

# THE EITC OVER THE GREAT RECESSION: WHO BENEFITED?

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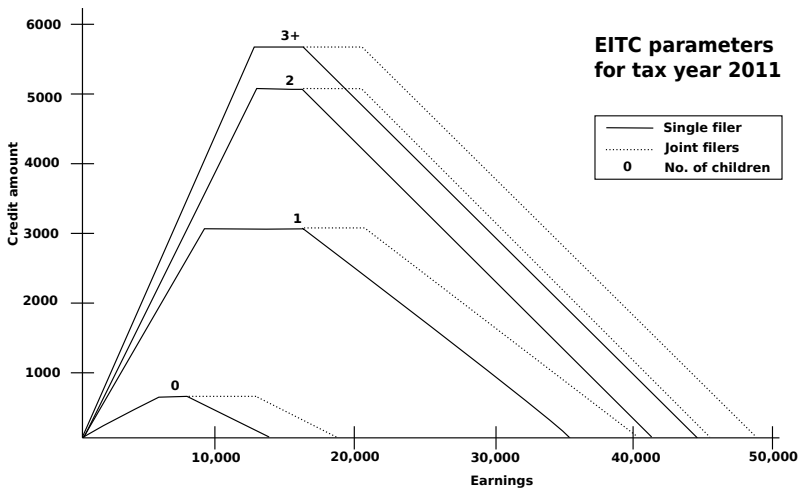
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# MOTIVATION

- EITC has become the largest cash-transfer program in the U.S.
- EITC has increased labor-force participation, particularly among single mothers
  - Evidence is strong regarding any labor-force participation (extensive margin)
  - Previous research focused on periods with a strong labor market (e.g., Grogger 2003; Hotz & Scholz, 2006)
- The EITC as a safety net program
- Transition from out-of-work (i.e., welfare) to in-work aid (Bitler, Hoynes, & Kuka, 2016)
- Mechanical link between work and the EITC



# BACKGROUND

- Three key prerequisites must be met for someone to receive EITC in a tax year:
  - Earnings
    - Wage and salary earnings from an employer
    - Self-employment earnings
  - Tax filing
  - EITC filing
- Other requirements regarding residency of children, investment income, etc.
- Marriage and labor market affect eligibility outcomes
  - “Added worker” effect (earnings from spouse)
  - Loss in hours versus full-year job loss
  - Association between job loss and skill group during GR

# RESEARCH QUESTIONS

- Did the EITC fail to reach earners who were most negatively affected by the economic downturn?
- How did marriage moderate losses in EITC eligibility?
  - Were outcomes especially negative for low-income/low-skilled, single labor-market participants?
  - What relation do gender and race play in the intersection of eligibility, labor-market outcomes, and marriage?

- Current Population Survey Annual Social and Economic Supplement (CPS ASEC), 2006-2012 (covering info on tax years 2005 to 2011)
- IRS tax data from 2005-2011
  - Universe of Form 1040
  - Universe of W-2s
  - EITC recipient files (including CP09/27)
- Records matched at individual level using probability linkage techniques (see Layne & Wagner, 2012, for details)
  - Name, DOB, address, SSN used to assign unique identifier
  - Records linked using identifier, other personal information stripped
  - Matched kept when CPS ASEC values not imputed

# ELIGIBILITY OVER TIME

- Eligibility estimated for 2006 CPS ASEC respondents (tax year 2005 eligibility)
- Further years of eligibility determined using tax data from 2006 through 2011
  - Household structure considered fixed unless tax status changes
  - “Age-out” children from eligibility based on reported ages in survey, supplemented by check of actual dependent claiming
  - Changes in filing status indicate divorce/marriage
- All those who enter a spell of eligibility are retained in the final data
  - Age range limited to those 25 and older to account for completed education
  - Only survey respondents found in 2005 tax data are retained

# TRANSITIONS

Panel A	Exit year							Total
	2006	2007	2008	2009	2010	2011	Never	
Start year: 2005	3,372	1,449	999	558	524	401	3,156	10,459
2006		1,229	711	295	245	169	997	3,646
2007			707	222	145	116	387	1,577
2008				526	268	152	461	1,407
2009					823	324	604	1,751
2010						542	545	1,087
2011							832	832
Total	3,372	2,678	2,417	1,601	2,005	1,704	6,982	20,759



# RISK OF ELIGIBILITY LOSS

Panel A. Exit year	2006	2007	2008	2009	2010	2011
No earnings	856	460	455	476	444	298
percent of failure	0.25	0.17	0.19	0.30	0.22	0.17
Income>max	1,152	928	727	582	893	755
percent of failure	0.34	0.35	0.30	0.36	0.45	0.44
Family change	1,364	1,290	1,235	543	668	651
percent of failure	0.40	0.48	0.51	0.34	0.33	0.38
No failure	17,387	14,709	12,292	10,691	8,686	6,982
Panel B. Entry year	2006	2007	2008	2009	2010	2011
Decreased income	745	490	540	912	494	347
percent of entry	0.21	0.32	0.40	0.56	0.48	0.43
Earnings>0	637	154	114	117	111	92
percent of entry	0.18	0.10	0.08	0.07	0.11	0.11
Family change	2,197	883	713	603	425	366
percent of entry	0.61	0.58	0.52	0.37	0.41	0.45

# COMPETING RISKS, EXIT

	Unmarried Women			Unmarried Men		
	No earnings	Income > max	Family change	No earnings	Income > max	Family change
Low education	1.22** (0.08)	0.50*** (0.03)	0.93 (0.04)	1.02 (0.11)	0.69*** (0.06)	0.93 (0.07)
Percent failing Observations	14.81	15.50 5,781	30.76	15.17	21.84 2,267	33.88

	Married Women			Married Men		
	No earnings	Income > max	Family change	No earnings	Income > max	Family change
Low education	1.07 (0.17)	0.62*** (0.07)	0.71** (0.09)	1.05 (0.17)	0.68*** (0.08)	0.74* (0.10)
Percent failing Observations	13.52	27.38 6,625	24.74	14.67	30.10 6,086	25.73

# COMPETING RISKS, ENTRY

	Unmarried Women			Unmarried Men		
	Decreased income	Earnings > 0	Family change	Decreased income	Earnings > 0	Family change
Low education	0.52*** (0.05)	1.07 (0.14)	1.01 (0.06)	0.82 (0.13)	0.77 (0.14)	1.15* (0.08)
Percent entering Observations	18.14	8.98 5,781	29.98	25.97	4.33 2,267	22.43

	Married Women			Married Men		
	Decreased income	Earnings > 0	Family change	Decreased income	Earnings > 0	Family change
Low education	0.76 (0.17)	0.85 (0.15)	1.30* (0.14)	1.14 (0.16)	0.94 (0.29)	1.17 (0.16)
Percent entering Observations	8.00	2.45 6,625	18.11	16.91	2.80 6,086	38.75

# CONCLUSIONS

- Unmarried women experienced a higher risk of loss due to zero earnings when their educational attainment was low
- Marriage, gender, and skill were each important factors in how individuals transitioned out of eligibility
- During the recession, many families lost both earnings income and distributions from the key cash-transfer program in the U.S.
- Flows out of eligibility for unmarried, low-skilled women were not counterbalanced by entry

# NEXT STEPS

- Update data to 2014
- Connect analysis more closely to downturn: incorporate unemployment rates more directly in analysis
- Examine spells more generally rather than connecting them directly to recession effects
- Look at time-varying filing characteristics