

**Center for
Economic Opportunity**

Tax Policy and the Social Safety Net: NYC in the Great Recession and After

**National Association for Welfare Research and Statistics Conference
August 19, 2013**

(all data is for New York City 2011 unless otherwise noted)

Why do We Need a Different Measure?

The Official Poverty Measure (OPM):

Threshold:

- Established in early-1960s at three times the cost of the USDA's "Economy Food Plan"
- Base year (1963) threshold adjusted by annual change in the Consumer Price Index (all items)
- Uniform across the U.S.

Resources:

- Total family *pre-tax* cash income

What's Wrong with the OPM?

Threshold is un-tethered to any underlying rationale.

- Food is no longer 1/3 of family expenditures.
 - Threshold has fallen relative to standard of living.
 - Fails to account for inter-area differences in cost of living.

Resources:

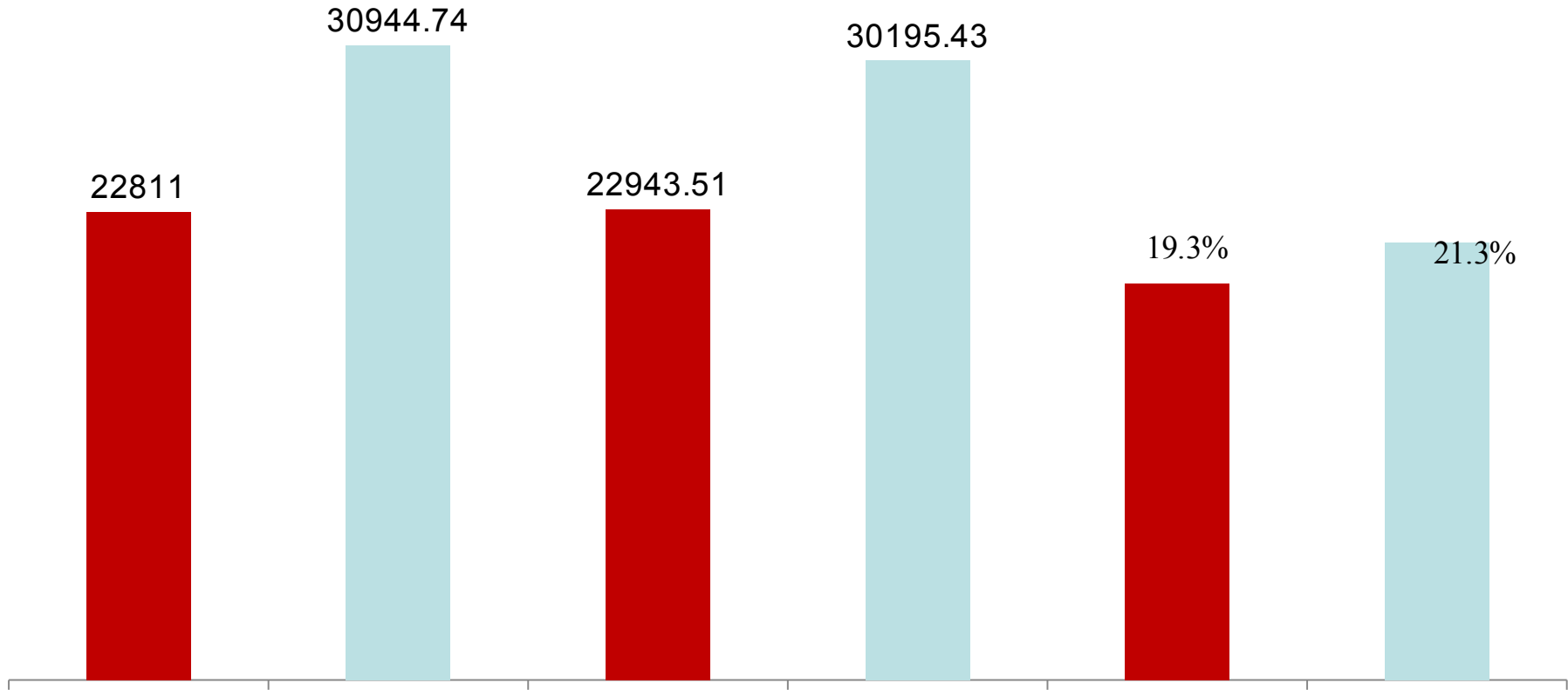
- Pre-tax cash omits tax credits and in-kind benefits that are an increasing share of what government provides to low-income families.

The CEO Poverty Measure

An Application of the National Academy of Sciences (NAS) Method

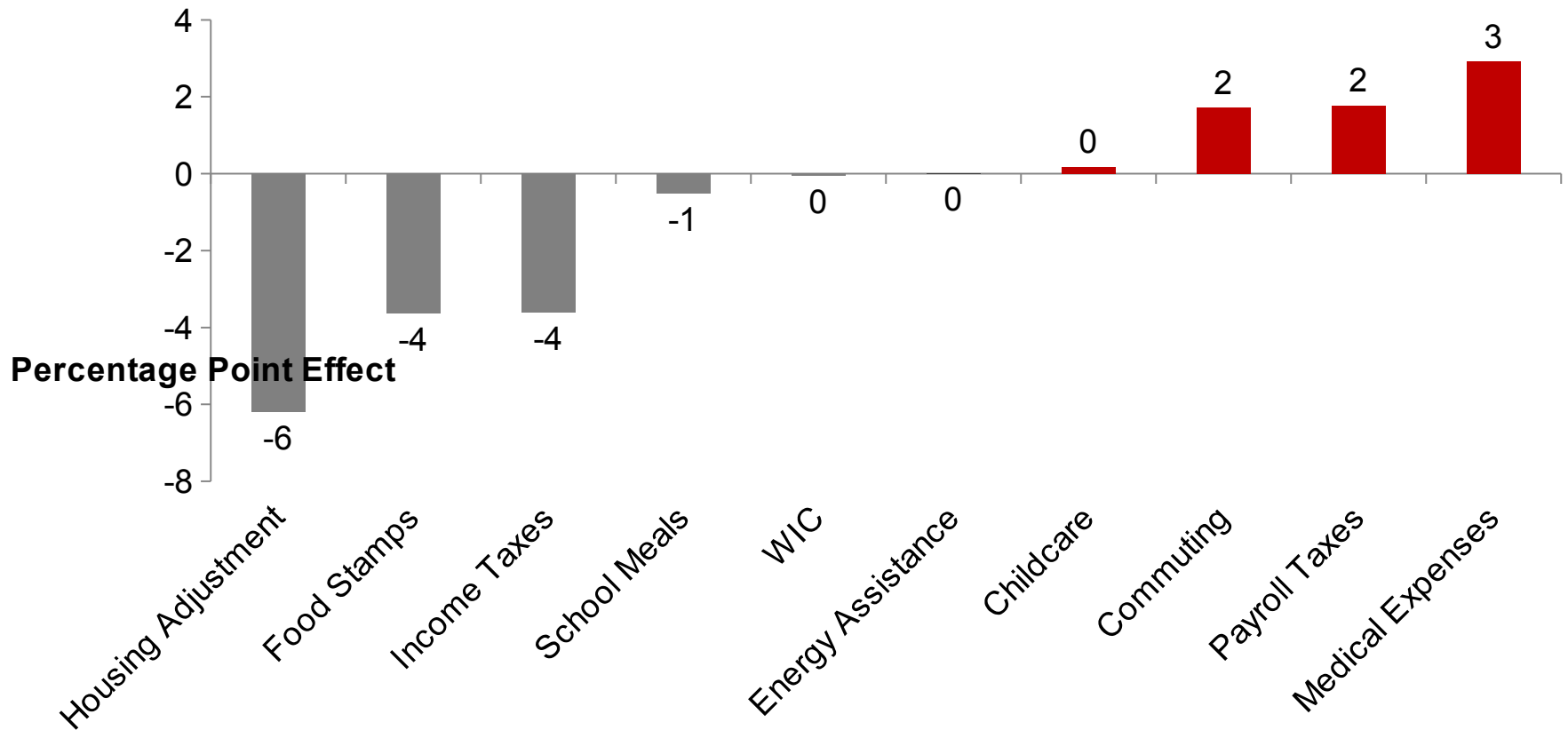
| | |
|--|--|
| <p>Threshold Based on Supplemental Poverty Measure (SPM)</p> | <p>Established at 33rd percentile of two-child family expenditures on food, clothing, shelter and utilities, plus 20% more for miscellaneous needs. Updated by change in five-year moving average of expenditures for the items in the threshold.</p> <p>US-wide threshold receives inter-area adjustment based on differences in housing costs.</p> |
| <p>Resources: Income available to obtain items in threshold</p> | <p>Total family unit after-tax income (includes tax credits). Include value of near-cash, in-kind benefits such as Food Stamps. Make LOCAL NYC housing status adjustment. Subtract work-related expenses such as childcare and transportation costs. Subtract medical out-of-pocket expenditures.</p> |

Comparing Thresholds, Incomes and Poverty Rates. NYC, 2011



Source: U.S. Bureau of the Census and American Community Survey Public Use Micro Sample as augmented by CEO.
Note: Incomes are measured at the 20th percentile and stated in family size and composition-adjusted dollars.

Marginal Effect of CEO Income Components



Source: American Community Survey Public Use Micro Sample as augmented by CEO.

The Great Recession and the Stimulus Tax Credits

Annual Family Earnings, NYC, 2008 - 2011

| Percentile | 2008 | 2009 | 2010 | 2011 | Change 08-10 | Change 10-11 |
|------------|----------|----------|----------|----------|---------------|--------------|
| 20 | \$12,311 | \$11,116 | \$9,673 | \$10,157 | -21.4% | 5.0% |
| 25 | \$18,701 | \$17,945 | \$16,122 | \$16,029 | -13.8% | -0.6% |
| 30 | \$25,460 | \$24,226 | \$21,741 | \$21,970 | -14.6% | 1.1% |
| 35 | \$31,815 | \$30,506 | \$27,818 | \$27,682 | -12.6% | -0.5% |
| 40 | \$38,218 | \$36,707 | \$33,922 | \$33,301 | -11.2% | -1.8% |
| 45 | \$44,640 | \$43,131 | \$40,305 | \$40,322 | -9.7% | 0.0% |
| 50 | \$51,271 | \$50,019 | \$46,505 | \$47,000 | -9.3% | 1.1% |

Source: American Community Survey Public Use Micro Sample as augmented by CEO.

Note: Earnings are stated in family size and composition-adjusted dollars. Persons in families with no earnings are included.

**Timing of Stimulus Tax Credits, 2008 - 2011
by Work and Child Requirements**

| Tax/Credit | Years in Effect | | | | Work Required | Child Required |
|--|------------------------|-------------|-------------|-------------|--------------------------|---------------------------|
| | 2008 | 2009 | 2010 | 2011 | | |
| Recovery Rebate Credit | X | | | | | |
| Additional Standard Deduction for Real Estate | X | X | | | | |
| Economic Recovery Payment | | X | | | | |
| Refundable Child Tax Credit Expansion | X | X | X | X | X | X |
| EITC Marriage Penalty Elimination | | X | X | X | X | X |
| EITC Third Child Tier | | X | X | X | X | X |
| American Opportunity Credit | | X | X | X | | |

Impact of Net Taxes on Poverty Rates, 2005 - 2011

(Numbers are Percent of the Population)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|----------------------------|------|------|------|------|------|------|------|
| A. Poverty Rates | | | | | | | |
| Total CEO Income | 20.3 | 19.8 | 19.8 | 19.0 | 19.7 | 20.9 | 21.3 |
| Net of: | | | | | | | |
| Income Taxes | 23.3 | 22.7 | 22.7 | 23.3 | 24.0 | 25.2 | 24.9 |
| FICA (Payroll Taxes) | 18.5 | 17.6 | 17.7 | 17.0 | 17.6 | 18.8 | 19.5 |
| Income Taxes and FICA | 21.5 | 20.7 | 20.5 | 21.2 | 21.9 | 22.9 | 23.4 |
| B. Marginal Effects | | | | | | | |
| Income Taxes | -3.0 | -2.9 | -2.9 | -4.3 | -4.3 | -4.3 | -3.6 |
| FICA (Payroll Taxes) | 1.8 | 2.2 | 2.1 | 2.0 | 2.0 | 2.1 | 1.8 |
| Income Taxes and FICA | -1.2 | -0.9 | -0.7 | -2.2 | -2.2 | -2.1 | -2.1 |

Source: American Community Survey Public Use Micro Sample as augmented by CEO.

A. Actual

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Poverty Rates: | | | | | |
| Total CEO Income | 19.8 | 19.0 | 19.7 | 20.9 | 21.3 |
| Net of: | | | | | |
| Income Taxes | 22.7 | 23.3 | 24.0 | 25.2 | 24.9 |
| Payroll (FICA) Taxes | 17.7 | 17.0 | 17.6 | 18.8 | 19.5 |
| Combined Income & FICA Taxes | 20.5 | 21.2 | 21.9 | 22.9 | 23.4 |
| Marginal Effects: | | | | | |
| Income Taxes | -2.9 | -4.3 | -4.3 | -4.3 | -3.6 |
| Payroll (FICA) Taxes | 2.1 | 2.0 | 2.1 | 2.1 | 1.8 |
| Combined Income & FICA Taxes | -0.7 | -2.2 | -2.2 | -2.0 | -2.1 |

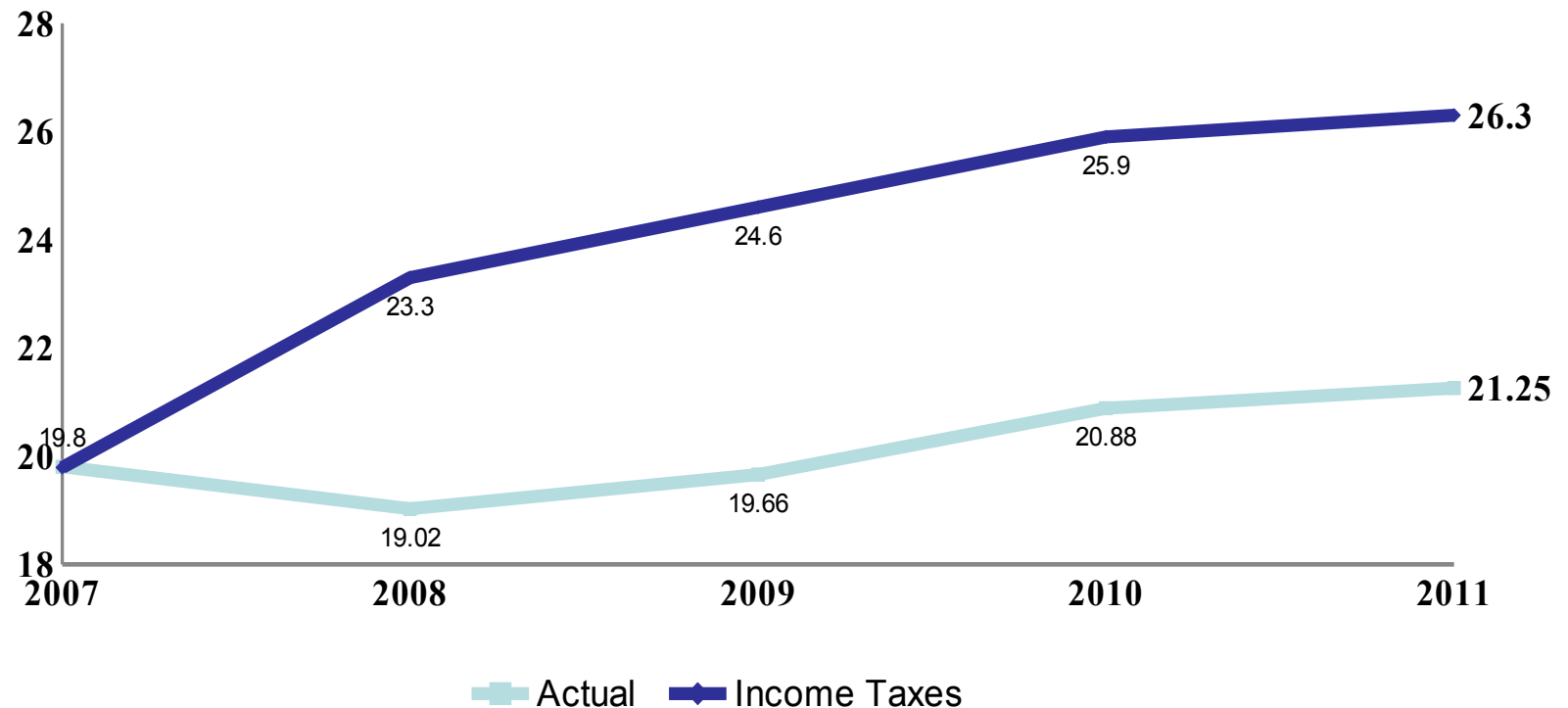
B. Hypothetical

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Poverty Rates: | | | | | |
| Total CEO Income | N.A. | 20.5 | 22.0 | 23.2 | 23.6 |
| Net of: | | | | | |
| Income Taxes | N.A. | 23.3 | 24.6 | 25.9 | 26.3 |
| Payroll (FICA) Taxes | N.A. | 18.2 | 19.6 | 21.0 | 20.9 |
| Combined Income & FICA Taxes | N.A. | 21.2 | 22.4 | 23.6 | 24.2 |
| Marginal Effects: | | | | | |
| Income Taxes | N.A. | -2.8 | -2.6 | -2.7 | -2.7 |

Had it Not Been For Policy Responses

Actual and Hypothetical CEO Poverty Rates, without Stimulus Tax Credits, 2007-2011

(rates are percent of population)



Source: ACS PUMS as augmented by CEO.

After the Fiscal Cliff

| Tax/Credit | Years in Effect | | | | Eligibility Requirement | | ATRA 2012 | |
|--|-----------------|------|------|------|-------------------------|----------------|----------------|-----------------|
| | 2008 | 2009 | 2010 | 2011 | Work Required | Child Required | Made Permanent | Renewed to 2017 |
| Recovery Rebate Credit | X | | | | | | | |
| Additional Standard Deduction for Real Estate | X | X | | | | | | |
| Additional Child Tax Credit Expansion (Refundable Part of Child Tax Credit) | X | X | X | X | X | X | | X |
| Making Work Pay Credit | | X | X | | X | | | |
| Economic Recovery Payment | | X | | | | | | |
| EITC Marriage Penalty Elimination | | X | X | X | X | X | X | |
| EITC Third Child Tier | | X | X | X | X | X | | |

What happens next?: Waiting for a budget resolution

- ATRA 2012/Fiscal Cliff Resolution not a permanent budget plan.
- Sequester cuts in Unemployment Insurance, WIC, Housing Supports □ decline in CEO Income.
- No automatic cuts in tax credits. BUT: Proposals to cut/eliminate/expand EITC, Child Tax Credit
- Chained CPI could affect EITC levels.
- For NYC, important that we have tool to measure effect of changes at federal level. (Over \$4 billion in tax relief to NYC families earning under \$50,000 in 2011.)

What happens next?:

3 Budget Proposals

Obama 2014 budget proposal:

- Make stimulus & ATRA 2012 extensions permanent.
 - Expanded child tax credit
 - Third child tier in EITC
 - American Opportunity Credit (tuition)

Romney Tax Plan

- Cut current tax rates by 20% for all filers.
- Roll back EITC to pre-stimulus levels.

Ryan 2013/House 2014 Tax Plan

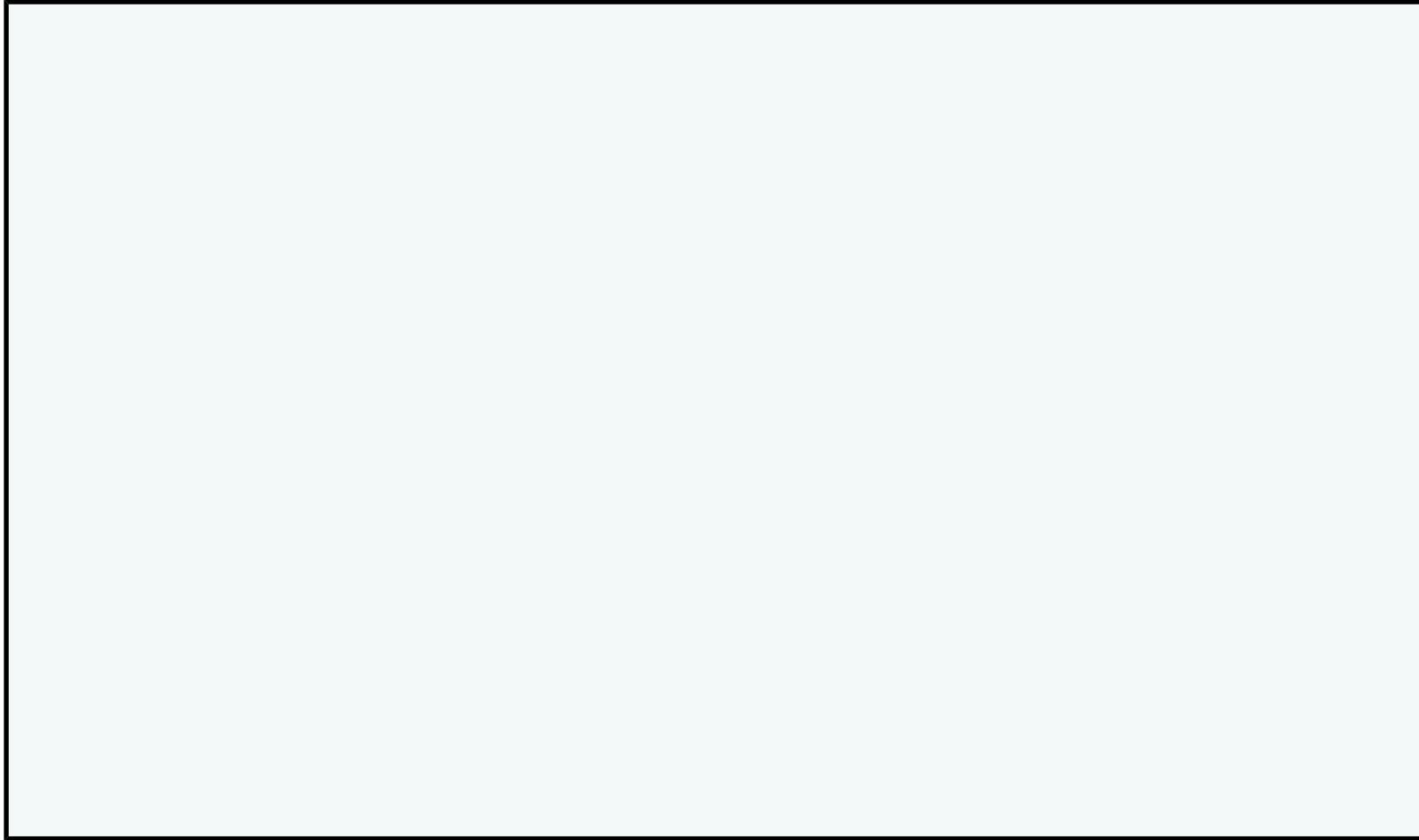
- Simplify tax rates to 10 and 25%

(lowest bracket already paying 10%, CEO model halves this to 5%,
erring on the side of a bigger tax cut than planned)

- Eliminate EITC and Child Tax Credit

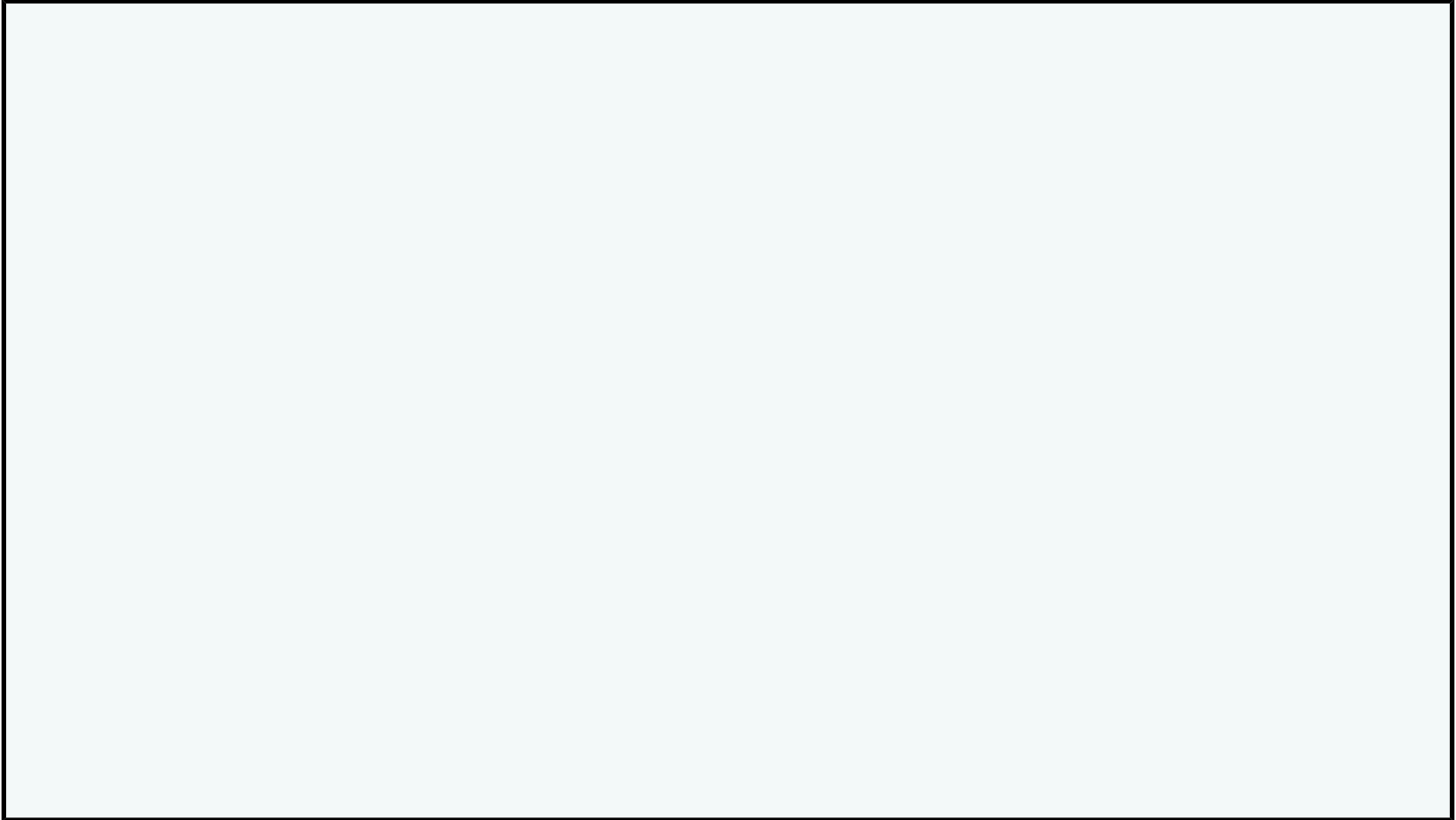
(assumptions based on consistent mentions in public discussion, see
<http://tax.cchgroup.com/downloads/files/pdfs/legislation/2014-Federal-Budget-Proposals.pdf> and
www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=3869&DocTypeID=2 .)

Poverty Rates Using Different Tax Scenarios



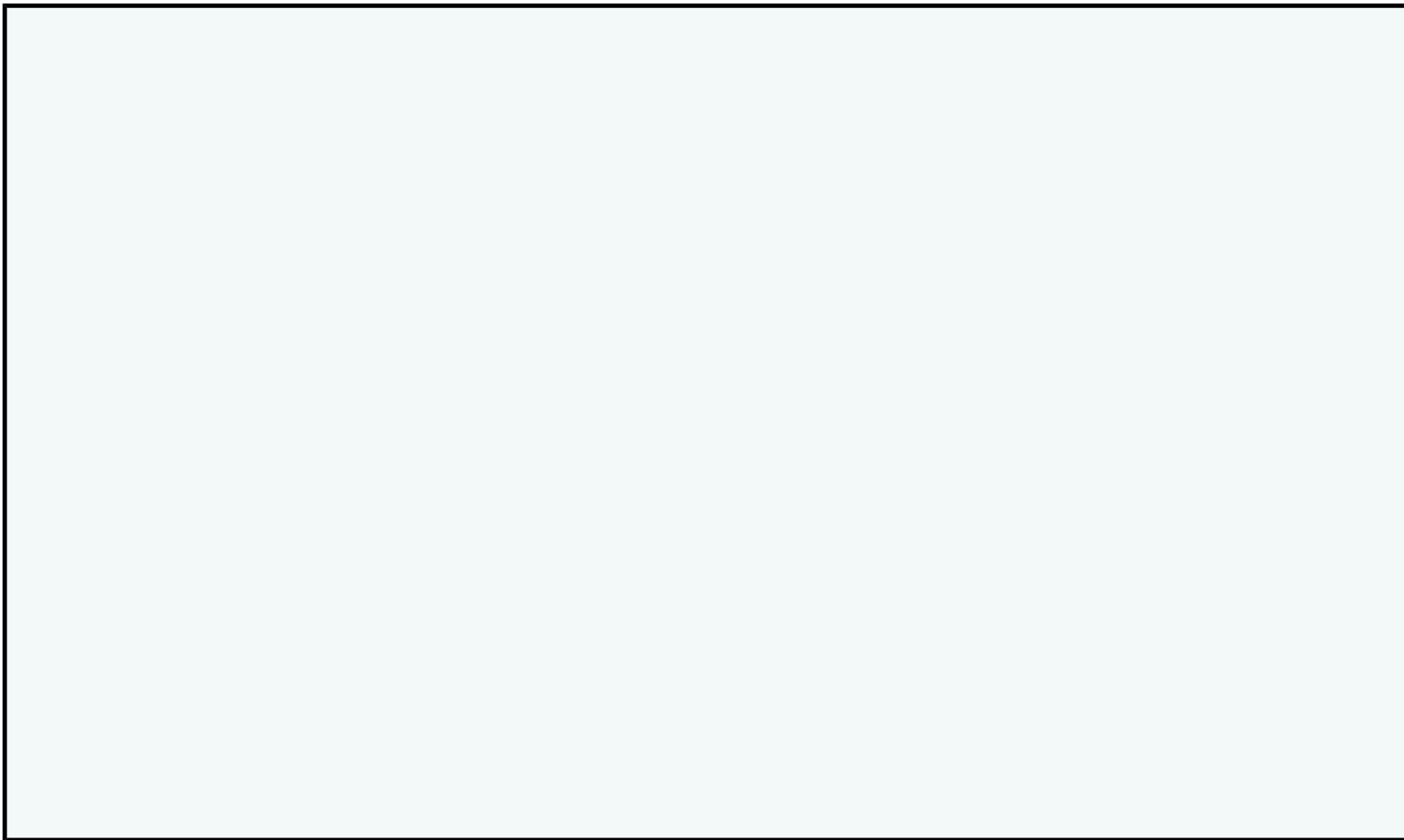
SOURCE: American Community Survey Public Use Microsample , 2011, as augmented by CEO. CEO baseline includes all ATRA programs plus the FICA tax cut. See slide 10 for FICA effect.

Poverty Rates: Persons by Gender, Age and Presence of Parents



SOURCE: American Community Survey Public Use Microsample , 2011, as augmented by CEO.
CEO baseline includes all ATRA programs plus the FICA tax cut. See slide 10 for FICA effect.

Poverty Rates: Persons by Race/Ethnicity, Nativity/Citizenship



SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO. CEO baseline includes all ATRA programs plus the FICA tax cut. See slide 10 for FICA effect.

Poverty Rates: Persons by Educational Attainment and Work Experience

| | CEO (includes ATRA) | ATRA 2012 (absence of) | ROMNEY | RYAN |
|--|----------------------------------|----------------------------------|---------------|-------------|
| Working Age Adults 18-64 By Educational Attainment | | | | |
| Less than High School | 31.8 | 35.3 | 35.3 | 40.0 |
| High School Degree | 24.6 | 27.3 | 27.1 | 30.4 |
| Some College | 16.7 | 18.1 | 18.0 | 20.8 |
| Bachelor's Degree or Higher | 9.4 | 9.9 | 9.9 | 10.5 |
| Working Age Adults 18-64 By Work Experience, Past 12 Mos. | | | | |
| Full-Time, Year-Round | 7.5 | 8.8 | 8.7 | 10.7 |
| Some Work | 24.4 | 26.7 | 26.6 | 30.1 |
| No Work | 38.7 | 41.1 | 41.1 | 43.8 |

Excludes people enrolled in school.

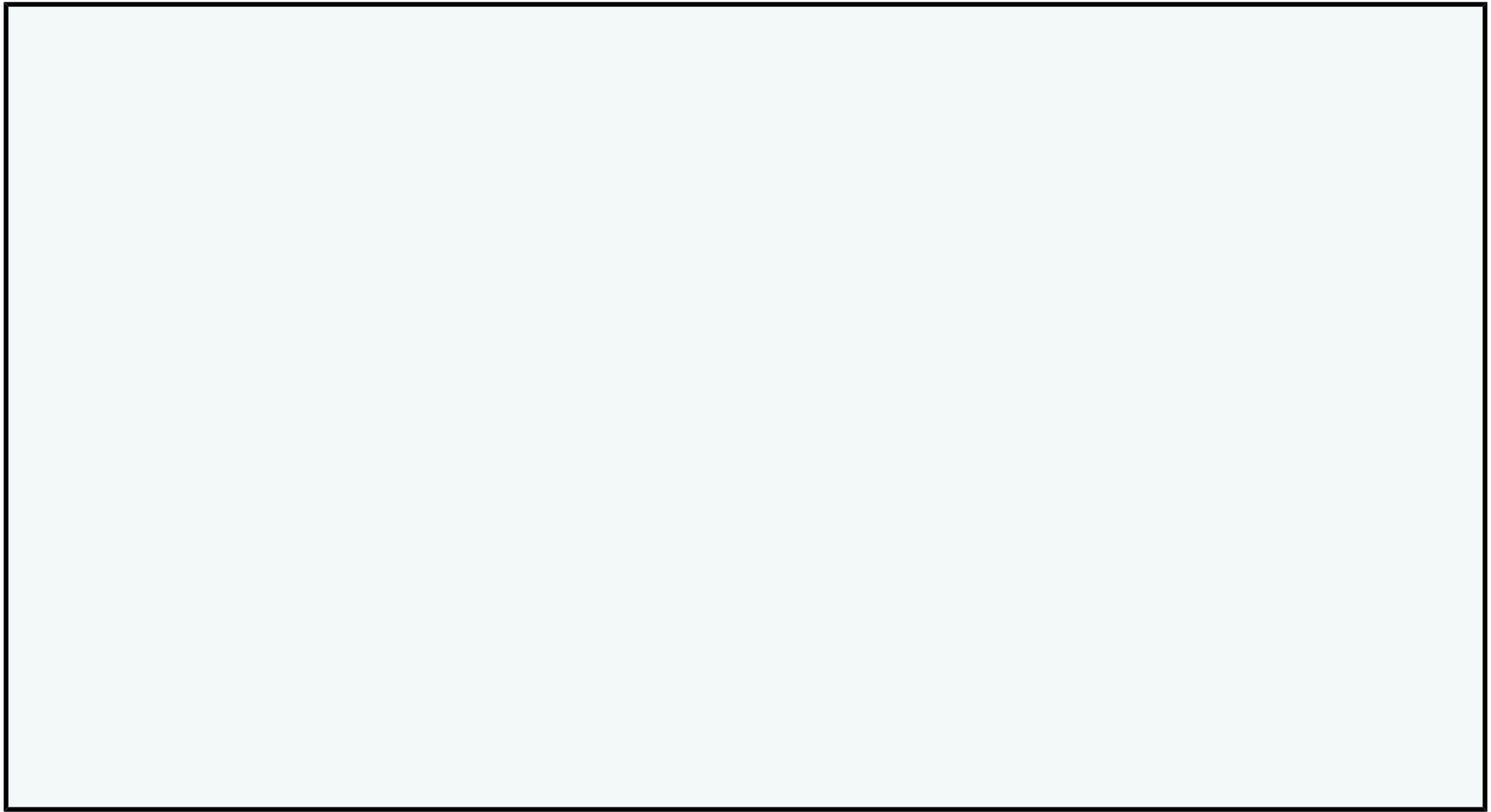
SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO. CEO baseline includes all ATRA programs plus the FICA tax cut. See slide 10 for FICA effect.

Poverty Rates for Persons by Family Type

| | CEO (includes ATRA) | ATRA 2012 (absence of) | ROMNEY | RYAN |
|---|-------------------------------|----------------------------------|---------------|-------------|
| Husband Wife/Unmarried Partner | | | | |
| No Children Under 18 | 13.3 | 14.3 | 14.2 | 14.3 |
| With Children Under 18 | 17.8 | 20.6 | 21.2 | 27.2 |
| Single Head of Household | | | | |
| No Children Under 18 | 19.8 | 21.9 | 21.7 | 23.1 |
| With Children Under 18 | 30.9 | 34.7 | 34.4 | 41.9 |
| Single Mother Family | 32.6 | 36.3 | 36.0 | 43.8 |
| All Families with Children < 18 | 22.4 | 25.6 | 25.7 | 32.3 |
| Unrelated Individuals | 28.5 | 29.5 | 29.2 | 28.9 |

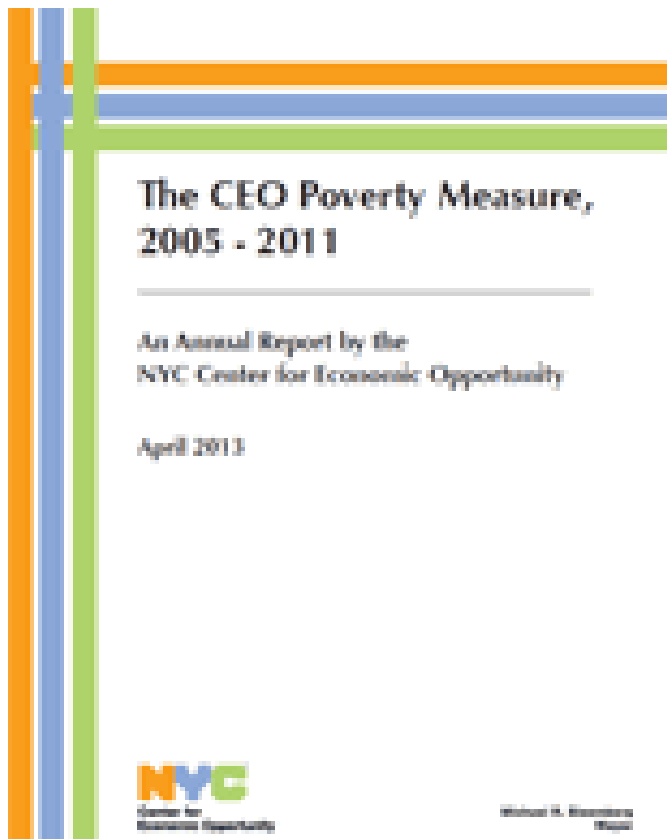
SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO. CEO baseline includes all ATRA programs plus the FICA tax cut. See slide 10 for FICA effect.

Poverty Rate by Work Experience of Family



SOURCE: American Community Survey Public Use Microsample , 2011, as augmented by CEO. CEO baseline includes all ATRA programs plus the FICA tax cut. See slide 10 for FICA effect.

For more information, see NYC.GOV/CEO, Poverty Research



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