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## **Creating an Effective Work Incentive for Low-Income Non-Custodial Parents: Lessons from the New York State Experience**

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**10/31/2012**

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Prepared for 2012 APPAM Fall Research Conference  
November 8-10, 2012  
Baltimore, Md.

Support for this research was provided by the Ford Foundation and the Open Society  
Foundation, Campaign for Black Male Achievement.

The authors would like to thank Laura Wheaton for assistance with simulations using the TRIM3  
Data. The authors alone are responsible for analyses and interpretations.

## Abstract

Despite its overall success and popularity, the federal earned income tax credit (EITC) policy does not work for low-income non-custodial parents (NCPs). In the late 2000s, several legislative initiatives proposed to enhance the EITC for low-income NCFs, but the Great Recession undermined their relevance and the dialogue was suspended. With the return of job growth, a renewed interest in reforming the EITC may again be possible. Using both aggregate and individual-level data, this paper simulates the impact of changes in income and child support compliance criteria to estimate the number of NCFs who would be eligible for an alternative EITC. Drawing upon qualitative interviews with noncustodial parents in New York State, the first and most studied of four state NCP\_EITC policies that have been attempted in the last decade and national data from the Fragile Families and Child Well-being Survey, this paper describes the basic eligibility criteria, structure of benefits, adequacy of work incentives, and competing priorities of NCP-EITC plans. It uses these data and TRIM3 to simulate and describe the effects of integrating NCP-EITC eligibility requirements with participation in the child support enforcement system on participation in the NCP EITC. Finally, the paper uses the findings of our qualitative analyses and simulations to make recommendations that improve the effectiveness of NCP\_EITC plans. These recommendations focus on increase work incentives, making compliance more feasible and relaxing the full compliance criteria.

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

For the 2008 tax year, a single parent with one child who earned between \$8,580 and \$15,740 was eligible for the maximum credit of \$2,917. On the other hand, a childless worker could only earn between \$5,720 and \$7,160 in order to receive the maximum credit of \$438. Thus a single parent fully employed at minimum wage (2008 gross earnings would have been \$12,812), would have received the maximum credit, while a childless worker with the same earnings would only have qualified for a maximum credit of \$484 (Scott, 2008).<sup>2</sup>

Before the 2008-2009 recession, policymakers were seeking ways to increase the childless worker credit and provide additional support to NCPs who supported their children financially; because the incomes of low income childless workers and NCPs could fall below the poverty line after taxes. However, recessions divert the attention of the public and policymakers from the needy to the cyclically unemployed, and there is no guarantee that the pre-and post-recession policy issues that capture the public's attention will be the same. This was the

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<sup>1</sup> The example provided is based upon the 2008 credit figures for a single (custodial) parent with either one or two children.

<sup>2</sup> Annual minimum wage (full time, full year) for 2008 is calculated as twenty-nine 40-hour weeks at \$5.85 per hour and twenty-three 40 hour weeks at \$6.55 per hour as federal minimum wage increased from \$5.85 to \$6.55 on July 24, 2008.

experience of welfare reform in the mid 1990s and may well be the experience of efforts to expand the Earned Income Tax Credit (EITC).

This would be unfortunate because the average hourly earnings of less-educated men have changed very little in a quarter century and the decline in earnings of men at lower deciles of the earnings distribution is well-documented (Berlin, 2007; Sum et. al 2010) as is the increase in non-marital fatherhood (Cheadle, Amato, et al. 2010), especially among less-educated men (Sum et al. 2010 and Smeeding et. al. 2010). For these reasons, efforts to require and enable low- income non-resident fathers to support their children are needed and, in our view, an effective earnings supplement for these fathers is critical.

This paper proposes an earned income tax credit to enable noncustodial parents (NCPs) to increase their earnings and child support payments. The paper begins by using the Fragile Families and Child Well-Being Survey to describe the population of low- income NCPs who have been the targets of four state efforts to create an NCP\_EITC, which if successful, would become the basis for new federal policy. The next section discusses the basic eligibility criteria, structure of benefits, adequacy of work incentives, and competing priorities of NCP-EITC plans, drawing upon the experience of New York State, the first and perhaps most studied of these state efforts. In 2009, three years after the New York State NCP-EITC became available, it reached only a third of the eligible population (Nichols, Sorenson, et al. 2012). This discussion draws upon qualitative interviews conducted in 2009 with 43 noncustodial parents who were income eligible for the New York State NCP-EITC. The next section describes the effects of integrating the NCP-EITC eligibility requirements with participation in the child support enforcement system on participation in the NCP EITC. Next the paper uses data from Trim3 and the Fragile Families and Child Well-Being Survey to simulate the effects of child support order and child-

support compliance eligibility criteria on participation in the NCP-EITC. The final two sections discuss the implications of our findings for designing a more effective NCP\_EITC. These implications begin with making compliance more feasible for low-income NCPs. They end with a discussion of relaxing the full compliance criteria.

## **Who Are Low-Income Noncustodial Parents?**

Noncustodial parents are a difficult population to identify and understand, in part because they are defined by those with whom they do *not* live. Surveys usually ask respondents about whom they *live with*, in families or households. In addition, low-income, noncustodial fathers are underrepresented in surveys both because they are difficult to locate and reluctant to participate. This paper defines a non-custodial father as a biological parent who is not married to or living with the mother and her children. Note that unmarried fathers who live with their children (that is, unmarried, resident fathers) are not included in this definition of noncustodial fathers.<sup>i</sup> (Since most noncustodial parents are fathers, this paper uses “noncustodial parents” and “noncustodial fathers” interchangeably.)<sup>ii</sup>

One of the most comprehensive sources of information about low-income NCPs is the Fragile Families and Child Well Being Study (FFCWBS), a national survey of the parents of nearly 5,000 children born in large U.S. cities between 1998 and 2000. The FFCWBS consists of separate interviews with the mothers and fathers of the children at birth and one, three, five, and nine years later. Because the FFCWBS oversampled children born to unmarried parents and achieved much higher response rates among all NCPs (and especially among low-income NCPs), it provides a much fuller account of their capabilities and circumstances than other sources. (For clarity, the children sampled are referred to as the “focal children” in the remainder of this report.)

Table <sup>3</sup>1 compares the demographic and labor market characteristics of fathers in the FFCWB sample who were not married or living with the custodial parent five years after the birth of the focal child to those of married, resident fathers.<sup>iii</sup> It shows that the nonresident fathers are more racially diverse (though also more likely to be U.S.-born), younger, and less educated than the married, resident fathers.

---Table 1 Here--

Following families from the child's birth through the following years, the FFCWBS finds that although most couples live together at the child's birth with aspirations of a long-term, committed relationship (in some cases, even marriage), most are also unprepared to meet the strains of new parenthood under the stresses of income insecurity.<sup>iv</sup>

To a large extent, the financial distress of low-income NCPs reflects several recent macroeconomic trends that have made it more difficult for young, less-educated men to assume the responsibilities of fatherhood. These trends include wage stagnation and corresponding increases in unemployment and joblessness, as well as sharp increases in the severity of enforcement and sentencing policies which have led to disproportionate increases in incarceration rates.<sup>v</sup>

Following the break-up with the mother many low-income, nonresident fathers struggle for years to achieve financial security. Table 1 shows that five years after the birth of the focal child, the nonresident fathers were 28 percent less likely to be employed in the prior week, and their reported earnings and household income in the previous year were only about half as high as the earnings and income reported by married fathers. More than half of the nonresident fathers (56.5 percent, compared with only 13 percent of married fathers) reported prior incarceration, an experience that undoubtedly constrained their lifetime earnings.<sup>vi</sup>

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<sup>3</sup> Our next draft will update Table 1 to reflect the experiences of NCPs 9 years post birth.

One of the unique advantages of the FFCWB survey is that it enables researchers to match mothers to fathers and compare differences in the ways that they describe their relationships. Two of the aspects of the relationship about which noncustodial fathers and custodial mothers most often disagreed were whether the child's paternity was legally established, (a formal legal certification process based on several forms of evidence, from a voluntary affidavit from the father to a compulsory blood test), or whether a legal child support order had been established.

Table 1 shows that noncustodial fathers were less likely than custodial mothers to report that paternity was formally established (76 vs. 84 percent). Differences were particularly sharp with respect to whether a formal child support order was in place; only sixteen percent of NCPs acknowledged such an order, compared with 39 percent of custodial mothers. Given that noncustodial parents have fairly strong incentives to try to evade child support obligations by denying paternity or formal child support orders, researchers working with the FFCWBS data tend to put more confidence in maternal responses when couples disagree about these two issues.

Conversely, FFCWBS researchers tend to put more confidence in fathers' reports of their own current relationship status and paternal obligations to children with other partners. Table 1 shows that a significant portion (35 percent) of noncustodial fathers were living with another partner five years after the birth of the focal child, and 32 percent had paternal obligations to children with a partner other than the focal child's birth mother. Custodial mothers tended to overestimate NCPs' cohabitation with another partner and underestimate NCPs' paternal obligations to other children.

Taken together, the findings in Table 1 suggest that low-income noncustodial fathers are a group of young men struggling with low levels of employment and earnings, high levels of incarceration, and ties to other partners and children, all of which compromise and constrain their ability to provide for the focal children.

This paper proposes offering an enhanced tax credit to low-wage, working nonresident fathers. To qualify, the fathers would need to register with the Child Support system and make reliable monthly

payments of a portion of their income to their children. In return, an enhanced earned income tax credit could substantially reduce the gap between these fathers' after-tax incomes and essential living expenses.

## **The New York State NCP\_EITC**

In 2006 New York State (NYS) became the first state to enact an EITC for non-custodial parents (the NYS NCP EITC). In the credit's first year the take-up rate was low; only 5,280 non-custodial parents (12% of all New York State income-eligible non-custodial parents) received the credit (Sorensen, 2010). Though participation substantially increased over the next four years, especially among white NCPs with one child, the overall participation rate was still quite low (Nichols, Soensen, and Lippold, 2012). To understand why participation rates remained so low, we conducted one-on-one interviews and undertook a short self-administered survey with NCPs in New York City or Chautauqua County, NY between February and September 2009. We explored their knowledge of the NYS NCP EITC, their eligibility for the credit, and the potential impact of such a benefit on their expenditure patterns.

In many ways, the NCPs in our sample (N = 43, mean age = 35) resembled the respondents in the FFSCWBS. All were filing their taxes in a for-profit tax preparation agency or receiving services from one of the New York State Fatherhood Program sites. All but 9 of the 43 NCPs were Black or Latino. Many had children with multiple partners; only a few, mostly the white men, were ever married. About half of had post-secondary schooling (technical education, some college, including 6 with an Associate's or Bachelor's degree).

The study showed that NCPs knew little about credit, and almost none had applied, even though the credit had been available for three years. Even if the credit were better known, few of



these fathers would have received it in 2009, because they did not meet the last of six basic eligibility criteria at the time. To receive the credit, applicants had to:

1. Be over the age of 18;
2. Be a non-custodial parent of a child under 18 years old;
3. Earn less than \$33,995 (2008 tax year);
4. Be a full-year New York resident;
5. Have a child support order for at least one child; and
6. Paid 100% of the child support due for the (2008) tax year.<sup>4</sup>

Just under one fifth of our sample was chronically unemployed; they struggled with low earnings and child support problems, even before the recession of 2008-2009. Like many NCPs served by fatherhood programs, most of these NCPS had felony convictions. However, New York State was 14 months into the recession, so most (79 percent) of our sample had lost their jobs, were unable to find new jobs, or were working at lower wages than they had before the recession. As a result, they too were in default of their child support orders and were required to participate in fatherhood programs or face more severe sanctions.

For example, when asked to explain how his current spell of unemployment began, Jeffery, a 27 year black father of a 6-year old son, explained how the mortgage crisis impacted his high-paying job at Merrill Lynch.

*Well, last year was a - a tumultuous year [2008], I mean, it was a - I worked at Merrill Lynch. Um, I was doing desktop support there. and, uh, you know, we lost so much money with this whole mortgage thing. And, um, you know, I enjoyed the job. It was a - it was a little hectic, you know, for a while.. Oh, man, I made a lot of money last year. I think it might have been about \$68,000 maybe. Um, I think about \$60, around that range*

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<sup>4</sup> Data from the short survey was corroborated with information obtained from the interviews, and where discrepancies existed, the information from the long interviews was favored as it was viewed to be more accurate.

*maybe, you know, between \$60 - I know it's more than \$63, so it might have been that. .. I survived that first layoff, and then they said they were laying off more people, and I've only been there a year-and-a-half, so I knew it was coming and, um, the way people act, you know, the whole funny stuff. It was terrible, and I got laid off there.*

Jeffrey had not been employed long enough to survive two rounds of layoffs. He went on to work at Sotheby's but was again laid off.

*I got laid off there [Merrill Lynch], I just sat home for a while, you know, just trying to relax, because I was working basically 10 hours a day, every day, .. I took some time off. And then I worked at Sotheby's, which is an auction house, but I was doing desktop support there as well. And, um, then I got laid off again, .. From there I was just - wanted to rest.*

After being laid off twice, Jeffery, like several of our respondents, tried to ride out the recession, using his savings and unemployment insurance benefits, but as those began to deplete, he worried about being unable to support himself and pay his child support, so he began to contemplate a career change and moved back in with his mother to cut expenses.

*I needed to do something else. I was looking on how I could change careers. So, you know, I was looking into other type of jobs, couldn't find a job, and then, um, I heard a position opened, and then I jumped on that position. [It sounds frustrating.] It was a lot. It was real frustrating because, you know, I pay child support, so like I can't afford to be, you know, laid off. It's just not going to happen. [.. And who do you live with?] Right now I'm living with my mother currently. Yeah, I just moved back in there, you know, after being unemployed, so I want to save some money and, uh, once again go back out on my own, because I just realized it was a better situation with my mom, you know?*

Jeffrey's employment status is unclear. He describes himself as unemployed, but also says he works, in a senior level position, for a nonprofit organization that helps men, like him, improve their employment situations. Perhaps he means that his economic fortunes have fallen so drastically that he considers himself unemployed. On the other hand, he may be working as a volunteer.

*[Okay. And you said right now you're working at a non-profit?] Right, at a non-profit. I'm doing outreach and trying to recruit students, and explain to them the opportunities presented, because I went through the program, which is how I got hired at Merrill Lynch. And, um, you know, I'm the alumni Vice President of the program as well.]*

Whichever the case, his savings now depleting, Jeffrey worries about his future and the financial legacy he had hoped to leave for his son.

*[Oh, how much do you save a month? You mentioned savings a couple times.]. What, oh, well, my savings is depleting obviously. [Is there anything that you're worry about in terms of your finances right now?] Yes, oh, tons of things.. I definitely worry about, you my future. You know, I definitely worry about what is my savings going to be like, you know, will I have to work until I'm 80, you know, if I last that long. Uh, with my, son - I want him to be able to be comfortable, us have our own little space. Those are my worries. I don't really worry about much outside of that. You know, I just - I just want my future to be all right, and my son's future. You know, I don't want to be in the same type of situation I feel my father left me in. I don't want my son to have to go through that where he has to struggle and work, work, work, just to take care himself and not have - anything, at least give him some relief, so that's my concern.*

David, 24 year old, White father, who lives with his wife and one of his two children, one of the few respondents in our sample who is married, , has been on an economic roller-coaster over the last few years. After driving a cab, for which he was paid a \$5 an hour on commission, he landed a job he loved in manufacturing, making almost twice as much. But with the recession, his higher paying job was short lived. He was laid off after 14 months.

*I worked at Hope's Security Products. They make prison windows I was what you call a grinder. It was like artwork to me. I mean it's like, that's what it looked like before it got to me, and that's what it looks like when I got done with it. It's like I did that. [What was your hourly wage at that position?] I was at that job for a year and two months. It started off at \$8.75, and ended at \$9.90. I loved it.[And then were they just like laying a bunch of people off?] Uh-huh.*

Five months later, he struggles to make ends meet by combining food stamps, unemployment insurance benefits, and earnings from playing in a band.

*[Um, so how have you been making ends meet while you're unemployed?] Well, like I said, I receive the food stamps, so that helps, you know, with the food bill. But the unemployment makes, you know, - you have to divide, ..what needs to be paid week by week by week. Sometimes I have an off week and I don't have to pay anything. But my landlord. He's a stickler, so I've got to pay him \$100 every week, you know, to make up for my rent and then insurance needs to be paid, electric needs to be paid, gas needs to be paid. Then you got gas for your vehicle and your house supplies, and just everyday things that you need. Sometimes, you know, my band, when I play. That money – anywhere between \$50 to \$100, depending on where--helps out too a lot. I used to do it for the fun, but I just do it for the money now.*

Like almost half of the fathers in FFCWBS, David's financial problems, even before the recession, were exacerbated by child support obligations for children from different mothers.

*[So what impact have all those enforcement measures had on you and your ability to, or willingness to pay child support feelings towards the system?] See this gray hair?..*

*They're just out for the money. And I'm not the only one that feels that way either. But, I mean, maybe it's just I'm paying for the bad decisions I've made. I don't know. [Do you - do you mind saying a little bit more about that? What do you - what do you mean bad decisions?] Well, the - like I said, I don't - I'm not going to get into the naughtiness part - part of - oh, what the hell. I'll tell you. Before my wife and I got married, you know, you fool around, and that's where the younger daughter came into play. And that's - I consider that a bad decision. [Uh-huh, so it wasn't really planned. It just kind of happened and ] Yeah, it just kind of happened. It wasn't planned.*

Besides the on-going child support for David's non-resident child, he accumulated quite a bit of child support debt for birthing costs, associated medical expenses, and penalties.

*[So next I want to find out a little bit more about the - the child support orders. You have two child support orders ..., right?] Yes, but it's actually a birthing cost. [And is that for the daughter who lives with you now?] It's for both of them. [So is your wife not the mother of that daughter?] My wife is the mother of the daughter, but the thing is, we were not married when she was born, and she was on Medicaid assistance, so I have to pay the Department of Social Services back. [I see.] And I got a little stubborn and rebellious, and I was just like no, this is garbage, I'm not doing it. Well, they tacked on 9 percent interest, So now I'm paying dearly... Nine percent building up, and building up, and building up, and building up, and they were like - one was almost \$8,000 to begin with -*

*the birth.[ Oh, wow.] And the other one was a little above \$6,000 or so. ... I even have to pay for her to get her tubes tied. it's just like a tubal ligation? But that's included with when she was born and everything they said.*

As we indicated, the proportion of NCPs who had been incarcerated was about half the proportion of the NCPs in FFCWBS. Like Willie, a 31 year old Black father with four daughters, most had felony-convictions for assaults or drug-related offenses.

*I've been arrested for marijuana, um, but that was like 2001 I've been clean for the last three, four, six - six-years besides my last issue. And I was, um, falsely accused. They locked me up from May '06 to uh, March '07. I did pretty much a year. Um, they say I - I killed somebody. They locked me up for a murder two. Yeah, something that I didn't do and just, um, 11-months later after that they let me out. They just woke me up one day and said you're going home, and that was it.*

Even though he was falsely accused, his nearly year-long prison sentence has made it very difficult for Willie to find a job in the formal labor market. Besides the gap in his work experience, other employment barriers were the child support and other debts that grew while he was incarcerated.

*My credibility is shot with this debt over my head, you know, people do a background check and they see this arrears that I owe and they say well we don't like - [ But what about incarceration?] Incarceration? I just feel like that just put me back because now I got to start all over. I had to freshen up my resumes, my contacts, get new referrals, build my credit back - my credit building me back up. Um, I just feel that it just put me on the back burner.*

Nearly two years after his release from prison, Willie still has not secured a full-time job

in the formal labor market, and, his description of the job that he has found suggests meager earnings.

*I am a porter for one of these buildings...I live in that building, so that was special that my super got me the job in the building to help me maintain my living stability but he can't afford to give me 40-hours or more because they already have an employee. So when that employee takes off or he has sick days I relieve him. ...: I made \$12 and some change a hour. Um, I only work once a month for like 12-months. So I'd say probably out the whole year I grossed about \$1500. That is not employment if you're working just eight-hours a month. This is my on the books job, but the same supervisor would get me a little off the book work to put money in my pocket. I would have to wait two-three weeks for the check. I work say today is the 18<sup>th</sup> I wouldn't get the check until probably June. For just one day of work so, you know, I say it's survival but knowing that you got something coming in and then I got my little food stamps, so my household is good on food, and it's like, you know, at the end of the month it get rough so I gotta work, I gotta do something.*

Because he worked only a few hours a month as a relief porter in his apartment building and was paid weeks after he worked, Willie had to take off-the-books jobs to supplement his income. Like most of the formerly incarcerated men in our sample, Willie relied on friends and family to find mostly menial jobs.

*Yep, you know, the passing flyer job, I told you about. I get \$10 a hour, um, my friend Clyde hooked me up with that. He do exterminating, you know, even helping promote his business. He trying to go in business for his self, you know, he wants me as his assistant, .. before that he had a bucket of crabs and, you know, his friend had the vendor license so*

*I helped sell some crabs to make a couple of dollars. However I could get it, as long as it's positive and I ain't gonna get in no trouble. Off the books jobs? So many, I hand out flyers Monday to Sunday, um, I probably do three days out the week, \$10 a hour for a Yoga company.. Since February I've been outta work. I'm a barber so I really just I make my money like, um, you know, if any of my friends need they hair cut, that's how I survive. Doing little flyer gigs, you know, cutting hair once a week. I might do a brownstone, it's just rough.*

Given his low earnings and tenuous employment status, Willie is the kind of NCP policymakers in New York State hoped to assist by the NYS\_NCP\_EITC. Unfortunately, like most of the NCPs in our sample, Willie had, at best, sketchy information about the credit, until our interview.

*[What do you know about The Non-Custodial Parent Earned Income Tax Credit? Did you know anything about it before you came here today? Not much- I learned a little more from you learning that, um, I learned that if you do work and do earn some money that you do get some back but I've learned that the Earned Income Tax Credit like, even if you were out - out of work that you could qualify for that, if I'm not wrong.*

Once he learned about the credit, Willie planned to apply for it, so that he could pay off his child support debts.

*Let me tell you a little bit more..... So if you think you might be eligible for it, for the NCP\_EITC do you plan to apply for this tax credit? Yes. [Why would you apply now?] Because, um, it'll get me out of the arrears that I owe. It'll help me pay off the child support that I owe, and that'll be a great day cause, you know, me just getting paid to pay them is just like still stagnated, can't do nothing for my kids, can't do nothing for my*



*mother, can't do nothing for myself cause I'm just paying off a debt. So just basically I'm be working for nothing?*

Even if they had met the child support eligibility criteria, the value of the credit and the overall structure of the NYS\_NCP\_EITC provided much lower work incentives to NCPs than the work incentives available to custodial parents with similar earnings. In particular, the average value of the credit was about \$300; the maximum credit was just over \$1000 and this was available to NCPs who earned between \$6000 and \$9999 per year. Finally, because the average credit received by NCPs was about two and a half times the cost of filing for the credit, eligible NCPs faced a far lower rate of return than custodial parents, who received 10 or more times the cost of filing, on outlays they made for tax preparation assistance. Therefore, NCPs were unlikely to use for-profit tax preparation services, which did complete the additional forms necessary to apply for the NCP-EITC. This would have reduced participation, even among NCPs who were aware of the credit.

These findings suggest that improving the take-up of the NYS\_NCP\_EITC among low-income NCPs will require making the work incentives stronger, relaxing the full compliance criteria, increasing awareness of the credit and reducing the cost of applying.

## **The Structure of the NCP\_EITC**

There are several considerations that make the task of designing an effective earnings supplement for low income NCPs tricky at best. These can be illustrated by Figure 1, which shows the NYS\_NCP EITC schedule during in 2009. The NCP EITC schedule is defined using three distinct ranges: a phase-in, or subsidy range, in which each additional dollar of adjusted

gross income increases the credit until a maximum credit is reached<sup>5</sup>; a flat range, at which the credit remains constant as the NCPs' income increases; and a phase-out range over which the credit declines until NCPs' income makes them no longer eligible for the credit. NCPs with income in the flat range receive a supplement to earnings, but there is no work incentive, because the credit does not *increase* with additional earnings. Similarly, NCPs with income in the phase-out range receive a supplement to earnings, but they face a work disincentive, because the credit declines with additional earnings.

---Figure 1 Here---

For example, in the 2009 tax year, the credit for an NCP rises in the phase-in range by 17 cents for each additional dollar earned <sup>6</sup>(hereafter, the phase in rate). The maximum credit for such a tax filer is \$1,095 when earnings are between \$6,000 and \$9,000, which is between 41 and 62 percent of the earnings of a full-time, full-year worker earning the federal minimum wage (hereafter, FTMW earnings). NCPs with higher earnings are in the phase-out range where the credit first declines by 12 cents for each additional dollar of earned income, until earned income reaches \$12,000. Then the credit declines by .05 for each additional dollar of earned income, until earned income reaches \$15,000, which is about \$500 less than FTMW earnings. Finally, the credit declines by .03 cents for each additional dollar of earned income until the credit completely phases out when earnings reach \$33,000, which is a little more than twice FTMW earnings. <sup>7</sup> Hereafter, we refer to the rates(s) in the phase out range as the phase out rate(s).

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<sup>5</sup> The EITC is calculated based on either earned income or adjusted gross income, whichever is greater.

<sup>6</sup> Since most of the income of workers with incomes below the median comes from earnings, our narrative regarding the structure of the NCP EITC will use the word earnings for the balance of this discussion.

<sup>7</sup> By contrast a single parent with one child receives a much higher work incentive from the federal minimum wage: an increase of 34 cents for each additional dollar of earned income during the phase-in range, up to maximum credit of \$3,043 for those who earn between \$8,950 and \$16,420. She faces a somewhat higher marginal tax rate, during the phase out range: a

## Are Work Incentives in the NCP\_EITC Adequate?

Policymakers' primary goal is to encourage work among NCPs with low wages. This will be easier the higher is phase in rate, the wider the range of incomes over which the phase in range extends, the higher is the maximum credit, the wider the range of incomes in the flat range, the lower is the phase out rate and the higher is the income level at which the credit phases out (hereafter, the phase out income). A good example is the federal EITC for a single mother with one child. Prior to the expansion of the Earned Income Tax Credit passed under the *Omnibus Budget Reconciliation Act of 1993*, the phase in rate for a single mother with one child was just large enough to offset payroll taxes. To provide a real work incentive, the Clinton Administration increased the phase in rate for a single mother with one children by 15.5% percent, from 18.5% to 34%, and made other changes intended to make single mothers better off if they left welfare for work (DeSimone & Rinehart, 2001). The stated goal of the increase was to lift full-time minimum wage workers above the poverty line, thus effectively turning the EITC into the anti-poverty program it is today (Hotz & Scholz, 2003). How does the NPC\_EITC measure up against this standard?

Figure 2 compares the foregoing features of the NCP EITC to the corresponding features of the federal EITC for a single mother with one child.<sup>8</sup> The NCP EITC provides a much smaller work incentive and earnings supplements than the federal EITC, which was made much more generous in 199x to make work pay for single mothers leaving welfare for work. While the work disincentives are also smaller under the NYS\_NCP\_EITC, they occur over a much wider range of tax filers, beginning with NCPs who earn only 62 percent of FTMW earnings. More

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decrease of 15.98 cents for each additional dollar of earned income during the phase-out range, until the credit completely phasing out when earnings reach \$35,463.

<sup>8</sup> Washington, DC uses this structure of credit values for its NCP\_EITC.

specifically, the NCP EITC has a phase in rate about half the size of the rate available to single mothers with one child, the phase in range of the former is narrower, which means that work incentives cease for NCPs earning between 40 percent and 62 percent of FTMW earnings, while they continue to be in effect for single mothers with earnings up to 62 percent FTMW earnings. The maximum credit, which is an earnings supplement, under the NCP EITC is only 72 percent of the maximum credit per person for a single mother with one child. The former is available to NCPs earning between 41 and 62 percent of FTMW earnings, while the latter amount is available to single mothers earning between 60 and 103 percent of FTMW earnings.

-- Figure 2 Here --

While the NCP EITC phase out rates are much lower than the corresponding rates for single mothers with one child under the federal EITC, the phase out range under the former begins at much lower earnings levels than the latter. This means that under the NCP EITC, work disincentives begin far too low in the earnings distribution. Paradoxically, earnings disincentives under the NCP EITC, though small, take effect at a level of income below the poverty guideline for a single person household and well below FTMW earnings.

### **Competing Priorities: Incenting Work and Child Support Compliance**

However, there are additional features of the NCP EITC that make it much less effective at encouraging work than the federal EITC. To make the NCP EITC analogous to the federal EITC, NCPs who receive the credit must work *and* support their children. Thus far, policymakers have interpreted this to mean that NCPs must have a child support order in the IVD system and pay the equivalent of the full amount of child support due. Lacking a formal child support order hampered recruitment efforts for our study. Several NCPs who we screened at for-profit tax preparation services were income eligible, but they were with the mothers of their children

and did not have formal child support orders. Sorensen (2010) also found that coverage by the formal child support system hampered participation in the NCP-EITC.

What's more, several studies showed that many NCPs with incomes at or below the phase out income were unable to pay their child support in full, after paying their bills, debts, transportation costs, and household expenditures, even in states with much lower living costs will than New York and years in which the unemployment rate was much lower than the present, historically high levels (Primus, 2006; Wheaton and Sorensen 1997, 2004, 2009). Given their limited earnings and other expenses, compliance with child support was also difficult for the NCPs in our sample.

As Jeffrey, the black father of a six-year old son, cascaded downward from Merrill Lynch, to Sotheby's to the non-profit, with spells of unemployment in between, he modified his child support order downward, reducing it from \$1600 to \$532 a month. Nonetheless, owes \$400 in arrears, which accumulated during periods when his child support order was more stable than his income. of unemployment. Jeffrey does not mind paying child support, but he learned a lot about the child support system, while he was modifying his child support orders. He knows he should only be required to pay 17% of his income for one child. The fact that he is paying more than 17%, not the fact that he has to pay, is what frustrates him. If the order had been kept in line with his income, he never would have begun to accumulate arrears.

*I went to the child support website, you know, because I know, like I said, they say 17 percent. Now I said I need some kind of understanding of why I'm paying well over 17 percent for one child, which I don't mind paying child support. I just need to know why I'm paying over 17 percent... After child support, I might be getting - I might get \$300 in my pocket for two weeks of work. It's horrible. It's sad. It's just depression. Well, I don't get depressed, but it is depressing if - if I think about it, yeah.*

With his savings now depleting, Jeffrey worries about his future and the financial legacy he had hoped to leave for his son.

*[Oh, how much do you save a month? You mentioned savings a couple times.] What, oh, well, my savings is depleting obviously. [Is there anything that you're worry about in terms of your finances right now?] Yes, oh, tons of things.. I definitely worry about, you my future. You know, I definitely worry about what is my savings going to be like, you know, will I have to work until I'm 80, you know, if I last that long. Uh, with my, son - I want him to be able to be comfortable, us have our own little space. Those are my worries. I don't really worry about much outside of that. You know, I just - I just want my future to be all right, and my son's future. You know, I don't want to be in the same type of situation I feel my father left me in. I don't want my son to have to go through that where he has to struggle and work, work, work, just to take care himself and not have - anything, at least give him some relief, so that's my concern.*

Because of the regular child support, birthing costs, and penalties, David the married father with two daughters was just “getting by”, financially, even when he was working.

*[So the last time you were working, were you getting paid biweekly, or monthly, weekly?] Weekly. [Weekly? And how much was that a week again?] I was bringing home - I was grossing like 530-some odd dollars, but I was only bringing home \$200 and some. [And, um, how much - how much of what was withheld, is - is that child support? Is that taxes?] Between both, child support and taxes. [Okay. And so the - so the last time you were working, was that paycheck enough to live on comfortably, or -] Not comfortably, but it worked. I was getting by. I wasn't comfortable about it, but -it was getting me by.*

Despite being unemployed when we interviewed him in 2009, and asked him about his

financial situation, he said he was better off than when he was working, because his child support order was based on unemployment benefits, not earnings.

*It's a lot better. [Better than when you were working?] Because I don't have all of that support taken out of me now. [But isn't it still coming out of the unemployment?] Yeah, but it's less. I mean, yes, I wouldn't say I'm comfortable, but I feel better about each situation that comes about. You know what I mean.. I have a little bit more to work with.*

But David knows that his improved financial situation will last only as long as his unemployment insurance. He worries about the financial insecurity that will occur once these benefits run out.

*[Okay. Um, is there anything in particular that you're worried about financially right now?] Yeah, of losing my unemployment and now having any cash coming in at all for me. I've got to pay that support, you know. [Okay. So overall right now, do you feel like you're getting ahead, falling behind, staying the same financially?] Um, it's kind of like a mismatch. You know, sometimes like the past couple months, you know, I've got - kind of gotten ahead. And here comes the gas bill and fall right back down behind. You kind of climb up a little bit and then - it's like a teeter-totter.*

There is a reason why Willie, the father with four daughters, would have used the NCP\_EITC to pay off his child support debt. He accumulated quite a sum over the years, because he has been unable to pay his regular child support since 2003, when it was drastically increased, as a result of a default order.

*[ In 2001 there is a child support order. How much were you required to pay] \$425 a month. The order didn't switch until like 2003, I missed a court date. It was \$25 because*

*I was out of work and we was trying to get the housing thing together. They denied me because I had a marijuana case and she filed; I believe they gave it to her. So now they making me pay back the money that they gave her... That's what happened, and now he issued a \$508 payment a month since 2003. I haven't been employed like that to even make \$508 a month so that's why I guess I have to go back to court and get everything modified.*

The idea that child support would ever expect him to be able to pay \$508 a month seems ludicrous to him as he has barely ever even earned that much, even when he was working.

*I have never sent a payment of \$508. I don't think I'll be sending no payments of \$508... Cause I never made - McDonald's only paid you \$140 a week. I will - I never made \$508 to be paying \$508 a month.*

As a result, he now owes \$38,000 in arrears.

Many studies show that child support compliance is inversely related to income (see Huang, Mincy, and Garfinkel 2005; Wheaton and Sorenson 2004), so the full compliance criterion would have its greatest effects on the eligibility of the NCPs with the lowest earnings. For example, assuming all NCPs have child support orders, Wheaton and Sorensen (2009) estimate that at most one quarter of NCP's earning less than \$34,000 (in 2009 dollars) paid the full amount of child support due. As earnings fall, this proportion falls as well. Thus, at most 16 percent of NCP's making near FTMW earnings paid the full amount of child support due. At earnings near the poverty guideline for a single-person household (\$10,380), no more than 5 percent of NCPs with earnings paid the full amount of child support due.<sup>9</sup> However, not all NCPs have child support orders, so these estimates are upper bounds.

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<sup>9</sup> In 2009 dollars, these ranges were between \$11,400 and \$21600 and between \$1.14 and \$11,406.



## Simulating the Effects of the Full Compliance Criteria by Income Group

This section uses aggregate and individual-level data to simulate the impact of changes in coverage by the formal child support system and child support compliance on the proportion of NCPs who would be eligible for a federal NCP-EITC at different income levels.

### Data Sources:

Data for this simulation come from two national data sources. The first is the federal Transfer Income Microsimulation Model (TRIM3) developed by the Urban Institute under contract to the Department of Health and Human Services. The TRIM3 estimates are generated through a complex imputation process that starts with the number of households reporting NCP status in the U.S. Census Current Population Survey Annual Social and Economic Supplement (CPS-ASEC). Data are adjusted based on information from Child Support administrative records and other surveys (like the Survey of Income and Program Participation). We use data from the TRIM3 to simulate aggregate estimates of program participation by NCPs.

The primary contribution of the TRIM3 data is to inform estimates of the size of the NCP population. To better understand the needs and circumstances of low-income NCPs, the study also uses data from an individual-level data source, the Fragile Families and Child Well Being Study (FFCWBS), a national survey of the parents of nearly 5,000 children born in large U.S. cities between 1998 and 2000. The FFCWBS consists of separate interviews with the mothers and fathers of the children at birth and one, three, five, and nine years later (Reichman, Tietler, et al., 2001). To account for sample attrition and item non-response, this paper employs multiple imputation to adjust missing information about NCPs based on available information from their partners. Because the FFCWBS provides a much fuller account of low-income NCPs' capabilities and circumstances than the TRIM3 and other sources, we use these data to simulate

the implications of various design considerations for the number of NCPs eligible for the proposed credit. These design considerations include— income, having a formal child support order, and the degree of compliance with that order.

**Methods:**

The two data sources take different estimation approaches. The biggest challenge in both approaches is how to most effectively use information from multiple sources to estimate the characteristics and circumstances of NCFs who do not answer existing surveys.

*TRIM3*: estimates *target estimates* of the number and circumstances of NCFs based on custodial mothers' reports from the Current Population Survey –Child Support Supplement (CPS-CSS) as well as a parallel set of *direct estimates* of the number and circumstances of NCFs based on their own reports in the Current Population Survey Annual Social and Economic Supplement (CPS-ASEC) and imputations based on the characteristics of custodial mothers with similar characteristics. Urban Institute analysts then assess the alignment of the direct to the target estimates, to evaluate how many of the non-custodial fathers reported by mothers were actually identified and to what extent child support orders and compliance were similar across sources.

More specifically, for the direct estimates, TRIM3 analysts implement a series of ordered logistic regression models to predict whether a noninstitutionalized, unmarried man, aged 18-65 is a non-custodial father, whether he has a child support order, the amount he pays, and whether or not this is the full amount. Predictors used in the models include characteristics such as race/ethnicity, marital status, age, educational attainment, poverty status, cash assistance receipt, Supplemental Nutrition Assistance Program (SNAP, formerly Food Stamps) receipt, and whether the man provides health insurance benefits to non-household members. TRIM3 analysts accept the direct responses of men (approximately 88 percent of all NCFs) who answer the series of

questions in the CPS-ASEC about paternity status and child support orders and payments, but they impute reasonable answers for men for whom this information is missing, based on several data sources including an administrative records study of Child Support payments in five states in 2002-2004, the 2001 Survey of Income and Program Participation, and mothers' reports from the 2009 CPS-CSS.

Although the target and direct estimates are generated by separate, parallel processes, and from different sources, both sets of numbers are estimates, which require judgment in reconciliation. Ultimately, the direct and target estimates align fairly closely, especially for the number of NCFs and the proportion obligated to pay child support. However, TRIM3 estimates of the amount of child support paid and whether the full amount obligated was paid are closer for some demographic and income subgroups than others.

Fragile Families: draw upon information reported in the 1, 3, 5, and 9-year Fragile Families surveys, which were administered between 1998 and 2009 and are weighted to be representative of all U.S. families from birth to nine years following. As in the TRIM3 simulation, direct responses provided NCFs were accepted as the authoritative responses. When NCF responses were missing, Fragile Families analysts imputed reasonable responses based on information provided in other waves and by the child's mother. Although both approaches use imputations based on mothers' responses, only the Fragile Families study is able to link NCFs to the appropriate co-parent for each child. Another key difference is that the Fragile Families estimates include NCFs who are in jail or prison, while the TRIM3 estimates exclude all institutionalized NCFs. Finally, the Fragile Families imputation process characterizes NCFs based upon their current total household income, while the TRIM3 analysis characterizes NCFs based upon their earnings.

## Findings:

Under the policies implemented to date, to be eligible for the enhanced EITC, an NCP must: have a formal child support order and pay all child support due (that is, be in full compliance). The two data sources yield remarkably similar estimates of the NCFs who meet these two criteria. **Figure 3** starts with a TRIM3 estimate of the number of NCPs in the nation, 9.6 million. Next, it applies the child support and full compliance eligibility restrictions based on proportions estimated from TRIM3 (in white) and Fragile Families (in black). Again the results are consistent. Of the 9.6 million NCFs in the nation, 2.9 to 3.3 million have a formal child support order and of these, 1.3 to 1.4 million are in full compliance with that order. Note that the most restrictive eligibility criteria, that is, *the biggest obstacle to extending the enhanced EITC to a broader population of NCFs, is the insistence that the NCF has a formal child support order.*

---Figure 3 Here---

The second and third panels of Figure 3 repeat this sequence of estimates for NCPs with annual incomes of less than \$40,000 and less than \$30,000. Of the 6.5 million NCFs with income of less than \$40,000, 2.0 to 2.2 million have an order and 700 thousand to 750 thousand are in full compliance. Similarly, of the 5.1 million with incomes below \$30,000, 1.6 to 1.8 million have a formal order, and 500 thousand to 575 thousand are in full compliance.

Both sources agree that restricting eligibility to NCFs with a formal child support order reduces the eligible population by approximately two thirds, (as shown in Figure 4.) The two sources also agree that proportion of NCFs with a child support order does not vary by income.

---Figure 4 Here---

What's more, restricting eligibility to NCFs in full compliance with the child support order further reduces the eligible population to approximately 10 percent of all NCFs, (as shown in Figure 5).

---Figure 5 Here---

Until this point, the two data sources agree on the broad contours of the policy issue. TRIM3 suggests that there are nearly 10 million NCFs. The two sources agree that one-third of them have formal child support orders, and ten percent are fully compliant with those orders. The two sources provide slightly different estimates, however, of the proportion of NCFs in partial compliance, that is paying some but not the full amount of the child support order (See Figure 6.) TRIM3 estimates that the proportion of NCFs in partial compliance (9 percent of the full sample) is smaller than the proportion in full compliance (13 percent). By contrast, the Fragile Families survey suggests that the proportion in partial compliance (23 percent) is substantially higher than the proportion in full compliance (15 percent). In other words, drawing on interviews with mothers and NCFs, the Fragile Families survey finds that partial compliance is nearly three times higher than we would expect based on national surveys of mothers alone, as in TRIM3. In this case, we tend to put most confidence in the Fragile Families estimates, because they are based on interviews with both the mothers and fathers. Moreover, if the proportion of NCFs in partial compliance is substantially higher than the proportion in full compliance, relaxing the full compliance eligibility criteria would enable the EITC to reach substantially more NCFs.

---Figure 6 Here---

In addition, the longitudinal nature of the Fragile Families study suggests that formal paternity establishment, formal child support orders, and compliance with those orders each increase markedly over time. Figure 7 shows the proportion of NCFs with formal paternity

establishment as well as those with formal paternity establishment and a formal child support order by years since the child's birth. Paternity is formally established for nearly all NCFs by the time the child reaches nine years old. This is perhaps one of the least known outcomes of the welfare reforms of the mid-1990s and child support policy reforms since. The identity of fathers is part of the public record. Second, by the time the child is nine years old, more than half of NCFs have formal child support orders.

---Figure 7 Here---

The remaining policy challenge is less in identifying and locating NCFs, or even to establish formal child support orders (though there is still progress to be made on this front), but to enable and require child support compliance among NCFs. Figure 8 shows that the proportion of NCFs in partial and full compliance with their child support orders does increase each year following a child's birth. By the child's ninth birthday, nearly one quarter of NCFs are in full compliance and another 11 percent are in partial compliance. In other words, by the time a child is nine years old, about a third of NCFs are making some child support contributions.

---Figure 8 Here---

The longitudinal design of FFCWBS provides further insight into the way conditioning receipt of the NCP\_EITC on the formal child support system diminishes the reach of the former. Figure 7 shows the growth in the proportion of noncustodial fathers who established formal paternity (the top line) and the growth in the proportion of noncustodial fathers who have formal child support orders (the bottom line), as the child ages from 1 to 9 years old. The difference (the dark-shaded area) is the proportion of noncustodial fathers who have established paternity, but not a child support order. The proportion of non-custodial fathers with formal paternity establishment grows from 70 to 94 percent. However, the proportion with formal child support

orders grows from a mere 15 to 57 percent. Thus paternity establishment is quite common, but formal child support is quite rare at first, but both increase over time. As a result, fathers of young children would be least likely to participate in the NCP\_EITC. Despite the faster growth in the percentage of fathers who establish child support orders as their children age, a large percentage (37.4%) of nine-year-old children would still be ineligible for the NCP-EITC, because they have established paternity, but not a formal child support order. This pattern is fairly similar across income groups (not shown).

Consistent with the growth in employment, earnings, and compliance with **age (Meyer and XXXX, XXXX; Garfinkel McClanahan**, Figure 5 shows that the proportions of non-custodial fathers in partial compliance with child support orders increases from 10 to 35 percent in the first nine years following birth. The percent in full compliance increases from 5 to 25 percent. This pattern was also similar across income groups (not shown). In the end, the vast majority of NCPs would be ineligible for the NCP EITC, first because they fail to establish a child support order and second, because they fail to fully comply.

Although our simulations focus on eligibility for the NCP-EITC at or below the phase-out income, other studies show that arrears, and therefore child support noncompliance, is highly concentrated among low-income NCPs; those with income at or below \$10,000, around the poverty guideline for a single-person household (Sorensen and xxx, xxx). Suppose that no one earning less this amount paid the full amount of child support due.<sup>10</sup> Then the NCP EITC schedule would look like the solid line is **Figure 9** and the dotted line would indicate NCP EITC credits intended by policymakers, but never received by NCPs.

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<sup>10</sup> Wheaton and Sorenson's estimate included NCPs without child support orders.

---Figure 9 Here---

Note that in this schedule, no one has a work incentive, because there are no phase in or flat ranges. Instead all income and child support eligible NCPs would face progressively smaller work disincentives, because the credits decline by 12, then 5, then 3 cents for every additional dollar they earn.

These credit structures implicitly assume that custodial parents, usually mothers, making 40 to 80 percent of FTMW earnings require a work incentive equivalent to twice the amount they pay in payroll taxes, while NCPs with the same earnings are willing to work with no incentive and an earnings supplement that is two thirds of the per capita earnings supplement available to single mothers with one child in the corresponding flat range. Similarly, custodial parents earning 81 and 100 percent of FTMW earnings need a work supplement equivalent to 20 percent of FTMW earnings, but NCPs with the same earnings are willing to work despite facing modest work disincentives.

Recall that an inadequate work incentive was the rationale for the federal EITC. In the mid-1970, policymakers apparently believed that low-wage workers faced such high living costs, relative to their incomes, that the addition of payroll taxes might lead them to conclude that work was not worth the effort. And during the 1990s, they believed that an xxx percent increase in work incentives was needed to support the single mothers on welfare who were then required to work. While many single mothers faced many direct, child-related, costs that NCPs did not (e.g., day care, the child's medical expenses, and so on), there are several reasons to believe that the difference between the living expenses and payroll taxes of custodial parents and NCPs were not



large enough to justify the difference between the work incentives and supplements needed to “make work pay” for custodial parents and NCPs.

First, Wheaton and Sorenson (2009) simulated the effects of the EITC, payroll taxes, and child support payments on the incomes of a custodial parent and NCP with the same earnings and two children in common. After these additions and deductions, the custodial parent’s income was 18 percent above the poverty line for a three person household, while the NCP’s income was 27 percent below the poverty line for a single person household. The differences between the poverty thresholds of three- and single-person households largely reflect the differences between the living expenses of custodial and NCPs living as single adults.

Second, besides the dependent deduction, which reduces the taxable income of custodial parents, custodial parents receive a variety of in-kind benefits that reduce their living expenses (e.g., Medicaid, child care, and housing assistance). These benefits are generally unavailable to NCPs. Third, child support payments have opposing effects on the disposable incomes of custodial parents and NCPs, helping custodial parents to meet living expenses and reducing the income available to NCPs to meet such expenses. However, custodial parents do not have to include such payments when they calculate their taxable income and NCPs cannot deduct such payments to reduce their taxable income. Fourth, NCPs who live without children are unable to enjoy the economies of scale custodial parents enjoy when they jointly consume with their children many items included in direct child-related costs (e.g., housing, energy, and so on). This may be the reason why we found that NCPs are much less likely than custodial parents to contemplate using the using a lump sum transfer, like the NCP-EITC federal in the EITC to buy a house or a car if they received it.

Finally, our qualitative data and other studies show that many NCPs live with the children of their partners or with children that they have in common with a new partner or spouse (Manning and Smock, 1999; Mincy 2001, Carlson and Furstenberg 2006 . These NCPs incur the same child-related costs as custodial parents with the same number of resident children, and therefore, are eligible for the same federal and state EITCs as members of other households with children. In particular, NCPs in New York State who pay the full amount of child support due for their nonresident children, but who also have resident children (in New York State) are eligible for the NYS\_NCP\_EITC and the State EITC but they can only apply for one of the two credits. Because it is the larger credit, most choose the latter.

In a simulation of a national NCP\_EITC, based upon the New York State model, the Washington D.C. model, and a model based on S. 1626, a bill introduced 2008 by then Senators Bayh and Obama, Wheaton and Sorenson (2009) estimate that of the 11.9 million non-custodial parents in the United States in 2004, 14% had resident children and would have been eligible for a child-based EITC. Those who were eligible for a child-based EITC tended to have higher annual incomes than those who would be eligible for the childless credit. For example, at the lowest earnings level, under \$10,000, nearly twice as many non-custodial parents were eligible for the childless credit as the child-based credit (46% compared to 24%). This provides yet another reason for preventing the compliance criteria from removing work incentives available to lower income NCPs. These NCPs are less likely than NCPs with higher earnings to repartner and therefore, they are less likely than NCPs with higher earnings to be eligible for state EITCs or the federal EITC for two-parent families, which, if available, would likely be more generous than the NCP\_EITC.

For all these reasons, the differences between the work incentives and supplements

available to custodial parents in the federal EITC and those available to NCPs in the NCP\_EITC seem excessive. If the goal is to encourage work, the NCP\_EITC should have a higher phase in rate and a higher supplement in the flat range, the phase in range should extend at least to the poverty line for a single person household, if not higher, and the phase out range should not begin until after NCPs earn at least FTMW earnings. Nichols, Sorensen, and Lippold (2012) estimate that at \$100 increase in the New York State NCP-EITC would increase employment among NCPs with low child support orders by 1.6% and increase the proportion who pay their child support in full by 2%. Washington DC achieves these goals by providing NCPs with a credit equivalent to 39 percent of the federal EITC. Even so, after deducting taxes, child support payments and nominal living expenses, such an NCP\_EITC would leave NCPs with negative disposable income in Washington, DC and five other states, with varying child support guidelines. However, Washington, DC also incorporates the full compliance criteria, which would make the work incentives for NCPs with earnings near FTMW effectively zero as well.

--Table 2 Here--

## **Making Child Support Compliance More Feasible**

To make the NCP\_EITC more effective, policymakers need strategies to reduce the proportion of noncustodial parents who are disqualified from participating in the NCP-EITC because they avoid or default on their child support obligations. One strategy would be to disconnect the NCP-EITC from the formal child support enforcement system, by removing the criteria that requires NCPs to have formal child support orders in order to receive the credit.

However, our simulations as well as prior studies show that paternity establishment has become the norm among non-marital births and as children get older parents transition from the

informal to formal arrangements for the financial support of children (Nepomnyachy and Garfinkel 2010). Therefore, conditioning work incentives for nonresident fathers on some verification that they are accepted their legal responsibility to support their children seems appropriate. Having a child support order seems the simplest way to do that. Besides, if child support orders were more in alignment with NCPs' ability to pay, NCPs would be less likely to avoid the formal child support enforcement system. Because arrears are now at historically high levels and are concentrated among NCPs at the low end of the earnings distribution, this second strategy for making child support compliance more feasible is already well underway in the child support enforcement system.

Integral to its efforts to reduce the accumulation of arrears, especially among low-income NCPs, the Federal Office of Child Support Enforcement is encouraging states to set realistic child support orders. Revising child support guidelines so that child support orders are brought into alignment with NCP's actual ability to pay is one way to achieve this goal. But even under existing guidelines states are taking several steps to ensure that child support orders are brought into closer alignment with NCPs real ability to pay. These include avoiding the use of default orders and imputed income when fathers fail to appear at hearings to set child support. Instead, states are undertaking varied and repeated attempts to engage unresponsive, NCPs, or those at risk of defaulting on their child support orders, so that courts rely upon the most current and accurate data about NCPs incomes in setting child support orders (U.S. Department of Health and Human Services, 2012).

## **Relaxing the Full Compliance Criteria**

For those with existing child support orders, however, policymakers need a politically

appealing way to relax the compliance requirements so that more low-income NCPs would qualify. In the extreme, one might abandon the idea of an NCP EITC altogether, and simply provide a more generous earnings supplement to childless workers, some of whom would be NCPs. The 2007 Bayh-Obama (S. 1626) and 200 Carlson proposal (H.R. 2979) would do this, except that they would also make NCPs workers who failed to pay the full amount of child support due ineligible for a childless worker EITC. These proposals would also reduce the administrative burden and cost associated with coordinating child support and revenue agencies to determine eligibility. Instead, as under current law, revenue agencies would intercept some or all of the tax returns of NCPs with child support arrears. As we saw, low-income NCPs already have much experience with such tax intercepts and generally do not object, because tax intercepts help them to retire debt. What's more, our results also showed that many fathers would have used the NCP EITC to retire child support (and other) debt voluntarily.

A third strategy for relaxing the child support compliance criteria would follow a proposal by Mead (2011). Unlike all the strategies considered thus far, which condition eligibility for the NCP-EITC on paying the full amount of child support due during the prior year, Mead would provide a work incentive equal to 25 percent of earnings to NCPs who paid the full amount of child support due in the prior month. An NCP who failed to pay the full amount of child support due in a particular month would be ineligible for the credit in the following month, but this would not bar him from receiving the credit in future months. Based upon the favorable experience of the New Hope Demonstration Project (Miller et al. 2008), which provided employment services, subsidized child care and health care, and above-poverty level incomes to low-income people in Milwaukee who worked at least than 30 hours per

week<sup>11</sup>, Mead argues that this more immediate work incentive would encourage work among low-skilled, his primary objective. However, Mead's proposal would presumably also require monthly monitoring of child support compliance, which could be substantially more expensive than other NCP\_EITC proposals, which require annual monitoring of child support compliance.

At 25 percent of the NCPs earnings, Mead's proposal would provide a more generous work incentive than the NCP\_EITCs, but the result would represent a radical departure from the asset-like character of existing federal and state EITCs. Rather than a large lump sum that occurs once a year, NCPs under Mead's proposal would receive the credit in small monthly installments that are much more like the stream of income they receive from earnings. Our qualitative results show that spending out of regular income is not the same as planned spending from the NCP\_EITC. Thus NCP's would be much more likely to spend the Mead-work incentive on bills and debts, including child support, transportation, and household goods rather than on their children or on asset-like purchases that deliver a flow of services over time. Recall that living apart from children makes it difficult for NCPs to share the flow of services resulting from asset-like expenditures and thereby discourages NCPs from making such expenditures. Whether the smaller and more immediate monthly credits Mead proposes provide a stronger work incentive than the lump sum annual credits under the existing federal EITC and state NCP\_EITCs is an empirical question. But unless it does, the additional administrative costs and disincentives for asset-like expenditures are reasons to be skeptical of the Mead proposal.

After considering the flaws in the existing NCP\_EITC and proposals for reform, we think that policymakers can build an effective federal NCP\_EITC from elements of existing policy. Our approach would provide NCPs with the same credit structure available to single mothers

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**New Hope for the Working Poor** Effects After Eight Years for Families and Children  
2008. Cynthia Miller, Aletha C. Huston, Greg J. Duncan, Vonnice C. McLoyd, and Thomas S. Weisner.

with one child under the federal EITC. However, we would maintain a positive work incentive for low-income NCPs by establishing a threshold before which the compliance criteria for the NCP\_EITC takes effect. Below that threshold, NCPs would be eligible for a federal NCP\_EITC even if, according to the state child support enforcement agency, they failed to pay the full amount of child support due. The threshold would be set following the logic most states now use to try to avoid excessive child support orders for low-income NCPs.

Currently 39 states make some adjustment to their child support guidelines to ensure that low-income NCPs can afford a minimum standard of living, after paying child support. The most frequent approach is a self support reserve, which states set in proportion to the federal poverty line for a single person household. Usually states set the NCPs child support order at a minimum value (sometimes zero), if the self support reserve exceeds the fathers net income. Twenty-eight states have such a reserve. Some revise the self support reserve every four years when the federal government requires that they revise the child support guidelines (Venohr, et al. 2004).<sup>12</sup> Other states, such as New York, revise the self support reserve with annual adjustments to the federal poverty guidelines.

Thus, a politically feasible strategy for relaxing the child support compliance requirements for low income NCPs already exists. Unfortunately, this strategy is underutilized because many low-income NCPs fail to appear at the hearings at which their child support orders are set. When this occurs, the courts issue a default child support order and many state laws require the courts to assume that the NCP is capable of FTMW earnings. If the state paid TANF or other benefits on behalf of the nonresident child or the custodial family, the state could set the

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<sup>12</sup> The real problem with the self support reserve is that a discussion about a modification, especially in the case of a default order, often triggers the self support reserve. All too often, NCPs who are unable to meet their obligations often fail to contact the Office of Child Support Enforcement to discuss their options. A second problem is that states often fail to revise the income levels assumed by the self support reserve

order at the value of the TANF need standard. This often exceeds the order based upon FTMW earnings. In either case, default orders often exceed what low-income NCPs can pay and they only discover the self support reserve after the threat of a sanction for failure to pay child support forces them to come into the child support enforcement agency to reckon with their delinquent child support obligations. Despite underutilization in practice, self support reserves provide a politically feasible precedent that federal policymakers could use to relax the compliance criteria for low-income NCPs.

We recommend the establishment of a *federal* self support reserve that would become the threshold for applying the compliance criteria for a federal NCP\_EITC. This reserve would be proportional to the federal poverty line for a single person household. Following the procedure of many states, NCP would have a zero child support order for the purpose of determining eligibility for the NPC\_EITC if the self support reserve exceeded the NCPs' income. More precisely, if the federal self support reserve exceeded the NCPs income, the federal government would assume the NCP to be in compliance with his child support order and there would be no need to verify the NCPs compliance status with the state child support enforcement agency. If the NCPs' income exceeded the self support reserve, the federal government would verify the NCPs compliance status with the state before issuing any NCP\_EITC refund due.

In this way, states would retain authority over their own child-support guidelines and their self support reserves, which they would continue to use to set and enforce child support orders for all NCPs. Further, non-poor NCPs would be ineligible for the federal NCP-EITC unless they complied with child support orders based upon these state child support policies. However, no matter where they lived, NCPs with poverty level earnings would be guaranteed a positive work incentive under the federal NCP\_EITC. However, if the NCP owed arrears to the



state, the IRS could still intercept any federal NCP\_EITC refunds issued, as under current law. Although in principle, such interceptions could generate work disincentives, our qualitative work indicates that low-income NCPs rely upon tax intercepts to pay down their arrears and, even without such intercepts, they would use some of their lump sum NCP\_EITC refund to reduce arrears.

Finally, states that chose to do so could adopt the same logic in providing more effective state NCP\_EITCs. They could establish a self-support reserve, if one did not already exist, and index the self support reserve to the federal poverty line. NCPs who filed their taxes and indicated that their incomes were below the poverty line would automatically qualify for the state NCP\_EITC, because their child support obligations would be zero by presumption. However, if they had state owed arrears, perhaps because of default orders, states could also use tax intercepts to obtain payments just as under current law.

Under our proposal, the federal government would sometimes “give-with-one-hand what it takes with-the-other.” Nevertheless, the proposal could provide a gateway to work that does not exist under current state NCP\_EITC laws or proposals for a federal NCP\_EITC. These provide no work incentives for low-income NCPs who are unable meet full child support obligations and provide mainly work supplements and work disincentives for NCPs who fully comply. With the work experience they acquire, NCPs would eventually earn higher wages which would put them in the range of the work and child support payment incentives now available to NCPs with higher earnings.

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# Figure 1

## NYS\_NCP\_EITC Structure (2009)

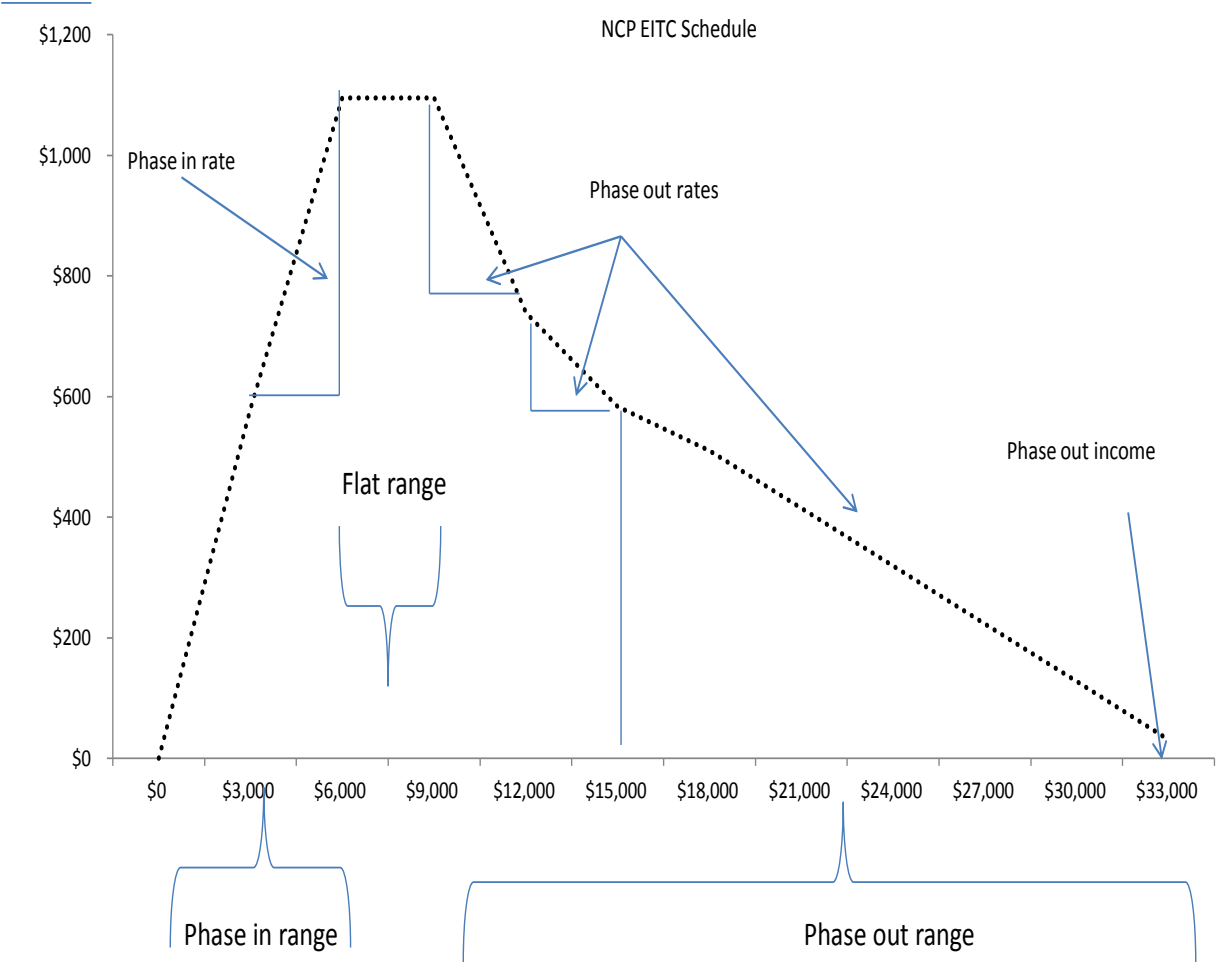
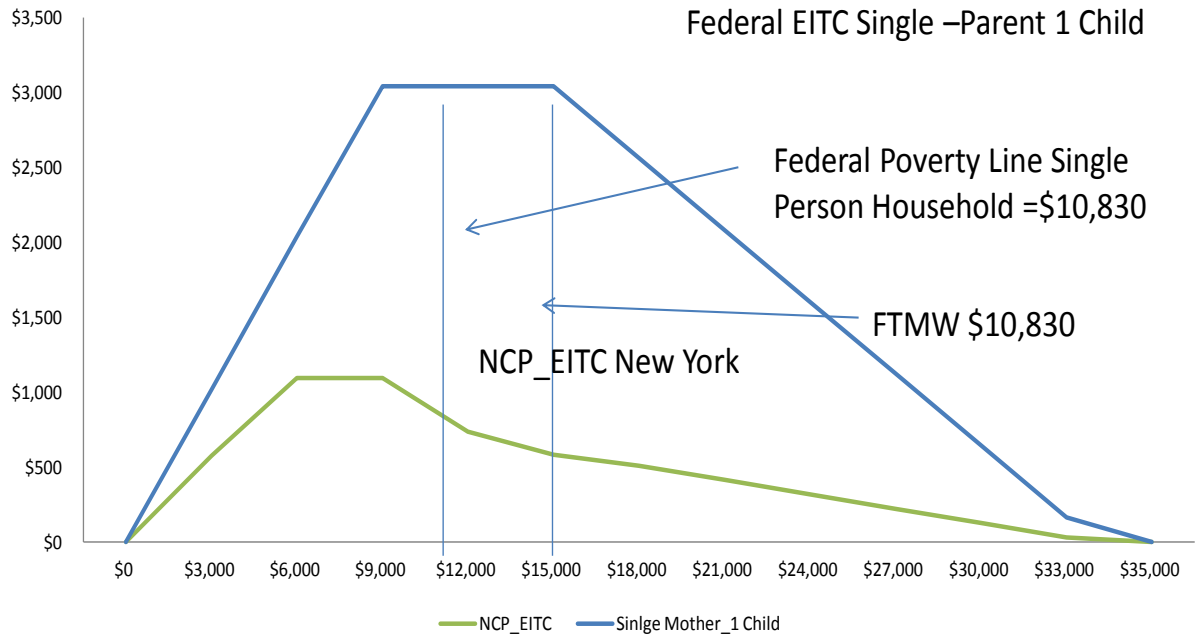


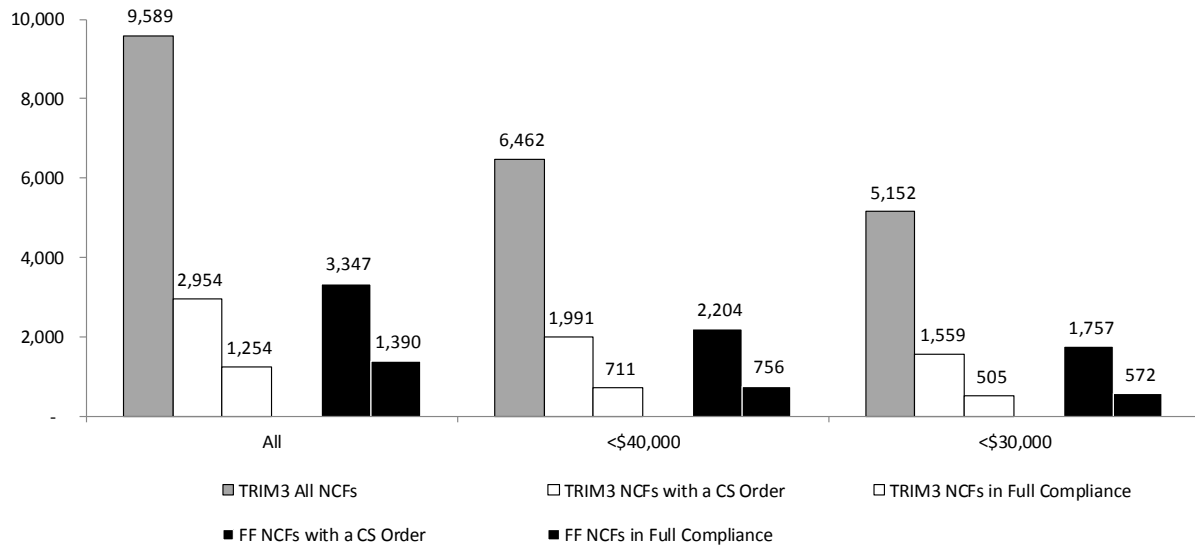
Figure 2

NYS NCP\_EITC and Federal EITC for Single Parent with One Child (2009)



# Figure 3

## Total Number of NCFs, with Child Support Orders, and in Full Compliance as Estimated from TRIM3 and the Fragile Families Study

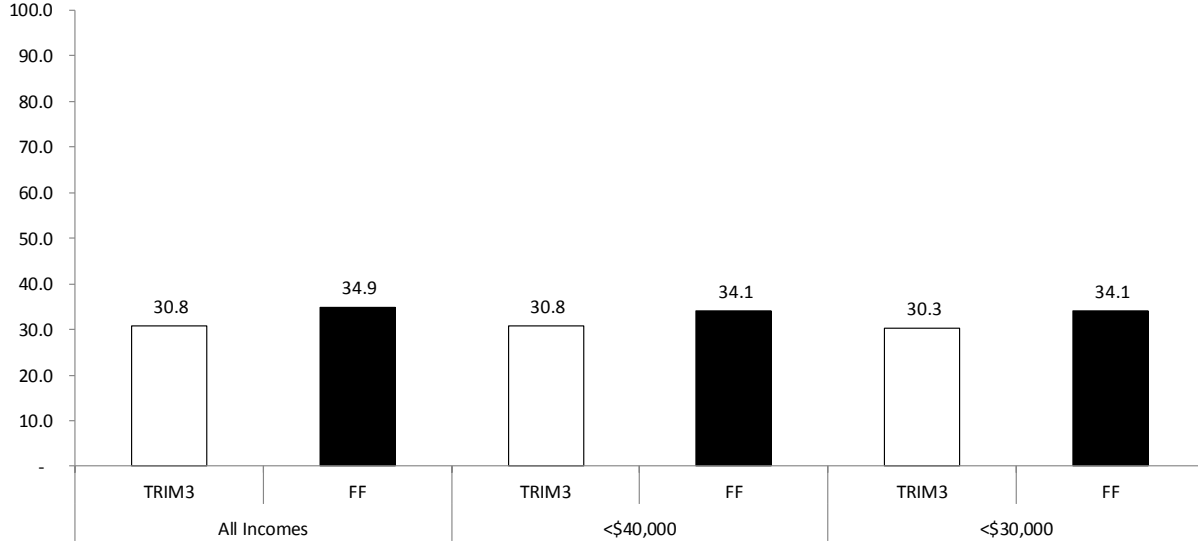


Source: TRIM3 is maintained and developed by the Urban Institute, under primary funding from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE); Estimates from the Survey of Fragile Families & Child-Well Being are pooled across the 1, 3, 5, and 9-yr. samples.

Feasibility of the Earned Income Tax Credit for Non-Custodial Fathers

Figure 4

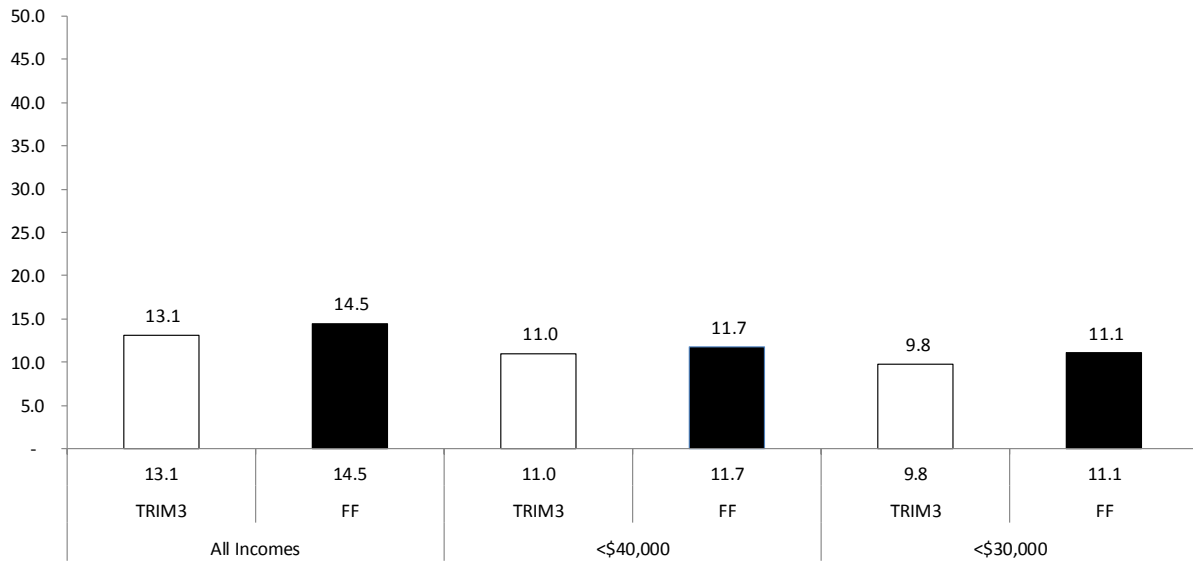
Percent of Noncustodial Fathers with a Formal Child Support Order, as Estimated from TRIM3 and the Fragile Families Study



Source: TRIM3 is maintained and developed by the Urban Institute, under primary funding from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE); Estimates from the Survey of Fragile Families & Child-Well Being are pooled across the 1, 3, 5, and 9-yr. samples.

Figure 5

Percent of Noncustodial Fathers in Full Compliance with Child Support Orders,  
as Estimated from TRIM3 and the Fragile Families Study



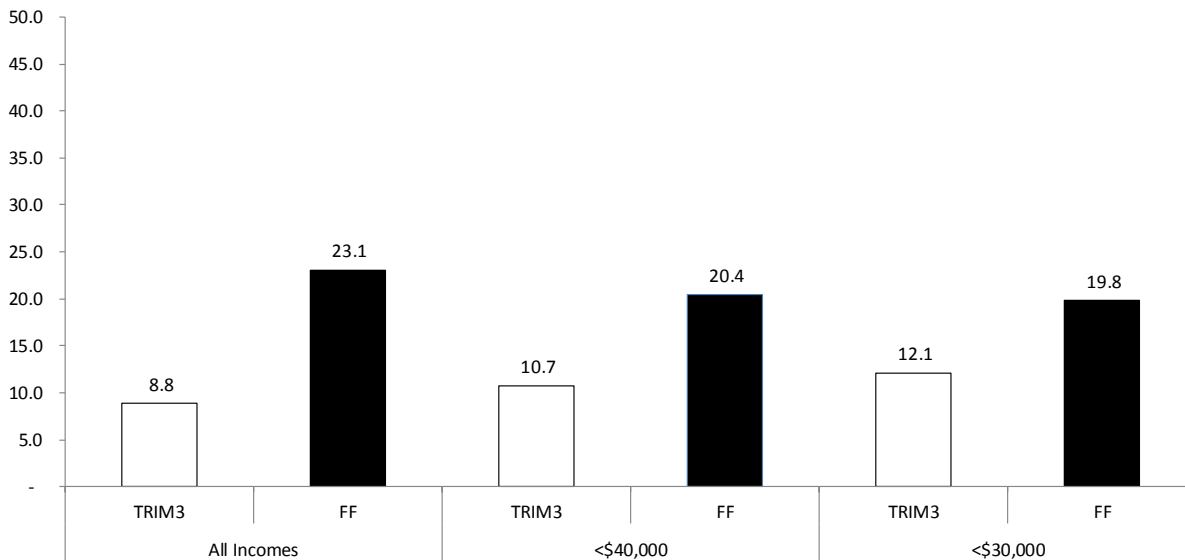
Source: TRIM3 is maintained and developed by the Urban Institute, under primary funding from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE); Estimates from the Survey of Fragile Families & Child-Well Being are pooled across the 1, 3, 5, and 9-yr. samples.



Feasibility of the Earned Income Tax Credit for Non-Custodial Fathers

Figure 6

Percent of Noncustodial Fathers in Partial Compliance with Child Support Orders, as Estimated from TRIM3 and the Fragile Families Study

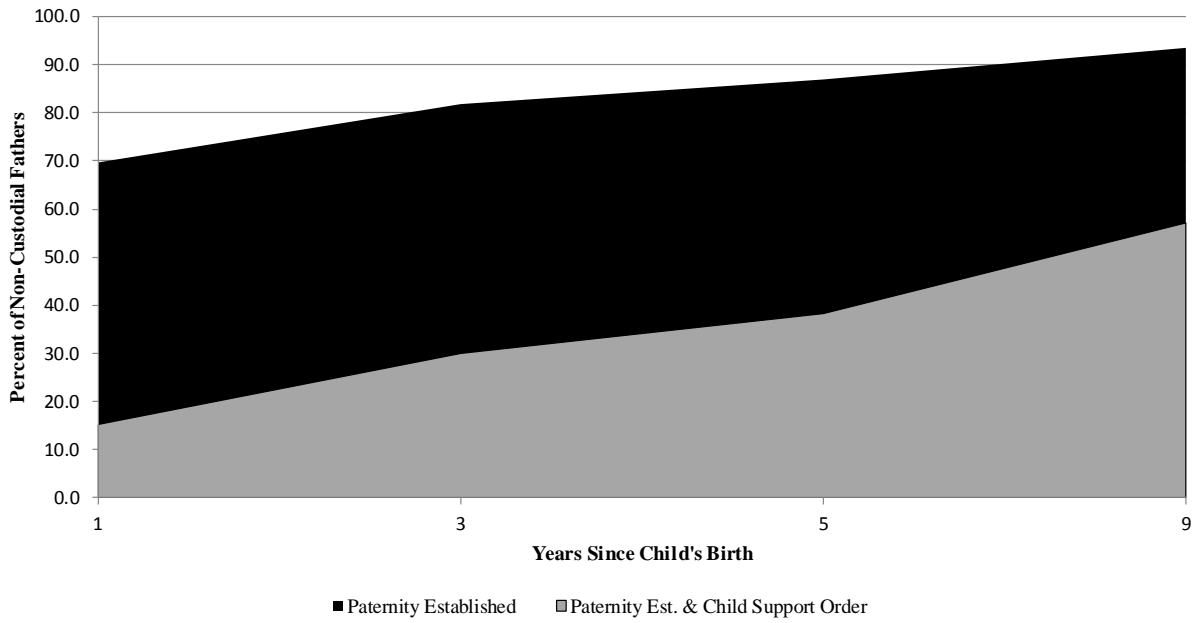


Source: TRIM3 is maintained and developed by the Urban Institute, under primary funding from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation (HHS/ASPE); Estimates from the Survey of Fragile Families & Child-Well Being are pooled across the 1, 3, 5, and 9-yr. samples.

Feasibility of the Earned Income Tax Credit for Non-Custodial Fathers

Figure 7

Percent of Noncustodial Fathers in with Established Paternity, Child Support Order by Year Since Child's Birth, (1998-2009)

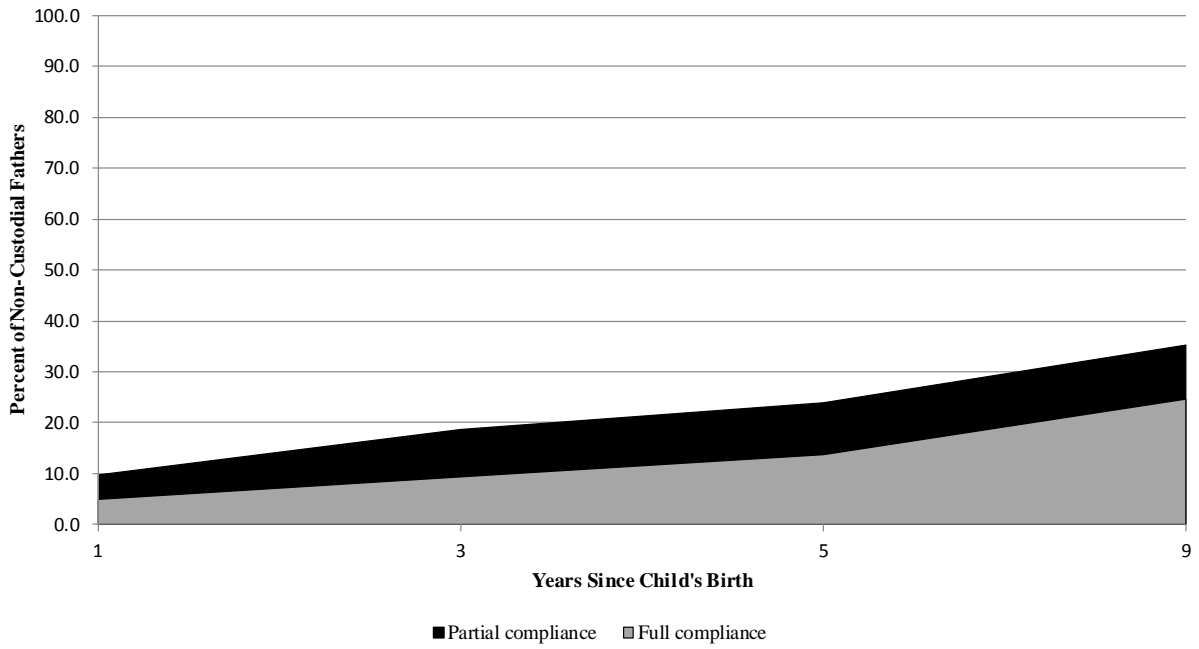


Source: Fragile Families and Child Well Being Study.

Feasibility of the Earned Income Tax Credit for Non-Custodial Fathers

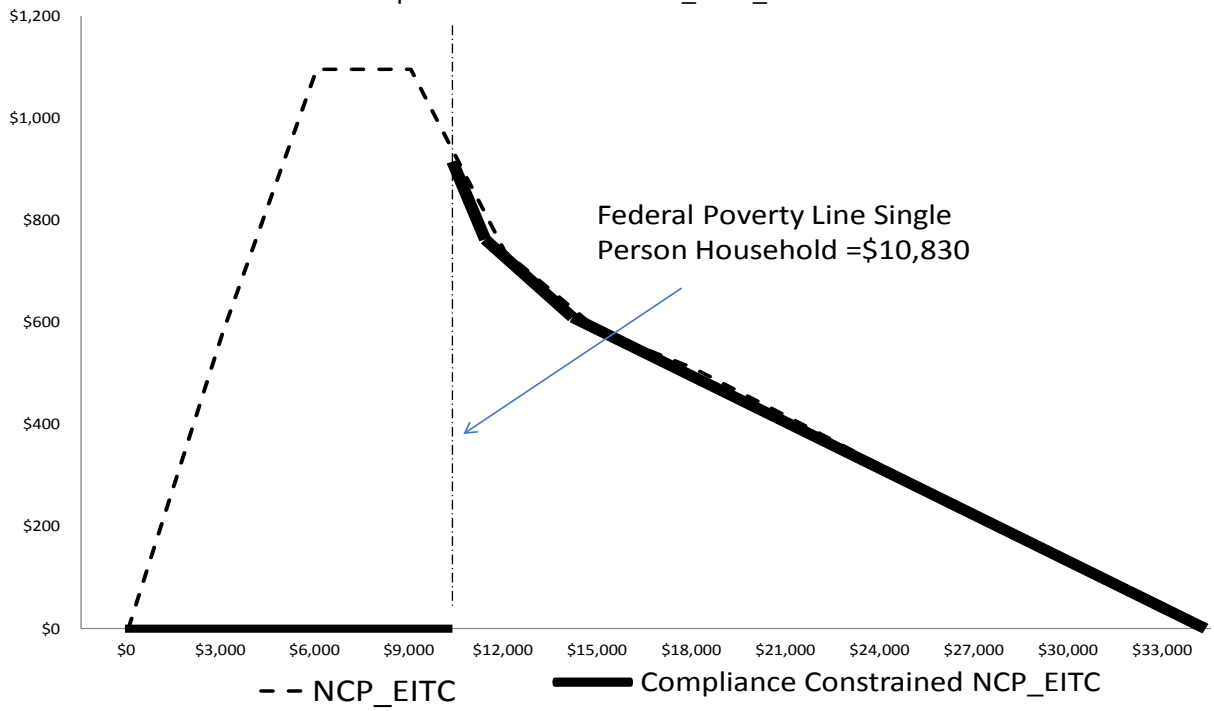
Figure 8

Percent of Noncustodial Fathers in Full and Partial Compliance by Year Since Child's Birth, (1998-2009)



Source: Fragile Families and Child Well Being Study.

Figure 9  
Compliance Constrained NYS\_ NCP\_EITC 2009



## Equipping Low-Income Noncustodial Fathers as Providers

**Table 1**

**Demographic and Labor Market Characteristics of Nonresident vs. Married Fathers of Children Born in Large U.S. Cities Five Years After Birth (2005)**

	NCPs (Unmarried, Nonresident) <sup>a</sup>		Married, Resident
	Mothers' reports about fathers	Fathers' reports about self	
<b>Race &amp; Ethnicity</b>			
Non-Hispanic White		27.8	48.2
Non-Hispanic Black		34.4	14.1
Hispanic		31.4	31.3
Non-Hispanic Other		5.1	5.1
<b>Born in the U.S.</b>		83.2	76.7
<b>Median Age</b>		30	37
<b>Educational attainment</b>			
Less than a high school degree		34.1	18.5
High school degree or its equivalent		37.3	19.5
Some college		19.0	30.2
College or Graduate Degree		9.5	31.8
<b>Currently employed</b>		69.3	95.8
<b>Median earnings in prior year (\$)</b>		\$ 23,712	\$ 44,050
<b>Median household income in prior year (\$)</b>		\$ 26,673	\$ 64,045
<b>Ever incarcerated</b>		58.0	12.9
<b>Married to mother at child's birth<sup>b</sup></b>		25.6	84.3
<b>Established paternity</b>	84.4	76.3	n/a
<b>Child support order<sup>c</sup></b>	39.1	15.9	n/a
<b>Currently living with another partner</b>	41.6	34.5	n/a
<b>Any children with another partner</b>	25.4	31.8	n/a
<b>Sample Size</b>	556	556	853

SOURCE: Calculations based on Fragile Families & Child Well-Being Survey (Wave4)

NOTE(s): Categories may not sum to 100 percent due to rounding.

<sup>a</sup> Not included in this analysis are 338 unmarried, resident fathers. These fathers more closely resembled NCPs than married, resident fathers in characteristics such as: age (33), earnings (\$32,806), household income (\$42,974), and previous incarceration (44 pct.). However, the unmarried, resident fathers were more likely than NCPs to be currently employed (85 percent), despite lower average educational attainment (45 pct. < h.s.). Unmarried, resident fathers were also more likely to be Hispanic (44 pct) and foreign-born (28 pct).

<sup>b</sup> Note that we define marriage and residency status five years after the birth of the focal child. Thus, 15.7 percent of the "Married, resident" fathers in this table were *unmarried* to the mother at the focal child's birth, and conversely, 25.6 percent of the NCPs *were* married to the mother at the child's birth.

<sup>c</sup> According to mothers, the median child support order was \$220, the median child support contribution by fathers in the previous twelve months was \$2,000 and the median informal contribution from fathers in the previous twelve months was \$500.

Monthly Child Support Obligation, Income, and Expenses Assuming Father's Annual Income of \$18,900 (2010)

State	Dist. of Columbia	Texas	New York	California	Alabama	Florida
City	D.C.	Austin	New York	Oakland	Birmingham	Jacksonville
Guidelines Model	Hybrid	Income Share	Pct. of Obligor's Income	Income Share	Income Share	Income Share
<b>Child Support Obligation</b>	50	91	139	158	183	197
<b>Food Stamps</b>	160	160	160	160	160	160
<b>Taxes &amp; Credits</b>						
Federal Taxes	139	139	139	139	139	139
State Taxes	55		45	174	302	
Payroll Taxes	823	823	823	823	823	823
Existing Federal Childcare EITC	457	457	457	457	457	457
Additional state NCF EITC	1,207		928			
<b>Expenses</b>						
Food <sup>ii</sup>	283	283	283	283	283	283
Housing	1,328	558	1,280	1,183	675	716
Healthcare	90	86	91	87	91	89
Transportation	114	120	120	125	127	131
Other	425	227	422	396	258	270
<b>Net disposable income</b>	(1,045) <sup>iii</sup>	(822)	(2,205)	(1,816)	(1,283)	(1,027)

SOURCE: NCCF calculations based on various publicly reported income and expense data for a non-custodial parent and a custodial co-parent with one child, living in separate households with poverty-level incomes.

<sup>i</sup> See note "a" in Figure 1.

<sup>ii</sup> For example, the federal Survey of Income and Program Participation (SIPP) finds that 87 percent of parents who report paying regular support to nonresident children are fathers, and a study of Child Support administrative records in seven large states reports that 90.5 percent of obligors are fathers.

Sorensen, Elaine, and Tess Tanhill. (2007). Demographic Survey Results from Nine State Title IV-D Programs. Washington, D.C.: The Urban Institute.

<sup>iii</sup> Note that as this paper defines marriage and residency status five years after the focal child's birth, 26 percent of the unmarried, non-resident fathers were married at the child's birth, and 84 percent of the married, resident fathers were unmarried at the child's birth.

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<sup>iv</sup> McLanahan, Sara, Irwin Garfinkel, and Ronald B. Mincy. (2001). *Fragile Families, Welfare Reform, and Marriage*. Washington, D.C.: Brookings Institution.

<sup>v</sup> For a fuller discussion of the relationship between wage stagnation and unemployment and joblessness, see:

Berlin, Gordon. (2007). Rewarding the Work of Individuals: a Counterintuitive Approach to Reducing Poverty and Strengthening Families. *The Future of Children*, 17(2), 17-42.