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# CLOSING THE GAP

Expanding the Earned Income Tax Credit to Younger, Childless Workers in New Jersey

**Prepared for:** The United Way of Northern New Jersey

**Prepared by:** Genesis Arteta, Rory Daly, Alyssa Howes, Fope Idowu, Whitney Rosenbaum, Cayla Sekuler

**Advised by:** Dr. Andrea Hetling, PhD

## Public Policy Practicum

Edward J. Bloustein School of Planning and Public Policy  
Rutgers, the State University on New Jersey



# Executive Summary

The Earned Income Tax Credit (EITC) is a refundable tax credit designed to be an anti-poverty tool that encourages work and supplements the income of individuals throughout the United States. In conjunction with the federal EITC, many states have enacted their own version of the program to further its reach. Research on the EITC indicates that the program has vast benefits including stimulating the economy and bolstering employment rates, improving financial security of low-income individuals in retirement, and reducing the recidivism rate among incarcerated women. Although the program lifts many people out of poverty, eligibility criteria excludes individuals ages 18 to 24 without children.

This report seeks to explore:

- the political feasibility of expanding the New Jersey EITC (NJ EITC) to include childless, adult workers under 25 years of age
- the estimated number of potential beneficiaries with an EITC age expansion in New Jersey
- the demographic and socioeconomic composition of such beneficiaries

We used a two-part approach to assess the political feasibility and potential impact of expansion. First, we developed case studies of the only three states to lower the age of eligibility of the EITC, California, Maryland, and Minnesota, analyzing the policy formation processes and strengths and weaknesses of each approach. Secondly, using the 2016 American Community Survey and Internal Revenue Service EITC eligibility standards, we conducted a target group analysis to estimate the number of eligible individuals in New Jersey that would receive benefits if the age requirement was lowered to 21 or 18 and observed key demographic information including race and ethnicity, educational attainment, number of hours worked, and employment status.

Findings:

- In the three states that successfully expanded the EITC to childless workers under 25, think tanks and advocacy organizations played an important role in providing support and evidence in favor of the EITC expansion, disseminating pertinent information and partnering with elected officials.
- Approximately 17,000 New Jerseyans would be eligible for the NJ EITC if the age requirement was lowered to 18. The majority of these individuals, more than 70%, are between the ages of 21 and 24 years old. The additional beneficiaries would cost the state about \$3 million, only a 1% increase in the total cost of running the NJ EITC.
- The majority of potential beneficiaries are Non-Hispanic White females, who are employed mostly as for-profit employees with some college education. Potential beneficiaries are also mostly not recipients of public assistance or SNAP, do not have a disability, and have health insurance coverage. Education level and work hours per week varied by age group.

Recommendations:

1. Advocate to lower the NJ EITC age requirement to 18, which could be impactful for the young and childless population group. Lowering the age limit seems politically feasible and would be a small fraction of the state population and the existing cost of the program in New Jersey.
2. Build coalitions with think tanks and advocacy groups to raise awareness and increase public support for the proposed expansion. New Jersey has a robust advocacy community comprised of a large number of active organizations that have the capacity to provide supporting research, form partnerships with elected officials, and launch strategic NJ EITC expansion campaigns.
3. Conduct further research on mechanisms to fund expansion in order to address the burden of increased NJ EITC program expenditures of approximately \$3 million per year on the state budget. With parts of the New Jersey budget continuously underfunded for years, New Jersey has a number of policy options to generate additional tax revenue to compensate for increased NJ EITC costs.

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# Acknowledgments

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## Purpose and Overview of Study

The Earned Income Tax Credit (EITC) is a refundable tax credit program with bipartisan support, that lifts millions of low and moderate-income individuals and families out of poverty with wage supplementation, while also encouraging and rewarding work. Among federal anti-poverty programs, the EITC is the second largest behind Social Security in terms of impact on the number of individuals living below the poverty line. In 2016, the EITC lifted 5.8 million people above the federal poverty line, including 3 million children in 2016 and reduced the severity of poverty of an additional 18.7 million people (Maag, 2016; Center on Budget and Policy Priorities [CBPP], 2018).<sup>1</sup> Since the program's implementation in 1975, 29 states and the District of Columbia have implemented state-level EITC programs, to provide additional support to low-income households. State EITC programs supplement the federal credit, providing an additional earnings boost to working families.

Under the current EITC program structure at the federal and state level, 97% of benefits accrue to individuals and families with children (Maag, 2017). Eligibility requirements prevent childless working adults (singles and non-custodial parents) younger than 25 years of age from participating in the federal EITC program and as a result, they are one of the lone groups taxed deeper into poverty by the federal tax code (Marr, Huang, Murray, & Sherman, 2016).

Recognizing this issue, the United Way of Northern New Jersey (UWNNJ) asked a team of graduate students from the Edward J. Bloustein School of Planning and Public Policy at Rutgers University to examine the estimated impact of expanding the EITC in the state of New Jersey. Specifically, UWNNJ asked the practicum team to assess the impact of lowering the New Jersey EITC (NJ EITC) age requirement for adult non-dependent and childless single taxpayers, younger than 25. To examine the estimated impact, this report explores: (1) the political feasibility of expanding the NJ EITC to include childless adult workers under 25 years of age and (2) the estimated number and composition of potential beneficiaries with an NJ EITC age expansion.

The practicum team approached this research question using two methodologies. The first was a multiple-case design. Specifically, a set of individual case studies were used to explore the feasibility of expanding the EITC in New Jersey. The intent was to develop a better understanding, including strengths and shortcomings, of the policy formation processes in states that successfully passed legislation for state EITC expansion.

Secondly, a target group analysis was used to estimate the impact of expansion by quantifying the number of eligible individuals in the state of New Jersey. This analysis was conducted using the U.S. Census Bureau's American Community Survey (ACS) along with Internal Revenue Service (IRS) tax guidelines. The intent was to estimate the size and composition of potential beneficiaries with an NJ EITC age expansion. More information on both methodologies can be found in later sections of this report, with in-depth documentation provided in our appendices.

The contextual background in this report was gathered by the practicum team through close examinations of existing literature and publicly available information on the state of New Jersey and the EITC. This literature and document review were supplemented with discussions with researchers in New Jersey and Washington, D.C. focused on federal and state EITC expansion.

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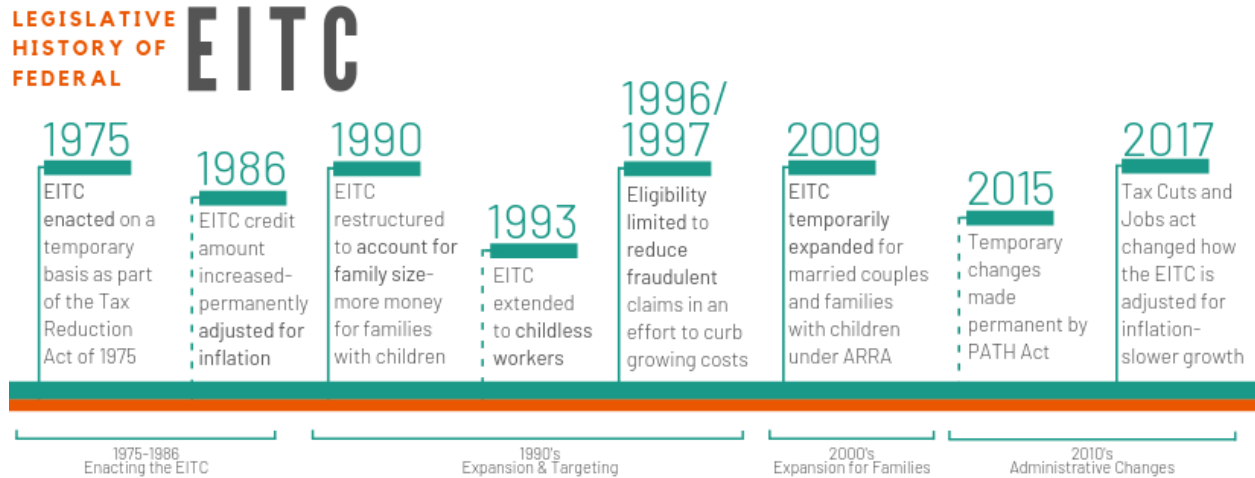
<sup>1</sup> The federal poverty line is an official measurement used by the federal government to determine eligibility for certain social programs and national poverty rates. In 2019, the federal poverty line for a one person household is \$12,490 according to the U.S. Department of Health and Human Services.



# Background: Earned Income Tax Credit

## Federal Earned Income Tax Credit Legislative History

Figure 1. Legislative History of the Federal EITC



### Enacting the Work Bonus: 1975-1986

The EITC found its beginnings in the debate over the growing U.S. welfare state in the 1960s and 1970s. Concerns about an increasing number of people receiving Aid to Families with Dependent Children (AFDC) spurred the creation of the EITC as an anti-poverty program that incentivizes work. Initially proposed as a “work bonus” plan by Senator Russell Long (D- LA), the EITC was designed to benefit workers with children. The EITC was enacted on a temporary basis as part of the Tax Reduction Act of 1975 (Crandall-Hollick, 2018). The EITC provided a 10 percent bonus to the first \$4,000 an individual made with a maximum benefit of \$400 and phased out between \$4,000 and \$8,000. The program was reauthorized multiple times until it was permanently enacted by the Revenue Act of 1978 which also increased benefits to \$500. Two more credit increases followed in 1984 and 1986 to adjust for cost of living. The 1986 expansion also permanently adjusted the EITC for inflation.

### Expansion and Targeting of the EITC: 1990s

During the 1990s, policymakers continued to refine the EITC and expand its benefits. The Omnibus Reconciliation Act of 1990 restructured the EITC to account for family size, thus increasing the credit for families with more children. The Omnibus Reconciliation Act of 1993 expanded this change and extended the credit to childless workers between the ages of 25 and 64. As the EITC expanded, certain issues with its structure became evident. One of the most critical problems to lawmakers were increasing costs of the program and the proliferation of fraudulent claims. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 and the Taxpayer Relief Act of 1997 both sought to limit eligibility and reduce fraudulent claims in an effort to curb the growing costs of the program. These legislative changes restricted eligibility to those who were authorized to work in the United States, improved administration of credit, and prevented higher-income (not earned income) taxpayers from claiming the credit.

### EITC Expansion for Married and Large Families: 2000s

The 2000s brought renewed focus to the EITC. The Joint Committee on Taxation identified the structure of the EITC as harsh to married couples due to the difference in income limits for single filers and married filers (Crandall-Hollick, 2018). The marriage penalty, which is the difference between the maximum eligible income for single and married filers, did not properly include married filers who would otherwise be eligible for the credit. The EITC was amended to increase the income level at which the credit phased out for married couples, or marriage penalty relief. The American Recovery and Reinvestment Act of 2009 (ARRA), a large economic stimulus package, temporarily increased the EITC marriage penalty relief to \$5,000. ARRA also increased the credit for families of three or more children by raising the credit rate from 40 percent to 45 percent. After these changes were enacted, the Obama Administration proposed that they become permanent and a number of Senators supported the proposition. Both provisions were reauthorized and eventually made permanent through the Protecting Americans from Tax Hikes (PATH) Act of 2015.

### Administrative and Compliance Changes: 2010s

Over the last decade, lawmakers made additional adjustments to the EITC. The PATH Act reduced improper payments by eliminating retroactive claims and by tightening requirements on Social Security numbers (SSN) for claimants and their dependents. These changes were made in an effort to reduce improper payments and to further reduce fraudulent claims and revenue loss. The Tax Cuts and Jobs Act of 2017, enacted by the Trump Administration, made a number of changes to federal income tax for individuals but did not directly alter the EITC. The law does indirectly affect the credit value in future years by changing the way the EITC is adjusted for inflation. As a result, the amount of the credit will grow more slowly than prior to the enactment of the Tax Cuts and Jobs Act.

Despite these refinements since the program's inception, the current eligibility requirements remain similar to when the program began. Currently, to qualify for the federal EITC, one must:

- Have earned income as demonstrated in Table 1
- Have been a U.S. citizen or resident alien for the entire tax year
- Have a valid SSN for yourself, your spouse, and any qualifying children
- Not have investment income exceeding \$3,500
- File your return with the filing status of Single, Married Filing Jointly, Head of Household, or Qualifying Widower
- Be between the ages of 25 and 65 unless you have a qualifying child

Table 1. Federal Earned Income Tax Credit Income Thresholds

Filing Status	Qualifying Children Claimed			
	0	1	2	3 or more
Single, Head of Household or Widowed	\$15,270	\$40,320	\$45,802	\$49,194
Married Filing Jointly	\$20,950	\$46,010	\$51,492	\$54,884



## State Earned Income Tax Credits

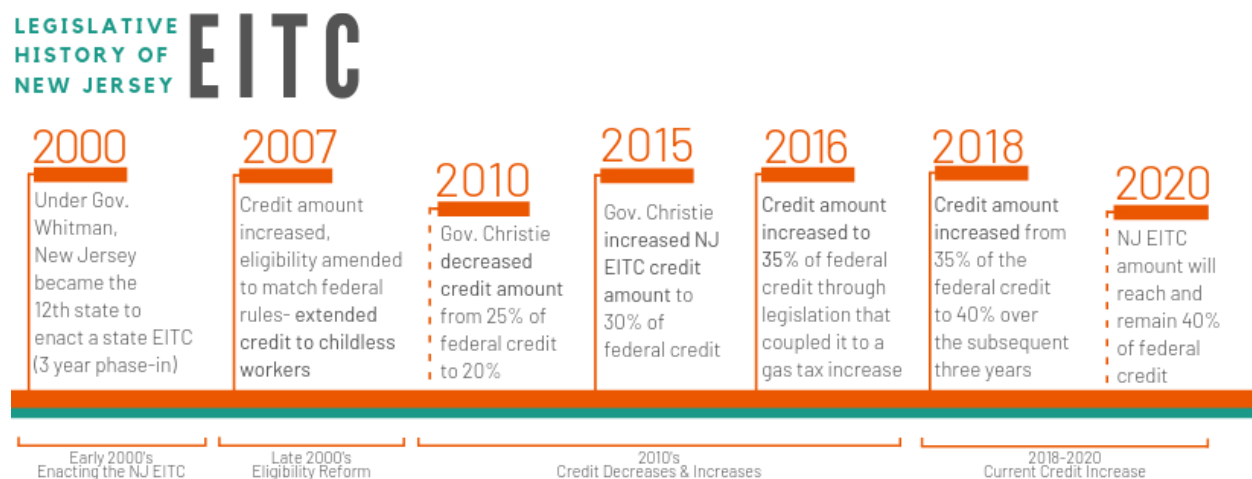
Recognizing both the efficacy and limits of the federal EITC as an anti-poverty policy tool, states have adopted and expanded their own EITCs over the years (House Committee on the Budget, 2018; Holt, 2006). States have also used EITCs to offset the regressive effects of tax increases on lower-income working families and individuals (Holt, 2006). Eleven years after the adoption of the federal EITC, Rhode Island was the first state to implement an EITC in 1986, and by 2018, twenty-nine states and the District of Columbia enacted state EITC programs (TCWF, n.d.; Williams & Waxman, 2019). Over time, federal credits have increased and subsequently, state credits increased as well since most state EITCs are based on federal EITCs. (Holt, 2006).

In tax year 2018, the twenty-nine states and the District of Columbia that had their own EITCs. Montana's EITC will be implemented in 2019 and Washington's EITC is unavailable to taxpayers due to lack of funding (Williams & Waxman, 2019). Twenty-three states and the District of Columbia have refundable EITCs, while six states – Delaware, Hawaii, Ohio, Oklahoma, South Carolina, and Virginia – have non-refundable EITCs. Refundable EITCs allow taxpayers to receive excess payments from the state if their credit exceeds their state income tax liability, and non-refundable EITCs reduce state income taxes but offer no excess payments from the state (Urban Institute, n.d.).

Except for California, Indiana, Minnesota, and New York, all states that offer EITCs calculate their credits as a simple percentage of the federal EITC (National Conference of State Legislatures [NCSL], 2019). All state EITCs require taxpayers to file a proper tax return to be eligible to receive the benefits. Also, childless workers do not qualify for Wisconsin's EITC (NCSL, 2019). Only California, Maryland, Minnesota, and the District of Columbia have expanded their EITCs to childless workers under the age of 25, while the other states require childless individuals to be 25 to 65 years of age to qualify for their EITCs. See Appendix 1 for further information on state EITC criteria. Case studies of California, Maryland, Minnesota's efforts in successfully lowering their EITC age requirements will be discussed later in the report.

## New Jersey Earned Income Tax Credit Legislative History

Figure 2. Legislative History of the New Jersey EITC



### **Enacting the NJ EITC: 2000**

New Jersey was the twelfth state to establish a state EITC program and sought to build upon the federal EITC that was deemed a successful anti-poverty program for families and children (New Jersey Legislature, 2000). P.L.2000, c.80 created the NJ EITC on August 14, 2000, during Governor Whitman's (R) administration (New Jersey Division of Taxation, 2000). The NJ EITC was an initiative by the governor and had bipartisan support (Office of the Governor, 1999). Assemblyman Jack Collins (R) and Assemblyman Paul Digaetano (R) were the primary sponsors of the NJ EITC bill. Since the federal EITC had received bipartisan support and was credited with significantly bolstering the labor force participation of New Jersey families, legislators intended for the NJ EITC to assist struggling low-income families with children by cutting their taxes as well as incentivizing work (New Jersey Legislature, 2000).

### **Eligibility Rules Reform: 2000s**

The NJ EITC was originally designed to phase in through a four year period from 2000 to 2003, conferring 10 percent of the federal credit in the tax year 2000, 15 percent in the tax year 2001, 17.5 percent in the tax year 2002, and 20 percent in the tax year 2003 (New Jersey Division of Taxation, 2000). It was enacted to assist families with at least one qualifying child at a gross income threshold of \$20,000 or less, and low-income workers without qualifying children were not eligible to receive the EITC (Stecker, 2007). Thus, the federal and the NJ EITC had different eligibility rules and separate standards.

Between 2004 and 2007, there were some unsuccessful efforts by legislators to amend the NJ EITC to increase the income threshold and include individuals with no qualifying children by making New Jersey residents who were eligible for the federal EITC also eligible for the NJ EITC (Stecker, 2007). Accordingly, the 2006 S-750 and A-1697 bills sought to extend the NJ EITC benefits to workers without qualifying children and eliminate the \$20,000 income eligibility ceiling, but these bills failed to become law. In 2007, Governor Corzine's (D) administration expanded the NJ EITC through P.L.2007, c.109, which increased the state EITC refundable credits to 22.5 percent for the taxable year 2008 and 25 percent for the taxable year 2009 (New Jersey Legislature, 2007). This legislation also amended the eligibility rules for the NJ EITC to match with the eligibility rules for the federal EITC and extended the state EITC to people with gross incomes above \$20,000 and to individuals without dependents. Overall, the legislation reflected the effort of the New Jersey government to assist additional low-income workers that were not previously eligible for the NJ EITC due to the income threshold or the number of qualifying children (New Jersey Department of Human Services [NJ DHS], 2007).

### **Credit Decrease and Increases: 2010s**

In the recent decade, the NJ EITC has both increased and decreased in terms of the percentage of the federal credit. Under Governor Christie's (R) administration, in 2010, the state EITC decreased from 25 percent to 20 percent (TCWF, n.d.). From 2011 to 2014, Governor Christie vetoed proposed budget legislations that included provisions for reestablishing the NJ EITC credit to 25 percent. However, in 2015, the Christie administration increased the credit to 30 percent for the taxable year 2015 and thereafter via P.L.2015, c.73. (New Jersey Legislature, 2015). Furthermore, the NJ EITC increased to 35 percent in 2016 through legislation that coupled it to a gas tax increase in New Jersey (TCWF, n.d.).

Under Governor Murphy's (D) Administration, New Jersey is on a trajectory to expand the NJ EITC, particularly for households with children (TCWF, n.d.). Per the current legislation, P.L.2018, c.45, New Jersey increased EITC credits from 35 percent of the federal credit to 40 percent, which phases in from 2017 to 2020 as shown in Table 2. The CBPP estimates that the NJ EITC expansion will impact

nearly 600,000 working households (Waxman, 2018). The NJ EITC is now designed to benefit low-to-moderate-income families and individuals by reducing the amount of taxes owed or providing refunds (NJ DHS, 2019).

Table 2. New Jersey Expansion Phase-in

NJ EITC Expansion Phase-In				
	2017	2018	2019	2020 and onward
Percent of federal credit	35%	37%	39%	40%

## New Jersey Earned Income Tax Credit Eligibility, Benefits and Current Use

New Jersey currently bases NJ EITC eligibility on the federal eligibility guidelines. To receive benefits from the NJ EITC, one must receive the federal EITC. In addition to federal requirements, to qualify for the NJ EITC specifically one must:

- File for and receive a federal EITC for the same tax year
- Be a resident of NJ (for any period of time)
- Work or earn income (full time, part time, self-employed)
- Have a qualifying child or be at least 25 years old and under 65
- Meet the income limits for your filing status
- Have a valid SSN (this includes spouse and any qualifying child listed on your tax return)

Income limits, as a component of EITC eligibility, ensure that only the economically distressed are able to take advantage of the tax credit. To receive benefits under the NJ EITC in tax year 2018, an individual's earned income and adjusted gross income (AGI) must be less than a specific dollar amount based on family size. Table 3 provides maximum earned income as well as maximum credit amount for the number of qualifying children based on tax filing status.

Table 3. 2018 NJ EITC Income Requirements and Maximum Credit Amounts

Filing Status	Qualifying Children Claimed			
	0	1	2	3 or more
Single, Head of Household or Widowed	\$15,270	\$40,320	\$45,802	\$49,194
Married Filing Jointly	\$20,950	\$46,010	\$51,492	\$54,884
Maximum Credit	\$192	\$1,281	\$2,115	\$2,380

\*Investment income must be \$3,500 or less for the tax year.

This study uses the most recently available ACS data from 2016 to estimate the potential increase in NJ EITC beneficiaries by lowering the age of eligibility to both 21 years and 18 years of age. Thus, for consistency, 2016 EITC income limits were used as shown in Table 4.

Table 4. 2016 NJ EITC Income Requirements and Maximum Credit Amounts

Filing Status	Qualifying Children Claimed			
	0	1	2	3 or more
Single, Head of Household or Widowed	\$14,880	\$39,296	\$44,648	\$47,955
Married Filing Jointly	\$20,430	\$44,846	\$50,198	\$53,505
Maximum Credit	\$176	\$1,181	\$1,950	\$2,194

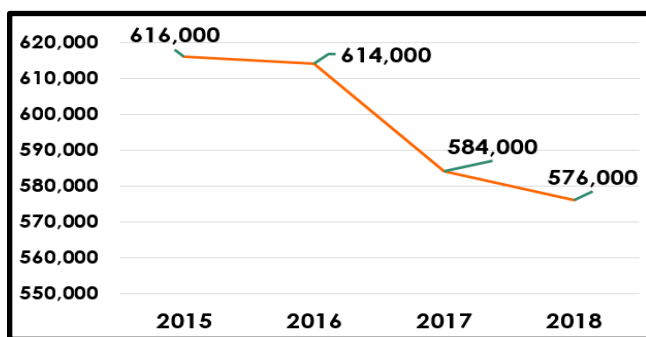
\*Investment income must be \$3,400 or less for the tax year.

An individual's NJ EITC amount is calculated based on a percentage of their federal EITC. For 2018, the NJ EITC amount increased to 37 percent of the federal credit amount. For example, if your federal EITC was \$5,000, you would receive an additional 37 percent of that amount, or \$1,850, as the NJ EITC.

More than four million New Jersey households filed a tax return in 2015 with 616,000 claiming the EITC. As shown in Figure 3, since then, the number of EITC claims has decreased to 576,000 in 2018 when the program returned aggregate benefits in the amount of \$1.4 billion or an average of \$2,360 per person. However, only 79 percent of eligible New Jersey residents claimed the EITC in 2015 (Internal Revenue Service, 2019).

The most recent New Jersey Statistics of Income (SOI) report from the New Jersey Department of the Treasury contains data from the 2015 tax year. According to the 2015 SOI, the NJ EITC cost the state \$416 million in 2015 (New Jersey Department of the Treasury, 2018). The year prior, the credit cost the state just over \$270 million (New Jersey Department of the Treasury, 2016).

Figure 3. Number of EITC Claims in New Jersey 2015-2018



Source: IRS, 2018

Using the Urban Institute's Analysis of Transfers, Taxes, and Income Security Model (ATTIS) and data from the 2015 ACS, the Tax Policy Center provided characteristics of the NJ EITC-eligible population in 2015. Based on this model, 40 percent of the 2015 EITC-eligible population were Non-Hispanic White and 34 percent had some form of a college education or an associate degree (Tax Policy Center, 2015) Twenty-five percent of households that were EITC-eligible also received SNAP and had a median income of \$14,518 (Tax Policy Center, 2015).

## New Jersey Landscape

New Jersey is home to more than nine million people (U.S. Census Bureau, 2017a) making it the eleventh most populous state in the U.S., but at just under nine thousand square miles, it is the most densely populated state (U.S. News and World Report, 2018). New Jersey is more racially and ethnically diverse than the rest of the United States with nearly 60 percent of New Jersey residents self-identifying as Non-White (United Way, 2018, p. 7). Between 2000 and 2016, the foreign-born population in New Jersey grew from 17.5 percent to almost 23 percent or more than 69,000 people, with approximately one-quarter of them estimated to be undocumented (United Way, 2018, p. 59).

New Jersey residents are more educated than the rest of the country with almost 40 percent of adults 25 years and older having a bachelor's degree or higher compared with 32 percent nationally in 2017 (U.S. Census Bureau, 2017a). In 2015, New Jersey also had higher on-time high school graduation rates at 89.4 percent compared to 83.7 percent at the national level and fewer youth ages 16 to 24 who were not in school and not working at 12.1 percent compared to 12.3 percent at the national level (Opportunity Nation, 2017).

New Jersey is home to several major information, technology, pharmaceutical, and biotechnical companies, but has a lower job growth rate, 1.1 percent, compared to the national average of 1.6 percent (U.S. News and World Report, 2018). The 2017 unemployment rate in New Jersey, or 5.3 percent, was similar to the national unemployment rate (U.S. Census Bureau, 2017a), yet more than half of jobs in New Jersey pay less than \$20 per hour and despite low levels of unemployment, wages remained low during the period from 2010 to 2016 (United Way, 2018, p. 1).

The median household income in New Jersey was more than \$80,000 compared to just over \$60,000 nationwide (U.S. Census Bureau, 2017a) making it the second wealthiest state in the country behind Maryland (U.S. News and World Report, 2018). The poverty rates for both individuals and families in New Jersey were lower than national rates in 2017 with 10 percent of New Jersey individuals compared to 13.4 percent of individuals nationwide and 7.3 percent of New Jersey families compared to 9.5 percent of families across the U.S. (U.S. Census Bureau, 2017a). In 2015, almost 42 percent of New Jersey households spent more than one third of their household income on housing costs compared to 33 percent of households across the United States (Opportunity Nation, 2017).

### Cost of Living in New Jersey

The prices of goods and services, like housing, food, transportation, and childcare, vary state by state. There are a number of estimates that incorporate the differences in local costs and compare them across states, like the Massachusetts Institute of Technology (MIT) Living Wage Calculator and the United Way Household Survival Budget. New Jersey consistently ranks as a high cost of living state.

The MIT Living Wage Calculator estimates the wages required to meet minimum standards of living based on typical expenses for the locality (MIT Living Wage Calculator, n.d.). Based on standards from sources like the United States Department of Agriculture, National Association of Child Care Resources, U.S. Department of Housing and Urban Development, and the Bureau of Labor Statistics, researchers determined estimates for a variety of budget categories including food, housing, childcare, healthcare, transportation, and miscellaneous expenses. According to their analysis, in New Jersey, a single adult with no children requires an average of \$27,844 in annual income after taxes and a family of four, comprised of two adults and two children, requires \$67,647 in annual

income after taxes (MIT Living Wage Calculator, n.d.). This equates to a minimum wage of \$14 for a single adult and \$19 for the family of four.

The United Way ALICE, or asset limited, income constrained, employed, report presents the Household Survival Budget, a measure of the minimum costs for a household in the modern economy, and the Household Sustainability Budget, which measures the amount necessary for stability over time, a reasonable quality of life, and future financial security (United Way, 2018, p. 23). The 2016 Survival Budget draws from many of the same data sources as the MIT Living Wage Calculator but uses different benchmarks to construct the budget. They estimate the average Household Survival Budget across counties in New Jersey is \$26,640 for a single adult and \$74,478 for a family of four comprised of two adults, a preschool age child, and an infant child. According to this methodology, more than 38 percent of households in New Jersey could not afford basic needs (United Way, 2018, p. 6).

## New Jersey Social Programs

New Jersey administers a host of social programs at the state level to benefit low income individuals and families, many of which can complement the EITC. The majority of New Jersey's social programs fall under the jurisdiction of the New Jersey Department of Human Services (NJ DHS), while other state agencies administer a few programs such as the New Jersey Housing Resource Center- which handles all housing-related programs. New Jersey social programs are organized into seven major areas of impact: health care programs, disability programs, family programs, welfare services, mental health, addiction services, and aging services (NJ DHS, n.d.).

New Jersey's primary cash assistance program is called WorkFirst NJ (WFNJ) and is designed to foster independence through employment. WFNJ is New Jersey's Temporary Assistance for Needy Families program and is funded by a block grant from the federal government (NJ DHS, 2018). New Jersey is required to contribute state funds in order to receive federal funding. At the end of January 2018, 15,097 households were receiving benefits under WFNJ decreasing nearly 19 percent from the prior year's total caseload (Johnson, 2018). Twenty-one county welfare agencies administer WFNJ benefits while the Department of Labor and Workforce Development oversees work-related components of the program (NJ DHS, 2018). Program participants are subject to strict income and savings eligibility rules along with a requirement that an individual works or maintains work activities during their enrollment. WFNJ provides job training, education, and other work activities for program participants. WFNJ provides assistance for a total of 60 months but can be extended another 24 months under the Supportive Assistance to Individuals and Families program. New Jersey also provides assistance to childless adults through General Assistance and to those with disabilities through Supplemental Security Income.

New Jersey Supplemental Nutrition Assistance Program (NJ SNAP), formerly known as Food Stamps, is New Jersey's food assistance program. NJ SNAP is funded by the federal government and is designed to assist low-income individuals and families with the cost of purchasing healthy food by transferring an allotment of restricted funds. The level of benefits received under NJ SNAP is adjusted by income level and family size- providing more for larger families and lower income. To qualify for NJ SNAP, household income must fall below 185 percent of the federal poverty line (NJ SNAP Resources, 2016). Income exemptions are made only for older applicants and those with disabilities. In 2018, approximately 380,000 households or 750,000 individuals received benefits under NJ SNAP, a decrease in enrollment of about 7 percent from the prior year (Johnson, 2018).



New Jersey Medicaid (NJ Medicaid) provides health insurance coverage for low-income individuals and families in New Jersey. Federally funded, NJ Medicaid helps low-income individuals and families pay for medical costs such as hospital visits, doctor visits, prescriptions, nursing home care, and other healthcare needs. NJ Medicaid is available to households that earn up to 133 percent of the federal poverty line. Medicaid is administered only to families with dependent children, older adults ages 65 and over, disabled, and pregnant women. Children are eligible under the Children's Health Insurance Program (CHIP). The New Jersey FamilyCare program is jointly funded by the state and federal government. FamilyCare provides low-cost health insurance with much wider eligibility. Children under 18 are eligible up to 355 percent of the federal poverty line, parents, caretaker relatives, and adults without dependents are eligible up to 138 percent of the federal poverty line, and pregnant women are eligible up to 205 percent of the federal poverty line (Who is Eligible?, 2013). As of February 2019, FamilyCare enrolls over 1.7 million individuals, down approximately 60,000 from the prior year (NJ FamilyCare Enrollment Summary- February 2019, 2019).

In the last year, the state of New Jersey has spent \$119 million on programs that promote economic dependence like WorkFirst and TANF (The State of New Jersey Detailed Budget, 2017). The state also spent approximately \$908 million on programs that ensure a safety net such as general assistance, disability, and SAIF. On health care, the state spent nearly \$4.2 billion dollars through programs like FamilyCare.

## New Jersey Budget

Policy proposals to expand state programs should be considered in relationship to the state budget situation. Frequently, programs are enacted without the necessary long-term mechanisms to fund them. New Jersey has a number of underfunded programs, a large amount of debt, and has not raised enough revenue to cover costs in recent years. In 2018, New Jersey only raised enough revenue to cover 91.3 percent of costs between 2003 and 2017, placing the state last among all US states (Rosewicz, 2018). The pension system is another area of concern for New Jersey's budget. The pension system is underfunded by about \$80 billion and does not seem to have any pending solutions (MacInnes & Reynertson, 2016). New Jersey only raised 31 percent of the revenue needed to pay out their pension liabilities, which was the worst in the country (The Pew Charitable Trusts, 2018).

New Jersey has the third highest amount of debt in the country and does not have a process to regulate and analyze the state's ability to repay its debt obligations (The Pew Charitable Trusts, 2017). The state is also financially unprepared for events such as a natural disaster or an economic recession since there is very little savings in the rainy-day fund because it is allocated based upon revenue forecasting (The Pew Charitable Trusts, 2017).

New Jersey's fiscal year (FY) 2019 budget allocated more money to K-12 education, New Jersey Transit, and other programs to alleviate poverty, but it left issues like the underfunded pension system unsolved (Reynerston, 2018). The state allocated an additional \$27 million was allocated for the NJ EITC. In January 2019, the Department of the Treasury announced that in the previous month, the state's revenue in taxes was down 10.1 percent, or \$335 million mostly due to a decrease in the Gross Income Tax revenues (New Jersey Department of the Treasury, 2019). Governor Murphy's FY 2020 budget proposed an increase in spending on programs that would help relieve the middle class and a millionaire's tax to raise more revenue.

According to New Jersey Policy Perspective, a left-leaning think tank, New Jersey needs to implement taxes that would create stable revenue to fund the state's spending (Reynerston, 2018). In recent years the state has implemented many revenue-raising mechanisms, but they have not created long-

term revenue. The organization suggests a millionaire's tax to create a steady stream of revenue, which Murphy proposed in his FY 2019 and his FY 2020 budget. His proposal from the previous year did not pass, but individuals with income over \$5 million were mandated to pay the tax. The millionaire's tax for FY 2020 has been met with heavy criticism.

## New Jersey Political Climate

The state political climate is also an important factor when considering new policy proposals like an expansion of the NJ EITC. New Jersey is considered a "blue state," voting for Democratic candidates in every presidential election since 1992. As of March 2019, over 2.2 million New Jerseyans are registered Democrats, nearly 1.3 million as Republicans, and more than 2.3 as unaffiliated (Statewide Voter Registration Summary, 2019). The New Jersey delegation to the United States Congress is comprised almost entirely of Democrats: both Senators and 11 of the 12 representatives.

Governor Philip Murphy (D) has served as New Jersey's 56th governor since January 2018. His lieutenant governor, Sheila Oliver (D), is a former member and speaker of the New Jersey General Assembly. Governor Murphy was preceded by Governor Chris Christie (R), who served two consecutive terms. In his campaign to succeed Christie, Murphy ran on a progressive platform promising several legislative initiatives that would create a more equitable and stronger economy. Among them was to fix the long-standing issue of the state's pension system by holding up the state's responsibilities with labor unions. Murphy also favors legalizing recreational marijuana. Murphy proposed the creation of a state bank, an increased minimum wage, and affordable housing solutions for the state (Phil Murphy's Agenda for New Jersey, n.d.).

Senate President Stephen Sweeney (D), has led the New Jersey State Senate since 2010. The lower house of the General Assembly is led by Speaker Craig Coughlin (D). The New Jersey state legislature has maintained a large Democratic majority in both houses since the early 2000s. The current State Senate is comprised of 26 Democratic members and 14 Republican members. In the General Assembly, 54 Democratic representatives make up the majority while 14 Republicans comprise the minority.

One of the most contentious battles in New Jersey state politics is between public labor unions and the state over the state's pension system. Public sector labor unions are looking to cash in on the promises lawmakers made regarding pensions but have been unable to do so. The pension crisis has contributed to another political point of contention in New Jersey over the state budget. The state has accumulated a considerable amount of debt by borrowing money to avoid budget deficits, leading to significant budget cuts that have forced some public employees out of their jobs (Macinnes, 2018).

The NJ EITC suffered once in the face of New Jersey's budget crisis when Governor Christie reduced the credit amount. Only a few years after the reduction, however, the Christie administration raised the credit amount past the original level. Since then, the NJ EITC has grown with bipartisan support for every new piece of legislation to expand the credit.

# Review of Research on the Earned Income Tax Credit

## Benefits of the Program

A large body of literature exists that reviews the benefits of the EITC on both individuals and the economy. The EITC has had positive impacts on employment rates, especially for low-income women. During the 1980s and 1990s, EITC expansions led to increases in employment rates for single mothers, which resulted in significant declines in the number of welfare recipients (Greenstein, 2005). This expansion was especially beneficial for single mothers with low education levels. Grogger (2004) found that EITC expansions were as instrumental in reducing cash welfare caseloads in the 1990s among female-headed households as welfare reform policies. Hotz and Scholz (2000) stated that the EITC is effective in bolstering standard of living for lower-income households and relatively inexpensive to administer in comparison to other government programs that assist low-wage workers. The IRS notes that EITC administrative costs are less than one percent of program cost in comparison to other social safety net programs where administrative costs can cost up to twenty percent of program expenditures (Greenstein, Wanchuck, & Marr, 2019). By building upon the federal EITC, state EITCs play vital roles in raising living standards for low-income workers, which includes reducing poverty and providing low wage workers with some assistance, as well as relief from taxes (Gitterman, Gorham, & Dorrance, 2008; Williams & Waxman, 2019).

Expansions to the EITC on the federal level have demonstrated reductions in poverty rates and the severity of poverty among the working poor by supplementing low incomes via the tax code (Greenstein & Shapiro, 1998). Without the EITC, poverty rates in 2014 would have been 18.4 percent instead of 15.3 percent, which translates to about an additional six million people living below the poverty line annually (Short, 2014; CBPP, 2018). In addition, EITC expansions have been proven to mitigate income disparities by offsetting the decline in income for the bottom quintiles of the income distribution (Liebman, 1998).

Research also shows that the EITC has positive effects on the mental health of low-skilled married and unmarried mothers, and its expansion is linked to mental health and subjective well-being improvements (Boyd-Swan, Herbst, Ifcher & Zarghamee, 2016). Past EITC expansions such as higher EITC payments are also associated with reductions in the number of self-reported poor mental health days for mothers (Evans & Garthwaite, 2014). Agan and Makowsky (2018) found that the availability of state EITCs helped reduce recidivism only for women, which may be attributed to the fact that EITC wage subsidies target custodial parents who tend to be women. State non-custodial parent (NCP) EITCs, such as New York's NCP EITC, incentivize low-income non-custodial parents to work and pay child support payments in full (Nichols, Sorensen, & Lippold, 2012). The benefits of the NCP EITC accrue mostly to single non-custodial parents with no qualifying children.

Research indicates that combining EITC expansion with minimum wage increases, enhances economic security for low-income workers. Specifically, the two policies in tandem, provide additional support to these workers by reaching intersecting but different populations (low-income families and low-wage workers), increasing income and socioeconomic status, and decreasing the gap between upper- and low-income households (Williams & Waxman, 2018).

The EITC also has long term positive impacts on financial security for low-income populations as they enter retirement. Heim and Lurie (2014) found that expanded access to the EITC increased the probability and amount that low-income households save for retirement. A Congressional Budget Office study aimed to investigate the EITC's impact on retirement benefits among low-income women found that the EITC encourages labor force participation, resulting in year over year earnings growth, and increases in both the rate of low-income women eligible for Social Security benefits and the amount they receive each year (Dahl, DeLeire, Schwabish & Smeeding, 2012).

Refundable tax credits like the EITC also stimulate state and local economies, as recipients use the additional cash to make essential purchases, such as car repairs and household items. Moody's Analytics economist, Mark Zandi, estimates that federal refundable tax credits generate a "multiplier effect" between 1.22 and 1.26 to low-income workers; translating into an average of \$1.24 in additional economic activity for every dollar spent (Zandi, 2012). During the 2017 tax year, the federal EITC expenditures for New Jersey was \$1.4 billion, while state EITC expenditures totaled \$439 million. According to the "multiplier effect," this would have added \$544 million in additional economic activity to the state's economy (Internal Revenue Service, 2018; Tax Expenditure Report, 2019).

Lowering the age of eligibility of the federal EITC to 21 would lift an additional three million working adults out of poverty. The majority of workers in this group have low educational attainment (high school diploma or less) and primarily work in service industries (Kneebone & Holmes, 2015). Researchers at the CBPP and the Urban Institute believe that lowering the age requirement will help mitigate some of the challenges facing adults with less education (particularly young Black men), including low labor-force participation, low marriage rates, and higher rates of incarceration (Marr, Huang, Murray, & Sherman, 2016).

## Criticisms of the EITC

Despite the many benefits and bipartisan support of the EITC, the program is not without criticism and weaknesses. Critics primarily express concern with the exponential growth in both the size and cost of the program since its implementation in 1975. Between 1990 and 2015, the number of eligible recipients increased from 12 million to 28 million, while spending increased from \$14 billion to \$69 billion (Edwards and de Rugy, 2015). Research also indicates that the EITC decreases wages by increasing the labor supply and creates disincentives to work, as the EITC supplements the need for individuals to work more hours (Nichols and Rothstein, 2015). Other weaknesses include erroneous payments and fraud due to miscalculations and false reporting information. According to the IRS, the EITC error rate has been over 20 percent since the 1980s (Edwards and de Rugy, 2015). Due to error and fraud, the Treasury Department issued \$18 billion worth of overpayments in 2014 (Edwards and de Rugy, 2015).

# Case Studies: State Efforts to Lower the Earned Income Tax Credit Age of Eligibility

## Background

During President Obama's State of the Union Address in January 2014, he revealed that expansion of the EITC would be part of his legislative agenda. By March of that same year, in conjunction with the Treasury Department, the Office of Management and Budget, and his Council of Economic Advisors, President Obama released a plan to increase the credit amount for all eligible program participants. More importantly, however, more than three million childless working adults between ages 21 to 24 would become eligible to receive EITC benefits (Executive Office of the President and Department of the Treasury, 2014).

Republican and Democratic lawmakers, aware of the connection between the tax code and the high poverty rate of childless workers, supported expanding the EITC. Consequently, in 2016 House Speaker Paul Ryan (R-WI) submitted a proposal similar to Obama's to Congress, while Senator Sherrod Brown (D-OH) and Congressman Richard Neal (D-MA) introduced legislation as well. Despite bipartisan support in both the House and Senate, all efforts to expand the federal EITC were unsuccessful.

As expansion efforts stalled on the federal level, states felt compelled to pursue legislation expanding their state-level EITC programs. To date, three states including Minnesota in 2017, followed by Maryland and California in 2018, passed legislation to lower the age eligibility requirements of their programs. Both California and Maryland extended eligibility to childless workers ages 18 to 24, while Minnesota expanded eligibility to childless workers ages 21 to 24.

## Case Study Methods

To determine the feasibility of expanding the NJ EITC, we conducted case study analyses of the policy formation process in three states that expanded their state EITC programs. To date these are the only states to successfully expand EITC eligibility. We focused our attention on the legislative history and changes made to each state's EITC program, the partisan composition of each state's government, advocacy efforts undertaken to influence public opinion or policy regarding expansion, and the expansion bills signed into law.

## Minnesota

### *History Prior to Expansion*

Minnesota's version of a state EITC program, the Working Family Credit (WFC) program, was implemented by statute in 1991, during the Republican Administration of Governor Arne Carlson (Minnesota Statute 291.0671, 1991). Initially, families with dependents who qualified for the WFC

received a credit equal to 10 percent of the federal EITC. In 1998 the Minnesota legislature restructured the program so that the credit was equal to a percentage of earned income based on a two-tiered calculation.

Between 1993 and 1999, the legislature made several important changes to the WFC program, including increasing the credit amount and expanding the program to working adults without dependents (1994). Beginning in 1993, the WFC credit rate equaled 15 percent of the federal credit and remained so until 1997 when the legislature elected to increase the credit rate to 25 percent for filers with dependents. The maximum credit amount and credit rate were increased during the 1999 legislative session, making all filers eligible to receive at least 25 percent of the federal credit, not just filers with dependents.

Prior to lowering the WFC age requirement, the last major programmatic change the legislature made occurred in 2014, when they chose to eliminate the two-tier calculation altogether and increase both the credit rate for filers with children and the maximum income limits eligible for the credit (Manzi & Michael, 2016).

### *Partisan Composition of Government*

Minnesota's state government has been divided throughout the tenure of the WFC program. As discussed above, Republican Governor Carlson first signed the program into law 1991. The Minnesota State Senate is stably Democratic, controlling the upper chamber since 1991 and only ceding control twice from 2011 to 2013 and again from 2017 to 2019. The Minnesota House has experienced more turnover. Between 1991 and 1998, Democrats controlled the House, while Republicans gained the majority between 1999 and 2006. Democrats briefly gained control again from 2007 to 2010 and since then Republican and Democrats have altered control of the House every two years. When the WFC expansion bill was finally signed into law by Democratic Governor Mark Dayton, Republicans had a narrow majority in both the Senate and a 20-seat advantage in the House.

### *Expansion*

Governor Dayton released his 2018-2019 Biennial Budget proposal in January 2017. In his proposal, Dayton inserted an amendment to Minnesota Statute 290.0671, to expand the WFC to childless workers between the ages of 21 to 24 and increasing the credit amount for 260,000 workers already receiving the credit. According to CBPP, an estimated 41,500 additional taxpayers would benefit from expansion (Waxman, 2017). Dayton's rationale for expansion cited the benefits associated with the program as well as improved equity and inclusion. Some noted highlights included the financial stability WFC provides for low- and moderate-income families with children, and its positive effects on the overall standard of living. More importantly, expansion could potentially narrow income disparities along racial lines, as people of color account for 18 percent of Minnesota's population, but constitute 30 percent of households eligible for the EITC.

The Minnesota Budget Project, an advocacy and research group, released multiple reports on the benefits of decreasing the age requirements of WFC. The organization argued that the WFC needed to change its eligibility requirements to include younger independent workers, make the credit more equitable, and help people afford to live (Madden and Horowitz, 2017).

The final omnibus tax bill, which included the WFC amendment failed four times in the House and once in the Senate. Eventually, after numerous revisions, the final bill was approved in the House by a 95 to 29 vote and a 44 to 20 vote in the Senate.



### *Current Program Structure and Eligibility Requirements*

- The Minnesota Department of Revenue oversees the administration of the WFC program.
- The WFC is fully refundable, with credits ranging from 25 to 45 percent of the federal credit and the average filer receives 34 percent of the federal credit (Williams & Waxman, 2018).

To qualify for the WFC, one must:

- Qualify and claim federal EITC
- Meet the qualifying income limits for your filing status as shown in Table 5
- Have SSNs for you, your spouse, and any qualifying children
- Be a resident of Minnesota for more than half the tax year
- Be 21 years or older by the end of the tax year
- Have Investment income less than \$3,500 for the year

*Table 5. 2018 Working Family Credit Income Thresholds and Maximum Credit Amount*

Filing Status	Qualifying Children Claimed		
	0	1	2 or more
Single, Head of Household, or Widowed	\$15,300	\$40,300	\$45,800
Married Filing Jointly	\$21,000	\$46,000	\$51,500
Maximum Credit Amount	\$136	\$1,091	\$2,041

Source: Working Family Credit - Minnesota Department of Revenue

In tax year 2017, 326,000 Minnesota residents claimed the federal EITC and 306,000 claimed the WFC. Federal EITC benefits totaled \$702 million, for an average refund of \$2,220 per eligible household (Internal Revenue Service, 2018). While WFC benefits totaled \$265 million, for average benefit of \$787 (Minnesota Department of Revenue, 2018).

## Maryland

### *History Prior to Expansion*

In 1987, Maryland became the second state to create an EITC program. The credit was non-refundable until 1998, when the State Assembly passed legislation for a 10 percent refundable credit that would then increase to 15 percent by 2001. By 2000, state counties became authorized to offer refundable credits in addition to the state credit. The refundable amount was increased again in 2001, phasing from 15 percent to 20 percent over a three-year period. Six years later, the State Assembly elected to make another credit rate increase to 25 percent. The final credit increase prior to the most current expansion, occurred in 2014 when the State Assembly increased the refundable credit amount from 25 percent to 28 percent of the federal credit, phasing in over four years (Rehrmann, et al., 2015).

### *Partisan Composition of Government*

At the inception of Maryland's state EITC program in 1987, the state government was under Democratic control, with Democrats holding the governorship and both chambers of the state

legislature. Democrats maintained control for 16 consecutive years until 2003, when Republican Bob Ehrlich was elected governor. During his one term in office, Ehrlich served under a Democratically controlled state legislature. In 2007, Democrats regained control of all three branches of government, when Martin O'Malley was elected governor. O'Malley served two terms under a unified government. In 2015 Republican Larry Hogan became the 62<sup>nd</sup> governor of the state of Maryland. Democrats however, still controlled both chambers of the legislature at the time and it was during Hogan's first term in office, that the EITC expansion bill was proposed by Democrats and signed into law.

### *Expansion*

Democratic General Assembly members Richard Madaleno and Sheila Hixon first introduced legislation to lower the state EITC age requirement for individuals without qualifying children in 2016. Governor Hogan supported expansion, but was uncomfortable with the level of increased spending in the Democratic bill, resulting in the bill's failure. Despite the legislation's failure, Madaleno and Hixon renewed their efforts in 2018.

In February 2018, Madaleno and 34 of his Senate colleagues (31 Democrats and three Republicans) introduced the Earned Income Tax Credit – Individuals Without Qualifying Children – Expansion, otherwise known as Senate Bill 647, to the Budget and Taxation Committee of the Maryland General Assembly. The purpose of the bill was to amend Section 10-704 of the Maryland Tax Code by eliminating the requirement that individuals without qualifying children must be at least 25 years of age to claim the state's EITC. The bill also sought to increase both the income thresholds at which the credit phases out and the credit rate percentage, while also making the state EITC fully refundable.

Hixon along with her Democratic House colleagues and two House Republicans proposed an equivalent bill with the same title simultaneously in the House Ways and Means Committee. Both bills were processed through their respective chambers, receiving several favorable reports and amendments. By late March, both bills passed in the House and Senate with overwhelming bipartisan support (46 to 1 in the Senate and 130 to 7 in the House). The final bills abandoned the efforts to increase the income threshold and credit rate, and left tax filers with the option to choose between a refundable and a non-refundable EITC. Ultimately, the bill lowered the age requirement for individuals without qualifying children from 25 to 18. Governor Hogan signed the bills into law on May 15, 2018 (Earned Income Tax Credit – Individuals Without Qualifying Children – Repeal of Minimum Age Requirement, 2018).

Maryland was the first state to propose legislation to lower the age requirement from 25 to 18 and increase the credit amount for its EITC program in 2016. Congressional Representative Elijah Cummings (D-MD 7<sup>th</sup> District) of Baltimore, penned an op-ed in favor of expansion in the Baltimore Sun Times. Madaleno and Hixon introduced bills in their respective chambers of the General Assembly, citing research conducted by the Center on Budget and Policy Priorities, a nonprofit, progressive D.C. think tank, which stated an estimated that 40,000 low- and moderate-income single taxpayers in the state would benefit from expansion (Waxman, 2018). Madaleno and Hixon also eliminated rate increases from the new bills, an encouraging concession that increased the likelihood of Governor Hogan's support.

Creating Assets, Savings, and Hope Campaign of Maryland (CASH Campaign), a nonprofit organization in Maryland working to increase financial stability for low- and moderate-income individuals and households throughout the state, issued a press release in January 2018 in support of the legislation. CASH Campaign formed a coalition with the Maryland Center on Economic Policy, and bill co-sponsors Madaleno and Hixon to promote the need for expansion of the EITC in Maryland.

Together the coalition held a joint press conference in February, which included testimony by young working adults who stood to benefit from expansion. With the Governor and the Democratically controlled General Assembly on their side, the bill was ultimately able to pass with tremendous bipartisan support.

### *Current Program Structure and Eligibility Requirements*

- The Office of the Comptroller manages Maryland's EITC program.
- Maryland tax filers can elect to claim a fully-refundable 28 percent credit or a 50 percent non-refundable credit.
- Montgomery County also offers a local EITC in addition to the state credit. Eligible families residing in Montgomery County receive a county credit equal to 100 percent of the state credit.

To qualify for the Maryland EITC, one must:

- Qualify and claim federal EITC
- Meet the qualifying income limits for your filing status as shown in Table 6
- Have valid SSNs for You, your spouse, and any qualifying children
- Be a resident of Maryland for more than half of the tax year
- Be 18 years or older by the end of the tax year
- Have Investment income less than \$3,500 for the year

*Table 6. 2018 Maryland EITC Income Thresholds and Maximum Credit Amount*

Filing Status	Qualifying Children Claimed			
	0	1	2	3 or more
Single, Head of Household, or Widowed	\$15,270	\$40,320	\$45,802	\$49,194
Married Filing Jointly	\$20,950	\$46,010	\$51,492	\$54,884
Maximum Credit Amount	\$145	\$969	\$1,600	\$1,801

Source: Earned Income Tax Credit - Maryland Taxes - Comptroller of Maryland

In tax year 2017, 400,000 Maryland residents claimed the federal EITC and 380,000 claimed the state EITC. Federal EITC benefits totaled \$914 million, for an average of \$2,356 per filer (Internal Revenue Service, 2018). While Maryland EITC benefits totaled \$296 million, for an average of \$779 per filer (Maryland Tax Expenditure Report, 2018).

## California

### *History Prior to Expansion*

Passing legislation to adopt the California Earned Income Tax Credit (CalEITC) took several years, which can be partially attributed to budget-related issues faced by the State of California (Stark, 2006). In 2000, when the bill to create CalETIC was introduced by Assembly Member Gil Cedillo, there were concerns about the potential revenue losses and expenditure costs associated with enacting a state EITC. A preliminary analysis of the proposed bill forecasted significant costs borne by the state government, which also included implementation costs from ensuring that only U.S. citizens or legal

residents claimed the state EITC (Committee on Budget and Fiscal Review, 2015). Furthermore, against the backdrop of the dot-com bubble burst and budgetary concerns, the bill failed to become legislation (Stark, 2006). Over the next years, advocates and legislators continued to push for the CalEITC, but it was not until 2015 when California had a budget surplus that the EITC program was adopted (Legislative Analyst's Office, 2014).

Between 1990 and 2014, the California State Legislature made several attempts to pass legislation implementing a state EITC program. During those 24 years, eight proposals made it to the floor for a vote, but all bills failed to pass due to severe budget shortfalls (Woolsey & Garosi, 2014). Under the leadership of Governor Jerry Brown (D), the state began operating budget surpluses again, and the California Legislature prepared a report outlining potential options for a state level EITC in June of 2014 (Weatherford, 2015; Taylor, 2014, p. 5). California enacted CalEITC in 2015, becoming the 26<sup>th</sup> state to do so. In 2017, a state budget bill increased the maximum income threshold to include workers making less than \$24,000 a year.

### *Partisan Composition of Government*

California has been a solidly Democratic state since 1988. The last Republican to win a statewide election was Governor Arnold Schwarzenegger in 2006. The state legislature has been dominated by Democrats even longer. Democrats have controlled both chambers since 1959 with the exception of two sessions, 1969 to 1971 and 1994 to 1996, when Republicans had control.

### *Expansion*

Governor Brown's initial 2018-2019 budget proposal did not include plans to expand the CalEITC to low and moderate-income workers without qualifying children ages 18 to 24, but based on feedback, his revised budget proposal included a provision for such an expansion. This budget proposal passed 57 to 23 in the Assembly and 27 to 10 in the Senate and was signed into law on June 27, 2018 (Budget Act of 2018). The CalEITC expansion resulted in part from efforts of a coalition of advocacy groups that worked with the governor's office and the Department of Finance to extend EITC benefits to an additional 700,000 households (TCWF, 2018). The 30 coalition members consisted of women or children advocacy groups, policy centers, food banks, nonprofits, and various other organizations in California. Together, the coalition developed a strategic campaign that centered on key messages, one of which was the need to make the CalEITC more inclusive of various types of low-income workers.

In addition, research conducted by the California Budget & Policy Center highlighted a need to increase awareness of the CalEITC and that certain groups of people under 25 years of age such as foster youth, first-generation college students, and young adults without degrees would benefit from the state EITC amid the high cost of living in California (TCWF, 2018; Anderson, 2017; Kimberlin, 2018). This research provided legislators with evidence that supported closing the age gap, culminating in the reduction of the eligible age to 18 and funded grants to nonprofit organizations for outreach and raising awareness about CalEITC. In sum, advocacy efforts and evidence-based research played an instrumental role in the expansion of California's EITC.

### *Current Program Structure and Eligibility Requirements*

- CalEITC is administered by the Franchise Tax Board of California.
- CalEITC is fully refundable at 85% of the federal credit and up to half of the federal phase-in range.
- California requires the legislature pass yearly appropriation, to determine the credit rate in relation to the federal EITC.

- San Francisco also has a local-level EITC.

To qualify for CalEITC, one must:

- Qualify and claim federal EITC
- Meet the qualifying income limits for your filing status as shown in Table 7
- Have SSN's for you, your spouse, and any qualifying children
- Not use the "married/RDP filing separate" filing status
- Be a resident of California for more than half the tax year
- Have Investment income less than \$3,700 per year
- Be 18 years or older by the end of the tax year

Table 7. 2018 CalEITC Income Thresholds and Maximum Credit Amounts

Filing Status	Qualifying Children Claimed			
	0	1	2	3 or more
Single, Head of Household, Married Filing Jointly, or Widowed	\$16,750	\$24,950	\$24,950	\$24,950
Maximum Credit Amount	\$232	\$1,554	\$2,559	\$,2879

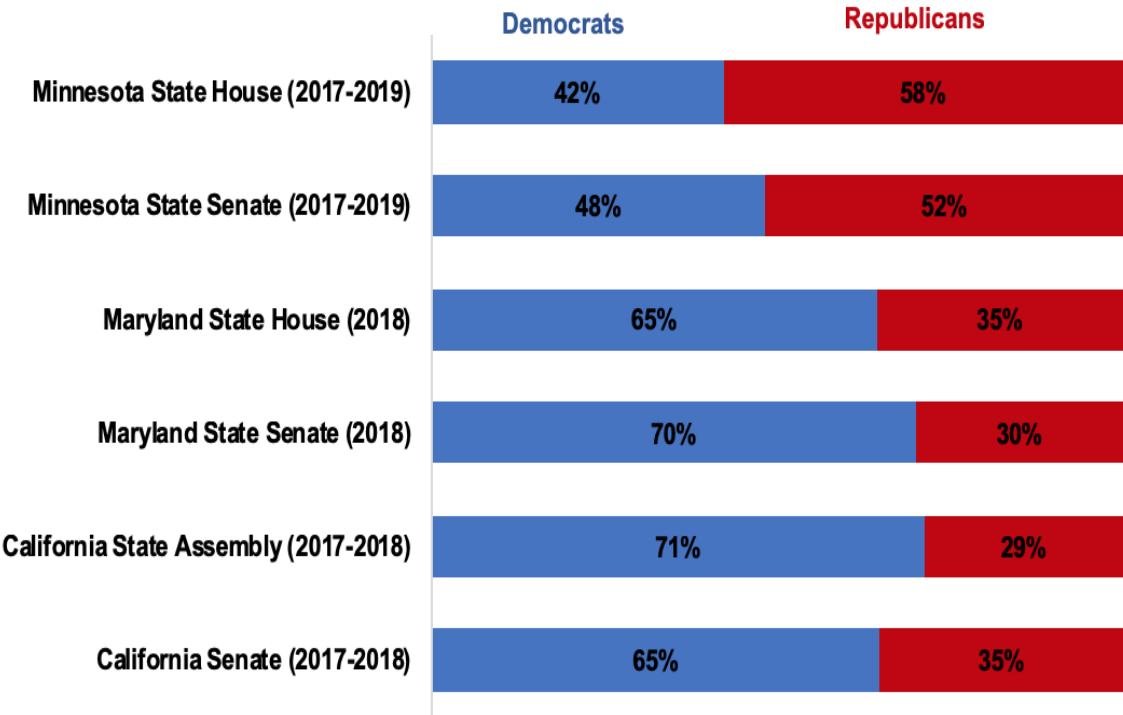
Source: California Earned Income Tax Credit (Cal EITC) - Franchise Tax Board

In tax year 2017, 2.8 million California residents claimed the federal EITC and 1.3 million claimed the CalEITC benefits. Federal EITC benefits totaled \$6.6 billion for an average refund of \$2,364 per eligible household (Internal Revenue Service, 2018). While CalEITC benefits totaled \$400 million, for an average benefit of \$285 (Legislative Analyst's Office, 2018).

## Lessons Learned

California, Maryland, and Minnesota were all able to lower the age of their state EITC programs. California's and Minnesota's changes came from a budget proposal and an omnibus tax bill, respectively, while Maryland's change was from a single-focused bill. Each state had many failed proposals; in California bills did not pass because of budget shortfalls and in Maryland the governor was concerned with spending increases. In all three states, lowering the age received bipartisan support yet was enacted by Democratic governors in California and Minnesota and by a Republican governor in Maryland. As seen in Figure 4, Minnesota had a Republican-controlled House and Senate at the time of passage and Maryland and California had Democratic majorities in both the Houses and Senates.

Figure 4. Party Breakdown During Time of Expansion



Source: California State Legislature, 2018; Maryland General Assembly, 2018; Minnesota Legislature, 2018

In Maryland, members of the state house were the main advocates of the changes while in California and Minnesota the governors pushed for these policies the most. Maryland and California both had advocacy groups that formed coalitions with other organizations and partnered with elected officials. These coalitions played a vital role in the passage of the final bills in both cases by providing evidence that lowering the age would reach a wide array of residents. Minnesota did not have any coalitions to support the change, but the governor advocated frequently on lowering the age of the WFC with data from outside organizations. In all three cases, advocacy and research organizations played a considerable role in providing reasoning and data as to why states should lower their EITC age requirements.



# Target Group Analysis

## Study Design and Sample

In order to answer the question of how many more individuals would qualify for the NJ EITC if the age requirement was lowered to 21 or 18, the team conducted a target group analysis. Specifically, the 2016 American Community Survey (ACS), was used to estimate the number of eligible individuals based on the available ACS measures and 2016 NJ EITC income guidelines. In addition, the target group analysis was also used to paint a picture of who the newly eligible would be with the age expansion. This was done by identifying the composition of potential beneficiaries based on demographic and socioeconomic characteristics as measurable by the ACS.

The ACS is a nationwide survey “that collects and produces information on social, economic, housing, and demographic characteristics about our nation's population every year” (ACS Information Guide, 2017, p. 1). The ACS originates from the U. S. Census Bureau, which collects “additional information beyond the population count” through a short form and long form sent to US households (ACS Information Guide, 2017, p. 1). The Census is conducted by the U.S. government every ten years to provide data that “enable [future legislators] to adapt the public measures to the particular circumstances of the community” (ACS Information Guide, 2017, p. 1).

The ACS began after the year 2000, taking the form of the long questionnaire from the Census that originally reached only a subset of the population. Annually, through the ACS, the U.S. Census Bureau targets households, not individuals, by contacting more than three million households by mail, personal visits, or telephone. To provide updated and reliable information in an attempt to understand communities better, the ACS aids a broad range of individuals and organizations in making informed decisions. Such individuals and organizations may include federal, state, and local agencies, nongovernmental organizations, emergency planners, educators, and the public (ACS Information Guide, 2017, p. 4-5). The ACS survey is conducted through mailed-in paper questionnaires or an online survey form. Paper questionnaires are more common for households in Puerto Rico or what the U.S. Census Bureau identifies as hard to reach areas (ACS Information Guide, 2017, p. 6).

The datasets used in our study were the 2016 New Jersey Population Records and the New Jersey Housing Unit Records. Both datasets were downloaded in Comma-Separated Values (CSV) format and merged into one dataset using the instructions provided by the U.S. Census Bureau. The unweighted sample in the merged ACS dataset was 87,279. The response rate for the New Jersey ACS in 2016 was 92.3 percent.

### *Eligibility and Expansion Variables and Analysis*

In order to estimate the impact of expanding the NJ EITC, the team used IRS EITC guidelines and ACS variables to identify the number of additional individuals eligible if the age requirement was lowered to include single adult workers under the age of 25. Specifically, the team defined eligibility and expansion measures to follow the 2016 NJ EITC eligibility guidelines as previously discussed. The following criteria as measured by ACS variables were used to identify the eligible populations: income, dependency, citizenship, age, work status, children, and marital status. Additional information on variable definitions and sample specifications can be found in Appendix 2.

### *Income*

The 2016 income restrictions for the 2016 NJ EITC was \$14,880 for single workers. The ACS variable of total person's income (PINCP) was used for this measure. While the ACS variable of total person's income (PINCP) is a fairly comprehensive measure, covering eight types of income sources, it did not include investment income (American Community Survey and Puerto Rico Community Survey 2016 Subject Definitions [ACS Subject Definitions], 2016, p. 81). This limitation must be noted as eligibility for the EITC requires individuals to not have investment income over a specific amount. In 2016, investment income could not exceed \$3,400.

### *Dependency*

To qualify for the EITC, the individual filing cannot be identified as a dependent on someone else's taxes. Without an exact variable in the ACS database to measure dependency, the Household or Family Type (HHT) variable was used to assume the individual would not be claimed on someone else's taxes as a dependent. A limitation of using this measure of dependency is basing the coding specification on assumptions rather than an exact measure. The first assumption is that individuals who live with parents or in a family household will rely on family members in the household for financial support. The second assumption is that individuals who rely on family members for financial support will be claimed on that family member's taxes as a dependent.

### *Citizenship*

EITC qualifications require individuals to be citizens or legal permanent residents of the United States. To assess citizenship (CIT), the ACS asked respondents whether they were born in the U.S., born in Puerto Rico, Guam, the U.S. Virgin Islands, or the Northern Marianas, born abroad of American parent(s), U.S. citizen by naturalization, or not a citizen of the U.S. The team excluded non-citizens from the sample and thus only citizens are included in our estimates of the target group of newly eligible low-income workers. A limitation of using this measure is the absence of legal permanent residency. There are no variables in the ACS database that measures permanent residency, nor was it included as a category in the citizenship variable. Due to this, our estimation likely results in an undercount as we are excluding non-citizen, legal permanent residents.

### *Age*

The EITC is currently available to persons between the age of 25 and 64 unless the tax filer can claim qualifying children. The ACS variable for age (AGEP) was formatted to identify those who would remain ineligible after the proposed expansion (under 18), those who would become eligible under the two expansion scenarios (18 to 20 and 21 to 24), those who are currently eligible, and those who would remain ineligible (65 and older).

### *Work Status*

Those with earned income from employment are eligible for the EITC. The ACS includes a variable (WKHP) about the number of hours worked each week in the last 12 months with those working 0 hours coded as missing in the data. To capture those who would be eligible for the EITC, this variable was recoded into a dichotomous variable with the values of "worked in the last 12 months" or "did not work in the last 12 months."

### *No Qualifying Children*

Our population of interest includes childless workers. Two ACS variables were used to determine the presence of children in the household: number of own children (NOC) and number of related children (NRC). A composite variable of NOC and NRC was created to determine the presence of own or related children. Only individuals with no own or related children were included in the sample.

### *Marital Status*

An individual's marital status determines the income restriction for their EITC participation. Since the median age for first marriages is 29.8 years for men and 27.8 years for women and the proportion of married young adults is increasing, this study focuses on single individuals (U.S. Census Bureau, 2018). The ACS marital status variable (MAR) was collapsed into a binary variable with two categories, married and not married. All analyses were done with coding specifications to only include those in the not married category.

### *Equity Variables and Analysis*

In order to paint a picture of who the newly eligible would be, the team also used the ACS to conduct an equity analysis. Specifically, ACS variables were used to describe the sociodemographic characteristics of potential beneficiaries and how they compare to the general New Jersey population ages 18 through 24. Our description of potential beneficiaries was based on a variety of variables in the ACS including race/ethnicity (RAC1P; HISP), sex (SEX), educational attainment (SCHL), class of worker (COW), work hours (WKHP), public assistance recipient (PAP), food stamps recipient (FS), disability (DIS), and health insurance coverage (HICOV). More information on the description and recoding of the equity variables can be found in Appendix 2.

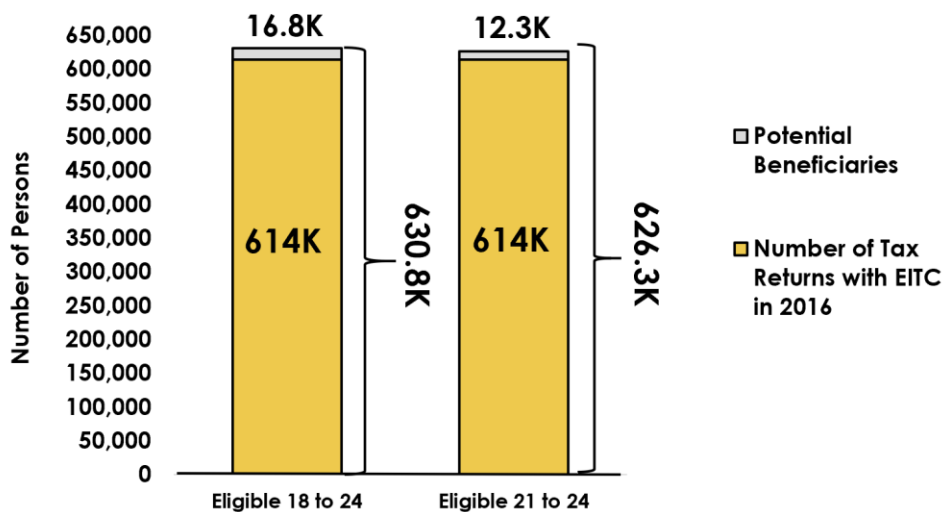
## Findings

### *Number of Additional Individuals Eligible*

Figure 5 depicts the number of additional eligible individuals if the NJ EITC age requirement were lowered to 18 or 21. Based on our estimations using the 2016 ACS data, more than 12,000 additional New Jerseyans would become eligible for the NJ EITC by reducing the age to 21, a 2 percent increase in beneficiaries, and nearly 17,000 would be eligible by reducing the age to 18 years old or a 2.7 percent increase in beneficiaries. These numbers represent young workers with a positive income. Since there was no variable in the ACS relating to tax filing activity, a limitation of the study, this number assumes that everyone files state income taxes. If sample specifications are changed to include individuals who did not work in the past year, the overall number of individuals eligible for the NJ EITC would increase to 23,662, of which nearly 17,000 would be between the ages of 21 and 24.

For the 2016 tax year, the maximum credit for filers with no qualifying children in New Jersey was \$176. Assuming this maximum credit for each filer, lowering the age limit to 21 would cost just over \$2 million (\$2,164,800) and lowering the age limit to 18 would cost just under \$3 million (\$2,956,800). This figure does not include administrative costs which are small (Internal Revenue Service, 2019a). This would have a positive impact on the New Jersey economy. Assuming a 1.24 multiplier effect, or the estimated economic stimulus from Moody's Analytics economist Mark Zandi (2012), the economic impact of reducing the age limit to 21 would be \$2,684,352 and \$3,666,432 by reducing the age limit to 18.

Figure 5. Number of individuals eligible with an NJ EITC Expansion

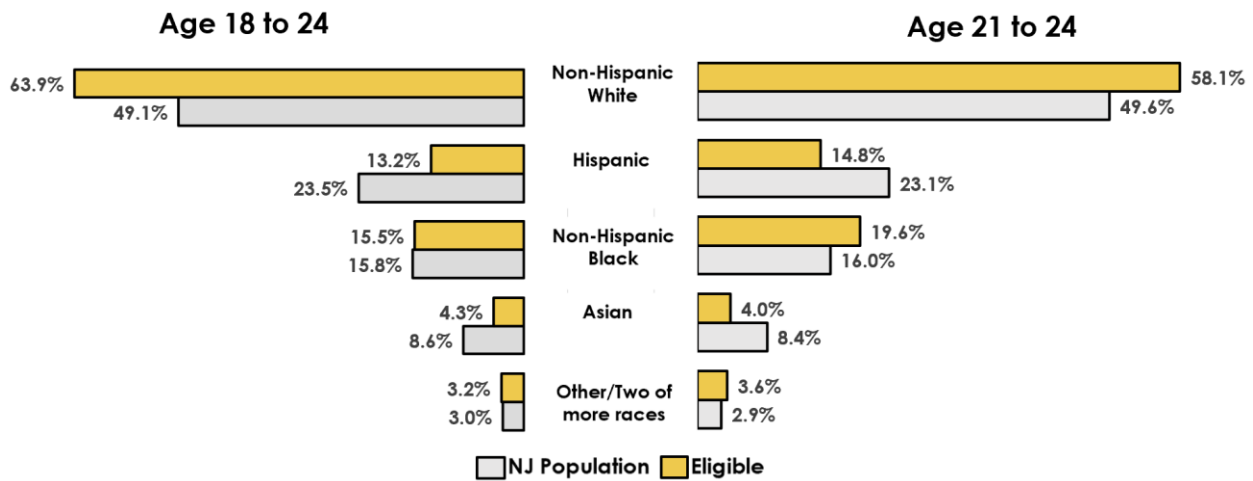


### *Race/Ethnicity*

As illustrated in Figure 6, the estimated newly eligible population across both age groups is mostly similar to the New Jersey population with the exception of Non-Hispanic Black and Hispanic categories. For example, the majority category for all groups is Non-Hispanic White. The second largest category is Hispanic (for the general NJ population) or Non-Hispanic Black (for the eligible population), this is followed by Asian, and finally those reporting being of other or two or more races.

While ranking by size is fairly consistent across groups, categories display different percentage sizes. For example, Non-Hispanic Whites make up close to 60 percent of the newly eligible population ages 21 to 24 (58.1 percent) and 18 to 24 (63.9 percent) compared to making up less than half of the comparison group population (49.6 percent and 49.1 percent respectively). On the other hand, Hispanic respondents and Asian respondents make up larger proportions of the New Jersey population overall than the newly eligible population. For example, Hispanic respondents represent approximately a quarter of both the 18 to 24 year olds (23.5 percent) and the 21 to 24 year olds (23.1 percent) but less than 15 percent in the newly eligible population (13.2 and 14.8 percent respectively). Asian respondents make up approximately four percent of the newly eligible population, yet makes up almost nine percent of the New Jersey comparison population. This pattern may be related to the code specification for citizenship. Our data includes only those who are citizens and does not account for permanent residents, a group of individuals who would still be eligible for the NJ EITC. The percentage of Hispanics and Asians eligible for the NJ EITC may be increased if we were able to account for permanent residents.

Figure 6. Potential Beneficiaries of Expansion by Race/Ethnicity

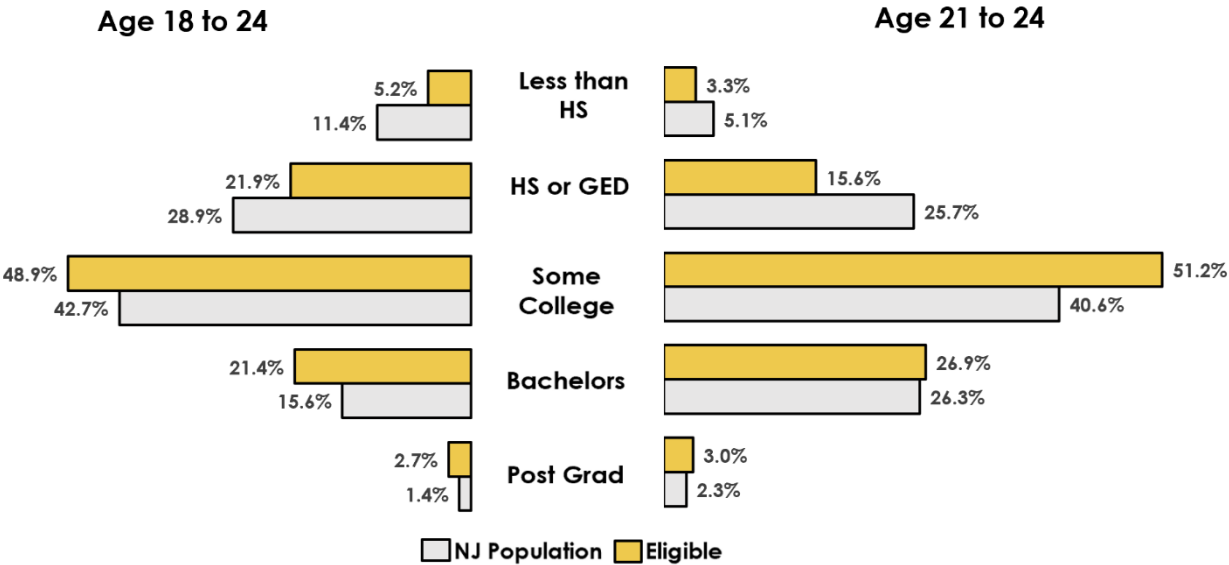


### Educational Attainment

As illustrated in Figure 7, the distribution of educational attainment is mostly consistent across both eligible and New Jersey populations with a small discrepancy between age groups. The larger category across all groups is some college. The second largest category is high school or GED (when looking at the 18 to 24 age group) or bachelor's degree (when looking at the 21 to 24 age group). This is followed by less than high school and postgraduate education as the smallest category across all groups. While the second largest category for eligible individuals 18 to 24 is high school or GED with 21.9 percent, it must be noted that having a bachelor's degree comes in third with a very small percentage point difference of one half of a percent. Similarly, the same can be said for the general New Jersey population ages 21 to 24. While the second largest category for the general New Jersey population ages 21 to 24 is a bachelor's degree with 26.3 percent, high school or GED comes in third with 25.7 percent, a 0.6 percentage point difference.

Potential beneficiaries across both age groups have a greater percentage of individuals with some form of a college education, bachelor's degree, or post-grad than the general New Jersey population. Likewise, both age groups within the general New Jersey population have a greater percentage of less than high school or high school or GED education than the eligible population.

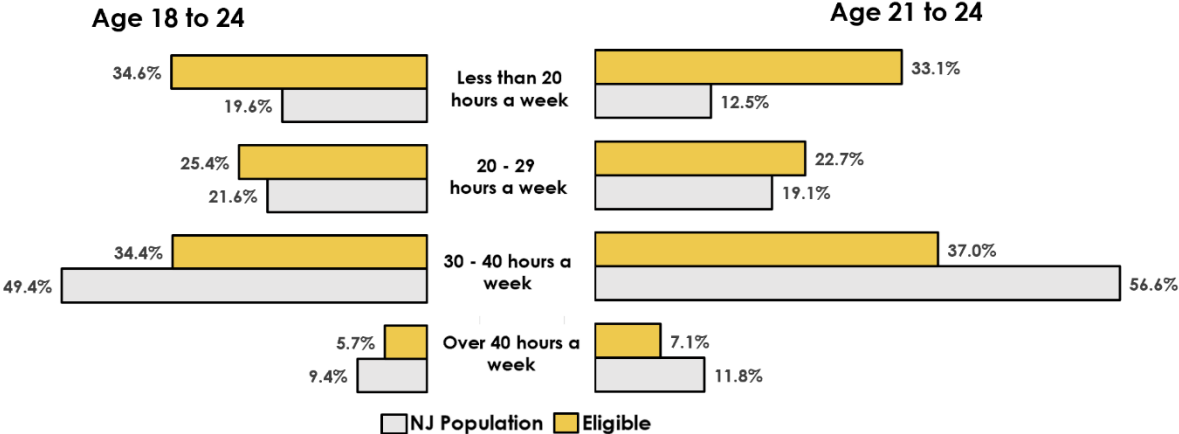
Figure 7. Potential Beneficiaries of Expansion by Highest Level of Education



Number of Hours Worked

As illustrated in Figure 8, the newly eligible population in both age groups has a greater percentage of individuals working less than 20 hours a week or 20 to 29 hours a week than the New Jersey population. While the New Jersey population has a greater percentage of individuals working 30 or more hours a week than the newly eligible population. For example, nearly 57 percent of New Jerseyans ages 21 to 24 and half of New Jerseyans ages 18 to 24 work 30 to 40 hours a week compared to 37 percent of newly eligible population ages 21 to 24 and 34.4 percent of 18 to 24 year olds. Additionally, about 20 percent of the 18 to 24 year old age group and 13 percent of 21 to 24 year old age group worked less than 20 hours a week compared to 35 percent of newly eligible 18 to 24 year olds and 33 percent of newly eligible 21 to 24 year olds. The smallest proportion of each group reported working more than 40 hours a week.

Figure 8. Potential Beneficiaries of Expansion by Number of Hours Worked Per Week



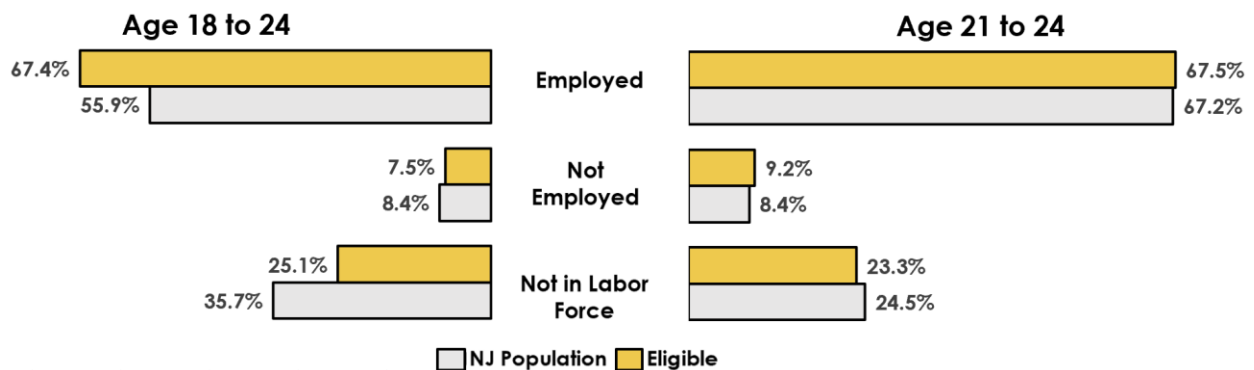


### Employment Status

As illustrated in Figure 9, employed individuals consistently make up the largest segment of the newly eligible and New Jersey population, regardless of age group. In contrast, individuals who are not employed represent the smallest portion of the newly eligible and New Jersey population across both age groups. While coding specifications for our study are set to only include individuals who have worked in the past year, a percentage of individuals still identified as not being in the labor force. It must be noted that the category of “not in the labor force” may include “students, homemakers, retired workers, seasonal workers interviewed in an off season who were not looking for work, institutionalized people, and people doing only incidental unpaid family work” (ACS Subject Definitions, 2016, p. 66). For example, our sample may include a 19 year old, seasonal worker who did not consider himself part of the labor force at the time he responded to the survey.

Of the newly eligible population between ages 18 to 24, 67.4 percent are employed, 25.1 percent of individuals are not in the labor force, and only 7.5 percent of newly eligible individuals are not employed. Among the New Jersey population between ages 18 and 24 at large, 55.9 percent are employed, 35.7 percent are not in labor force and 8.4 percent are not employed. When considering the newly eligible population between ages 21 and 24, 67.5 percent of individuals are employed, 23.3 percent are not in the labor force, and 9.2 percent are not employed. Among the New Jersey population between ages 21 and 24 at large, 67.2 percent are employed, 24.5 percent are not in labor force and 8.4 percent are not employed.

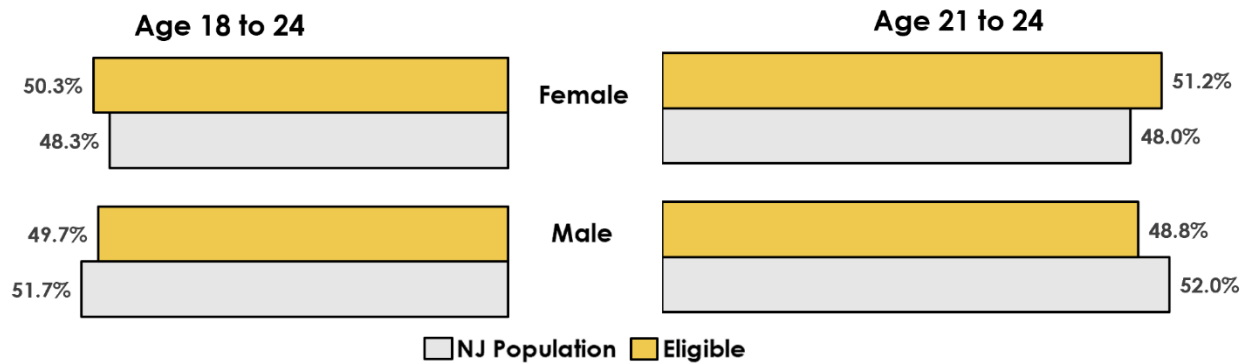
Figure 9. Potential Beneficiaries of Expansion by Employment Status



### Sex

While there are more men than women in New Jersey between the ages of 18 and 24 and 21 and 24, slightly more women will be eligible for the EITC in both age groups, as illustrated in Figure 10. For the 18 to 24 age group in New Jersey, 51.7 percent is male, and 48.3 percent is female; however, the 49.7 percent of the EITC eligible population for this group is male, and 50.3 percent is female. Similarly, the 21 to 24 age group in New Jersey is 52 percent male and 48 percent female, but 48.8 percent of males and 51.2 percent of females would be eligible for the EITC.

Figure 10. Potential Beneficiaries of Expansion by Sex



### Other Variables

Differences between the target and comparison groups on the other equity analysis variables indicate very few differences between the groups. Most of the New Jersey population ages 18 to 24 do not receive public assistance (99.2 percent). Of those that would be newly eligible, less than one percent receive public assistance. Similarly, only about one percent of people ages 21 to 24 receive public assistance and less than half of one percent of those eligible for the EITC also receive public assistance. The newly eligible population generally receives slightly less public assistance than the rest of the population of the same age.

About 85 percent of New Jersey workers ages 18 to 24 are employed by for-profit companies. About the same amount of people who would be newly eligible for the EITC work for for-profit companies (84.2 percent). The next largest category of potential beneficiaries are non-profit employees, followed by government employees, and then those that are self-employed. The rest of the New Jersey population followed similar parameters, except there were more government employees at seven percent than non-profit employees at less than six percent.

One out of ten New Jersey residents between the ages of 18 and 24 receive NJ SNAP while less than four percent of those that would be newly eligible receive SNAP. Similarly, just under 10 percent of the population ages 21 to 24 receive SNAP while a smaller percentage of the newly eligible receive food stamps at less than five percent.

Only five percent of the New Jersey population ages 18 to 24 have a disability and less than five percent of the population who would be newly eligible for the EITC have a disability. Along the same lines, people ages 21 to 24, five percent have a disability and just over five percent of the newly eligible population have a disability.

About 88 percent of the New Jersey population ages 18 to 24 have health insurance and 88.4 percent of the newly eligible population have health insurance. The New Jersey population ages 21 to 24, 86.3 percent has health insurance and 87.5 percent of the newly eligible population has health insurance.

## Recommendations

With the objective of examining the estimated impact of lowering the NJ EITC age requirement to include childless adult workers under 25 years of age, this report has highlighted the process of expanding EITC in other states, provided quantifiable measures of potential beneficiaries, and touched on the estimated composition of such beneficiaries. Based on our findings, we identified three recommendations.

**1. Advocate to lower the NJ EITC age requirement to 18** - Based on our research, lowering the age requirement to include adults under the age of 25 seems to be feasible and impactful. As reflected in the target group analysis, nearly 17,000 more individuals would be eligible for the NJ EITC if the age requirement was lowered to 18, and more than 12,000 would be eligible if it was lowered to 21. When looking at the composition of the potential beneficiaries there are some differences between the eligible age groups. Reducing the age limit to 18 years old would include a greater percentage of beneficiaries with a high school diploma or GED. In contrast, reducing the age limit to 21 would include an almost equal percentage of beneficiaries with a high school degree or GED and a bachelor's degree.

Of the total potential beneficiaries, the majority of these individuals, more than 70 percent, are between the ages of 21 and 24 years old. The larger proportion of beneficiaries could be reached just by lowering the age limit to 21 years old. While this would mean a smaller increase to the budget, \$2.2 million versus \$2.9 million each year, this would also result in a smaller injection to the economy, \$2.7 million versus \$3.7 million. Lowering the age limit to either 21 years or 18 years old would be a fraction of the existing cost of the program in New Jersey. Compared to the more than \$400 million price tag for the program as it currently exists today, based on our estimates, incorporating an additional 17,000 low-income New Jerseyans would only represent a one percent increase in the cost.

**2. Build coalitions with think tanks and advocacy groups** - In the three states – California, Maryland, and Minnesota — that successfully expanded the state EITC to childless workers under 25, think tanks and advocacy organizations played an important role in providing support and evidence in favor of the EITC expansion. A key aspect of the advocacy efforts in these states was the dissemination of research that showcased the EITC as beneficial for low-income, young workers through coalitions and partnerships. Accordingly, state-level think tanks and organizations were instrumental in conducting research and providing data that supported proposed expansion policies, and the coalition building of state and local advocacy and anti-poverty groups led to strategic campaigns for enacting legislative reform. Some state efforts for the expansion included a large and diverse coalition of advocacy organizations, which resulted in a robust campaign centered on evidence-based research and targeted state legislators. Ultimately, these various organizations partnered with government agencies and elected officials and in some instances with bill sponsors or the governor, to push for EITC policy reform. As in the case of Maryland, organizations and politicians wrote and utilized opinion editorials to advocate on behalf of the benefits of the expansion.

The advocacy tactics of the aforementioned states such as coalition building can inform efforts by state and local think tanks and advocacy organizations in New Jersey in pushing for legislation that lowers the age eligibility of the NJ EITC. New Jersey has a robust advocacy community comprised of a large number of active organizations that have the propensity to provide and disseminate research that supports the expansion. These organizations can also launch a campaign that consists of their partnerships with government agencies and elected officials as well as encouraging opinion

editorials written by politicians, local leaders, and potential beneficiaries to garner support for reforming EITC requirements on the state level.

**3. Conduct further research on mechanisms to fund expansion** - As observed in the analysis of other state EITC expansions, increased program costs are often a barrier to expansion. In New Jersey, where the state budget faces considerable demand, a proposal to expand the NJ EITC is incomplete without a consideration of costs. Advocacy on expanding the NJ EITC would likely be more effective if it were presented along with feasible mechanisms to fund the expansion.

Expanding the NJ EITC to younger, childless workers would cost a relatively small amount to the state of New Jersey. The burden of increased NJ EITC program expenditures on the state budget would be approximately \$3 million per year- even when considering wider expansion to workers ages 18 to 24. Expanding eligibility would account for only a one percent increase in the NJ EITC program costs to the state. New Jersey's budget, however, has been under increased pressure as tax revenues cannot keep pace with demands. Parts of the New Jersey budget have been continuously underfunded for years. Finding excess revenue in the state budget seems unlikely.

There are a number of ways in which the state of New Jersey can increase tax revenue. To fund an expanded NJ EITC, the state would need to generate approximately \$3 million a year. The following policy options could generate additional tax revenue far in excess of what is required to fund an expanded NJ EITC. These options are not intended to be exhaustive and are to serve only as possibilities to increase state tax revenue to compensate for increased NJ EITC costs.

Increasing income tax on the highest-earning households in New Jersey by reforming the tax brackets could provide much needed resources to the state while equalizing taxation at various levels of income. Governor Murphy's plan to tax those earning over \$1 million at a rate of 10.75 percent could more than satisfy the increased cost of an EITC expansion (Reynerston, 2018). Estimates predict that this marginal tax rate increase could lead to an additional \$765 million in additional income tax revenue over the next year (Reynerston, 2018). Restoring sales tax to a rate of seven percent would stop the state from losing \$600 million in tax revenue per year (Whiten, 2017). Closing corporate tax loopholes that allow multi-state companies to pay little to no tax in other states by shifting profits away from New Jersey could raise nearly \$300 million for the state per year- paying for the proposed NJ EITC expansion nearly 100 times over (Whiten, 2017). Lastly, restoring the New Jersey inheritance tax that is no longer in effect as of January 1, 2018 could generate much needed resources for the state and help curb inequality and economic immobility (Inheritance and Estate Tax Branch, 2018) (Reynerston, 2017). The restoration of the inheritance tax is projected to generate anywhere from \$200 million to \$500 million each year, far surpassing the costs of an EITC expansion to benefit younger low wage workers (Reynerston, 2017).

## Conclusion

The Earned Income Tax Credit is an essential anti-poverty program on the federal and state level. The program's refundable cash transfer supplements the wages of low- and moderate-income individuals and families, lifting millions out of poverty every year. In addition to lowering poverty rates, the EITC increases labor force participation and retirement security, promotes higher standards of living, and improves health outcomes. The EITC also stimulates state and local economies, generating an additional \$1.24 in economic activity for every dollar refunded to individuals, annually. However, despite the many benefits of the EITC, millions of childless adult workers under the age of 25 are excluded from accruing the benefits of the program due to eligibility requirements. Consequently, single childless adult workers ages 18 to 24, are the lone group taxed deeper into poverty by the federal tax code.

To rectify this issue, there has been increased movement on the state level to lower program age of eligibility requirements, to include childless adult workers under the age of 25. Since 2017, three states Minnesota, Maryland, and California have passed legislation lowering the age requirement for their individual EITC programs. The purpose of this report was to assess the political feasibility, estimated impact, and the likelihood of expansion in the state of New Jersey. Our analyses do have several limitations, particularly related to the use of the ACS data in defining and estimating the newly eligible populations. Specifically, our estimate likely undercounts the newly eligible population on a number of metrics. Legal permanent residents are eligible to receive the EITC, but the ACS data categorizes these individuals as non-citizens and therefore they are excluded from our estimate. Additionally, the ACS does not collect information on tax filing, so it is possible that those assumed to be claimed as dependents could be filing taxes independently and potentially eligible for the EITC. On the other hand, the ACS does not isolate investment income, so there is a possibility that this estimate includes individuals that would not be eligible for the EITC. However, despite these limitations, the team was able to draw meaningful implications for UWNJ. Through our case studies, target group analysis, and recommendations we have concluded that expanding the EITC in New Jersey is a feasible and worthwhile policy for the state to pursue.

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# Appendices

## Appendix 1: States with EITCs, Tax Year 2018

State	Year Enacted	Percentage of Federal Credit	Refundable ?	Eligible Age
<b>California</b>	2015	85% of federal credit up to half of the federal phase-in range	Yes	18 or older
<b>Colorado</b>	1999-2001; 2013	10%	Yes	25-65
<b>Connecticut</b>	2011	23%	Yes	25-65
<b>Delaware</b>	2005	20%	No	25-65
<b>District of Columbia<sup>a</sup></b>	2000	40% 100% for childless workers	Yes	25-65 18-30 for non-custodial parents
<b>Hawaii</b>	2017	20%	No	25-65
<b>Illinois</b>	2000	18%	Yes	25-65
<b>Indiana</b>	1999	9%	Yes	25-65
<b>Iowa</b>	1989	15%	Yes	25-65
<b>Kansas</b>	1998	17%	Yes	25-65
<b>Louisiana<sup>b</sup></b>	2007	3.5%	Yes	25-65
<b>Maine</b>	2000	5%	Yes	25-65
<b>Maryland</b>	1987	28% refundable 50% non-refundable	Yes	18-65
<b>Massachusetts<sup>c</sup></b>	1997	23%	Yes	25-65
<b>Michigan</b>	2006	6%	Yes	25-65
<b>Minnesota</b>	1991	34% on average Calculated as a percentage of income	Yes	21-65
<b>Montana<sup>d</sup></b>	2017	3.0%	Yes	25-65

<b>Nebraska</b>	2007	10%	Yes	25-65
<b>New Jersey<sup>e</sup></b>	2000	37%	Yes	25-65
<b>New Mexico</b>	2007	10%	Yes	25-65
<b>New York</b>	1994	30%	Yes	25-65
<b>Ohio</b>	2013	10%, limited to 50% of liability for state taxable income of above \$20,000	No	25-65
<b>Oklahoma</b>	2001	5%	No	25-65
<b>Oregon</b>	1997	8% 11% with a child under age 3	Yes	25-65
<b>Rhode Island</b>	1986	15%	Yes	25-65
<b>South Carolina<sup>f</sup></b>	2017	20.83%	No	25-65
<b>Vermont</b>	1988	36%	Yes	25-65
<b>Virginia</b>	2004	20%	No	25-65
<b>Washington<sup>g</sup></b>	2008	10%	Yes	25-65
<b>Wisconsin</b>	1989	4% - one child 11% - two children 34% - three children	Yes	25-65

Sources: TCWF; CBPP

**a** The District of Columbia provides 100% of the federal EITC to individual adults without dependent children with incomes up to twice the poverty line

**b** Louisiana credit increases to 5% in tax year 2019

**c** The Massachusetts credit increases to 30% starting in tax year 2019

**d** Montana EITC will not be implemented until 2019

**e** New Jersey's EITC will increase to 39% in tax year 2019 and 40% in tax year 2020

**f** South Carolina's EITC will be phased in to increase to 125% of the federal credit by 2023

**g** Washington does not currently implement an EITC due to lack of funding

## Appendix 2: Expansion, Eligibility, and Equity Variables

### *Expansion and Eligibility Variables*

#### *Age*

Name of original variable: AGEP	Name of new variable: R_AGE Label for new variable: Age	
Values of original variable	Codes for new variable	Value labels for new variable
1 → 17	1	Under 18
18 → 20	2	18 - 20
21 → 24	3	21 - 24
25 → 64	4	25 to 64
65 → highest number (or 99)	5	65 and older
.999	Missing	Missing

Age (AGEP) is a continuous variable measured in years, ranging from 1 to 99. Age was recoded into a 5 categorical variable (R\_AGE).

#### *Income*

Name of original variable: PICNP	Name of new variable: R_PICNP Label for new variable: Total Person Income used for singles	
Values of original variable	Codes for new variable	Value labels for new variable
14881 → highest	0	Income does not qualify
Lowest → 14880	1	Income Qualifies
.999	Missing	
Negative numbers → 0	Missing	

Total person's income (PICNP) is a continuous variable measuring the sum of the eight types of income in dollars for the past 12 months (ACS Subject Definitions, 2016, p. 84). This included wage or salary income; self-employment income; interest, dividends, net rental income, royalty income, or income from estates and trusts; Social Security income; Supplemental Security Income; public assistance income; retirement, survivor, or disability income; and any other income including unemployment or worker's compensation, alimony, and child support (ACS Subject Definitions,

2016, p. 81). PINCP was recoded into R\_PINCP, a dichotomous variable to measure the individual EITC income eligibility threshold of \$14,880. The values are “eligible” or “not eligible”. ACS questions relating to income are only asked of respondents 15 years of age or older.

### *Qualifying Children*

Name of original variable: NOC	Name of original variable: NRC	Name of new variable: R_CHILD Label for new variable: Children in household	
Values of original variable	Values of original variable	Codes for new variable	Value labels for new variable
1 → 19	1 → 19	0	Does not qualify - Has Children
0	0	1	Qualifies - No Children
.999	.999	Missing	

Number of own children (NOC) is a continuous variable ranging from 0 to 19 and measures the number of never-married children under 18 years of age who is a son or daughter by birth, a stepchild, or an adopted child (ACS Subject Definitions, 2016, p. 77). Number of Own or Related Children (NRC) is a continuous variable ranging from 0 to 19 and measures the number of children under the age of 18 related by birth, marriage, or adoption and includes married as well as not married children living with the respondent (ACS Subject Definitions, 2016, p. 78). A composite variable of NOC and NRC, R\_CHILD, was created to determine the presence of own or related children.

### *Citizenship*

Name of original variable: CIT	Name of new variable: R_CIT Label for new variable: Citizenship recoded	
Values of original variable	Codes for new variable	Value labels for new variable
5	0	Noncitizens
1 → 4	1	Citizen
.999	Missing	Missing

The original categories for CIT included: born in the US, born in Puerto Rico, Guam, the U.S. Virgin Islands or the Northern Marianas, born abroad of American parent(s), US citizen by naturalization, and not a citizen of the US. This variable was collapsed into a binary variable indicating “citizenship” and “no citizenship”.



*Dependency*

Name of original variable: HHT		Name of new variable: R_HHT Label for new variable: Household type	
Values of original variable	Codes for new variable	Value labels for new variable	
1 → 3	0	Does not qualify - a family household	
4 → 7	1	Qualifies - Not a family household	
.999	Missing	Missing	

The original variable for household/family type (HHT) included seven categories measuring different types of family and nonfamily households. The original variable was recoded into a binary variable measuring respondents who did not live in a family household.

*Marital Status*

Name of original variable: MAR		Name of new variable: R_MAR Label for new variable: Married Recoded	
Values of original variable	Codes for new variable	Value labels for new variable	
2, 3, 5	0	Not Married	
1, 4	1	Married	
.999	Missing	Missing	

The original variable used to measure a respondent's marital status (MAR) was comprised of five categories: married, widowed, divorced, separated, and never married. The variable was collapsed into a binary variable with two categories, "married" and "not married".

*Work Hours for Eligibility*

Name of original variable : WKHP		Name of new variable: R_WKHP2 Label for new variable: Work Hours for Eligibility Recoded	
Values of original variable	Codes for new variable	Value labels for new variable	
0	0	Does not qualify - does not work	
1 → highest	1	Qualifies - works	
.999	.999 Missing	Missing	

In an attempt to measure work status, the ACS asked respondents to enter the number of hours they worked each week. The original variable was continuous ranging from 0 to 99 or more hours. This variable was recoded into a binary variable to measure the individual EITC eligibility by having worked in the last year.

### *Equity Variables*

#### *Race/Ethnicity*

Name of original variable: HISP			Name of new variable: R_HISP Label for new variable: Hispanic Recoded		
Values of original variable	Codes for new variable	Value labels for new variable			
1	0	Not Hispanic			
2 → 24	1	Hispanic			
.999	Missing	Missing			

Name of original variable: RAC1P			Name of new variable: R_RAC1P Label for new variable: Hispanic Recoded		
Values of original variable	Codes for new variable	Value labels for new variable			
1	1	White			
2	2	Black or African American			
6	3	Asian			
3,4,5,7,8,9	4	Other/two or more races			
.999	Missing	Missing			

Name of original variable: HSP AND RAC1P	Name of new variable: R_NEWRACE Label for new variable: Hispanic Recoded	
Values of original variable	Codes for new variable	Value labels for new variable
	1	White
	2	Black or African American
	3	Asian
	4	Hispanic
	5	Other/two or more races
.999	Missing	Missing

The ACS asks all respondents about their race and racial or national origin (ACS Subject Definitions, 2016, p. 110). Respondents are also asked about their Hispanic origin. Since respondents who identify to be of Hispanic origin can be any race, a composite variable was created to measure race and ethnicity together (ACS Subject Definitions, 2016, p. 74).

The variable for recoded detailed race (RAC1P) collapses more than 100 selections into the categories White alone; Black or African American alone; American Indian alone; Alaska Native alone; American Indian and Alaska Native tribes specified; or American Indian or Alaska Native, not specified and no other races; Asian alone; Native Hawaiian and Other Pacific Islander alone; Some Other Race alone; and Two or More Races. RAC1P was recoded into a four-category variable (R\_RAC1P) with values White, Black or African American, Asian, and other or two or more races.

Respondents are also asked about their Hispanic origin. Using the variable for recoded Hispanic origin (HISP), a dichotomous variable was created to measure Hispanic origin or not of Hispanic origin. Respondents who selected “Not Spanish/Hispanic/Latino” were coded as “Not of Hispanic origin” while those who selected Mexican, Puerto Rican, Cuban, Dominican, Costa Rican, Guatemalan, Honduran, Nicaraguan, Panamanian, Salvadoran, Other Central American, Argentinean, Bolivian, Chilean, Colombian, Ecuadorian, Paraguayan, Peruvian, Uruguayan, Venezuelan, Other South American, Spaniard, or all other Spanish/Hispanic/Latino were coded as “Hispanic Origin”.

Respondents who identify Hispanic origin can be any race (ACS Subject Definitions, 2016, p. 74). Therefore, a composite variable of R\_RAC1P and R\_HISP was created to measure race and ethnicity together (R\_NEWRACE) in five categories: Non-Hispanic White; Non-Hispanic Black or African American; Asian; Hispanic; and Other or Two or More Races.

*Sex*

Name of Variable: SEX	Variable Label: Sex
Variable Code	Value Labels
1	Male
2	Female

Each respondent is asked to indicate whether they're male or female. **This variable was not recorded.**

*Educational Attainment*

Name of original variable: SCHL	Name of new variable: R_SCHL Label for new variable: Educational attainment Recoded	
Values of original variable	Codes for new variable	Value labels for new variable
1 → 15	1	Less than HS
16, 17	2	HS or GED
18 → 20	3	Some College
21	4	Bachelors
22 → 24	5	Post Grad
.999	.999 Missing	Missing

A respondent's level of education is defined as the highest level of school they have completed or highest degree they have received by the date they filled out the survey. The level of measurement for this variable was ordinal consisting of twenty-four categories ranging from no schooling completed to doctorate degree. This variable was collapsed into a five-categorical variable with the following categories: less than high school (no formal schooling and grades K-11), high school/GED, some college, bachelor's degree, and postgraduate degree (master's, professional degree beyond a bachelor's, and doctorate).

*Employment Status*

Name of original variable: ESR	Name of new variable: R_ESR Label for new variable: Employment status Recoded	
Values of original variable	Codes for new variable	Value labels for new variable
1, 2, 4, 5	1	Employed
3	2	Not in Employed
6	3	Not in Labor Force
.999	Missing	Missing

All respondents ages 15 years or older were asked a series of questions about their work and employment patterns during the calendar week preceding the date of responding to the questionnaire, or the reference week (ACS Subject definitions, 2016, p. 118). ESR was recoded into a three category variable (R\_ESR) with categories for employed, not employed, and not in the labor force.

*Class of Worker*

Name of original variable: COW	Name of new variable: R_COW Label for new variable: Class of worker Recoded	
Values of original variable	Codes for new variable	Value labels for new variable
1	1	For profit employee
2	2	Nonprofit employee
3,4,5	3	Government Employee
6,7	4	Self-Employed
8,9	.999 Missing	Missing
.999	.999 Missing	Missing

All respondents 15 years of age or older and who had worked in the past 5 years were asked about the type of ownership of their employing organization (ACS Subject Definitions, 2016, p. 57). The variable Class of Worker (COW) measures eight categories: employee of a private for-profit company or business or of an individual for wages, salary, or commissions; employee of a private

not-for-profit tax-exempt, or charitable organization; local government employee (city, county, etc.); state government employee; federal government employee; Self-employed in own not incorporated business, professional practice, or farm; Self-employed in own incorporated business, professional practice or farm; and Working without pay in family business or farm. Workers who were unemployed and last worked 5 years ago or earlier or never worked were coded as such. COW was recoded into a new variable (R\_COW) collapsed into four categories: For-Profit Employee; Non-Profit Employee; Government Employee; and Self-Employed.

#### *Work Hours*

Name of original variable: WKHP	Name of new variable: R_WKHP Label for new variable: Work Hours Recorded	
Values of original variable	Codes for new variable	Value labels for new variable
0 → 19	1	Less than 20 hours a week
20 → 29	2	20 - 29 hours a week
30 → 40	3	30 - 40 hours a week
40 → highest	4	Over 40 a week
.999	.999 Missing	Missing

In an attempt to measure work status, the ACS asked respondents to enter the number of hours they worked each week. Ranges for this variable were created to loosely represent the type of worker based on number of hours. For example, anyone working between 30 and 40 hours a week would be considered a full-time worker, while anyone working over 40 hours a week would be considered an overtime worker. Because information on number of jobs is not available, such designations would be strictly based on hours.

The original variable was continuous ranging from 0 to 99 or more hours. This variable was recoded into a four-categorical variable with the following categories: less than 20 hours a week, 20 - 29 hours a week, 30 - 40 hours a week, and over 40 a week.

#### *Public Assistance*

Name of original variable: PAP	Name of new variable: R_PAP Label for new variable: Received public assistance income?	
Values of original variable	Codes for new variable	Value labels for new variable
0	0	No
1 → highest or 99999	1	Yes
.999	.999 Missing	Missing

The ACS asks respondents to report the amount of public assistance or welfare income they received from the state and local welfare office. We used this as an indicator for whether or not they receive public assistance. The original variable was continuous ranging from \$0 to \$99999. In the interest of just knowing who received any amount of public assistance income, this variable was recoded into a binary (yes/no) variable.

#### *Food Stamp/Supplemental Nutrition Assistance Program Benefits*

Variable Name: FS	Variable Label: Yearly food stamp/supplemental nutrition assistance program reciprocity
Variable Code	Value Labels
1	Yes
2	No

Respondents were asked if they or any current members of the household received food stamps or Supplemental Nutrition Assistance Program benefits in the past 12 months (ACS Subject Definitions, 2016, p. 17). The variable “Yearly Food Stamp/Supplemental Nutrition Assistance Program reciprocity” (FS) is a dichotomous variable with values “Yes” and “No”. **This variable was not recoded.**

#### *Disability*

Variable Name: DIS	Variable Label: Disability recode
Variable Code	Value Labels
1	With a disability
2	Without a disability

To measure disability status, the ACS asks respondents about their hearing difficulty, vision difficulty, ambulatory difficulty, cognitive difficulty, self-care difficulty, and independent living difficulty (ACS Subject Definitions, 2016, p. 60). Based on answers to these questions, any person ages 15 years or older is considered to have a disability if he or she answers “yes” to any of the six types in a dichotomous variable (DIS) that measures overall disability status. The values are “With a disability” and “Without a disability” (ACS Subject Definitions, 2016, p. 61). **This variable was not recoded.**



*Health Insurance*

Variable Name: HICOV	Variable Label: health insurance coverage recode
Variable Code	Value Labels
1	with health insurance coverage
2	no health insurance coverage

Respondents were asked about their enrollment status with respect to eight types of health insurance coverage: insurance through a current or former employer or union; insurance purchased directly from an insurance company; Medicare; Medicaid, Medical Assistance, or other government assistance plan; TRICARE or other military health care; VA; Indian Health Service; and any other type of health insurance or health coverage plan (ACS Subject Definitions, 2016, p. 72). The measure of health insurance coverage (HICOV) is a dichotomous variable with values “With Health Insurance Coverage” and “No Health Insurance Coverage” where respondents were considered covered if they responded “yes” to one or more of the types (ACS Subject Definitions, 2016, p. 73). **This variable was not recoded.**