



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?

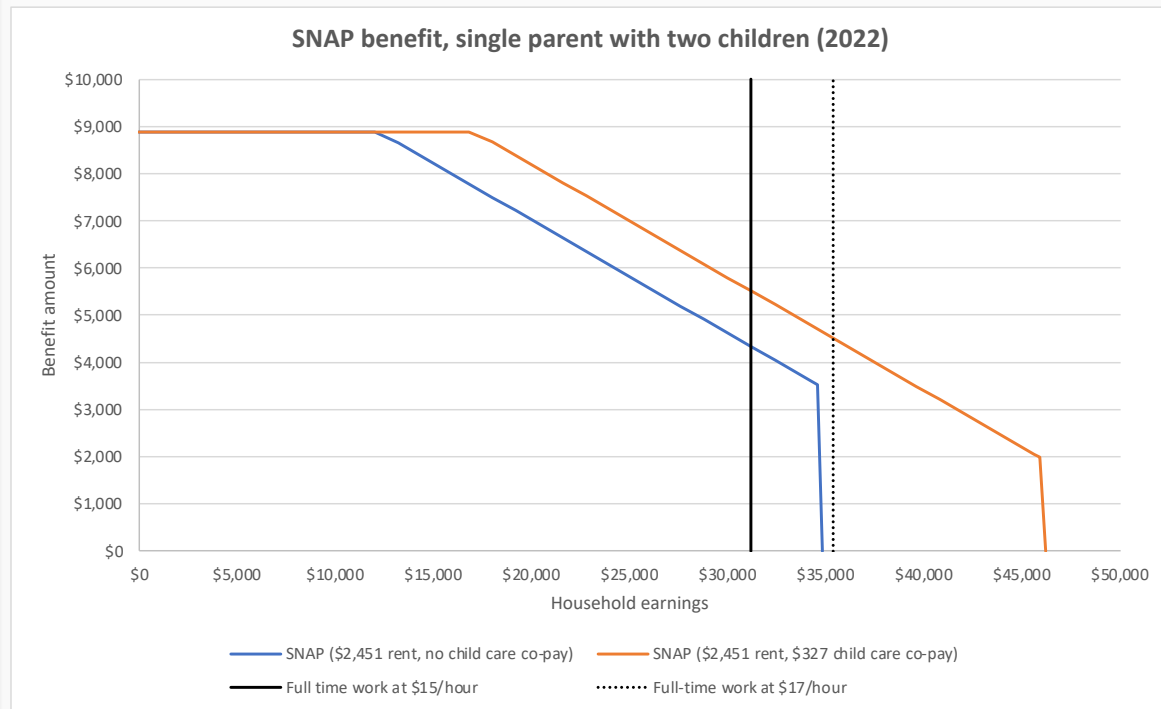
Income-testing

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

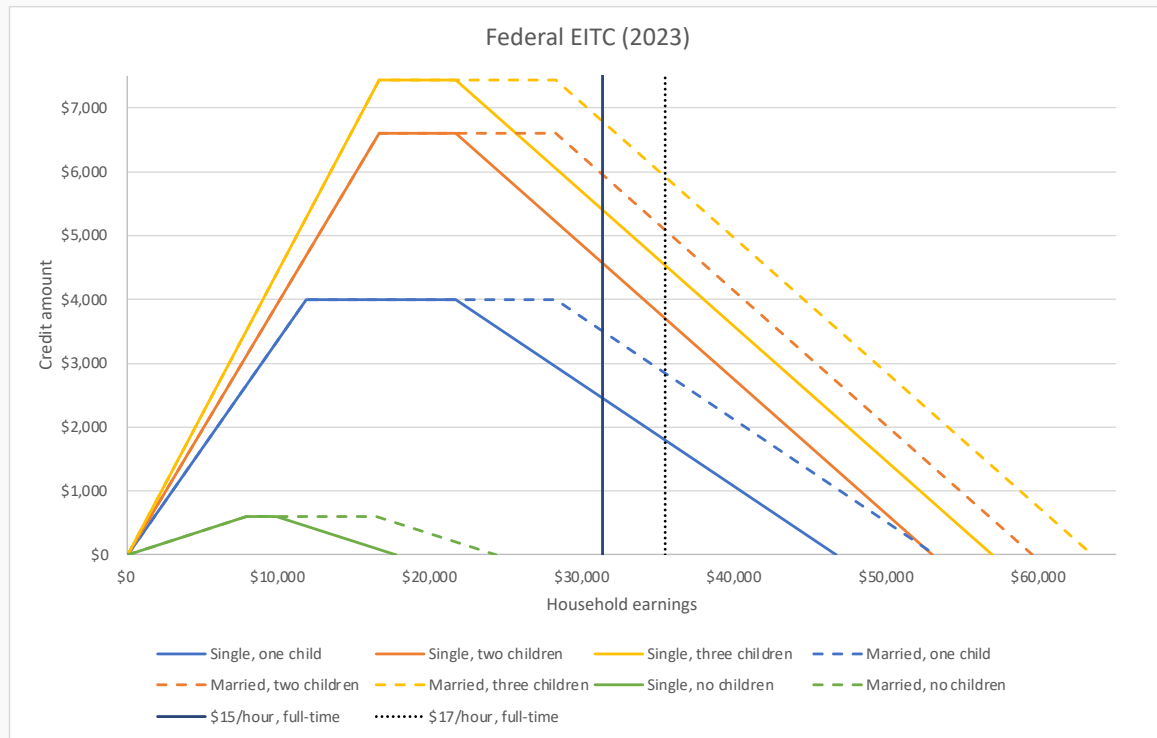
A **benefit cliff** refers to a sharp drop in benefits over a relatively small rise in earnings.



Federal EITC

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

Indexed for inflation

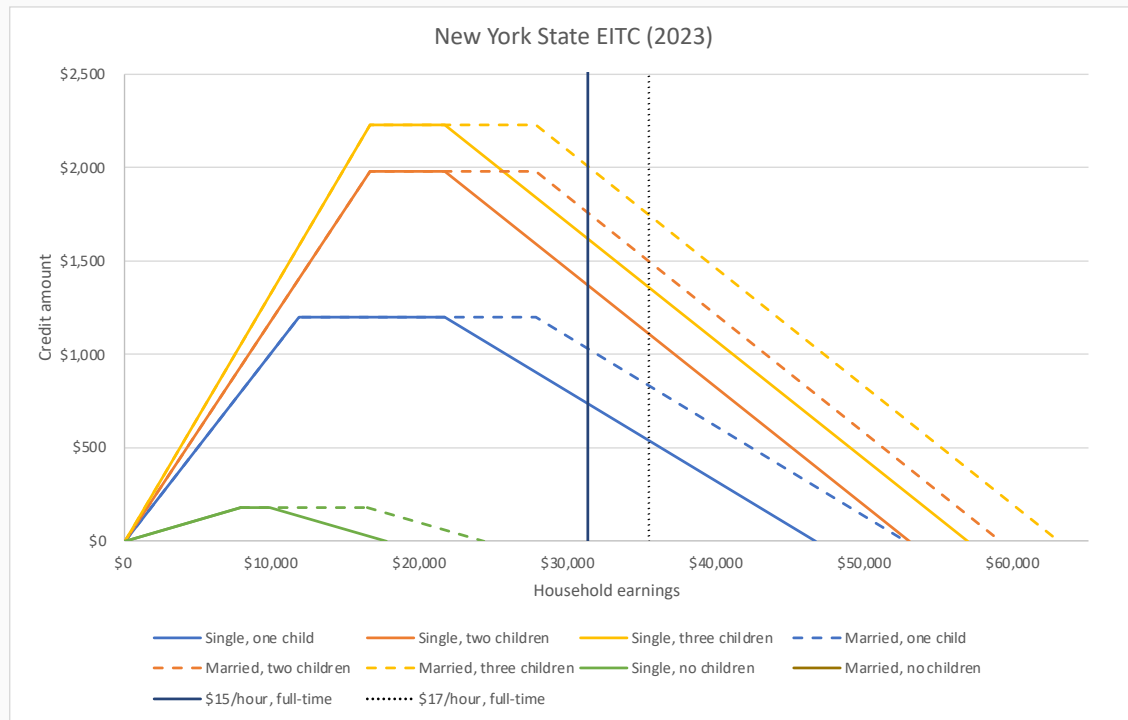


New York State EITC

Set at 30% of federal EITC

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

Indexed for inflation

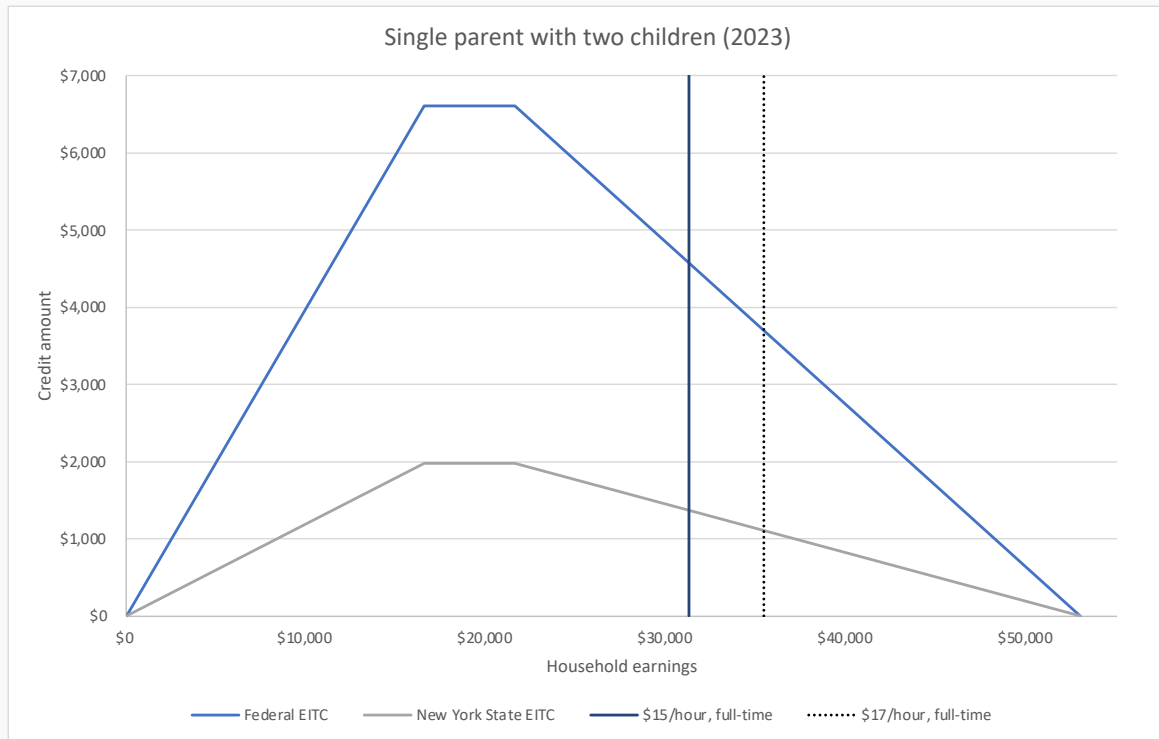


Layered impact

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.

	\$15/hour, FT	\$17/hour, FT	\$ Change
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)
Total	\$41,806	\$44,827	\$3,021

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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