	36.3%	33.2%
Los Angeles-Long Beach-Santa Ana, CA	77.7%	52.5%	87.8%	73.8%	45.4%	7.4%	30.7%	31.3%	50.3%	23.9%	38.8%	39.7%
Louisville, KY-IN	76.5%	34.7%	83.0%	69.4%	51.4%	5.0%	25.4%	36.6%	42.6%	12.4%	28.4%	33.7%
Madison, WI	75.3%	60.5%	93.6%	74.5%	51.7%	22.1%	34.8%	44.6%	62.6%	52.9%	48.0%	56.8%

Tax Unit Characteristic:	Below 150% of the Poverty Level				Earning Less than $9.00 an Hour**				With Severe Housing-Cost Burdens***			
	Increase Childless Worker Credit	Allow 2nd-Earner Deduction	Increase Credit for Large Families	Combination of 3 Proposals	Increase Childless Worker Credit	Allow 2nd-Earner Deduction	Increase Credit for Large Families	Combination of 3 Proposals	Increase Childless Worker Credit	Allow 2nd-Earner Deduction	Increase Credit for Large Families	Combination of 3 Proposals
Memphis, TN-MS-AR	78.5%	41.5%	80.1%	73.5%	59.9%	7.4%	26.4%	43.3%	42.5%	24.6%	38.5%	37.6%
Miami-Fort Lauderdale-Miami Beach, FL	77.6%	43.2%	86.9%	69.1%	54.1%	8.2%	30.6%	36.3%	45.6%	33.2%	43.4%	41.8%
Milwaukee-Waukesha-West Allis, WI	77.2%	33.5%	86.4%	73.5%	43.3%	7.5%	28.5%	33.2%	51.5%	10.7%	33.2%	39.4%
Minneapolis-St. Paul-Bloomington, MN-WI	70.3%	40.7%	81.8%	67.1%	43.3%	9.6%	24.3%	31.4%	37.7%	23.9%	38.1%	35.2%
Nashville-Davidson--Murfreesboro, TN	66.2%	22.9%	82.2%	60.9%	52.3%	5.1%	23.1%	35.3%	37.4%	11.5%	24.2%	28.8%
New Haven-Milford, CT	77.3%	37.6%	79.5%	71.8%	33.7%	3.1%	33.2%	29.1%	51.7%	10.9%	41.4%	41.8%
New Orleans-Metairie-Kenner, LA	72.1%	35.6%	94.6%	72.1%	51.8%	5.4%	40.1%	42.3%	36.9%	6.0%	34.3%	31.9%
New York-Northern New Jersey-Long Island, NY-NJ-PA	74.6%	44.3%	86.7%	71.6%	42.4%	9.0%	31.1%	32.6%	52.5%	38.6%	44.1%	46.6%
Oklahoma City, OK	78.5%	41.8%	83.7%	70.2%	54.9%	12.6%	33.9%	40.7%	41.8%	7.6%	32.3%	32.2%
Omaha-Council Bluffs, NE-IA	69.6%	36.0%	82.9%	63.7%	54.2%	4.5%	28.9%	35.8%	44.4%	10.6%	25.5%	31.2%
Orlando, FL	74.4%	41.9%	85.3%	66.9%	48.8%	5.8%	30.1%	32.4%	39.7%	22.4%	39.7%	34.4%
Oxnard-Thousand Oaks-Ventura, CA	67.8%	44.5%	86.1%	63.8%	37.6%	4.7%	27.5%	25.4%	43.7%	34.9%	43.3%	40.2%
Palm Bay-Melbourne-Titusville, FL	74.6%	37.4%	92.1%	67.9%	60.0%	3.3%	30.6%	43.6%	46.8%	16.5%	26.0%	36.1%
Philadelphia-Camden-Wilmington, PA-NJ-DE	77.3%	36.4%	87.9%	73.0%	41.0%	6.5%	30.1%	32.1%	49.0%	28.2%	33.8%	40.0%
Phoenix-Mesa-Scottsdale, AZ	74.9%	42.0%	84.3%	70.1%	47.6%	4.0%	24.0%	30.8%	42.0%	22.0%	26.9%	32.3%
Pittsburgh, PA	69.0%	31.6%	87.1%	64.2%	45.9%	9.5%	31.8%	35.6%	36.2%	7.5%	20.9%	27.9%
Portland-South Portland-Biddeford, ME	79.1%	34.3%	88.4%	75.1%	53.4%	10.6%	22.1%	39.4%	34.9%	18.0%	15.8%	26.8%
Portland-Vancouver-Beaverton, OR-WA	82.4%	48.4%	90.4%	76.3%	44.5%	6.5%	28.5%	34.1%	44.5%	28.5%	36.1%	38.6%
Poughkeepsie-Newburgh-Middletown, NY	59.7%	50.7%	85.2%	63.7%	38.2%	3.6%	27.4%	29.9%	39.8%	43.5%	49.0%	41.6%
Providence-New Bedford-Fall River, RI-MA	71.1%	38.4%	83.0%	67.8%	45.5%	0.0%	25.7%	34.1%	42.3%	22.6%	31.2%	36.5%
Raleigh-Cary, NC	72.1%	46.1%	82.9%	67.7%	42.0%	16.2%	41.1%	35.0%	33.6%	19.2%	39.9%	33.2%
Richmond, VA	71.9%	31.3%	87.9%	64.4%	50.1%	5.8%	34.7%	35.9%	47.3%	11.4%	21.4%	32.0%
Riverside-San Bernardino-Ontario, CA	75.4%	52.7%	83.5%	72.6%	44.4%	6.1%	23.8%	27.6%	41.1%	25.2%	35.7%	34.8%
Rochester, NY	71.1%	24.0%	72.4%	61.7%	40.9%	3.7%	24.5%	29.5%	44.2%	19.9%	48.9%	38.6%
Sacramento--Arden-Arcade--Roseville, CA	78.4%	45.3%	84.3%	73.0%	40.0%	7.7%	27.9%	30.6%	49.7%	30.7%	38.6%	42.5%
St. Louis, MO-IL	74.6%	29.5%	86.9%	66.9%	51.4%	4.1%	40.6%	38.1%	37.9%	9.9%	38.7%	32.2%
Salt Lake City, UT	73.1%	40.8%	81.7%	65.0%	59.3%	9.0%	34.2%	38.3%	42.5%	17.8%	24.2%	30.3%
San Antonio, TX	79.8%	52.2%	88.4%	73.9%	54.2%	7.5%	27.3%	34.1%	39.4%	13.0%	28.0%	28.5%
San Diego-Carlsbad-San Marcos, CA	76.0%	49.3%	85.2%	72.3%	41.0%	11.1%	23.9%	29.6%	47.2%	35.2%	44.3%	43.8%
San Francisco-Oakland-Fremont, CA	80.1%	45.4%	82.7%	73.9%	37.1%	7.4%	21.4%	28.2%	54.2%	41.9%	43.6%	49.1%
San Jose-Sunnyvale-Santa Clara, CA	83.3%	53.6%	74.9%	73.1%	38.0%	7.0%	20.5%	26.0%	56.9%	44.2%	53.7%	52.7%
Sarasota-Bradenton-Venice, FL	77.0%	47.5%	87.9%	70.4%	53.5%	13.0%	20.2%	37.6%	42.6%	26.3%	40.2%	37.5%
Scranton--Wilkes-Barre, PA	66.7%	28.4%	83.2%	61.4%	52.9%	1.1%	23.6%	33.7%	40.9%	5.1%	41.6%	33.3%
Seattle-Tacoma-Bellevue, WA	74.5%	39.3%	81.5%	67.2%	40.5%	9.8%	18.0%	30.5%	45.2%	23.9%	41.6%	39.7%
Springfield, MA	81.4%	31.8%	91.6%	75.5%	40.8%	7.5%	26.4%	32.3%	38.8%	22.2%	38.0%	35.1%
Stockton, CA	72.9%	60.6%	89.5%	73.3%	40.1%	1.1%	28.4%	26.5%	42.5%	19.9%	36.9%	33.9%
Syracuse, NY	76.3%	37.4%	77.1%	69.7%	48.4%	13.1%	26.2%	38.4%	30.5%	13.0%	27.8%	27.4%
Tampa-St. Petersburg-Clearwater, FL	70.8%	43.1%	86.6%	66.4%	48.3%	8.3%	29.4%	35.7%	42.6%	15.4%	37.2%	35.6%
Toledo, OH	75.9%	61.6%	94.4%	76.1%	42.2%	7.4%	31.2%	33.6%	48.8%	16.8%	30.2%	37.6%
Trenton-Ewing, NJ	82.0%	38.8%	84.8%	78.3%	40.6%	0.0%	45.4%	37.7%	59.9%	62.7%	82.9%	66.7%
Tucson, AZ	75.5%	42.5%	85.5%	71.0%	54.0%	6.4%	35.4%	39.9%	39.1%	9.1%	14.1%	26.0%
Tulsa, OK	80.0%	48.2%	80.9%	71.2%	60.5%	4.3%	36.9%	39.6%	36.6%	15.4%	23.8%	26.8%
Virginia Beach-Norfolk-Newport News, VA-NC	71.6%	33.6%	77.7%	65.2%	53.4%	9.6%	39.2%	40.6%	35.9%	16.4%	36.4%	32.4%
Washington-Arlington-Alexandria, DC-VA-MD	78.5%	33.1%	81.4%	69.2%	42.3%	7.3%	22.5%	29.3%	52.0%	33.0%	34.6%	42.5%
Wichita, KS	75.6%	36.1%	66.3%	60.2%	60.2%	3.4%	31.9%	40.5%	33.8%	7.3%	12.9%	22.4%
Worcester, MA	64.7%	28.7%	89.5%	67.3%	43.8%	5.8%	24.8%	31.7%	35.4%	20.0%	47.6%	36.7%
Youngstown-Warren-Boardman, OH-PA	75.3%	36.3%	85.4%	71.1%	48.1%	8.5%	29.4%	36.3%	36.1%	7.9%	17.0%	25.9%

Source: Brookings Institution MetroTax model and analysis of 2005 American Community Survey data

**Units "benefit" from an expansion proposal if (A) their EITC credit amount increases; or (B) they become eligible for the EITC under the new parameters*

***Tax unit's effective wage equals total annual earnings divided by estimate of total annual hours worked*

****Percentage of tax units in households paying more than 50 percent of gross income on housing costs*

NOTES

[1] See Section II for further detail.

[2] See, e.g., Janet Yellen, "Economic Inequality in the United States." Speech to the Center for the Study of Democracy, Irvine, CA, November 2006; Ben S. Bernanke, "The Level and Distribution of Economic Well-Being." Speech before the Greater Omaha Chamber of Commerce, Omaha, NE, February 2007.

[3] Neil Irwin and Alejandro Lazo, "Inflation Hits the Poor Hardest: No Income Group is Untouched, but Staples Are Rising Fastest." *Washington Post*, March 21, 2008: A1.

[4] Hilary Hoynes, "The Employment, Earnings, and Income of Less Skilled Workers Over the Business Cycle." In R. Blank and D. Card, eds., *Finding Jobs: Work and Welfare Reform* (New York: Russell Sage Foundation, 2000).

[5] Historical data come from the U.S. Bureau of Labor Statistics Economic Situation News Release (Table A-1).

[6] Henry S. Farber, "What Do We Know About Job Loss in the United States? Evidence from the Displaced Workers Survey, 1984-2004" (Princeton: Princeton University Industrial Relations Section, Working Paper #498, Version 5, 2005).

[7] Analysis of Bureau of Economic Analysis data.

[8] Analysis of U.S. Census Bureau data.

[9] Bureau of Labor Statistics, Current Employment Statistics data; Jared Bernstein, "Real wage reversal persists" (Washington: Economic Policy Institute, 2008). Real employee compensation, which includes the value of both wages and benefits, has risen in recent years due to medical inflation. But only about half of full-time workers in occupations with average wages under $15 an hour had employer-provided medical coverage in 2005. Allan Beckman, "Comparing Employer-Provided Medical Care Benefits for Lower and Higher Wage Full-Time Workers" (Bureau of Labor Statistics, 2007).

[10] See p. 16 in Alan Berube, *MetroNation: How U.S. Metropolitan Areas Fuel American Prosperity* (Washington: Brookings Institution, 2007).

[11] Yellen, "Economic Inequality in the United States"; Bernanke, "The Level and Distribution of Economic Well-Being."

[12] Boushey and others, "Understanding Low-Wage Work in the United States."

[13] *Ibid*.

[14] Tom Waldron, Brandon Roberts, and Andrew Reamer, "Working Hard, Falling Short: America's Working Families and the Pursuit of Economic Security" (Chevy Chase, MD: Working Poor Families Project, 2004); researchers at the Urban Institute arrive at a very similar figure based on data from the 2002 National Survey of America's Families. Gregory Acs and Pamela Loprest, "Who Are Low-Income Working Families?" (Washington: Urban Institute, 2005).

[15] About one-third of workers in jobs with wages below $8.18 in 2005 were the majority earners in their household, and one-fourth were the sole earners. The median household income of low-wage earners was about $40,000 in 2005, down slightly from the value in 1979, though the typical low-wage earner worked 50 percent more hours in 2005 than in 1979. Congressional Budget

Office, “Changes in Low-Wage Labor Markets Between 1979 and 2005” (2006). Of the 22.8 percent of workers earning less than $7.73 an hour in 2004 (150 percent of the federal minimum wage), about half lived in low-income families (with incomes below 200 percent of the federal poverty line). Gregory Acs and Austin Nichols, “Low-Income Workers and Their Employers: Characteristics and Challenges” (Washington: Urban Institute, 2007).

[16] Jared Bernstein and Heidi Hartmann, “Defining and Characterizing the Low-Wage Labor Market.” In K. Kaye and D. S. Nightingale, *The Low-Wage Labor Market: Challenges and Opportunities for Self-Sufficiency* (Washington: Urban Institute, 2000).

[17] Arlene Dohm and Lynn Shniper, “Occupation Employment Projections to 2016.” *Monthly Labor Review*, November 2007: 86–125 (Bureau of Labor Statistics).

[18] To some extent, the impact of these rising costs is captured in the Consumer Price Index, which is used to adjust income and wage trends for inflation. The cost centers noted (housing, utilities, gasoline, and education) do, however, represent a larger share of lower-income consumers’ (incomes between $5,000 and $20,000) expenditures (57 percent) than for middle- and higher-income consumers (47 percent).

[19] Data from Bureau of Labor Statistics Consumer Price Index Detailed Report.

[20] Elizabeth Roberto, “Commuting to Opportunity: The Working Poor and Commuting in the United States” (Washington: Brookings Institution, 2008).

[21] By one definition, 5 million children under the age of 6 live in low-income working families. Annie E. Casey Foundation, “Over Half of Low-Income Children Live with a Parent Who Works Regularly” (2006).

[22] Data from Bureau of Labor Statistics Consumer Price Index Detailed Report.

[23] National Association of Child Care Resource & Referral Agencies, “Parents and the High Price of Child Care” (2007).

[24] To be a qualifying child for purposes of claiming the EITC, a child under the age of 19 (or under the age of 24 if a full-time student) must live with the taxpayer for more than 6 months of the year. See Internal Revenue Service, “Publication 596: Earned Income Credit” (2007).

[25] Analysis of IRS Statistics of Income data, tax year 2005.

[26] James P. Ziliak, “Filling the Poverty Gap, Then and Now.” Working Paper 2003-06 (Lexington, KY: UK Center for Poverty Research, 2004).

[27] Robert Greenstein, “The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor” (Washington: Center on Budget and Policy Priorities, 2005). The official definition of poverty employed by the U.S. Census Bureau does not recognize the impact of tax benefits like the EITC on family income; the poverty reduction estimates cited here are based on alternative measures of poverty that take into account the credit.

[28] Harry Holzer and colleagues, “The Economic Costs of Poverty in the United States: Subsequent Effects of Children Growing Up Poor” (Washington: Center for American Progress, 2007).

[29] See, e.g., Bruce D. Meyer, “Taxes, Welfare, and Work by Single Mothers.” NBER Reporter Online (Cambridge, MA: National Bureau of Economic Research, 2001); Bruce D. Meyer and Dan

T. Rosenbaum, “Making Single Mothers Work: Recent Tax and Welfare Policy and Its Effects.” In B. Meyer and D. Holtz-Eakin, eds., *Making Work Pay: The Earned Income Tax Credit and Its Impact on America’s Families* (New York: Russell Sage Foundation, 2001).

[30] Nada Eissa and Jeffrey B. Liebman, “Labor Supply Responses to the Earned Income Tax Credit.” *Quarterly Journal of Economics* 111(2)(1996): 605–637.

[31] Jeffrey Grogger, “The Effects of Time limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income Among Female-Headed Families.” *The Review of Economics and Statistics* 85 (2): 394–408.

[32] Barry Bluestone and Teresa Ghilarducci, “Making Work Pay: Wage Insurance for the Working Poor” (Annandale-on-Hudson, NY: Jerome Levy Economics Institute of Bard College, 1996); Alan Berube, “The New Safety Net: How the Tax Code Helped Low-Income Working Families During the Early 2000s” (Washington: Brookings Institution, 2006).

[33] This was one of the chief findings from the Canadian Self-Sufficiency Project, an experiment that provided welfare leavers in New Brunswick with monthly earnings supplements if they continued to work full-time (30 or more hours a week). Participants in the program were 50 percent more likely to be in jobs with growing wages than members of a control group. Charles Michalopoulos, “Sustained Employment and Earnings Growth: New Experimental Evidence on Financial Work Incentives and Pre-Employment Services” (New York: MDRC, 2001). See also Tricia Gladden and Christopher Taber, “Wage Progression Among Less-Skilled Workers.” Research Working Paper 72 (Chicago: Joint Center for Poverty Research, 1999).

[34] Aviva Aron-Dine, “New Data Show Income Concentration Jumped Again in 2005” (Washington: Center on Budget and Policy Priorities, 2007).

[35] Congressional Budget Office, “Historic Effective Federal Tax Rates: 1979 to 2005” (2007).

[36] Roger C. Altman, Jason E. Bordoff, Peter R. Orszag, and Robert E. Rubin, “An Economic Strategy to Advance Opportunity, Prosperity, and Growth” (Washington: Brookings Institution, 2006).

[37] House Ways and Means Committee Chairman Charlie Rangel has introduced legislation (H.R. 3970) that would lower the earnings floor for the refundable portion of the Child Tax Credit to $8,500, and remove the indexing for inflation.

[38] Alan Berube, “The Importance of the EITC to Urban Economies” (Washington: Brookings Institution, 2007).

[39] Anita Summers and Lara Jakubowski, “The Fiscal Burden of Unreimbursed Poverty Expenditures.” *Greater Philadelphia Regional Review* Spring/Summer (1997).

[40] See, e.g., Alice Rivlin, *Reviving the American Dream: The Economy, the States, and the Federal Government* (Washington: Brookings Institution, 1992).

[41] Nine states do not levy individual income taxes: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. The state of Washington did, however, enact a Working Families Credit in 2008 that effectively represents the first state EITC in a state without an income tax.

[42] U.S. Census Bureau, State and Local Government Finance data; Congressional Budget Office, "Revenues, Outlays, Deficits, Surpluses, and Debt Held by the Public, 1968 to 2007, in Billions of Dollars" (2008).

[43] For a summary of these testaments, see Greenstein, "The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor."

[44] Like many provisions of the tax code, the EITC is indexed for inflation, so that the portion of a worker's income attributable to the credit can keep pace with rising costs. For the average recipient, however, the EITC represents about 10 percent of gross income. For workers facing stagnating or falling real wages, the indexing of the EITC can only do so much to boost their purchasing power over time.

[45] Janet Holtzblatt, Janet McCubbin, and Robert Gillette, "Promoting Work Through the EITC." *National Tax Journal* 47(3): 591–607. The credit was expanded modestly in 2001 with the extension of the phase-out range for married couples.

[46] Aviva Aron-Dine and Arloc Sherman, "Ways and Means Committee Charles Rangel's Proposed Expansion of the EITC for Childless Workers: An Important Step to Make Work Pay" (Washington: Center on Budget and Policy Priorities, 2007).

[47] Joseph Hotz, Charles H. Mullin, and John Karl Scholz, "Examining the Effect of the Earned Income Tax Credit on the Labor Market Participation of Families on Welfare." NBER Working Paper 11968 (Cambridge, MA, 2006).

[48] Aron-Dine and Sherman, "Ways and Means Committee Charles Rangel's Proposed Expansion of the EITC for Childless Workers."

[49] The $11,013 figure is an estimate of the Census Bureau poverty threshold for 2008, based on the 2007 threshold and a 2.1 percent inflation adjustment for 2007-2008.

[50] Isabel Sawhill, ed., *One Percent for the Kids: New Policies, Brighter Futures for America's Children* (Washington: Brookings Institution, 2003).

[51] In tax year 2005, 54 percent of EITC recipients were unmarried head-of-household filers. IRS SPEC TY 2005 Return Database.

[52] Current law partially addresses this marriage penalty by extending the "plateau" range of the credit for married filers by $3,000, thereby raising credits in the phase-out range above their values for single and head-of-household filers. Acs and Maag find that with this extended plateau, more unmarried cohabiting low-income couples experience marriage bonuses than marriage penalties. Gregory Acs and Elaine Maag, "Irreconcilable Differences? The Conflict between Marriage Promotion Initiatives for Cohabiting Couples with Children and Marriage Penalties in Tax and Transfer Programs" (Washington: Urban Institute, 2005). This paper proposes a change to the EITC for joint filers that would generally reduce marriage penalties without increasing marriage bonuses. Moreover, the increase in the EITC for workers without qualifying children proposed here could result in increased marriage penalties for low-income couples absent further targeted relief.

[53] Sara McLanahan, Elisabeth Donahue, and Ron Haskins, "Introducing the Issue." *Future of Children* 15(2)(Fall 2005): 3–12.

[54] Nada Eissa and Hilary Hoynes, "Taxes and the Labor Market Participation of Married Couples: The Earned Income Tax Credit." *Journal of Public Economics* 88(9-10)(2004): 1931–1958; Nada

Eissa and Hilary Hoynes, "The Hours of Work Response of Married Couples: Taxes and the Earned Income Tax Credit." In J. Agell and P. B. Sørenson, eds., *Tax Policy and Labor Market Performance* (MIT Press, 2006).

[55] Brookings Institution analysis of Census 2000 data.

[56] The credit rate for families with three or more qualifying children is 43 percent, versus 14 percent for families with two children. The discrepancy was even larger during the first five years of the credit. Judith Lohman, "State Earned Income Tax Credits," OLR Research Report 2007-R-0053 (Connecticut General Assembly, 2007).

[57] The material in this section is adapted from: Steve Holt, "Periodic Payment of the Earned Income Tax Credit" (Washington: Brookings Institution, 2008).

[58] Several studies examine the disposition of tax refunds; for EITC recipients in tax year 2004, the credit accounted for 57 percent of their total refunds. Michael S. Barr and Jane K. Dokko, "Tax Filing Experiences and Withholding Preferences Among Low- and Moderate-Income Households: Preliminary Evidence from a New Survey." *2006 IRS Conference Proceedings*: 195–213; Jon Spader, Janneke Ratcliffe, and Michael A. Stegman, "Transforming Tax Refunds into Assets" (Chapel Hill, NC: Center for Community Capitalism, 2005); Ryan D. Edwards, "Macroeconomic Implications for the Earned Income Tax Credit." *National Tax Journal* 57(2004): 45–65; Sondra G. Beverly, Jennifer L. Romich, and Jennifer Tescher, "Linking Tax Refunds and Low-Cost Bank Accounts." *Social Development Issues* 25(1/2)(2003): 235–246.

[59] Brookings analysis of IRS-SPEC Tax Year 2005 Return Information Database. Urgency is one key reason that taxpayers use RALs and RACs. Gregory Elliehausen, "Consumer Use of Tax Refund Anticipation Loans." Credit Research Center Monograph 37 (Washington: Georgetown University McDonough School of Business, 2005). Paying for tax preparation is another reason. Barr and Dokko, "Tax Filing Experiences and Withholding Preferences Among Low- and Moderate-Income Households."

[60] See source information in Holt, "Periodic Payment of the Earned Income Tax Credit."

[61] Barr and Dokko, "Tax Filing Experiences and Withholding Preferences Among Low- and Moderate-Income Households;" Jennifer L. Romich and Thomas Weisner, "How Families View and Use the EITC: Advance Payment versus Lump Sum Delivery." *National Tax Journal* 53(4): 1245–1265.

[62] Arthur-Damon Jones. "Why is AEITC Take-Up So Low? Evidence from a survey of EITC recipients" (working paper, 2007).

[63] Internal Revenue Service, "Advance Earned Income Tax Credit: 1994 and 1997 Notice Study, A Report to Congress" (1999); Arthur-Damon Jones, "Information, Preferences and Social Benefit Participation: Experimental Evidence from the Advance Earned Income Tax Credit" (working paper, 2007).

[64] On the demand for forced savings via tax refunds, see Donna D. Bobek, Richard C. Hatfield, and Kristin Wentzel, "An Investigation of Why Taxpayers Prefer Refunds: A Theory of Planned Behavior Approach." *Journal of the American Taxation Association* 29(2007): 93–111.

[65] Holtzblatt and Liebman report that in 1994, approximately 30 percent to 40 percent of EITC recipients had simple returns that would permit reasonably accurate payment of the credit throughout the year. Janet Holtzblatt and Jeffrey Liebman, "The Earned Income Tax Credit

Abroad: Implications of the British Working Families Tax Credit for Pay-As-You-Earn Administration." *Proceedings of the National Tax Association* (1999): 198–207.

[66] Lily L. Batchelder, Fred T. Goldberg, Jr., and Peter R. Orszag, "Efficiency and Tax Incentives: The Case for Refundable Tax Credits." *Stanford Law Review* 59(2006): 23–76.

[67] Costs for operating the program are estimated at around 1 percent of total program expenditures. These low administrative costs are offset in part by higher payments to ineligible applicants than exist in other programs. Janet Holtzblatt and Janet McCubbin, "Issues Affecting Low-Income Filers." In H. J. Aaron and J. Slemrod, *The Crisis in Tax Administration* (Washington: Brookings Institution, 2004).

[68] Leonard E. Burman and Deborah I. Kobes, "EITC Reaches More Eligible Families than TANF, Food Stamps." *Tax Notes*, March 17, p. 1769 (2003).

[69] Alan Berube, "Measuring State/Local Participation in Work Support Programs." Presentation to the Ford Foundation, New York, NY, October 25, 2006.

[70] These states with EITCs in 1993 were: Minnesota, Vermont, and Wisconsin (refundable); and Iowa, Maryland, and Rhode Island (nonrefundable).

[71] In 2008, the state of Washington became the first without an income tax to enact the equivalent of a state EITC (Working Families Credit). See Washington State Budget and Policy Center, "Governor Gregoire Signs Working Families Tax Credit Into Law: Washington First State without Income Tax to Establish State EITC" (Seattle: April 1, 2008).

[72] The Minnesota credit rate varies by income, and can be as much as 45 percent of the federal credit for some taxpayers. The Wisconsin credit is 43 percent of the federal credit for families with three or more children.

[73] Ami Nagle and Nicholas Johnson, "A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty in 2006" (Washington: Center on Budget and Policy Priorities, 2006).

[74] The relationship between costs of living and credit generosity is not without variation; for instance, Kansas (17 percent) provides a more generous EITC than Massachusetts (15 percent); and high-cost states like California and Connecticut lack an EITC altogether.

[75] "Montgomery County Refundable Earned Income Credit" (Department of Finance, 2007).

[76] Shepard Nevel, "The Local Path to Making Work Pay: Denver's Earned Income Credit Experience" (Washington: Brookings Institution, 2002). The Denver credit expired in 2004 due to insufficient TANF funds. Ifie Okwuje and Nicholas Johnson, "A Rising Number of State Earned Income Tax Credits Are Helping Working Families Escape Poverty" (Washington: Center on Budget and Policy Priorities, 2006).

[77] Tim Flacke and Tiana Wertheim, "Delivering a Local EITC: Lessons from the San Francisco Working Families Credit" (Washington: Brookings Institution, 2006). The Working Families Credit has since been scaled back to a flat $100 benefit for federal EITC recipients.

[78] "Noncustodial Parent New York State Earned Income Tax Credit (EITC)" (Office of Temporary and Disability Assistance, 2008).

[79] Jeffrey Owens, "Fundamental Tax Reform: The Experience of OECD Countries" (Washington: Tax Foundation, 2005).

[80] Findings by state, and for the nation as a whole, can be found on the Brookings Institution Metropolitan Policy Program website.

[81] Elizabeth Kneebone, "Bridging the Gap: How Refundable Tax Credits Benefit Low-Income Workers in Metropolitan and Rural America" (Washington: Brookings Institution, 2008).

[82] Examples of metropolitan-wide outreach efforts include those led by the United Way of Tucson and Southern Arizona (Tucson, AZ metro area); Earn It! Keep It! Save It! Bay Area (San Francisco-Oakland, CA metro area); the Greater Miami Prosperity Campaign (Miami-Fort Lauderdale, FL metro area); the Lewiston-Auburn (ME) Tax Credit Awareness Coalition; the Accounting Aid Society's Tax Assistance Program (Detroit, MI metro area); AccountAbility Minnesota (Minneapolis-St. Paul metro area); KC Cash, Inc. (Kansas City, MO-KS metro area); CASH Rochester (Rochester, NY metro area); EITC Regional Collaborative of Greater Cincinnati and Northern Kentucky; and CASH Oregon (Portland, OR metro area).

[83] Kneebone, "Bridging the Gap."

[84] See, e.g., John N. Haskell, "EITC Boosts Local Economies." *Partners in Community and Economic Development* 16(3) (Federal Reserve Bank of Atlanta, 2006).

[85] Kneebone, "Bridging the Gap."

[86] Jason Levitis and Jeremy Koulish, "A Majority of States with Income Taxes Have Enacted State Earned Income Tax Credits" (Washington: Center on Budget and Policy Priorities, 2007).

[87] We apply credit rules for state and local EITCs as they exist in tax year 2007 to the 2005 data analyzed in this report. For instance, we apply North Carolina's 3.5 percent EITC to data from the metro areas of Charlotte, Raleigh, Greensboro, and Durham in 2005, even though the credit did not become law until tax year 2007.

[88] Note that our estimates of the effects of these proposals assume no behavioral responses (e.g., in labor supply, or in family structure) to the implied changes in the EITC, and are based on demographic and economic information from the 2005 American Community Survey.

[89] We refer to this group as childless workers, even though a considerable share of eligible taxpayers are probably non-custodial parents.

[90] The 7.65 percent phase-in rate effectively reimburses the worker for her share of social security and Medicare payroll taxes. Although employers pay the other 7.65 percent, economists generally agree that workers bear the full burden of the 15.3 percent overall payroll tax through reduced wages. Thus, raising the phase-in rate for the childless worker EITC to 15.3 percent would effectively offset very low-income workers' full payroll tax burden.

[91] This proposal is based on one advanced in Jason Furman, "Tax Reform and Poverty." *Tax Notes*, June 12, pp. 1293–1298 (2006).

[92] Such a proposal was most recently advanced in Mark Greenberg, Indivar Dutta-Gupta, and Elisa Minoff, "From Poverty to Prosperity: A National Strategy to Cut Poverty in Half" (Washington: Center for American Progress, 2007).

[93] David Ellwood and Isabel Sawhill, “Fixing the Marriage Penalty in the EITC” (Washington: Brookings Institution, 2000); Iris J. Lav, “Extending Marriage-Penalty Relief to Poor and Near-Poor Families” (Washington: Center on Budget and Policy Priorities, 1999); Janet Holtzblatt and Robert Rebelein, “Measuring the Effect of the EITC on Marriage Penalties and Bonuses.” *National Tax Journal* 53 (4) (part 2): 1107-1134. Holtzblatt and Rebelein note that, depending on the rate of the second-earner deduction, the proposal may: provide many of its benefits to filers with somewhat higher incomes; introduce higher marginal tax rates for couples made newly eligible for the credit via the deduction; add some complexity to the credit via the addition of a new form or schedule to capture information necessary to apply the deduction to the EITC.

[94] In modeling this proposal, we preserve the extended plateau range over which married couples can claim the maximum EITC under current law, under the assumption that lawmakers would not opt to reduce the credit for single-earner married couples.

[95] See, e.g., Greenstein, “The Earned Income Tax Credit: Boosting Employment, Aiding the Working Poor;” Leonard Burman, Elaine Maag, and Jeffrey Rohaly, “Tax Subsidies to Help Low-Income Families Pay for Child Care” (Washington: Urban-Brookings Tax Policy Center, 2005). One argument against such an expansion is that it might induce greater childbearing among low-income women; however, research has found that EITC expansions over the 1990s actually produced small *reductions* in additional births to eligible women. Reagan Baughman and Stacy Dickert-Conlin, “The Earned Income Tax Credit and Fertility.” *Journal of Population Economics* (forthcoming).

[96] The Minnesota state EITC does not piggyback on the federal credit explicitly, though the enacting statute for the state credit adopts a structure largely consistent with the federal one, except in small portions of the income-eligible range. The results modeled here exclude any changes that Minnesota might enact to its EITC statute to conform with an expanded federal credit.

[97] Note that the Brookings MetroTax model calculates poverty status (and 150 percent of poverty) at the tax filing unit level, rather than the family level as the Census Bureau and federal programs do. This yields the result that while 20.4 percent of individuals in the top 100 metro areas lived in families with incomes below 150 percent of poverty in 2005, 26.7 percent were part of tax units with incomes below 150 percent of poverty. We base our choice of a 150 poverty threshold on the international practice of defining as low-income families with incomes under 50 percent of the median. In 2006, the median income for families with two children was $57,792; that same year, the poverty threshold for families of four with two children was $20,444, 150 percent of which ($30,666) was reasonably close to half of median income.

[98] Danilo Pelletierre and Keith E. Wardrip, “Housing at the Half: A Mid-Decade Progress Report from the 2005 American Community Survey” (Washington: National Low Income Housing Coalition, 2008).

[99] Michael Stegman, Walt Davis, and Roberto Quercia, “Tax Policy as Housing Policy: The EITC’s Potential to Make Housing More Affordable for Working Families” (Washington: Brookings Institution, 2003).

[100] Bruce Katz and Margery Turner, “Platforms for Social Mobility: Rethinking U.S. Workforce Housing Policy” (Washington: Brookings Institution, forthcoming 2008).

[101] There appears to be some appetite in Congress for rethinking the current advance payment method for the EITC. In August 2007, the Government Accountability Office responded to a request by the Joint Committee on Taxation with a report detailing barriers to the effective operation of the Advance EITC program. Government Accountability Office, “Advance Earned

Income Tax Credit: Low Use and Small Dollars Paid Impede IRS' Efforts to Reduce High Noncompliance." GAO-07-1110 (2007). Furthermore, a pending Treasury report mandated by Congress in the U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act of 2007 (Pub. L. No. 110-28) involves "a study of the benefits, costs, risks, and barriers to workers and to businesses (with a special emphasis on small businesses)" for providing the advance payment option to all EITC recipients.

[102] Holt, "Periodic Payment of the Earned Income Tax Credit."

[103] See, e.g., Melissa Koide, "The Assets and Transaction: A Proposal for a Low Cost, High Value Transaction and Savings Account" (Washington: New America Foundation, 2007). The Direct Express debit card offered to Social Security recipients is another potential delivery model. See **www.fms.treas.gov/directexpress/index.html** [accessed April 2008].

[104] According to the recent GAO report on the Advance EITC, "results from an IRS-funded study using focus groups of EITC participants and interviews we conducted with experts indicated that potential recipients continue to have concerns that they would receive more AEITC than they were ultimately entitled to and that they would owe the difference when filing their federal tax return." GAO, "Advance Earned Income Tax Credit" (p. 13).

[105] Such a tolerance was provided in the Advance Child Tax Credit stimulus payment of 2003, which did not require recipients who received an advance in excess of their subsequent year credit to repay the difference.

[106] Canada bases its in-work benefits on prior year's earnings. See Holt, "Periodic Payment of the Earned Income Tax Credit."

[107] Dowd finds a considerable amount of persistence in claiming the EITC; over a 15-year period, only about 32 percent of credit recipients claimed the EITC just once. Timothy Dowd, "Distinguishing Between Short-Term and Long-Term Recipients of the Earned Income Tax Credit." *National Tax Journal* 58 (4): 807-828.

[108] Based on the Joint Tax Committee's estimate of EITC program costs for 2008. Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2007–2011."

[109] National Audit Office, "HM Revenue and Customs 2006-07 Accounts: The Comptroller and Auditor General's Standard Report" (London, 2007).

[110] Such a system would, however, accelerate the disbursement of the EITC, causing some temporary increases in budgetary costs for the credit.

[111] See, e.g., Robert Greenstein, Statement on the Congressional Budget Office's New Long-Term Budget Forecast (Washington: Center on Budget and Policy Priorities, 2007); Isabel Sawhill, "Taming the Budget" (Washington: Brookings Institution, 2007).

[112] Leonard E. Burman, "Tax Fairness, the 2001-2006 Tax Cuts, and the AMT." Testimony before the House Committee on Ways and Means, September 6, 2007.

[113] On the share of income held by the highest-income taxpayers, see Aviva Aron-Dine, "New Data Show Income Concentration Rose Again in 2006" (Washington: Center on Budget and Policy Priorities, 2008).

[114] For further detail on the provisions of the 2001 tax cuts affecting low-income filers, see Leonard Burman, Jeff Rohaly, and Elaine Maag, "EGGTRA: Which Provisions Spell the Most Relief?" (Washington: Urban Institute, 2002).

[115] For the 23 to 28 percent estimate, see IRS Earned Income Tax Credit Initiative, "Report on Fiscal Year 2005 Tests," January 2007. For criticisms of this estimate, see: IRS Taxpayer Advocate Service, "The National Taxpayer Advocate's Report to Congress: Fiscal Year 2004 Objectives" (2003); Treasury Inspector General for Tax Administration, "There Are Significant Weaknesses in the Internal Revenue Service's Efforts to Measure Earned Income Tax Credit Compliance" (2001).

[116] This issue is explored in detail in Nicholas Johnson, John Wancheck, and Robert Greenstein, "State Earned Income Tax Credits and the 'Overpayments' Issue" (Washington: Center on Budget and Policy Priorities, 2007).

[117] Several proposals to consolidate and/or streamline tax provisions for lower-income families exist; a sampling includes: Max B. Sawicky and Robert Cherry, "Making work pay with tax reform." EPI Issue Brief 173 (Washington: Economic Policy Institute, 2001); Adam Carasso, Jeffrey Rohaly, and Eugene Steuerle, "A Unified Children's Tax Credit" (Washington: Urban Institute, 2005); Paul Weinstein, Jr., "Family-Friendly Tax Reform" (Washington: Progressive Policy Institute, 2005); President's Advisory Panel on Tax Reform, *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System* (2005).

[118] For example, proposals by Berlin, Bloomberg, and Steuerle (see Table 4) would require workers without qualifying children to meet minimum work requirements to qualify for an expanded EITC.

[119] Holt, "Periodic Payment of the Earned Income Tax Credit."

[120] Proposals by Bayh, Schumer, and Edelman, Holzer, and Offner (see Table 4), among others, would target larger childless-worker EITC payments to non-custodial parents who are current on their child-support obligations.

[121] Carasso and co-authors acknowledge these administrative issues. Adam Carasso and others, "The Next Stage for Social Policy: Encouraging Work and Family Formation Among Low-Income Men" (Washington: Urban Institute, 2008). Berlin posits that employers could report workers' hours as part of the quarterly earnings reports they submit for unemployment insurance purposes; those records would then need to be shared with the IRS, on a much more accelerated basis than they are currently. Gordon Berlin, "Rewarding the Work of Individuals: A Counterintuitive Approach to Reducing Poverty and Strengthening Families." *The Future of Children* 17(2)(2007): 17–42.

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