LOW-INCOME CHILDLESS INDIVIDUALS AND THE TAX AND TRANSFER SYSTEMS*

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In the United States, the tax and transfer systems provide assistance to many low-income individuals who are unable to work or who face substantial barriers to entering the workforce. Those individuals typically have included the aged, the disabled, and parents or other caregivers of young children. As public attitudes regarding who is expected to work have changed, some assistance programs have adopted or strengthened work requirements or work incentives. For example, the earned income tax credit (EITC), which was created in 1975 to help offset the payroll tax liabilities of very low-income workers with children, was substantially expanded between 1987 and 2002.

- The credit rate – that is, the rate by which the credit increases as earnings rise – was increased from 14 percent to 34 percent for a worker with one child and to 40 percent for those with two or more children, resulting in a maximum credit that can exceed $4,800 (2008 dollars).
- Eligibility was extended to families at somewhat higher income levels (to as much as $41,600 for a married couple with two or more children).
- Beginning in 1994, very low-income workers who do not reside with children became eligible for a small EITC. To qualify, workers have to be at least age 25 and younger than 65. With a credit rate equal to 7.65 percent, the credit effectively offsets the employee portion of payroll taxes. The credit, however, cannot be greater than $438, and eligibility is limited to workers with income below $13,000 (or $16,000 if married).

The EITC expansions, in particular, have been found to have contributed significantly to increases in labor force participation among low-income single mothers (Eissa and Liebman, 1996; Meyer and Rosenbaum, 2001).

That apparent success of the EITC – combined with concerns about the labor force participation of low-income men – has given rise to proposals to expand the EITC for younger, able-bodied individuals without children. Edelman et al. (2006) and Scholz (2007) point to the declining labor force participation and slow wage growth among men with high school education or less and speculate that the EITC success in increasing the labor force participation of single mothers might be replicated among other populations. Edelman et al. (2006) propose increasing the EITC phase-in rate for those without children to 20 percent, while Scholz (2007) would double the phase-in rate for all childless workers and further increase the credit rate to 25 percent for young workers.

Concerns about the effects of child support enforcement on work effort have also spurred proposals to expand the EITC for those who do not reside with children – but who, in fact, are parents. Primus (2006) argues that child support awards effectively increase marginal tax rates among noncustodial parents and suggests that increasing the EITC for individuals who are compliant with child support requirements would provide a “carrot” that would offset the “stick” of child support enforcement. Both the state of New York and the District of Columbia have expanded their EITC for low-income noncustodial parents who are compliant with child support orders, and others (including President Obama during the 2008 campaign) have suggested similar expansions at the federal level.

Childless individuals who are able-bodied may benefit from programs that do not base eligibility on the presence of children. For example, recent legislation aimed at stimulating the economy has extended eligibility for refundable tax credits to low-income individuals – without regard to whether they have any income tax liabilities or children. The “recovery rebates” that were enacted in 2008 did not require low-income workers to have either income tax liability or children to qualify;

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workers without any income tax liability could qualify for a refundable credit of at least $300 if they had a minimum of $3,000 in earnings. The 2009 stimulus legislation creates a "making work pay" credit, whose value also does not depend on the presence or number of children; workers will receive a refundable credit equal to 6.2 percent of earned income up to a maximum of $400 (or $800 if filing jointly). For very low-income childless workers, the making work pay credit – in combination with the EITC – offsets nearly all of their payroll taxes (assuming that the employer share of payroll taxes is ultimately borne by workers in the form of lower wages). Both of those stimulus provisions, however, are temporary.

Proposals to extend assistance to those without children raise several questions regarding their current circumstances and their treatment under the transfer and tax systems. First, who is considered childless, and given that definition, how many able-bodied non-elderly individuals qualify? Second, what are their characteristics, and how do they differ from those with children? Finally, how do the current tax and transfer systems treat those without children?

Who Is Childless?

Among family and friends, the term "childless" may have a simple meaning: a person has neither a son nor a daughter. For social and tax policy, defining a "childless" individual can present greater challenges. Defining a childless individual can be prompted by two very different policy questions: first, who is eligible for a tax or spending benefit solely because they do not have children, and second (and more typically), who is not eligible for a tax or spending benefit that is targeted to individuals with children?

To some extent, those challenges mirror the issues raised by the definition of a qualifying child for tax benefits. As more assistance for families with children has been channeled through the income tax system, the definition of a child in the tax code has undergone several revisions. Those revisions began with efforts to simply the eligibility criteria for the EITC in the Omnibus Budget Reconciliation Act of 1990 and culminated with the enactment of a more uniform definition of child in the Working Families Tax Relief Act of 2004 (see Holtzblatt, 1991; Holtzblatt and McCubbin, 2003). As a consequence of those changes, a "qualifying child" for purposes of the dependent exemption, head of household filing status, and several tax credits (including the child tax credit and the EITC) is determined by the age of the child and the child's relationship to and residency with the taxpayer:

- *Age*. Generally, the child must be under the age of 19 or 24 if a full-time student. No age test may apply if the child is permanently and totally disabled. However, children must be under the age of 13 for the child and dependent care tax credit and under 17 for the child tax credit.
- *Relationship*. The child must be the taxpayer's son, daughter, grandchild, sibling, niece or nephew, or a child placed in the taxpayer's home by the state.
- *Residency*. The child must live with the taxpayer for over six months.

Tiebreaker rules prevent more than one person from claiming the same qualifying child for tax benefits.

When the EITC was extended to childless individuals in the Omnibus Budget and Reconciliation Act of 1993, the legislation specified that a worker could not qualify for the "childless credit" if he or she had a qualifying child (even if someone else claimed that child for the EITC). The effect of that rule is to deny the childless EITC for many individuals whose living arrangements are somewhat complicated. For example, in a household containing a mother, her daughter, and the daughter's child, either the grandmother or mother can claim the child and receive the larger EITC for those with children – but neither can claim the credit for childless individuals. An unmarried couple who cohabitate and have a child together face similar restrictions: one parent can claim the baby and the larger EITC for workers with children, but the other parent cannot claim any credit. Given other requirements at that time, the rules, however, generally did not deny the childless EITC to someone other than a parent or grandparent who lived in a household containing a child unless that person lived with the child for the entire year and cared for the child as his or her own.

When the definition of qualifying child for child-related tax benefits (including the EITC) was made more uniform in 2004, a common residency test was adopted (meaning that all qualifying children – regardless of relationship – had to live with the taxpayer for over half the year), and the requirement that taxpayers had to care for qualifying children – other than their sons, daughters, and grandchildren – as their own was repealed. Compliance with the "care for" provision had been based on the "facts and circumstances" of each family's situation, and both IRS staff and tax policy officials viewed that requirement as difficult for taxpayers to understand and for the IRS to administer. Eliminating the "care for" provision – combined with modifications to tiebreaker rules that apply when more than one person qualifies to claim the same child – gives families more discretion to determine which family member claimed the credit and also simplified tax administration.[1]

While eliminating the "care for" requirement may have simplified eligibility for child-related tax benefits, it could have the opposite effect on the eligibility rules for the "childless" EITC. Under the 2004 law, anyone who lives with a sibling or sibling's child could potentially be disqualified for the childless EITC. For example, a household consists of a married couple and their 15-year-old daughter. In May, their 25-year-old unemployed son moves back home and takes a minimum wage job at a local store. Although the son earns less than $13,000, he cannot claim the childless EITC. Under the current tax code, he is considered to have a qualifying child even though he provides no care or support for his teenage sister.

Consider, then, the impact of alternative definitions of childlessness on the size of the affected population. If childlessness is defined simply as the absence of a son or daughter under the age of 19 (or 24, if a full-time student) from the taxpayer's household for over half the year, then there were 71 million able-bodied people between the ages of 25 and 65 who would have met that criteria in 2004.[2] The number of childless individuals declines to 70 million when we exclude individuals who are classified as guardians in the Survey of Income and Program Participation. When individuals who reside with any related child are excluded, the number of childless individuals drops to 66 million. Indeed, most of the 4 million individuals who live with a related child – who is not their son, daughter, or ward – also share a home with that child's parent or guardian but could potentially be considered as having a child under the current tax rules. Finally, about 65 million individuals did not live with any child (related or unrelated) at all during 2004.

The EITC legislative history provides no insight into why some people who are neither parents nor guardians are considered childless while others are not. One possible rationale for the restrictions on eligibility for the childless EITC is that the current rules effectively limit the amount of the entire credit received by a household. Another rationale may be to constrain marriage penalties, which occur when a married couple could pay lower taxes if each spouse were able to file a single return. Thus, the current rules would prevent a household containing an unmarried couple with one child – or, in the other example above, the two women in the multi-generation household – from claiming the EITC twice, with one adult claiming the credit for a child and the other claiming the childless credit. However, similar restrictions do not apply under other family circumstances. If, for example, the unmarried couple did not have any children, each worker could claim the childless EITC. And if, instead, the unmarried couple had two children, they could split the family and each claim the credit for one child.

Characteristics of Childless Individuals

The counts of childless individuals, cited above, were derived using the 2004 Panel of the Survey of Income and Program Participation (SIPP; U.S. Census Bureau, 2004). The SIPP is a longitudinal survey in which the same people are interviewed every four months about their income, household composition, and other information during the previous four months. We limit the sample to individuals who are at least 25 and younger than 65, thus mirroring the current age requirements for the "childless" EITC. In addition, the sample excludes individuals who cannot work due to a disability. The sample was further restricted to individuals for whom information is available throughout calendar year 2004.[3]

Table 1 compares the characteristics of individuals who did not reside for over half the year with a son, daughter, or any child for whom they were deemed guardian (the "childless") to all other able-bodied individuals between the ages of 25 and 65 (those who, for purposes of this table, are considered to have children). The childless were older, less likely to be married, and somewhat more likely to have completed college. Work status and (possibly not coincidentally) health insurance status were about the same for those with and without children. At lower income levels, some differences become more pronounced. For example, among those with incomes below 200 percent of poverty,

Table 1
Characteristics of Able-Bodied Adults by Presence of Children in 2004

	Ages 25 - 64		*Ages 25 - 34*	
	Parent or Guardian	*Childless*	*Parent or Guardian*	*Childless*
Total (millions)	67.3	69.8	19.3	16.9
Average age	40	46	30	29
	Percent			
Marital Status				
Married	81.9	52.9	77.0	35.0
Widowed	0.8	2.5	0.2	0.1
Divorced or separated	10.4	18.0	8.2	6.5
Never married	6.9	26.7	14.7	58.4
Educational Status				
Did not finish high school	8.3	6.0	11.4	4.9
High school graduate	25.7	26.8	29.3	21.3
Some post-secondary education	36.7	35.8	38.9	32.4
Bachelor's degree or more	29.3	31.4	20.4	41.4
Work status				
Full time, all year	53.1	53.4	44.5	53.6
Part-time or part-year	36.3	36.3	41.9	42.8
No work at all	10.6	10.3	13.6	3.6
Health Insurance in May				
Covered	86.4	84.5	80.0	77.9
Not Covered	13.6	15.5	20.0	22.1
Own Earned Income				
No Earnings[1]	13.6	14.1	16.0	5.4
Less than $10,000	12.0	11.0	15.9	11.2
$10,000 - $30,000	30.9	32.9	36.9	41.0
$30,000 - $50,000	22.1	22.6	19.9	26.5
$50,000 - $100,000	17.3	16.2	10.6	13.9
$100,000 or more	4.1	3.3	0.8	2.1
Family Poverty Level				
Less than 100%	8.1	4.9	13.5	5.0
100% - 200%	18.0	11.8	25.5	13.1
200% - 300%	19.4	14.9	23.1	15.6
300% - 400%	16.1	15.7	15.1	16.8
400% or more	38.4	52.9	22.8	49.5

Source: Survey of Income and Program Participation

[1] Some workers do not report earnings because they work for themselves or family.

47 percent of the childless did not have health insurance in May 2004 – compared to 35 percent for those with children. The distribution by own earnings is fairly similar among those with and without children. Still, taking into account other sources of income and family size, those without children were less likely to reside in families with incomes below or near the poverty level: 17 percent of those without children were below 200 percent of poverty, compared to 26 percent of those with children.

To some extent, those findings could be indicative of the different age profiles of the two populations; those who do not live with children were more likely to be older. The second panel in Table 1 restricts the sample to those who are at least age 25 but under age 35. Some differences become more pronounced in this age group, with those without children substantially more likely to have completed college and to work full-time.

RECEIPT OF TRANSFER INCOME

Childless individuals are less likely than those with children to be entitled to public assistance, and among those who are entitled, they are more likely to be subject to additional restrictions (such as work requirements). Even when they are not entitled to benefits, childless individuals can affect – or be affected – by eligibility of others in the same household.

Supplemental Nutrition Assistance Program

Individuals without children may be eligible for supplemental nutrition assistance program (SNAP) benefits (the program known as food stamps until October, 2008). However, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 restricted eligibility for able-bodied individuals without dependents (ABAWD) – that is, individuals who are neither parents nor otherwise responsible for the care of a dependent child – who are between the ages of 18 and 50. Such individuals are not entitled to more than three months of benefits over a 3-year period if they work less than 20 hours a week or do not work at all. If ineligible ABAWDs live with other people, their assets and all but a pro rata share of their income are counted as available to the remaining members of the household, when determining the household's eligibility for benefits.

Under certain circumstances, unemployed able-bodied individuals without dependents may qualify for SNAP benefits for longer than three months. First, states can request waivers for ABAWDs in areas where the unemployment rate exceeds 10 percent. Waivers can also be granted in "labor surplus areas," where the unemployment rate exceeds the national unemployment rate by 20 percent. Second, states may choose to exempt up to 15 percent of ABAWDs from work requirements and time limits. Finally, states can assign ABAWDs to employment and training programs, which effectively fulfill their work requirements.

In 2004, able-bodied individuals without children were less likely to report food stamp benefits than those with children. Nearly 23 percent of able-bodied parents or guardians between the ages of 25 and 65 who had income below 200 percent of the poverty level reported receipt of food stamp benefits in 2004. In contrast, about 9 percent of poor or near-poor individuals who did not live with a son, daughter, or ward reported food stamp benefits. The share of low-income childless individuals who resided in families reporting receipt of food stamps was nearly double that among those reporting receipt of benefits on their own. Among those with family income below 200 percent of the poverty level, roughly 15 percent of the childless resided with families who received food stamp benefits.

Medicaid

The Medicaid program is a means-tested program, providing medical services to low-income individuals and the medically needy. Generally, eligible individuals are elderly, disabled, or members of families with dependent children. Able-bodied adults without dependent children do not typically qualify for Medicaid. However, a state can request that the Department of Health and Human Services grant a waiver (a so-called Section 1115 waiver, named after the authorizing provision in the Social Security Act) allowing the state to cover childless adults. To qualify for the waiver, the state plan must be budget-neutral – meaning that federal costs under a waiver cannot be greater than the state's projected federal spending would otherwise have been. States can also choose to cover childless adults without federal assistance.

As noted earlier, the low-income childless are less likely to have health insurance than other adults. The lower rate of insurance among the childless, in part, reflects the lower rate of coverage of Medicaid among those without children. Among those with incomes below twice the poverty level, about 12 percent of the childless reported Medicaid coverage in 2004, compared to 29 percent for parents and guardians between the ages of 25 and 65. The childless poor and near-poor were more likely to live with a family member who was a Medicaid beneficiary: over one in four individuals with family income below 200 percent of poverty lived in a family where at least one person received Medicaid.

Temporary Assistance for Needy Families

Temporary Assistance for Needy Families (TANF) is primarily targeted to families who have (or who are about to have) children – and less than 100,000 adults who did not reside with a son, daughter, or ward for over half of 2004 reported receiving TANF. However, over three times as many resided in families where someone reported receipt of TANF benefits. The presence of other adults in the household can affect benefits received by a child's primary caregiver. A non-caregiver adult could be related to the parent or children, the partner of the parent, or a friend of the parent who is not a relative or in a relationship with the parent. In 2007, 23 states included at least one relative in the TANF unit – potentially increasing the size of the beneficiary unit. Among these states, four also included nonrelatives in the TANF unit. In 12 states, benefit amounts could be reduced by income or household contributions of adults who are not included in the unit but reside in the same household (Rowe et al., 2008).

INCOME TAX

Prior to the enactment of the Tax Reform Act of 1986, the income level at which people became subject to the income tax (the tax threshold) hovered near the poverty line. Since then, expansions of the personal exemption and child-related tax benefits have increased the income tax threshold for families with children to roughly twice the poverty level (see Figure 1).[4] In tax year 2007, a married couple with two children did not incur any income tax liability until their income exceeded 204 percent of poverty – up from 86 percent in 1986.[5] For taxpayers without children, the tax threshold has not risen as rapidly because childless individuals did not benefit from the expansions of the child-

Figure 1: **Tax and Poverty Thresholds**

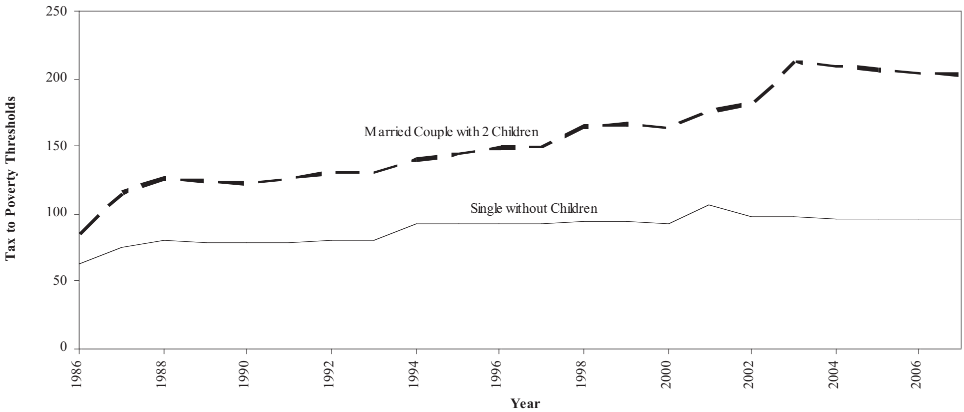
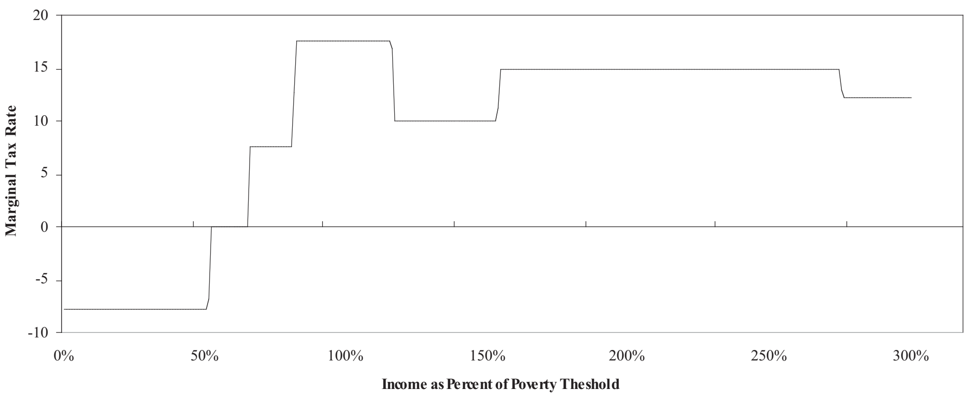


Figure 2: **Marginal Federal Income Tax Rates for Single Person without Children 2007**



related tax benefits. The extension of a small EITC to very low-income workers without qualifying children lifted the tax threshold slightly above the poverty threshold in 1994; in addition, temporary stimulus relief in 2001 caused a one-time bump up in the income tax threshold.

Partly because of the lower tax thresholds – and partly due to the phase-out of the EITC at low income levels – low-income workers without children become subject to relatively high marginal tax rates under the individual income tax at relatively low income levels. For workers with incomes below 50 percent of the poverty threshold, marginal tax rates are negative – meaning that they receive 7.65 cents from the government for each additional dollar earned (effectively offsetting the employee portion of payroll taxes in the credit's phase-in range). However, the EITC begins to phase out for childless workers when income begins to exceed roughly 65 percent of the poverty threshold. The marginal tax rates reach about 18 percent as income reaches the poverty threshold – 5 percentage points higher than the rates faced by workers with income at 300 percent of the poverty threshold. (If both employee and employer portions of payroll taxes are included, low-income childless workers face marginal tax rates in excess of 30 percent at the poverty threshold.)

CONCLUSIONS

Public assistance programs have traditionally been targeted to those who are unable to work. As attitudes about who is expected to work have changed, some programs have included either carrots or sticks to encourage greater labor force participation among those eligible for benefits. And, as assistance programs have gained a greater focus on encouraging work, some analysts and advocates have proposed extending eligibility to those who were always expected to work – able-bodied individuals who do not have primary responsibilities for caring for children.

In many ways, the childless are like others who are in the same age group – about 90 percent of each group works, and their earnings profiles are similar. However, the childless differ in certain key ways; they are more likely to be better-educated and less likely to have income below 200 percent of poverty. But those who are poor or near-poor are less likely to receive transfers, and they are more likely to be subject to income taxes and high marginal tax rates.

For proposals that distinguish between those who have children and those who do not, the question of who is considered childless affects eligibility for benefits. The definition of childless individuals affects counts of potentially eligible individuals; depending on the definition used, the counts of able-bodied childless individuals range between 65 million and 71 million. The choice of definition may also cause confusion – with more restrictive definitions (such as the one used to determine eligibility for the EITC) conflicting with how many people view childless status.

Policymakers seeking to encourage work among those without children may find that restrictive definitions of childlessness prevent some individuals, who are outside the workforce, from receiving incentives to work. In the FY 2008 and 2009 budgets, the Treasury Department proposed allowing taxpayers who would qualify for the childless EITC – except for the fact that they live with a qualifying child – to claim that credit. To limit marriage penalties, however, the proposal would have effectively retained current law for unmarried couples who live together with a child; under such circumstances, only one parent could claim the child and the EITC, and the other parent could not receive any credit at all – retaining an element of complexity in a proposal intended to increase simplicity. Another option would be to separate the goals of encouraging work and providing assistance to families with children. The childless EITC could be transformed into a work credit – or consolidated with the recently enacted "making work pay" credit – and provide an offset to payroll taxes for low and moderate income workers; such a credit would be available to all workers without regard to whether or not they have children. The EITC could instead be returned to its original purpose and be targeted strictly to families with children.

In the tax code, defining childlessness raises many of the same concerns regarding complexity as defining when a taxpayer has a child. Targeting based on family responsibilities adds complexity to the tax code – even when eligibility for a tax provision is based on the absence of family responsibilities – mirroring the complexity of family life.

Notes

1. If more than one person claims the EITC, the parent's claim supersedes all other claims; next in the pecking

order is the person with the highest adjusted gross income. In October 2008, Congress tightened the tie-breaker rules; beginning in 2009, no other family member can claim a qualifying child if that child's parent is present and has higher adjusted gross income.

[2] Children who are temporarily away from home – at camp or at school – are considered to be present in the parent's household.

[3] We excluded individuals from the sample if their reported year of birth varied by more than two years over the course of the year.

[4] Temporary stimulus provisions enacted in 2008 and 2009 are not shown in this chart.

[5] Figures 1 and 2, and the accompanying text, assume that income is derived solely from wages.

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