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EXPANDING THE EARNED INCOME TAX CREDIT: THE ECONOMIC SECURITY PROJECT'S COST-OF-LIVING REFUND

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ABSTRACT

The cost-of-living refund (CLR), a proposal from the Economic Security Project, would revise the current earned income tax credit (EITC) by increasing benefits for many people, expanding eligibility for the credit, and paying the credit in advance through monthly payments. The proposal would provide up to $4,000 annually to single workers and $8,000 for married couples. Benefits would phase in more rapidly than under the current EITC and would begin to phase out at higher income levels. Some caregivers and low-income students would be eligible for the credit, even with little or no earnings. All workers age 18 and over would be eligible. On average, the 68 million recipients of the CLR who receive higher CLR benefits than EITC benefits would receive an additional benefit of about $3,430. For the 4 million people who would receive a CLR benefit but whose CLR benefits would be less than their current EITC benefits, we describe a way to augment or "patch" the CLR to avoid benefit reductions. The CLR proposal would cost about $2.5 trillion over a 10-year budget window. Patching the CLR with a separate credit for single parents with at least two children would cost an additional $131 billion and is one way to keep total benefits for families at least as high under the CLR as under the current EITC.

Every year, the federal earned income tax credit (EITC) delivers almost $70 billion in tax credits to about 26 million low- and moderate-income families. The credit lifts millions of working people out of poverty, almost all of them families with children.[1] Inspired by this success and the credit's bipartisan popularity, as well as by concerns for people who receive little or no benefit from the EITC, the Economic Security Project has proposed the cost-of-living refund (CLR).[2] The CLR would make the following changes:

- Increase the maximum benefit for many workers with children and workers without children at home. Benefits would be based on marital status rather than the number of qualifying children in the household.[3] Married couples could receive a maximum benefit of $8,000 a year; single filers would be eligible for up to $4,000 a year.
- Adopt the same phase-in and phase-out rates for all credit recipients rather than varying them by the recipient's number of qualifying children. The CLR would phase in dollar-for-dollar with earnings (substantially faster than the EITC) and provide a larger credit to people in deep poverty, and it would phase out at a rate of 20 percent.
- Start to phase out benefits at higher income levels (from $30,000 to $50,000 if single and $50,000 to $90,000 if married), providing a sizable credit to many middle-income workers who receive low or no benefits from the current EITC.
- For workers without children at home, reduce the minimum eligible age from 25 to 18 and remove the maximum eligibility age of 64.
- Include low-income students and family caregivers who would be considered working for purposes of the credit but do not have earnings that would qualify them to receive the maximum EITC.
- Allow beneficiaries to receive a portion of the credit each month rather than after filing their taxes at the start of the next year.
- Implement automatic filing in which the IRS would send prepopulated forms to eligible people; this would ease the application process and increase access to the credit by eligible people.

These changes would substantially increase benefits for many. They would also simplify credit use and administration by eliminating the EITC's complicated tests for identifying qualifying children, a relatively costly source of EITC errors (IRS 2014). The changes would also reduce marriage penalties by allowing married couples to receive twice the maximum benefits of single people.

Replacing the EITC with the CLR would cost $2.5 trillion over fiscal years 2019 to 2028. Almost 40 percent of households would receive some benefit. Households that receive an increased benefit would average $3,430 per household more than under the current EITC. To avoid reducing benefits for the 2.6 percent of households that would see a smaller benefit with just the CLR, we describe an additional benefit for single parents with at

least two children that could be added to the basic CLR. This addition has been designed to work with the CLR so that total benefits from the CLR and the add-on would be at least equal to current EITC benefits. It would follow the same shape as the EITC (phasing in and then phasing out at the same points the current EITC phases in and out). This patch would cost an additional $131 billion over 10 years. Alternatively, CLR reforms could be implemented in concert with reforms to the child tax credit (CTC) to keep the combined benefits for the EITC and CTC at least as high as under current law.

The CLR reimagines some features of the EITC, which are explained in detail in our companion publication, *Redesigning the EITC: Issues in Design, Eligibility, Delivery, and Administration* (Maag, Marron, and Huffer 2019). Here, we focus on the CLR. In the next three sections, we examine benefits and changes in eligibility and timing of the CLR. We then describe the distribution of benefits among all households, households with children, and households with no children, followed by a description of the fiscal effects of the proposal. We end with a dicussion of some of the larger issues surrounding credit redesign such as including childless workers,[4] expanding the definition of work, simplifying eligibility, and changing the credit delivery timing. We include state-by-state estimates of the CLR in appendix B.

BENEFITS UNDER THE COST-OF-LIVING REFUND PROPOSAL

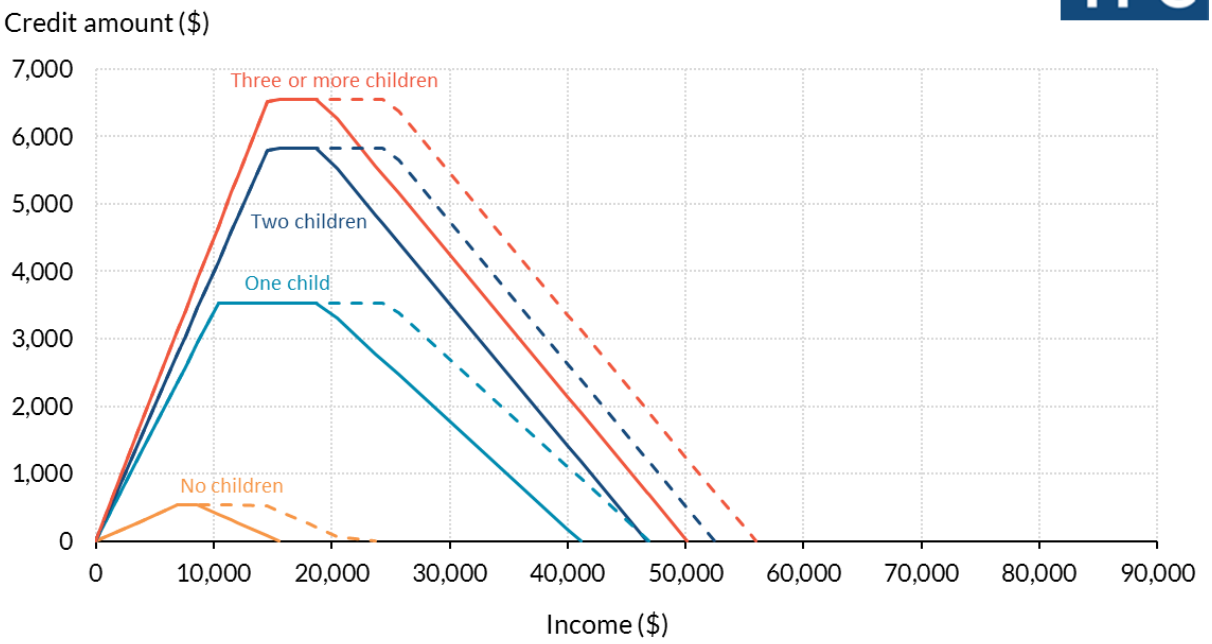
The EITC is a refundable credit for workers that phases in as earnings rise, reaches a maximum amount, and phases out at higher incomes. EITC benefits thus look like a trapezoid: they rise, plateau, and then decline with earnings (figure 1). The maximum credit, phase-in rates, and phase-out rates depend on the number of children. The phase-out rate starts at a higher income level for married couples than for single workers.

The CLR expands those benefits in four ways (figure 2). It phases in benefits much more quickly, increases the maximum benefit for most recipients, begins to phase benefits out at higher income levels, and allows some caregivers and low-income students to claim a full benefit even if they have zero or low earnings. The CLR gives married couples double the maximum credit of single workers, and it decouples benefits from the number of children a beneficiary has.

The CLR would also have the option of being delivered monthly rather than after recipients file a tax return for the previous calendar year. The CLR would also offer automatic filing, meaning the Internal Revenue Service (IRS) would complete tax returns with information on the CLR and share that with taxpayers. We discuss benefit timing later in the report, and we do not discuss automatic filing because of limited available information.

FIGURE 1

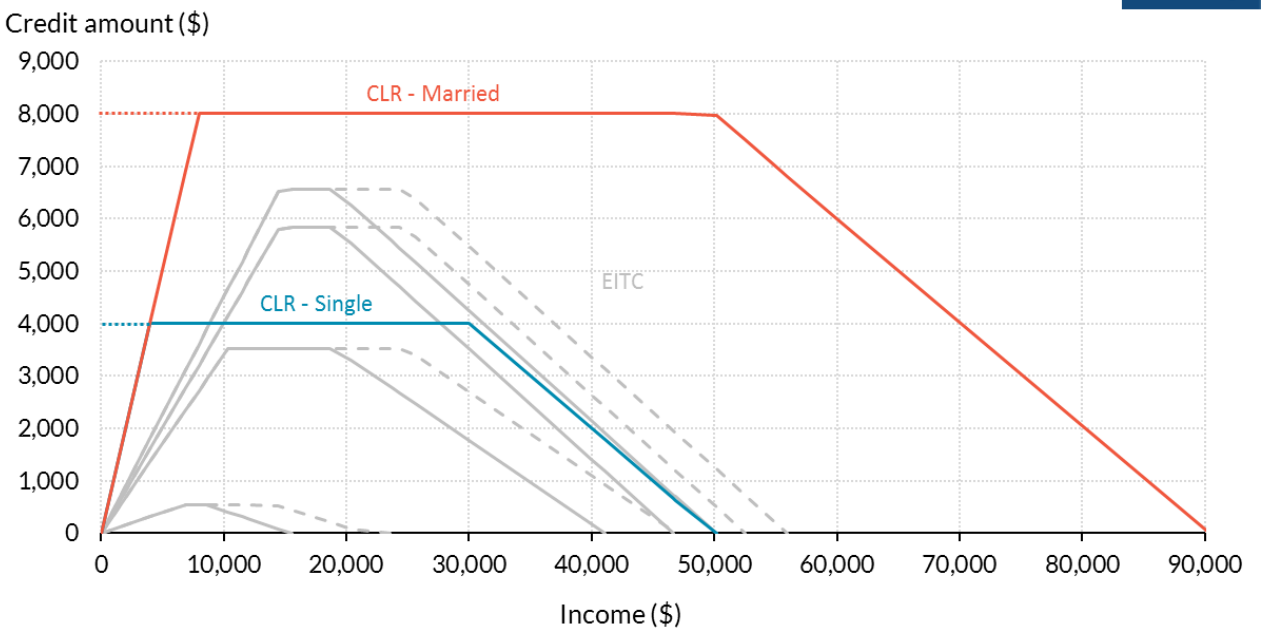
Earned Income Tax Credit, 2019



Source: Urban-Brookings Tax Policy Center.
Note: Assumes all income comes from earnings. Dashed lines represent married couples.

FIGURE 2

Earned Income Tax Credit and Cost-of-Living Refund, 2019



Source: Urban-Brookings Tax Policy Center.
Note: Assumes all income comes from earnings. Dashed EITC lines represent married couples. Dotted CLR lines signify that students and caregivers would not be subject to the phase-in period.

Phasing the Credit in Dollar-for-Dollar

The phase-in rate is the key driver determining whether and how much working people with the lowest incomes benefit from a refundable credit. In 2019, we estimate that 16.8 million adults and children are in households with earnings that receive less than the full EITC because their earnings are too low to qualify for the maximum credit. The CLR increases benefits for this group by substantially increasing the phase-in rate to a dollar-for-dollar match. Under the current EITC, phase-ins vary from 7.65 cents per dollar of earnings for workers with no children to 45 cents per dollar of earnings for workers with three or more children. Under the CLR, if a family has earnings of $4,000, for example, they can qualify for the full $4,000 available to people who are not married. To receive that much under the EITC, a single parent with one child would need to earn almost $12,000. The CLR phase-in does not apply to low-income students and caregivers, who can automatically qualify for the maximum credit regardless of earnings. Benefits from this change would be highly concentrated among those with the lowest incomes and would provide more benefits to workers in deep poverty than the current EITC.

Setting the Maximum Benefit at $4,000 for Single People; $8,000 for Married Couples

The CLR would provide a maximum benefit of $4,000 for single workers and a maximum benefit for married couples of $8,000.[5] As shown in figure 2, these levels are higher—sometimes much higher—than under the EITC for married couples, childless workers, and workers with one child. Childless workers, for example, would see an increase from $530 to $4,000 if single and $8,000 if married.

However, single parents with at least two children would qualify for a smaller maximum CLR than the current maximum EITC. In 2019, a single parent with two children would qualify for a maximum EITC of $5,828, and a single parent with at least three children would qualify for a maximum of $6,557. We estimate that 2.6 percent of households would receive lower benefits under the CLR than the EITC. On average, the CLR received by these households would be $1,090 less than the EITC they would receive under current law. To avoid this benefit reduction, a single-parent "patch" could be added to the CLR for single parents with at least two children to keep their benefits at least as high as what they would receive under the EITC. One option would be to provide an additional boost that would phase in with earned income up to the end of the phase-in for the EITC under current law. This boost would be at a rate of 12.5 percent for single parents with at least two children and at a rate of 18.75 percent for single parents with three or more children. The patch would phase out with the greater of earned income or adjusted gross income at a rate of 5 percent per dollar starting at the same point the EITC phases out under current law. Expanding the CTC could also help avoid losses for these households.

Phasing the Credit Out

The CLR shifts two aspects of the EITC phase-out: the point at which the credit begins to phase out and the rate at which the credit phases out. Increasing the point at which the credit begins to phase out allows more middle-income households to benefit from the credit.

The CLR would phase benefits out starting at $30,000 of income for single people and $50,000 for married couples, much higher than the point at which the current EITC begins to phase out. In 2019, the EITC starts to phase out once income reaches $8,650 for single childless workers, $14,440 for married childless couples, $19,030 for single workers with children, and $24,820 for married couples with children. The CLR phases out at a 20 percent rate, reaching zero when income reaches $50,000 for single people and $90,000 for married couples. The EITC phases out at rates of 15.98 percent to 21.06 percent. For single workers, the EITC is completely phased out at incomes between $15,570 and $50,162 depending on the worker's number of children. For married couples, that range is $21,360 to $55,952. For married couples and childless workers, the CLR is fully phased out at much higher incomes than the EITC. This is true for many single parents as well.

ELIGIBILITY UNDER THE COST-OF-LIVING REFUND PROPOSAL

The CLR would expand eligibility to several groups of people currently left out of the EITC:

- Low-income caregivers of young children and older dependents
- Low-income independent students
- Childless workers ages 18 to 24 and age 65 or older

The CLR proposal include low-income caregivers and students, regardless of earnings, on the grounds that they are engaged in work-like activities that likely benefit society at large. The CLR would reward these activities, similar to how the EITC rewards traditional paid work (which the CLR would also do). Reducing the age limit for childless workers allows people who transition directly from secondary school to work (those who may be most disadvantaged in the labor market) to be eligible for the credit, as well as those who are working while paying for higher education or who have finished school and are entering the workforce. Similarly, removing the age limits allows low-income older workers to benefit from the credit.

Low-Income Caregivers

The CLR would extend eligibility for the maximum credit to caregivers of children and relatives under age 6 or of children who are totally and permanently disabled who qualify for the CTC or for the other dependent tax credit portion of the CTC. Caregivers would be subject to the same phase-out rules as all other individuals but would otherwise be eligible for the maximum credit regardless of earnings. Qualifying children and qualifying relatives are two terms already codified in tax law for purposes of determining eligibility for the CTC, including

the ODTC that was added to the CTC as part of the Tax Cuts and Jobs Act of 2017. Appendix A provides additional details.

Further, caregivers of a disabled spouse or other dependent, as defined by the child and dependent care tax credit, are eligible for the caregiver credit. The child and dependent care tax credit requires that a disabled spouse be physically or mentally unable to care for himself or herself; similarly, other disabled dependents must be physically or mentally unable to care for himself or herelf, and they must be eligible to be claimed as a dependent (by meeting the tests of a qualifying child or relative).[6]

Low-Income Independent Students

The CLR would extend eligibility for the maximum credit to low-income, independent students. Students would be subject to the same phase-out rules as all other individuals, but they would otherwise be eligible for the maximum credit regardless of earnings.

The CLR defines an "eligible student" as someone who is attending postsecondary school, cannot be claimed as a dependent for tax purposes, and either receives a Pell grant or reports family adjusted gross income at or below 250 percent of the federal poverty level.

Childless Workers Ages 18 to 24 and Age 65 or Older

Under current law, childless workers must be at least age 25 and not more than age 64 to benefit from the EITC. (For married couples, only one person must meet these requirements.) No age limits apply to parents. The CLR extends eligibility to childless workers who are at least age 18 and removes the upper age limit for childless workers. Parents continue to be eligible for the CLR regardless of age, applying the same rules as applied by the EITC.[7]

Reducing the age limit for eligibility provides a second avenue for students with earnings to be eligible for the credit (even if they do not meet the conditions for being a student set forth above). Reducing the eligibility age for the credit and making low-income students eligible for the credit at the same time avoids incentivizing the choice to forgo additional education in favor of work, something credit designers might be concerned with. Education can be an important pathway to increasing future earnings potential; this credit design does not discourage young people from choosing to invest in their future.

TIMING OF THE COST-OF-LIVING REFUND

Recipients would also have the option to receive the credit in advance (that is, before filing their income tax return), which would deliver benefits as people need them. Eligible individuals would need to estimate the CLR for which they would qualify and apply to have the benefit provided ratably throughout the year.

THE DISTRIBUTIONAL EFFECTS OF THE COST-OF-LIVING REFUND PROPOSAL

Relative to current law, the CLR would benefit nearly 42 percent of all households (table 1).[8] Those not benefiting are families with no earnings who are not also caregivers or students (often elderly people) and families with incomes too high to qualify for the credit. As designed, 2.6 percent of households would see their taxes increase (because their credits decrease) if the CLR were implemented. Some single-parent families qualify for a higher EITC than CLR. If the single-parent patch were implemented together with the CLR, the combined proposal would benefit just over 42 percent of households, and no households would see benefits decline. This patch is one way to make sure families do not see their taxes rise under the CLR, but alternatives could be developed.

TABLE 1

Cost-of-Living Refund

Distribution of benefits relative to current law without EITC

	Cost-of-Living Refund		Cost-of-Living Refund with Patch for Single Parents	
	Share of Tax Units (%)		Share of Tax Units (%)	
	With benefit	With no benefit	With benefit	With no benefit
Lowest quintile	57.0	43.0	57.0	43.0
Second quintile	67.7	32.3	67.7	32.3
Middle quintile	42.9	57.1	44.1	55.9
Fourth quintile	18.3	81.7	18.6	81.4
Top quintile	0.5	99.5	0.5	99.5
All	41.8	58.2	42.1	57.9

Source: Tax Policy Center microsimulation model (version 0718-1).

Next, we discuss total tax benefits of the EITC, the CLR, and the CLR with the single-parent patch. Although we discuss average benefits for all households, households with children, and households without children, it is important to keep in mind that the policies provide benefits to different shares of the population (figure 3). EITC benefits go to about 15 percent of all households. The CLR would more than double this share to almost 40 percent. With the single-parent patch, benefits from the CLR would go to almost 42 percent of all households. Significantly, the CLR provides benefits to a much larger share of households without children than the EITC. We show results for all households and households with benefits separately for each group.

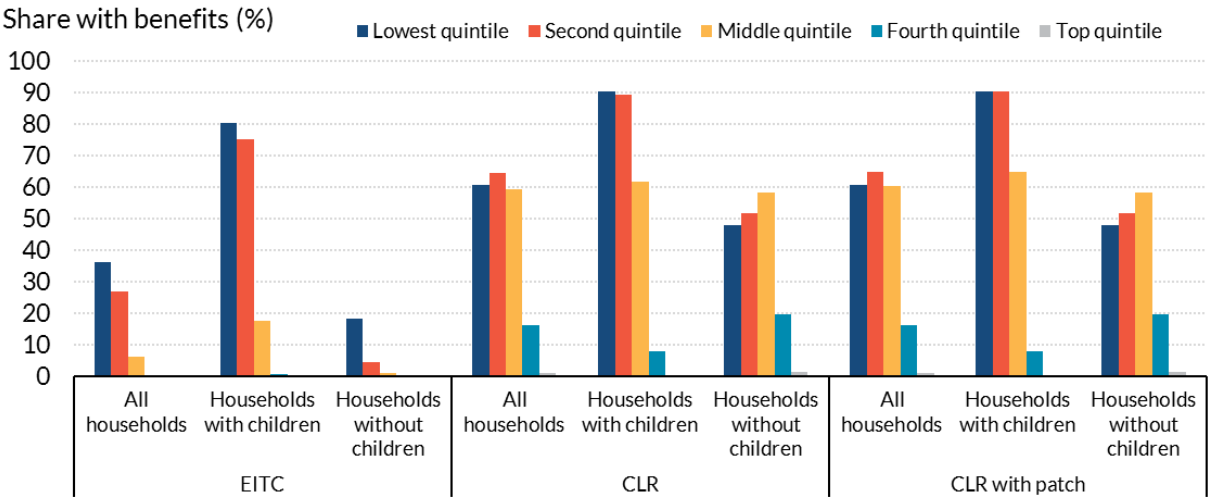
On average, the EITC provides $980 to households in the lowest fifth of the income distribution and almost no benefits to families in the top two-fifths of the income distribution (figure 4). The CLR would provide much larger benefits that would extend higher up the income distribution. Households in the bottom fifth of the

income distribution would receive $2,710 ($2,880 including the patch), on average. Households in the middle quintile would receive an average of $2,060 (or $2,080 with the patch).

FIGURE 3

Share of Households that Benefit from the EITC and CLR

By income quintile, 2019

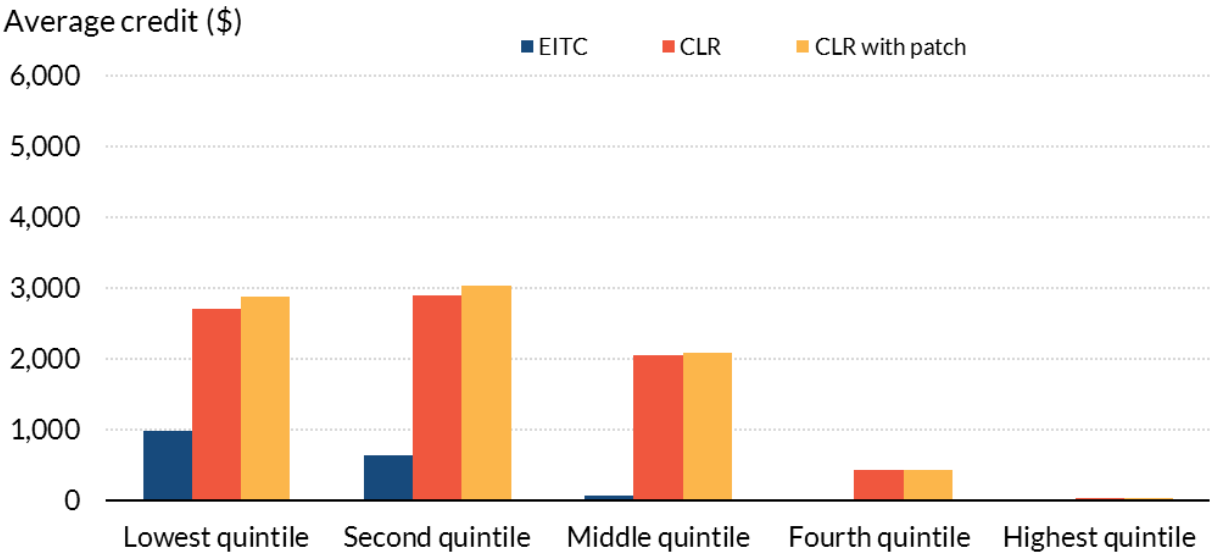


Source: Tax Policy Center microsimulation model (versions 0319-1 and 0718-1).

FIGURE 4

Average Benefits of EITC and CLR, All Households, 2019

By income quintile



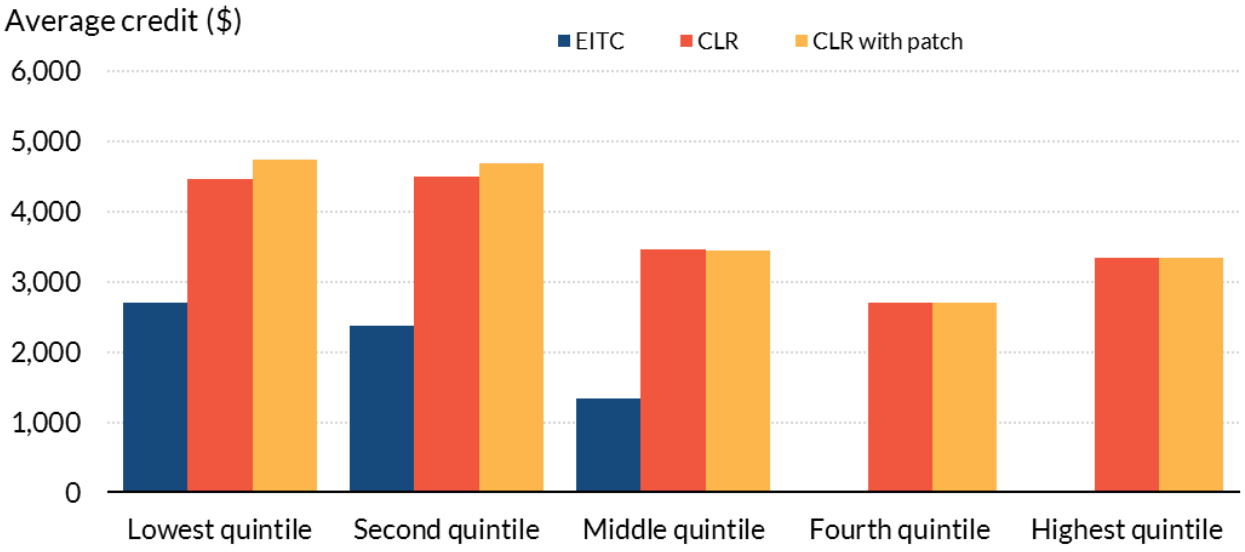
Source: Tax Policy Center microsimulation model versions 0319-1 and 0718-1.
Note: Includes all tax units, even those with $0 benefit. Quintiles adjusted for family size.

Not all people receive benefits, so it also makes sense to look at average benefits just for people who receive some benefit. Here, the pattern of average benefits is the same as for all households (figure 5). On average, households in the bottom fifth of the income distribution who benefit from the EITC receive about $2,710 from it. Their benefits would increase to about $4,460 if the CLR were adopted ($4,740 including the patch). Households in the middle income quintile would see average benefits of $2,700.

FIGURE 5

Average Benefits of EITC and CLR, Households that Benefit, 2019

By income quintile



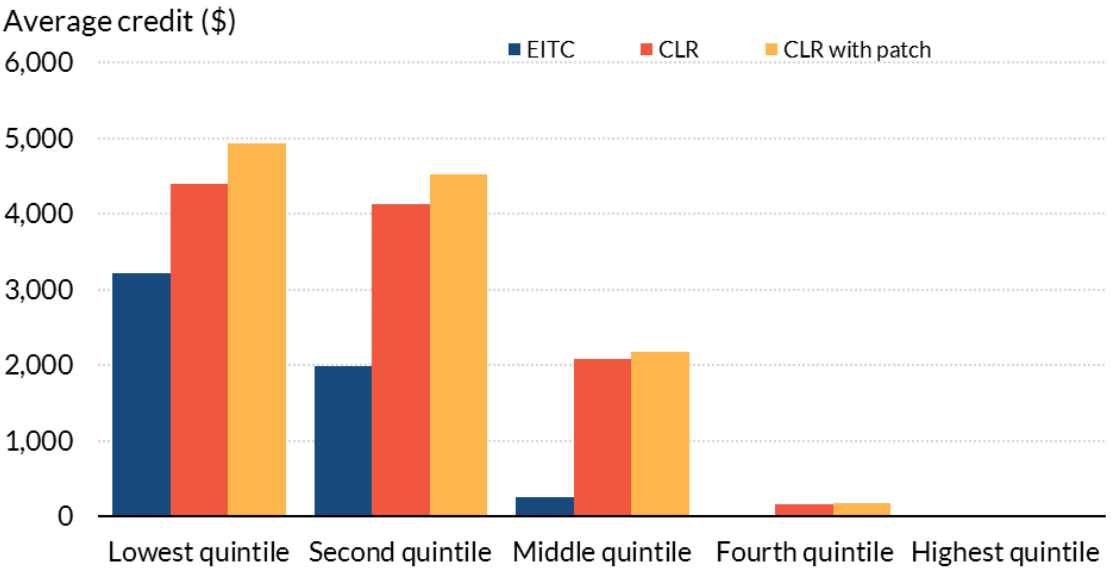
Source: Tax Policy Center microsimulation model versions 0319-1 and 0718-1.
Note: Includes only tax units with benefits greater than $0. Quintiles adjusted for family size.

The CLR's effects differ for families with and without children. Again, we show average benefits for all households and for just those households that receive some benefit (figures 6 through 9). The CLR provides larger average benefits than the EITC to workers with children. The differences are largest for middle-income families with children who, if they receive some benefit, receive an average of $3,390—more than double the average EITC benefit for this group ($1,500). The largest gains are among people without children at home, who currently receive almost no benefit from the EITC. The CLR would provide families without children at home benefits on average of about $4,100 if they are in the lowest income quintile—much higher than the $360 the EITC provides.

FIGURE 6

Average Benefits of EITC and CLR, All Households with Children, 2019

By income quintile

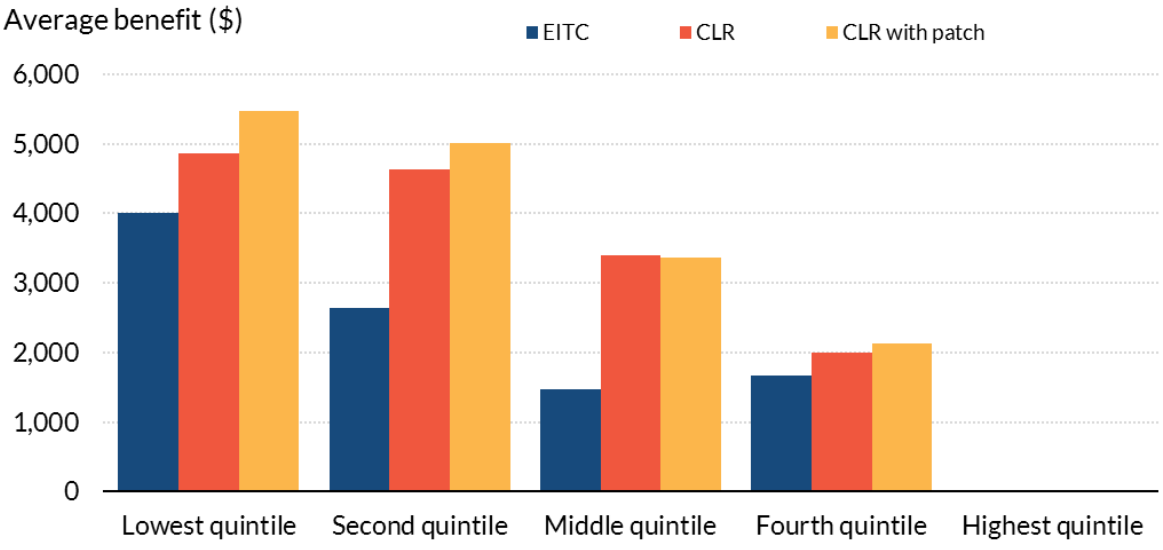


Source: Tax Policy Center microsimulation model versions 0319-1 and 0718-1.

FIGURE 7

Average Benefits of EITC and CLR, Households with Children that Benefit, 2019

By income quintile

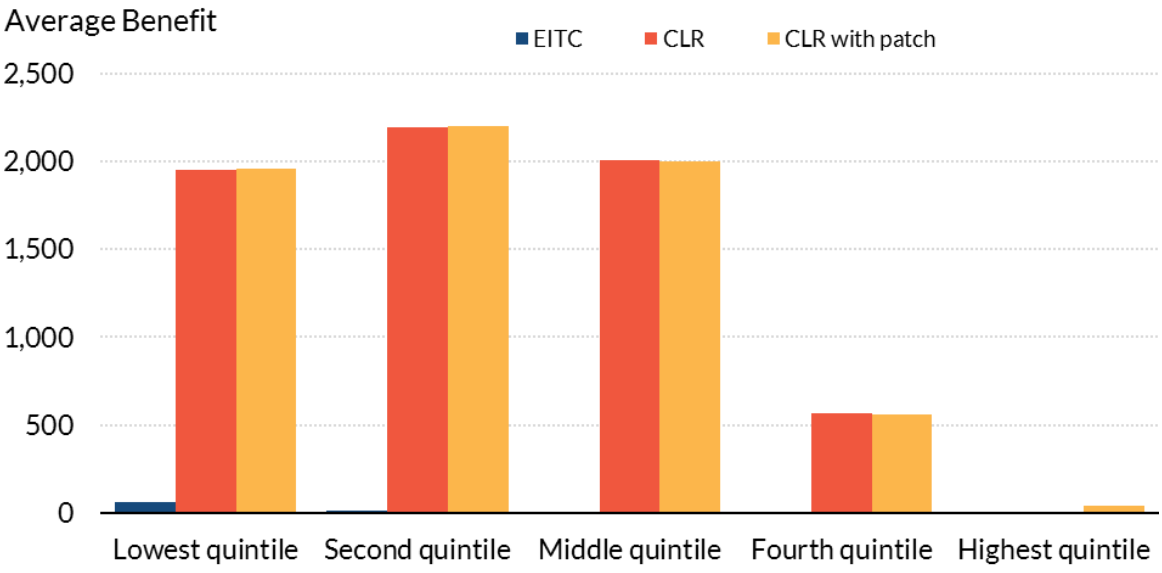


Source: Tax Policy Center microsimulation model versions 0319-1 and 0718-1.

FIGURE 8

Average Benefits of EITC and CLR, All Childless Households, 2019

By income quintile

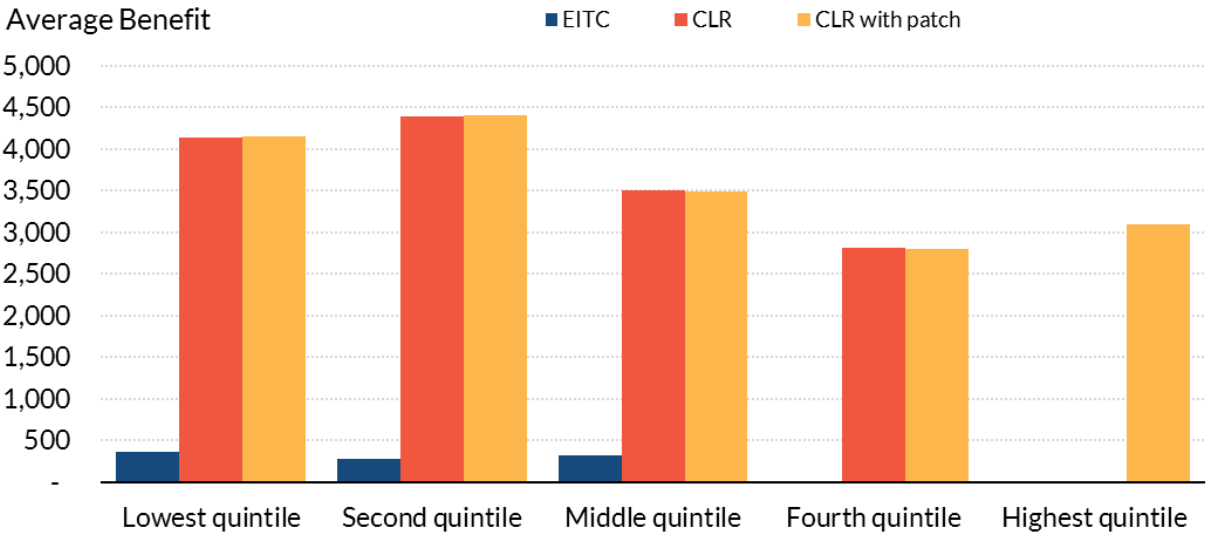


Source: Tax Policy Center microsimulation model versions 0319-1 and 0718-1.

FIGURE 9

Average Benefits of EITC and CLR, Childless Households that Benefit, 2019

By income quintile



Source: Tax Policy Center microsimulation model versions 0319-1 and 0718-1.

Overall, there are 153.7 million (nearly half of all) Americans who will receive a CLR. People in every state would benefit from the CLR. Estimates of the share of households in each state that would receive a CLR, along with average benefits (for those who would benefit) are shown in appendix B.

THE FISCAL EFFECTS OF THE COST-OF-LIVING REFUND PROPOSAL

Shifting from the EITC to the CLR would provide an additional $2.5 trillion in benefits from fiscal year 2019 to 2028. If the patch to the CLR were also included, additional benefits would total about $2.7 trillion (table 2). These would be in addition to the $683 billion in benefits the EITC is already scheduled to deliver over the decade.

TABLE 2

Cost-of-Living Refund with Patch for Single Parents

Impact on tax revenue ($ billions), budget window 2019–28

	Year										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2028
Fiscal year estimates:											
Cost-of-Living Refund (CLR)	-62	-344	-415	-328	-334	-341	-346	-350	-353	-357	-3,231
Earned Income Tax Credit (EITC)	-7	-70	-71	-72	-74	-75	-77	-78	-80	-81	-683
Net cost of proposal (CLR replaces EITC)	**-55**	**-275**	**-344**	**-256**	**-261**	**-265**	**-270**	**-272**	**-273**	**-276**	**-2,547**
Patch for singles with children	-3	-14	-17	-13	-13	-14	-14	-14	-15	-15	-131
TOTAL: CLR with patch replaces EITC	**-58**	**-289**	**-361**	**-269**	**-274**	**-279**	**-284**	**-286**	**-288**	**-291**	**-2,678**
Calendar year estimates:											
Cost-of-Living Refund (CLR)	-312	-317	-323	-331	-337	-343	-349	-351	-355	-358	-3,374
Earned Income Tax Credit (EITC)	-70	-71	-72	-73	-75	-77	-78	-79	-81	-82	-757
Net cost of proposal (CLR replaces EITC)	**-242**	**-246**	**-251**	**-257**	**-262**	**-267**	**-271**	**-271**	**-274**	**-276**	**-2,617**
Patch for singles with children	-13	-13	-13	-13	-14	-14	-14	-14	-15	-15	-137
TOTAL: CLR with patch replaces EITC	**-255**	**-259**	**-264**	**-271**	**-275**	**-280**	**-285**	**-286**	**-288**	**-291**	**-2,754**

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

Note: Assumes CLR is implemented under current tax law. For more detail, see "T19-0022 - Economic Security Project Proposal – Cost-of-Living Refund (CLR) with Patch; Baseline: Current Law; Impact on Tax Revenue ($ billions), 2019-28," Tax Policy Center, May 10, 2019, https://www.taxpolicycenter.org/model-estimates/economic-security-projects-cost-living-refund-proposal/t19-0022-economic-security.

The $2.5 trillion cost of the CLR reflects both increased benefits and expanded eligibility. These effects reinforce each other. As benefits increase, the cost of expanding eligibility goes up, and as eligibility expands, the cost of increasing benefits rises. The cost of any particular provision of the CLR thus depends on which other provisions are in place. To give a sense of the relative importance of the CLR's distinct provisions, we provide a step-by-step analysis of their fiscal costs (table 3), starting with eligibility expansions and then adding the benefit increases. Estimates of the costs associated with individual provisions would differ if we analyzed them in a different order.

TABLE 3

Decomposition of the Cost-of-living Refund

Fiscal Year Estimate, Budget Window 2019–28

	Impact on tax revenue ($ billions)
1. Allow eligible caregivers and students to claim the EITC[1]	-70
2. 1, plus lower age of eligibility to 18 and eliminate maximum age for workers	-76
3. 2, plus change phase-in rate from EITC level to CLR level (100%)	-87
4. 3, plus change maximum credit to CLR level for childless workers[2]	-1,532
5. 4, plus increase phase-out threshold to CLR level	-3,241
6. 5, plus change phase-out rate to CLR level (20%) for all recipients	-2,547
7. 6, plus patch for single filers with children[3]	-2,678

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

Notes: Uses the law in place for each year as of December 12, 2018. The final CLR proposal (step 7) would replace the EITC with a fully refundable credit equal to the lesser of $4,000 or earned income ($8,000 for married couples filing a joint return). The credit would phase out ratably between adjusted gross income, or earned income if greater, of $30,000 and $50,000 for singles and of $50,000 and $90,000 for married couples filing jointly. All dollar amounts would be indexed to the chain-weighted consumer price index after 2019. Eligible individuals must not be able to be claimed as a dependent. They are not subject to the phase-in if they are students who receive the Pell grant or meet a two-factor Pell approximation test, or if they are a caregiver for a child under age 6. The investment income limitation for purposes of the EITC would also apply to the CLR. Proposal would be effective January 1, 2019. for more information on TPC's baseline definitions, see "TPC's Methodology for 'Off-Model' Revenue Estimates," Tax Policy Center, accessed June 4, 2019, https://www.taxpolicycenter.org/resources/tpcs-methodology-model-revenue-estimates.

Estimates includes the effect of microdynamic responses and assumes a fiscal split of 20-80 for 2019; 30-70 for 2020; and 60-40 thereafter. This assumes advance payments begin July 2020. Depending on enactment date for the credit and the beginning date of advance payments, the pattern of receipts could differ.

(1) Allows students and caregivers to claim the maximum EITC they would be permitted according to the number of children in the household. These new recipients would not be subject to the EITC phase-in, but would be subject to the phase-out.

(2) Includes an increase in expected participation rate for workers without children. Take-up rates are assumed to rise between 2019 and 2023; we assume the following take-up rates for 2019 and provide the rate for 2023 and thereafter in parentheses: Current law non-filing married couples: 70.0 (80.0); current law nonfiling singles and heads of household: 60.0 (70.0); nonfiling tax units with Pell grants (additional 10.0 percentage points); filers eligible for EITC under current who do not claim EITC: 50.0 (60.0); filers ineligible for current-law EITC: singles 92.5 (95.0) and married couples 95.0 (97.5). We assume all recipients of the EITC would file to receive this credit. We also account for the assumption that some tax units would report additional self-employment income to claim the credit.

(3) The patch is available for all CLR-eligible tax units filing as single or as head of household that have at least two children eligible for the EITC. The patch is set equal to 12.5 percent of earned income up to the point at which the EITC reaches its maximum level for tax units with two children, and 18.75 percent of earned income up to the point at which the EITC reaches its maximum level for tax units with three or more children. The patch phases out with earned income or adjusted gross income (whichever is greater), at a rate of 5 percent per dollar in excess of the EITC phase-out threshold.

Adding students and caregivers to the EITC would cost about $70 billion from fiscal year 2019 to 2028, assuming they would receive benefits according to the number of EITC-eligible children in their households.[9] In other words, expanding the EITC to these groups would increase the cost of the EITC about 10 percent. Relatively few independent students and caregivers live in homes with no incomes or incomes less than the maximum credit amounts, so this keeps the revenue costs down.

Expanding age limits (assuming students and caregivers were eligible for the credit) would add about $6 billion to the 10-year cost. Expanding age limits along with allowing students to get the CLR keeps the choice between school and working neutral so that young people are not encouraged to forgo postsecondary school.

Phasing the credit in dollar-for-dollar with earnings (assuming the eligibility changes discussed previously remained in place) would cost about $11 billion over the 10-year budget window. The high phase-in rate allows the very lowest-income workers to receive higher benefits but has little effect on the overall cost because most workers receive the maximum credit or are in the phase-out range of the CLR or beyond.

Changing the maximum EITC benefit to $4,000 ($8,000 if married)—and continuing to assume the eligibility changes previously discussed and the faster phase-in—would have a much larger impact, costing about $1.45 trillion over a decade. Relative to the EITC, married couples face the highest potential for gains and benefit the most from this credit structure.

Increasing the phase-out thresholds would add another $1.7 trillion in costs, again assuming all previously discussed changes. Extending the phase-out, especially for married couples, provides full or partial benefits to many more families than does the current EITC.

Phasing this larger EITC out at a rate of 20 percent partly offsets these increases, reducing costs by about $730 billion over the 10-year budget window. This primarily reflects the large gap between the current EITC phase-out for childless workers (7.65 percent) and the 20 percent CLR rate.

Adding the single parent patch would cost an additional $130 billion over the 10-year budget window.

These individual cost estimates reflect the order in which the changes occur. If the credit expansion were stacked first, its cost would appear smaller because eligibility would be narrower and phase outs would apply more quickly. Similarly, the eligibility expansions (to low-income students and caregivers as well as workers ages 18 to 24 and age 65 or older) would appear more expensive if they occurred at the end of these changes. For example, expanding eligibility after all the other credit enhancements would cost about $600 billion.

DISCUSSION

The CLR attempts to build on the success of the EITC, a program that already delivers almost $70 billion in tax credits to about 26 million low- and moderate-income families. The CLR would deliver about $250 billion more

in annual benefits to roughly 70 million low- and moderate-income families. Implementing the patch we describe would add $15 billion in benefits each year, for a total increase in benefits of $265 billion a year.

The CLR addresses many prominent criticisms of the current EITC, including that (1) not all low-income workers benefit from the existing credit, particularly workers without resident children; (2) the credit provides the lowest benefits to those with the lowest incomes; (3) the rules surrounding qualifying children are difficult to comply with and administer; and (4) benefits from the credit are poorly timed with people's needs.

Childless Workers

The most significant group of workers largely left out of the current EITC are those with no children at home. Considered "childless" for tax purposes, these workers sometimes do have children, but their children might be too old to be considered qualifying children for tax purposes or they might live with another parent most of the time. By separating the CLR benefit amounts from qualifying children, the CLR would treat workers with and without children similarly, ultimately providing substantial benefits to childless workers. The CLR's maximum credit of $4,000 for childless workers who are not married and $8,000 for childless married workers is much larger than the roughly $530 available under the EITC.

The EITC, designed in part to be a work incentive, does not serve as such for most childless workers. This leaves them out of the antipoverty and employment effects of the credit. This is of particular concern because employment rates among less-educated working-age men with no children at home (those likely to be eligible for the childless EITC) have declined relative to men with children at home. In the late 1970s, employment rates for working-age men without children under age 18 living at home ranged from about 89 percent to 92 percent (depending on education levels). By 2017, employment rates of men without children under 18 at home dropped relative to more highly educated men (varying from 73 percent for those with a high school diploma or less to 90 percent for those with more than a bachelor's degree). Working-age women with low education who did not live with children under age 18 had persistently low employment rates relative to similar women with higher educations. The gap between women with a high school education or less and those with more than a bachelor's degree has persisted at around 20 percentage points over this same period.[10] Proponents of an expanded childless EITC suggest that increasing the EITC for childless workers (including noncustodial parents) could have several benefits akin to those experienced by workers with children.

Research has found that the EITC increases work, particularly among single-parent families, and modestly reduces work among married women with children (Eissa and Hoynes 2006; Eissa and Liebman 1996; Meyer and Rosenbaum 2001). One study suggests that ignoring the labor supply effect of the EITC could lead researchers to underestimate the credit's effectiveness in reducing poverty by as much as 50 percent (Hoynes and Patel 2018).

Though most research into the employment effects of the EITC has focused on families with resident children, some evidence shows that the EITC also increases employment among childless workers. Nichols,

Sorensen, and Lippold (2012) found that a New York EITC policy targeted at noncustodial parents who pay child support increased employment among those with relatively small-dollar child support orders (who are likely a low-income group). The recent New York City Paycheck Plus demonstration found that an expanded credit for childless workers modestly increased employment rates (Miller et al. 2018). Evidence suggests that higher employment rates are associated with other societal benefits, such as reduced crime and increased rates of marriage (Mustard 2010).

By providing a substantial credit to childless workers, the CLR would extend EITC benefits to this group, reducing poverty and likely increasing work. This would be a significant change to the EITC and mirrors a change proposed in EITC legislation (see, for example, the CLR sponsored by Representative Khanna and Senator Brown, as well as the LIFT the Middle Class Act sponsored by Senator Harris).

Extending Benefits to the Lowest-Income Workers; Redefining Work

The CLR increases benefits for very low-income workers in two ways. First, the credit phases in dollar-for-dollar with the first $4,000 of earnings ($8,000 if married). Second, it provides a benefit to students and caregivers of young children, children with disabilities, and older dependents: they will be considered the same as individuals earning $4,000 ($8,000 if married) even if they have no earnings or earnings less than those minimums.

The phase-in rate is the key driver determining whether and how much people with the lowest incomes will benefit from the credit. In 2019, we estimate that 16.8 million people are in households with earnings that receive less than the full EITC because their earnings are too low to qualify for the maximum credit (this number includes both adults and children). The CLR increases benefits for this group of people by substantially increasing the phase-in rate to a dollar-for-dollar match. That is, for each $1 of earnings, eligible people receive $1 of credit until they reach the maximum credit for which they qualify.

Allowing the credit for low-income students and caregivers alters the traditional definition of work (which, for tax purposes, typically encompasses only people with earnings) to include some people engaged in "work-like" activities that ultimately benefit society. The credit does not phase-in for this group, so criticisms of the phase-ins of standard credit design do not apply. This does not completely answer the criticism put forth by Bruenig (2018) and others (that people with the very lowest incomes receive no or low benefits, and that credits dependent on earnings cast some people as "undeserving"), but it increases the credit's progressivity by lowering the amount of earnings needed to qualify for the maximum benefit.

Simplification

The CLR would simplify benefits administration for the IRS and claiming for many people who must sort through complicated rules for determining who is a qualifying child for the EITC. Parents under age 18 would still need to determine whether they have a qualifying child because, as with the EITC, the CLR would continue to extend benefits to this group.

An IRS study of returns claiming the EITC found that from 2006 to 2008, between 28.5 and 39.1 percent of all EITC dollars claimed were overclaims totaling between $14.0 billion and $19.3 billion (IRS 2014). The largest source was error in classifying children as "qualified." Roughly 75 percent of all tax returns with qualifying-child errors violated the requirement that children live with the taxpayer in the United States for more than six months of the year (IRS 2014). The IRS receives no administrative data that can verify where a child resided for most of the year, making it difficult for the agency to monitor compliance. Attempts to use administrative data from other programs to verify child residence have not proven successful (Pergamit et al. 2014). The CLR bypasses this determination for almost all claimants by separating eligibility for the benefit from the presence of children, a set of tests than can be particularly difficult to understand and administer (Fichtner, Gale, and Trinca 2019).

Complex rules can also dampen participation in the tax credit (Goldin 2018). In tax year 2015 (the latest year for which data have been made available), the IRS estimates that between 77 percent and 80 percent of people who appear eligible for the EITC actually receive benefits.[11] Participation rates under the CLR could rise if the benefit becomes easier to understand.

Finally, simplifying the benefit could reduce low-income families' reliance on potentially costly tax administration services. Many low-income families owe no tax but must still file a tax return to receive refundable tax credits, including the EITC. Those who do file often seek help, which nearly always comes from a paid preparer. The cost of that help erodes the net value of refundable credits.

Timing

The vast majority of EITC recipients receive the credit as a tax refund a few weeks after filing their income tax return for the prior year. Income earned in 2019, for example, will be used to calculate the EITC on the 2019 tax return, which is filed in early 2020. Beneficiaries thus receive the EITC well after the year in which they qualified for it. A few beneficiaries with relatively high earnings can offset this timing mismatch, at least in part, by having less federal income tax withheld from their paycheck. But such adjustments apply only to the small fraction of EITC benefits that offset income taxes.[12]

When a family receives the credit is important. For many people, the EITC represents a substantial portion of their annual income. In many cases, is it their single largest financial transaction each year.[13] Delivered as a lump sum, the credit presents opportunities to boost savings (Mendenhall et al. 2012) and purchase durable goods (Barrow and McGranahan, 2000; Goodman-Bacon and McGranahan 2008). But a lump-sum credit falls short in providing assistance to low-income families who might struggle with regularly recurring expenses such as child care, rent, and groceries. Evidence suggests this might be the case, because a large share of EITC amounts are received by taxpayers after filing their tax returns and then are used for paying down accumulated consumption debts (Despard et al. 2015).

Several analysts have posited that if low- and moderate-income families had access to part of their EITC during the year, they would be less likely to have income inadequate to cover their expenses and would enjoy higher levels of economic security (Halpern-Meekin et al. 2015; Holt, 2008, 2009; Vallas, Boteach, and West 2014). The credit could also promote income stability rather than adding volatility to already unstable incomes.[14] Spreading the credit over multiple payments might even be preferred by some people. When surveyed, many low-income people expressed a stronger preference for stable income than for more income (Pew Charitable Trusts 2015). A large majority of people who participated in a Chicago demonstration project that advanced EITC payment throughout the year reported that they would prefer to continue receive their EITC in this way (Bellisle and Marzahl 2015). Income instability is a significant issue for many households, especially for low-income households. Analysis of the Survey of Income and Program Participation showed that almost two-thirds of low-income families experience at least one month where income spikes 25 percent above or dips 25 percent below their average monthly income. Nearly 40 percent of low-income households have incomes that spike or dip in at least six months of the year (Maag et al. 2017).

The CLR would allow recipients to receive benefits throughout the year. Beneficiaries would document their income and estimate their CLR benefits. They would then have the option to receive at least part of their benefit in advance, which could help smooth incomes over the course of the year, potentially easing the stress of sudden drops in income from other sources.

At one point, an advance option for the EITC existed, but it was ultimately eliminated, likely because of very low take-up rates. Since the elimination of the advance option, several small-scale experiments have been conducted that indicate an advanced payment option could help low-income families that qualify for the EITC. A recent experiment in Chicago advanced the EITC to a small group of likely eligible taxpayers. The analysis found that when recipients were provided quarterly advances of their EITC, they were more likely to be able to afford child care and education. Recipients reported being more likely to make ends meet than in the prior year, when their credit was distributed as a lump sum. Recipients were less likely to face financial stress and experience food insecurity, and they were more likely to pay rent and basic bills when due (Mendenhall et al. 2015). It is not clear whether these results would hold if payments were more frequent.

CONCLUSION

Annually, the EITC delivers about $70 billion In benefits to about 26 million low- and middle-income families. The CLR would deliver about $250 billion in benefits to 72 million low- and middle-income families. From fiscal years 2019 to 2028, the proposal would cost $2.5 trillion. When added to the $680 billion in benefits already delivered by the EITC, total benefits from the CLR would be $3.2 trillion.

As with the EITC, the CLR would provide a refundable tax credit. Single workers would qualify for a maximum benefit of up to $4,000 a year; benefits for married couples could be up to $8,000 a year. For the small share of single parents with at least two children who would qualify for lower benefits under the CLR than

under the current EITC, a single-parent patch could be implemented as part of the CLR, reducing revenues over the 10-year budget window by an additional $131 billion. On average, people who receive some benefit from the patched CLR would receive $3,321. Benefits would vary based on the characteristics of recipients in each state.

The CLR departs from the EITC in several ways. Not only would the proposal change the maximum credit, the maximum credit would be determined without regard for how many children are in the household, ultimately simplifying credit eligibility. The CLR would phase in much faster than the EITC and provide the maximum benefit to low-income students and caregivers, who would be considered working for credit purposes. Together, this would deliver additional benefits to very low-income workers. The CLR would also expand eligibility by allowing childless workers ages 18 to 23 to receive benefits as well as childless workers over age 64. Both are currently ineligible for EITC benefits.

Benefits for the CLR begin to phase out at higher incomes than EITC benefits, which allows more middle-income workers to benefit from the CLR. Still, the CLR's benefits are progressive.

Finally, the CLR would allow beneficiaries to receive the credit throughout the year as expenses are incurred rather after the year when tax returns are typically filed. This can help alleviate Income volatility for low- and middle-income workers. The proposal would encourage the development of automatic filing, a facet not analyzed in this paper.

APPENDIX A. RULES FOR QUALIFYING CHILDREN AND RELATIVES

Table A.1

Qualifying Child and Relative Eligibility Rules for the Caregiver Portion of the CLR

Tests for Qualifying Child	Child tax credit or other dependent tax credit	Applied to CLR
Relationship	Your child must be your son, daughter, stepchild, foster child, or a descendant (for example, your grandchild) of any of them; or your brother, sister, half-brother, half-sister, stepbrother, stepsister, or a descendant	Same
Age	Your child must be under age 19 at the end of the year and younger than you (or your spouse if filing jointly), a student under age 24 at the end of the year and younger than you (or your spouse if filing jointly), or permanently and totally disabled at any time during the year, regardless of age.	For CLR eligibility, must be under age 6 at the end of the year or permanently and totally disabled
Residency	Your child must have lived with you for more than half the year. There are exceptions for temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents.	Same
Support	Your child can't have provided more than half of his or her own support for the year.	Same
Joint Return	Your child can't file a joint return for the year.	Same
Tests for Qualifying Relative	**Child tax credit or other dependent tax credit**	**Applied to CLR**
Not a qualifying child	Your relative does not meet the above tests.	Same
Member of household	Your relative lives with you all year as a member of your household. Relative can meet the relationship test or this test.	Same
Relationship	Your relative is your child, stepchild, foster child, or a descendant of any of them (for example, your grandchild); (A legally adopted child is considered your child. ; your brother, sister, half-brother, half-sister, stepbrother, or stepsister; your father, mother, grandparent, or other direct ancestor, but not foster parent ; your stepfather or stepmother; a son or daughter of your brother or sister or a son or daughter of your half-brother or half-sister; a brother or sister of your father or mother; or your son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law. Relative can meet the Member of Household test or this test.	Same
Gross income	The relative's gross income for the year must be less than $4,150.	Same
Support	You generally must provide more than half of the relative's total support during the calendar year.	Same
Age	No test applies for qualifying relatives.	Under age 6 or permanently and totally disabled or age 25 or older

Source: Publication 972 (2018), "Child Tax Credit," Internal Revenue Service, last updated January 10, 2019; and https://costoflivingrefund.org/.

APPENDIX B. STATE BENEFITS OF THE COST-OF-LIVING REFUND

Table B.1

State Benefits of the Cost-of-Living Refund

State	Share receiving CLR benefits (%)	Average CLR benefit ($)
United States	42	-3,321
Alabama	46	-3,253
Alaska	41	-3,340
Arizona	44	-3,353
Arkansas	48	-3,475
California	42	-3,423
Colorado	41	-3,409
Connecticut	35	-3,236
Delaware	40	-3,244
District of Columbia	34	-2,760
Florida	45	-3,296
Georgia	46	-3,153
Hawaii	41	-3,374
Idaho	46	-3,706
Illinois	40	-3,266
Indiana	44	-3,389
Iowa	41	-3,429
Kansas	43	-3,451
Kentucky	46	-3,559
Louisiana	46	-3,055
Maine	44	-3,592
Maryland	37	-3,143
Massachusetts	36	-3,263
Michigan	41	-3,399
Minnesota	39	-3,332
Mississippi	50	-3,076
Missouri	44	-3,404
Montana	43	-3,585
Nebraska	43	-3,419

APPENDIX B. STATE BENEFITS OF THE COST-OF-LIVING REFUND

State	Share receiving CLR benefits (%)	Average CLR benefit ($)
Nevada	46	-3,313
New Hampshire	38	-3,361
New Jersey	36	-3,269
New Mexico	47	-3,322
New York	41	-3,254
North Carolina	45	-3,348
North Dakota	40	-3,362
Ohio	42	-3,326
Oklahoma	46	-3,464
Oregon	41	-3,535
Pennsylvania	40	-3,364
Rhode Island	41	-3,231
South Carolina	46	-3,313
South Dakota	44	-3,406
Tennessee	47	-3,398
Texas	47	-3,283
Utah	45	-3,606
Vermont	42	-3,446
Virginia	39	-3,333
Washington	38	-3,441
West Virginia	44	-3,722
Wisconsin	41	-3,408
Wyoming	41	-3,480

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).

Note: The average benefits column gives the average benefit for households that receive the CLR.

NOTES

[1] The official poverty measure does not include the effect of taxes. In the early 1990s, Congress commissioned a panel of experts from the National Academies of Science to address key shortcomings of the official measure. From this work came the supplemental poverty measure, a more comprehensive measure of whether someone has enough resources for consumption of basic needs such as food, housing, clothing, and utilities. Included in resources are the effect of taxes, including the EITC. The most recent calculation of the effect of taxes on poverty, as measured by the supplemental poverty measure, can be found in Fox (2018).

[2] Senator Sherrod Brown and Representative Ro Khanna have introduced their own EITC expansion also called the cost-of-living refund; the analysis in this paper applies only to the Economic Security Project's proposal. Senator Cory Booker has proposed an EITC expansion, called the Rise Credit, based on the Economic Security Project's CLR. For more information on the Economic Security Project's CLR proposal, see "The Cost-of-Living Refund Fights Inequality and the Rising Cost of Living," Economic Security Project, accessed June 4, 2019,https://economicsecurityproject.org/cost-of-living-refund/, and https://costoflivingrefund.org/.

[3] For ease of exposition, we use the term "household" in place of "tax unit." In many cases, tax units and households are the same thing. In some cases, a household contains multiple tax units. This is often the case in multigenerational households (for example, a grandparent in a household might be one tax unit while the child and parent form a separate tax unit) and among cohabiting, (unmarried) couples that typically form two tax units.

[4] Although referred to as "childless" these workers may have nonresident children or children too old to qualify for the EITC, making them childless for tax purposes.

[5] These credit amounts would be indexed to the chained consumer price index for urban consumers, just as the maximum EITC credits are today.

[6] Qualifying relatives and dependents do not need to meet the gross income test, can file a joint return, and the eligible taxpayer or spouse can be claimed on another person's return.

[7] Although the proposal lowers the minimum age of eligibility from 25 to 18, it still requires that all recipients be independent for tax purposes—that is, they must not be eligible to be claimed as a dependent on another person's tax returns. This prevents young workers or college students who are still financially dependent on their parents from claiming the CLR.

[8] These distributional analyses focus solely on the effects of the CLR and how it compares to today's EITC. A broader analysis would also consider how the CLR would be financed. The net effects could be more or less progressive than described here depending on financing choices. Paying for the CLR by raising taxes on households with high incomes, for example, could generate a more progressive policy, while paying for it by rolling back existing transfer programs could generate a less progressive policy.

[9] Because of modeling limitations, these estimates do not include caregivers of nonchild dependents.

[10] Author's calculations using Current Population Survey data from 1967 to 2017. The Current Population Survey excludes institutionalized people, including people who are incarcerated. For more detail, see Maag, Marron, and Huffer (2019).

[11] "EITC Participation Rate by States," Internal Revenue Service, last updated March 11, 2019, https://www.eitc.irs.gov/eitc-central/participation-rate/eitc-participation-rate-by-states.

[12] In 2018, the EITC delivered $62.6 billion in benefits. Of that, $8.1 billion offset taxes owed (OMB 2019), so it could have been delivered over the course of the calendar year by reducing taxpayers' withholding.

[13] JP Morgan Chase Institute, "Taking the Financial Stress Out of Tax Time," April 13, 2016, https://www.jpmorganchase.com/corporate/institute/insight-taking-financial-strees-out-of-tax-time.htm.

[14] Julie Siwicki, "Creating an Income Spike, Part 1: Tax Time", US Financial Diaries blog, March 10, 2015. https://www.usfinancialdiaries.org/blog/2015/3/5/creating-an-income-spike-part-i-tax-time?rq=earned%20income%20tax%20credit.

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