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C E N T E R

Interaction between minimum wage  
and family income supplements

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# Minimum wage and poverty

Early studies found minimum wage was associated with a reduction in poverty but this has come into question.

- Those studies often used the Official Poverty Measure, which excludes EITC and SNAP benefits from income definition. Studies using a broader definition of income that includes these benefits, found smaller reductions in poverty (Dube 2019).
- Other studies have found no association between minimum wage and poverty (Neumark & Yen 2021; Burkhauser, McNichols, & Sabia 2023).

# Earned income tax credit and poverty

Evidence finds previous expansions of the federal EITC are associated with reductions in poverty among households with children (Fox, Glassman, and Pacas 2020; Hoynes & Patel 2018).

Higher state minimum wages paired with higher state EITCs are associated with reductions in poverty for very poor families (Neumark & Wascher 2011).

**Why are impacts so small/mixed?**

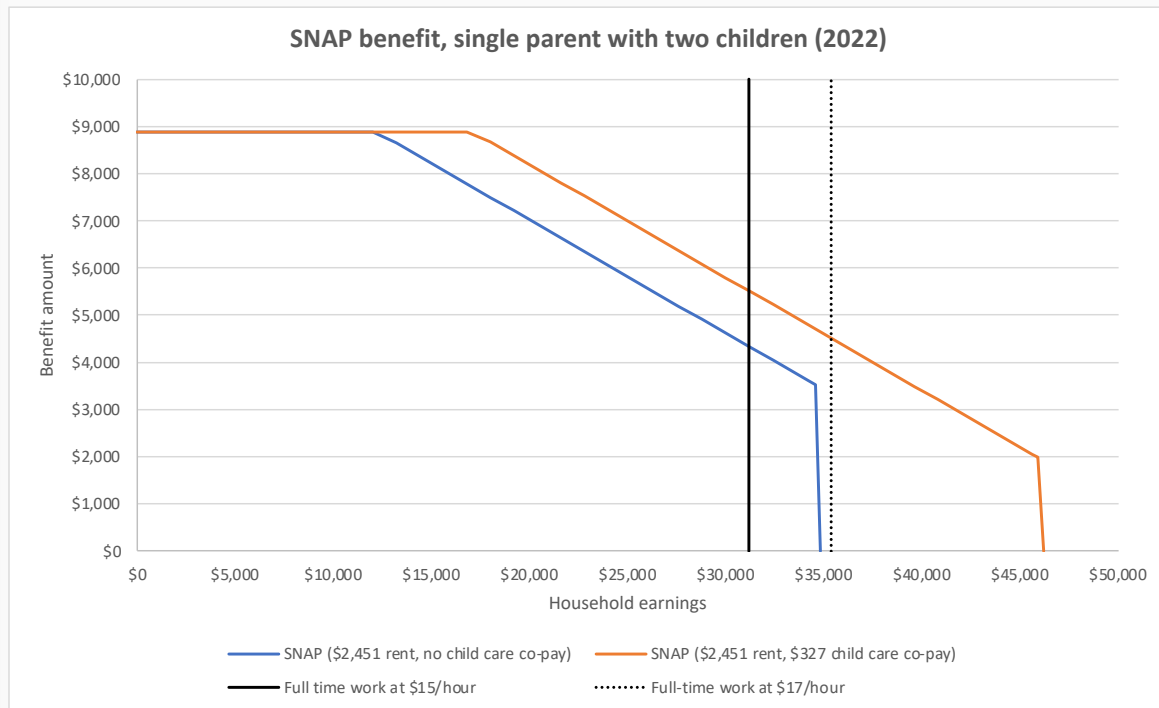
# Income-testing

As household earnings rises, some programs become less generous.

The **phaseout rate** is a measure of how much benefits decline for each additional dollar of earnings.

- Often called implicit marginal tax rates (IMTRs) or earnings penalties

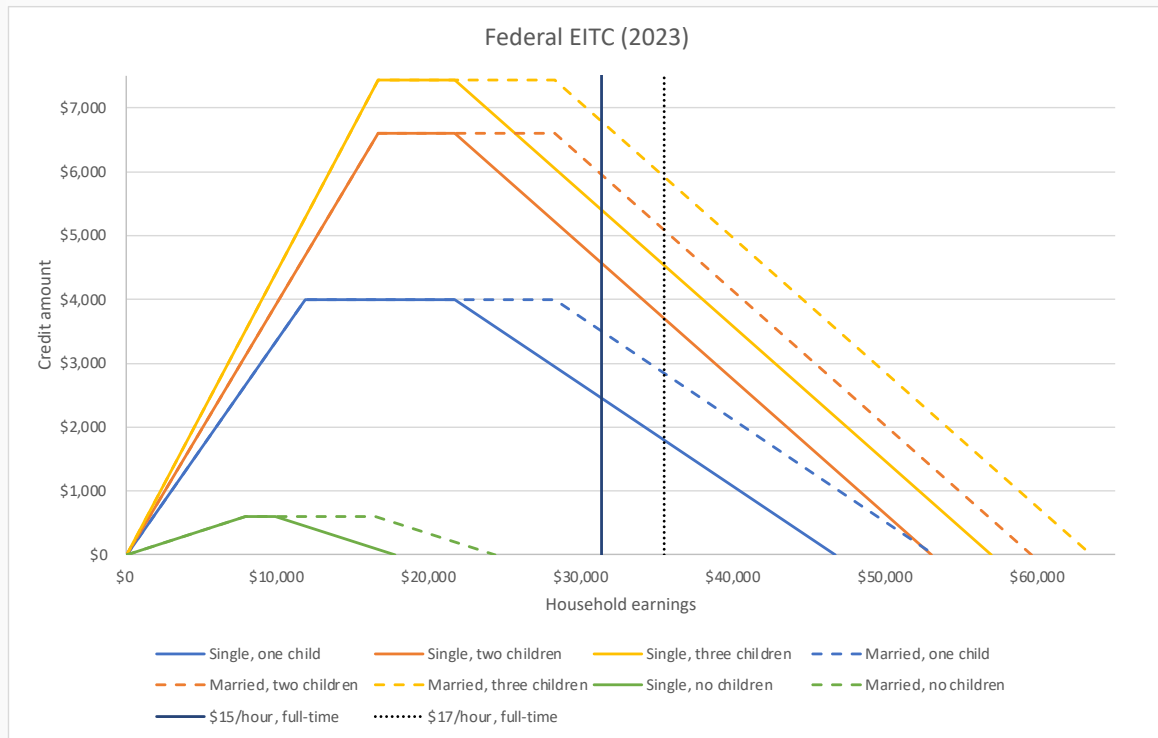
A **benefit cliff** refers to a sharp drop in benefits over a relatively small rise in earnings.



# Federal EITC

Maximum credit ranges from \$600 to \$7,430 depending on income and household size

Indexed for inflation



# New York State EITC

Set at 30% of federal EITC

Maximum credit ranges from \$180 to \$2,229 depending on income and household size

Indexed for inflation

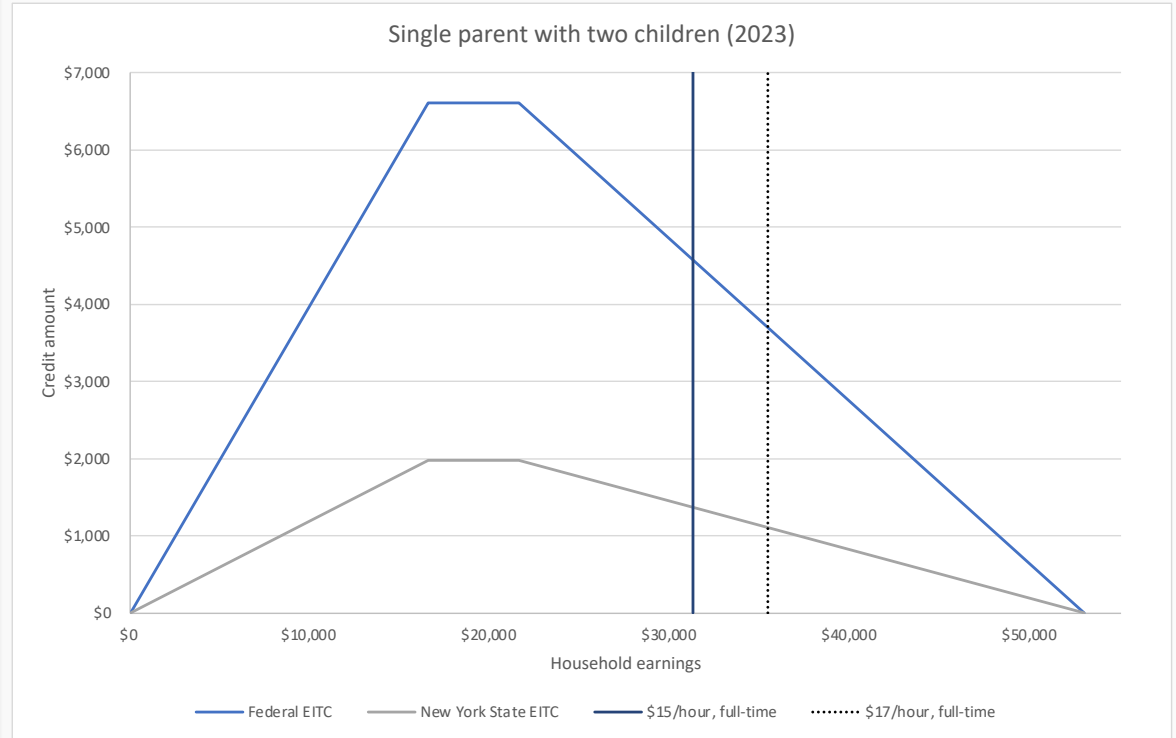


# Layered impact

New York's \$15/hour minimum wage puts a full-time worker with children in the phaseout range for these programs.

Each additional dollar earned reduces benefits by:

- Federal EITC: 21.06%
- State EITC: 6.32%



# Cumulative impact of rising wages

EITC phaseouts claw back 27.38% of every additional \$1 earned in this range.

- Functionally, value of \$2/hour increase reduced to \$1.45/hour.
  - This does not include other tax provisions (federal/state income taxes; NYC EITC), childcare programs (CDCTC; CDCC), or SNAP. Clawbacks would climb to 50%+ in this earnings range.

	<b>\$15/hour, FT</b>	<b>\$17/hour, FT</b>	<b>\$ Change</b>
Earnings	\$31,200	\$35,360	\$4,160
Federal CTC	\$4,000	\$4,000	\$0
State CTC	\$660	\$660	\$0
Federal EITC	\$4,574	\$3,698	(\$876)
State EITC	\$1,372	\$1,109	(\$263)
<b>Total</b>	<b>\$41,806</b>	<b>\$44,827</b>	<b>\$3,021</b>



# Key takeaways

- ❖ The cumulative structure of existing income-tested benefits (EITC, SNAP, etc.) will partially mute the impact of increases in the minimum wage on poverty reduction.
- ❖ Increasing state EITC match rates would help reduce poverty but at the cost of increasing IMTRs, which impede further economic mobility.

# References

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Thank you

*Questions?*

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