

Earned Income Tax Credits Help Lower-Income Workers

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The American economy has almost tripled in size since 1980. Yet, the Economic Policy Institute reports that the average wage of low-income workers increased by only 10%. In fact, middle- and low-income workers have not received a fair portion of economic gains over the past four decades.

The Census Bureau estimates that 35,616 full-time wage earners lived in San Angelo in 2017. The annual median wage was \$32,403. Half of the city's full-time workers earned an hourly wage of \$15.58 or less. The average hourly wage for entry-level jobs in the metro area was \$9.42 per hour for 2017 according the Texas Workforce Commission. That converts to \$19,590 per year for a full-time worker starting off. A job paying the minimum wage of \$7.25 per hour in Texas would yield \$15,080 in earnings.

Years of wage stagnation and growing inequality recently prompted Vermont Senator and presidential candidate Bernie Sanders to propose a "Stop Walmart Act" to halt stock buy backs that benefit executives and shareholders of corporations until they pay all employees at least \$15 per hour. When companies do not pay a living wage, Sanders contends, taxpayers are forced to subsidize low wages.

Indeed, when the research arm of Congress, the Congressional Research Service, tabulated federal spending in 2016, it found \$848 billion for low-income assistance programs. Only four programs accounted for 68% of the spending.

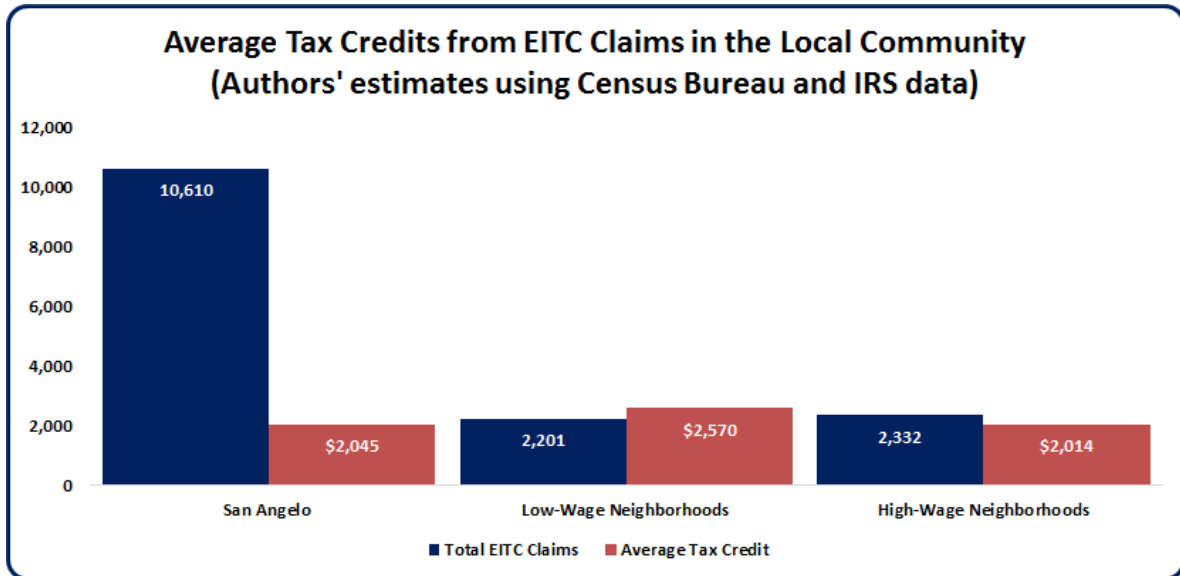
Medicaid is our most expensive assistance to low-income Americans. It is followed by the SNAP (food stamp) program. The largest direct cash assistance is Supplemental Security Income for low-income seniors, blind, and disabled individuals.

The fourth largest expense assisting low-income Americans was originally enacted in the mid-1970s as a modest tax benefit for working parents in poverty. The Earned Income Tax Credit (EITC) provides cash aid to low-income workers and families by allowing credits against their federal income tax each year. The program has expanded over the years to become a major example of what Senator Sanders means by a taxpayer subsidy for employers paying low wages.

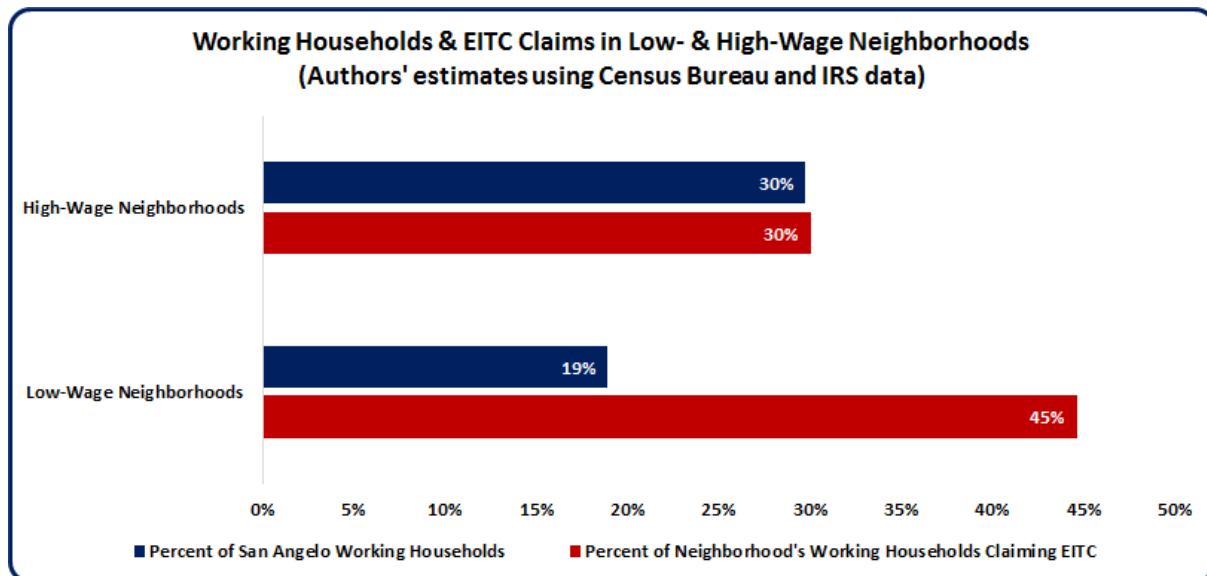
According to Internal Revenue Service (IRS) statistics, 25.8 million households with one or more wage earning member claimed about \$64 billion in credits under the EITC in 2017. The average EITC claim nationwide was about \$2,377. The claims included 2.6 million working households in Texas that reaped \$7 billion in credits. The average \$2,744 credit to Texas households shows that the subsidy for the state's low wage employers was 15% higher than the nation. Only Mississippi, Louisiana, Alabama, and Georgia had higher average tax credits than Texas.

Historically, wages in San Angelo have been lower than average across the state. Unfortunately, however, an exact count of EITC claims from San Angelo is not possible

because IRS data is unavailable for local areas. Nevertheless, we can gather estimates for the city and its neighborhoods by combining Census Bureau data on wage earning households with IRS information on EITC claims and credits. The process yields results that are reasonable approximations of the potential impact on workers and families in the local community.



Our estimation based on this method suggests that about 10,610 households in San Angelo may have filed EITC claims in 2017. This represents 41% of local households with wage earners. To organize an analysis of San Angelo neighborhoods, we sorted the 20 city census tracts according to the median annual earnings of each area's wage workers. Then, we selected the five lowest wage census tracts for comparison with the five highest wage areas.



The five lowest wage areas are Blackshear and Downtown, the Reagan area, East San Angelo around San Jacinto School, the Belaire School area, and the Fort Concho neighborhood. Over the five years between 2012 and 2016, annual median pay for workers in these tracts ranged from \$16,889 in Blackshear-Downtown to \$23,506 in Fort Concho.

These neighborhoods are home to about 19% of all wage-earner households in the city. It is estimated that they filed 2,201 EITC claims representing about 45% of all households in these low-wage areas. The resulting tax credits average estimate is \$2,570, adding up to about \$5.7 million in additional household income.

Comparatively, workers living in the area around the country clubs and Lake Nasworthy, the Bonham School neighborhood, The Bluffs, Southland, and the area around Glenmore School had the highest wage levels in the city. Median wages ranged from an average of \$31,209 in the Glenmore neighborhood to an average \$49,625 in the tract around the country clubs and Nasworthy between 2012 and 2016.

About 30% of working households lived in these high-wage areas during 2017, and about 2,332 or 30% of the households may have filed EITC claims. The average tax credit approximates \$2,014, adding about \$4.7 million to the income of households in high-wage neighborhoods.

Households and families residing in low-wage areas of the city may have gained about 28% more than high wage tracts, but the overriding lesson from our evidence is that the EITC substantially supplements income in working households of all neighborhoods. In the perspective of Senator Sanders, it subsidizes low-wages paid to workers living in the poorest and the most well-to-do communities across the nation. If it is not helping you and your family, then it may be keeping your neighbor from falling into poverty. The situation punctuates a key national policy divide. A brief review is in order.

Originally established in federal tax law in 1975, the roots of the EITC are in a debate that emerged in the early 1970s over reforming War on Poverty programs launched during the 1960s. Concern was building among conservative policymakers as welfare rolls swelled from less than one million to more than three million families receiving cash benefits under the primary War on Poverty program, Aid for Dependent Children or AFDC.

Then, Louisiana's Senator Russell Long proposed a "work bonus" to supplement the wages of poor working parents, and the idea was later written into tax law as the EITC. In the words of the Senate Finance Committee chaired by Senator Long at the time, the objective was "to assist in encouraging people to obtain employment, reducing the unemployment rate, and reducing the welfare rolls."

Starting as an alternative to welfare checks under AFDC, the EITC began a rapid expansion during the late 1980s when policymakers turned to tax credits as a tool to incentivize the movement of poor families from welfare to work. As the *Wall Street Journal* described the EITC as "the tool of choice among poverty experts and politicians" in 1989, households filing EITC claims began to climb from just over 10 million to the current number of 25.8 million. The value of the resulting tax credits soared from about \$10 billion to the current level of \$64 billion.

When Senator Long announced his "work bonus" in 1972, he claimed it was "a dignified way" to help the poor. Since then, federal policymakers have shaped it into the \$64 billion taxpayer funded cornerstone of a sweeping welfare reform movement to prod low-income individuals and families to lift themselves up through the dignity of work.

Of course, we should embrace everyone inspired to succeed and celebrate with them. At the

same time, communities across America are going on 40 years of wage stagnation and surging inequality that signals the importance of demanding that employers also honor the dignity of work by paying a living wage.

The conservative policy choice is to lower taxes on corporations and the wealthy. Lower taxes, the belief is, will lead to job creation and higher wages. This belief in a trickle-down effect drove huge cuts during the 1980s and early 2000s, but the actual impact was to escalate gaping inequality. Still, belief in trickle-down continued to ring loudly in the tax law passed by Congress last fall. This most recent action gave a massive tax cut to corporations, while also taking a petty swipe at the EITC by reducing the cost-of-living allowance in future tax credits for low-income workers.

Meantime, Senator Sanders and other progressives assert that employers will respect the dignity of work only when communities demand it through minimum wage ordinances. The last federal minimum wage increase a decade ago was a meager hike from \$6.55 to \$7.25 per hour. The “Stop Walmart Act” urges the federal government to join the 29 states and 40 cities taking steps since 2009 to hold employers accountable for paying a living wage.

One more thing. The Concho Valley Community Action Council operates an IRS sponsored Volunteer Income Tax Assistance program that helps community members who cannot afford private accountants. This year, they prepared 1,418 returns for local residents. They included 318 EITC claims and added \$506,552 to the incomes of the city’s working households. Starting in February next year, call them at (325) 653-2411 to see if you are eligible for an EITC!