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THE INCENTIVE EFFECTS OF THE TAX-BENEFIT SYSTEM FACING LOW-INCOME FAMILIES IN GEORGIA

Overview

A number of relief programs and refundable income-tax credits are available to help ease the burden on Georgia's growing population of low-income individuals and families. These programs provide a combination of cash support and in-kind benefits, which, in the short run, increase income and provide greater access to childcare, food, healthcare, housing, and other essentials. How do these programs work together and how do they impact low-income households?

The Incentive Effects of the Tax-Benefit System Facing Low-Income Families in Georgia, a new report from the Fiscal Research Center, analyzes the combined effects of relief programs, demonstrating the complicated set of incentives facing low-income families, regarding decisions to work, to invest in education and training, or even to participate in these programs.

Methodology

The study quantifies the incentives created by these relief programs taken as a whole. A simulation calculator quantifies the impact of earning an additional dollar of income on eligibility for important social programs. Specifically, the analysis covers the Childcare and Parents Assistance Program (CAPS), Section 8 housing vouchers (HUD), food stamps (SNAP), Temporary Aid to Needy Families (TANF), the Earned Income Tax Credit (EITC), and the Child Tax Credit (CTC), as well as state and federal income-tax liabilities.

Using a set of representative family structures, we demonstrate what happens to net household income (including benefits) as a family increases their earnings through participation in the labor force. The change in net household income (including benefits) is expressed as the marginal benefit-tax rate (MTR)—essentially the change in net household income after benefits and taxes.

For the purposes of this study, a negative MTR decreases net household income and, thus, the incentive to work, while a positive MTR produces the opposite result.

The resulting patterns show how household earnings are affected by the apparent lack of coordination among benefit programs and federal and state tax schedules.

Potential Incentive Effects

Although the report quantifies the incentives created by important tax-benefit programs, it is not clear that people are aware of these incentives or respond to them as economic theory would predict. A brief overview of the key findings follows:

- *The system penalizes work in certain income ranges.* In some income ranges the MTR on an addition dollar of earnings exceeds 100 percent thus the system penalizes work in some income ranges.
- *The system significantly diminishes the incentive to acquire the education and skills required to escape poverty.* Comparing the MTR-adjusted net earnings for skilled and unskilled labor across the six family scenarios, the tax-benefit system reduces the pecuniary reward of investing in education and training as family size increases by up to 47 percent.
- *The system does not provide economic incentives to marry or remain married, and, in fact, penalizes marriage in some income ranges.* Comparing net household income for married and single parents with one and two children, we find little economic incentive for a single parent to marry or for married parents to stay together.

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