



Center for Research on Fathers, Children and Family Well-Being

NCP EITC Employment Brief

The Issue

The federal earned income tax credit (EITC) is now the largest anti-poverty program in the U.S. providing payroll tax relief and work incentives to thousands of families headed by low-wage workers. In 2009 the EITC lifted 6.6 million people out of poverty (Center on Budget and Policy Priorities, 2009). The dollar amount of the credit is based upon a formula that includes an individual or couple's income for the year as well as the number of dependents in the household. The maximum credit for a childless worker is a fraction of the maximum credit for a single custodial parent.¹ Additionally, the earnings limit for the maximum credit is significantly lower for childless workers. For the purposes of the federal EITC, non-custodial parents (NCPs) are considered childless workers, regardless of the amount of child support, or other financial contributions they provide to their children.

For the 2008 tax year, a single parent with one child who earned between \$8,580 and \$15,740 was eligible for the maximum credit of \$2,917. On the other hand, a childless worker could only earn between \$5,720 and \$7,160 in order to receive the maximum credit of \$438. Thus a single parent fully employed at minimum wage (2008 gross earnings would have been \$12,812), would have received the maximum credit, while a childless worker with the same earnings would only have qualified for a maximum credit of \$48 (Scott, 2008).²

Policymakers are seeking ways to increase the childless worker credit and provide additional support to NCPs who support their children financially; because NCPs with low incomes and childless workers with low incomes are two populations whose incomes dip below the poverty line after taxes. In 2006 New York State (NYS) became the first state to enact an EITC for non-custodial parents (the NYS NCP EITC). Given that it was the first NCP EITC in the nation, policymakers are interested in how it is working.

Our Study

In the credit's first year the take-up rate was low; only 5,280 non-custodial parents (12% of all New York State

income-eligible non-custodial parents) received the credit (Sorensen, 2010). In order to explore why so few non-custodial parents have received the credit, and how to find out how potential recipients think they would spend the credit, CRFCFW undertook a qualitative study of participation and hypothetical allocation of the NYS NCP EITC among non-custodial fathers. Funding was provided by The Ford Foundation and The Open Society Institute.

Our first policy brief focused on barriers to eligibility for the NYS NCP EITC. The main barrier among the study's sample of income-eligible non-custodial fathers was failure to meet the eligibility criterion of having paid 100% of their child support order for the year.

In this brief, the second of four, we examine the following employment-related questions.

- Were these respondents similar to the NCPs who policymakers hoped to assist through the NYS NCP EITC?
- Can we learn anything from these respondents about how much the intended recipients of the NYS NCP EITC would have known about the policy and how they would have spent the credit, had they received it?

Methods & Sample

To recruit a representative sample, we originally hoped to be in the field at the beginning of tax season stationed at free tax preparation sites serving low-income people, such as the New York City VITA (Volunteer Income Tax Assistance Program) sites. Unfortunately, funding for the NYC VITA sites required that filers with custodial children receive priority in the first two months of the year; filers without dependent children could access services in March. We suspected that many in our target population would go elsewhere to have their taxes prepared, rather than wait. So we

1. The example provided is based upon the 2008 credit figures for a single (custodial) parent with either one or two children.
2. Annual minimum wage (full time) for 2008 is calculated as 29 forty-hour weeks at \$5.85 per hour and 23 forty-hour weeks at \$6.55 per hour (federal minimum wage increased from \$5.85 to \$6.55 on July 24, 2008).

arranged to recruit study participants at H&R Block locations in four of the five boroughs starting in February, 2009.

We soon found that the H&R Block customers typically exceeded the earnings threshold for the NCP EITC and were thus not our target population. Few who met the earning's threshold had non-resident children or formal child support orders. Thus, we recruited only four respondents from H&R Block.³

Finally, we recruited thirty-nine NCPs, most with child support orders and low-to-moderate incomes at three of the five sites providing services under the *Strengthening Families through Stronger Fathers Initiative* (SFSFI).⁴ Two of these sites were in Manhattan and one was in Chautauqua, NY. Though NCPs enrolled in SFSFI-funded programs could not meet the full child support compliance criteria for the NYS NCP EITC, we were confident that they were similar to the NYS NCP EITC target population in other respects.

Study participants completed a short multiple choice survey, to assess eligibility and to gather demographic data, before participating in a one-on-one semi-structured interview.⁵ All short survey and long interview data refer to the 2008 tax year.

Background of the Sample

Study participants were between the ages of 23 and 52, with a mean age of 35. Roughly a third were younger than 30, a third were in their 30's and a third were over 40. The race/ethnicity of the sample was as follows: 19 Black, 14 Hispanic, 1 Other, 9 White. All of the White respondents were recruited at the Chautauqua site.

A majority of the sample (65%) had attended some college or trade school, after obtaining a high school diploma or GED. However, only 19% of the sample actually completed a degree in higher education (14% associates and 5% bachelors). Twenty-one percent had completed high school or the GED, but had no additional education or training. Fourteen percent of the sample had not completed high school or its equivalent.

About 30% of our respondents had been unemployed, underemployed, or working “off the books” for eight months or more. Of this 30%, the majority had felony convictions, which greatly limited their job prospects, regardless of the economic climate. Their offenses were typically drug or weapon possession, though a few—mostly the White respondents from Chautauqua—had been convicted of felony-assault. These NCPs, who we called disadvantaged workers, frequently defaulted on their child support obligations and were the more typical clients of programs like those from which we recruited our sample.

Almost half (49%) of our respondents had been laid off or had been experiencing difficulty finding work for up to six months because the 2007-2009 recession had already been underway for 15 months by the time we began our interviews (February 2009). Thus, unemployment, underemployment and the resulting child support non-compliance were fairly recent and atypi-

cal events for this group, who had been steadily employed before December 2007. Service providers corroborated that as a result of the recession, their programs had experienced an influx of these dislocated workers. Searching for jobs that would pay as much as the jobs the dislocated workers had held before the recession was one of several new challenges for the programs.

The remaining 21% of our respondents were employment in the formal labor market, although the some held part-time jobs, subsidized jobs, or jobs that paid lower wages than the jobs they held before the recession. Taken together the employed and dislocated workers represented nearly 70% of our sample.

Prior Employment

Prior to the recession, the employed and dislocated workers held a variety of jobs, such as security guard, computer help desk attendant, factory line worker, taxi driver, food preparer, and grocery clerk, as well as positions in the farming and healthcare industries. In 2007 some had even earned the U.S. median earnings for males. For most, a layoff occurring late in 2008 began a downward spiral involving lower paying jobs in the formal labor market, subsequent layoffs, part-time employment, and working off the books.

In considering what, other than the recession, may have prolonged unemployment and underemployment among the dislocated workers, we hypothesized that some dislocated respondents may have possessed less developed soft skills or less-effective social or professional networks than workers with similar work histories who found other full-time, formal sector jobs, after a layoff.

Of course longer term trends also influenced the employment and earnings of this cohort of men. For example, the decline in manufacturing jobs, which had been occurring since the 1970s, has had a strong adverse impact on men with less than a college degree. Although Wilson (1997) and many others have emphasized the adverse effects of this decline on the work prospects of Black men in large urban areas, a similar phenomenon affected the White respondents in Jamestown, NY at the Chautauqua site. Jamestown was once known as the “furniture capital of the world,” but the majority of manufacturing jobs that earned the city the title are now gone. Many of the Chautauqua respondents relayed that the service sector jobs, which have the most openings in the region, are

3. Storefront tax preparation centers were also considered, but most of these small operations use the short form exclusively, and charge a minimal fee (\$50). The NYS NCP EITC required additional forms, which the storefront operations would not supply or complete.

4. New York's *Strengthening Families through Stronger Fathers Initiative* was funded under the same legislation that established the NYS NCP EITC. The initiative's programming was designed to serve unemployed and underemployed non-custodial fathers.

not adequate for meeting basic expenses (NYDOL, 2012).

Five of the nine Chautauqua respondents were disadvantaged worker. Many were working “off the books” because, with limited skills or felony convictions, they were unable to find formal sector jobs.

Working off the Books to Make Ends Meet

Most of our respondents spent at least some of their time working off the books as part of an income-packaging strategy designed to make ends meet. The employed and dislocated workers were able to keep afloat by cutting back on regular expenditures, spending down their savings and unemployment insurance benefits, and relying more heavily on a partner or spouse. Until they ran out, savings and unemployment insurance helped many meet their support obligations, after seeking a downward modification of their child support orders.

The income packaging strategy used by disadvantaged workers was much simpler. Few had savings or unemployment insurance, so they doubled up with friends or relatives and worked off the books to survive. Many had also been able to qualify for reductions to their child support orders to the set fee of \$25 (or \$50) per month, which New York State sets by applying the child support guidelines to the incomes of poor (or near-poor) NCPs, after deducting a self support reserve.

Though most of our respondents endured the pitfalls of working “off the books,” these pitfalls were most salient to the employed and dislocated workers. Pitfalls included job insecurity and the risk of having the hours or wages they were promised by their employers reduced arbitrarily. Besides working without health or unemployment insurance, working “off the books” also meant no worker’s compensation to protect them in the event of work-related injury or illness. Finally, unaccustomed to “off the books” work, several dislocated workers experienced stress because working this way was illegal.

By contrast, the disadvantaged workers complained little about these pitfalls. Instead, many valued “off the books” work because it avoided automatic wage withholding or the formal child support enforcement system, altogether. Unless, their orders reflected the self-support reserve, child support guidelines required low-income NCPs to pay a higher fraction of their income than high-income NCPs. Thus, avoiding the formal child support enforcement system left them with more disposable income. Still, all of our respondents agreed that they could not earn enough working “off the books.” They would much prefer to have a steady, formal sector job, which paid enough to meet their wants and needs and those of their families including their child support obligations.

Finally, though none of our respondents mentioned this, another pitfall of “off the books” work was that such earnings could not be counted towards the earnings that were incentivized by the NYS NCP EITC.

Conclusion

To recruit our sample, we had to rely on programs that provided employment services to NCPs who had defaulted on their child support obligations. Though respondents recruited this way could not meet the full-compliance criteria for the NYS NCP EITC, most were either currently employed, though sometimes in part time, subsidized jobs, or low-paying jobs, or had previously held regular jobs in the formal economy, prior to the recession. They were accustomed to receiving regular paychecks, balancing their household budgets, paying their taxes and meeting their child support obligations. The unemployment and underemployment they were experiencing at the time of our interviews was mostly due to the difficulty of finding a job in during the recession. They should have known about the policy and could tell us much about how the population policymakers hoped to assist would spend the NYS NCP EITC if they received it.

The remaining respondents (30%) were disadvantaged workers with chronically low and unstable earnings, because most had felony convictions. They would probably not meet the full compliance criteria of the NYS NCP EITC, even in good economic times. Still, their experiences and thoughts about the NYS NCP EITC can tell us about the limits of work-based income security policies under conditions of high unemployment and mass incarceration. In the near future, these conditions will provide the context for employment and earnings for many NCPs.

Our next research brief considers how much our sample knew about the NYS NCP EITC and how they would have spent it.

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