

# Tax Credits and Job-Oriented Programs Help Fathers Find Work and Pay Child Support

Elaine Sorensen

## Summary

New York's Strengthening Families Through Stronger Fathers Initiative is an innovative approach to helping low-income fathers find work and pay child support. Enacted in 2006, the initiative offered a state earned income tax credit and job-oriented programs to noncustodial parents. Our evaluation shows that the approach worked—the tax credit increased work and child support compliance among those with low child support orders and the job-oriented programs increased participants' earnings and child support payments. These positive results suggest that further investments in this approach are worthy of consideration.

## Background

The role of fathers in American families has been undergoing tremendous change. One-third of all children live apart from their fathers and about a quarter of these fathers—roughly 3 million people—face significant obstacles to paying child support.<sup>1</sup> Many have limited education or intermittent work histories that make it hard to find and keep jobs. These barriers are compounded by other circumstances of poverty, such as unstable housing and transportation. When these noncustodial fathers fall behind on their child support, children lose an important source of income.

The federal government's primary policy response to these trends has been to "make work pay" for low-income single mothers through tax credits and to require welfare recipients to engage in work-oriented activities. New York followed this strategy by increasing its state earned income tax credit (EITC) and expanding its welfare-to-work programs. These reforms succeeded in boosting single mothers' employment and income but have left out noncustodial fathers who struggle to pay their child support obligations.

## The Intervention

To help low-income noncustodial parents find work and pay child support, the New York legislature enacted the Strengthening Families Through Stronger Fathers Initiative in 2006. Hoping to repeat their welfare reform success, legislators extended to noncustodial parents the same type of tax-credit incentives and employment-oriented services that worked for low-income single mothers.

The initiative offered two innovative components.

1. A *noncustodial parent earned income tax credit* (NCP EITC), which is still being offered to noncustodial parents who work, pay their full child support, and meet other eligibility requirements. It is a refundable tax credit similar to other New York State EITCs. The credit aims to motivate low-income noncustodial parents to work and pay their child support in full. This provision was originally set to expire in 2013 but was extended until 2015.<sup>2</sup>
2. *Employment-oriented programs*, which were offered in five locations across the state. The core services were job oriented, but participants also took classes on parenting, communication, and relationship skills. These programs aimed to help parents who were behind in their child support find work and support their children. The pilot phase of this component ran from October 2006 to September 2009, after which the legislature allocated one additional year of funding. These funds have now been spent and the Strengthening Families Through Stronger Fathers Initiative no longer funds employment-oriented programs.

### Characteristics of Participants

More than 20,000 people received the noncustodial parent EITC from 2006 to 2009, the initiative's first four years. In the first year, just over 5,100 noncustodial parents received the tax credit. By 2010, the last year for which data are available, this number exceeded 7,700, representing a 50 percent increase in enrollment. We estimate that the take-up rate for the NCP EITC was 32 percent in 2009, up from 21 percent in its first year. The estimated cost of the NCP EITC was nearly \$4.4 million in 2009 and the average tax credit was approximately \$450 that year.

During the first four years of the NCP EITC, nearly all the recipients were men, the majority were white, and their median age was 36. Their median annual income was \$20,216. The median amount of current support due was \$2,824, and the median amount paid toward child support was \$3,610 (this includes payments toward current support and arrears). Nearly all recipients had just one current support order and most had just one child covered by the order. About half of the recipients owed back child support, but the median amount of back support owed was quite small, only \$358.

The employment-oriented programs received \$7 million and served 3,668 parents during the pilot phase, which went from October 2006 to September 2009. The average cost per parent served was \$1,917. These parents were considerably more disadvantaged than those who received the NCP EITC. They were younger, had significantly lower income, and were more likely to be black and Hispanic than the NCP EITC recipients. Over 80 percent of the pilot participants were black or Hispanic. Nearly one-third had no reported income during their enrollment year. Among the two-thirds who did, median annual income was only \$5,430. About 35 percent had three or more children covered by a child support order and a quarter had two or more current support orders.

The median amount of current support owed by the pilot participants was just \$1,456, about half the amount owed by NCP EITC recipients. Still, this amount represented a relatively large proportion of their reported income. Nearly all pilot participants (87

percent) owed back child support, with a median balance of \$4,056. During their enrollment year, about 79 percent of pilot participants paid child support, despite their low incomes. The median amount paid was \$923.

Only 141 people took advantage of both parts of the initiative, participating in the pilot employment programs and receiving the tax credit. In general, these parents had characteristics in between those who only received the NCP EITC and those who only took part in the employment-oriented programs.

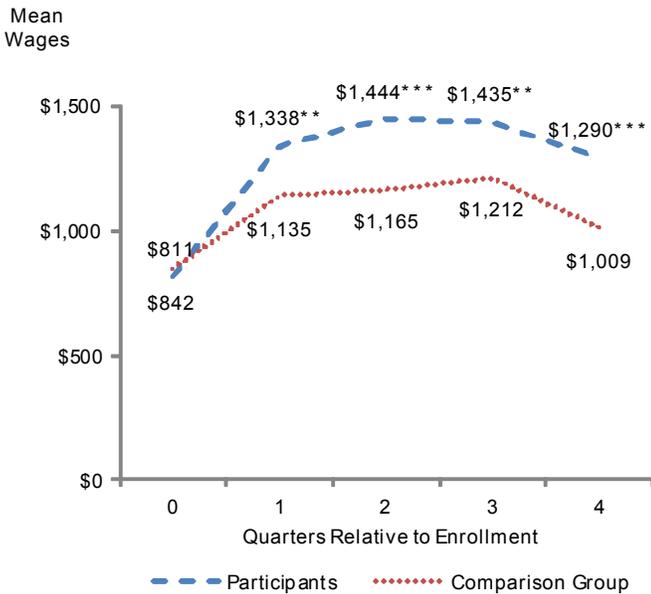
### The Initiative's Impact

Our study found significant and positive evidence that New York's NCP EITC encouraged parents to work and pay their current support orders in full. We estimate that the credit increased the share of noncustodial parents who paid their child support in full by 1.1 percentage points. Effects on child support compliance and work were even stronger among noncustodial parents with low child support orders. Of this group, the share paying full child support went up by 2.1 percentage points and the share that worked rose by 1.6 percentage points.

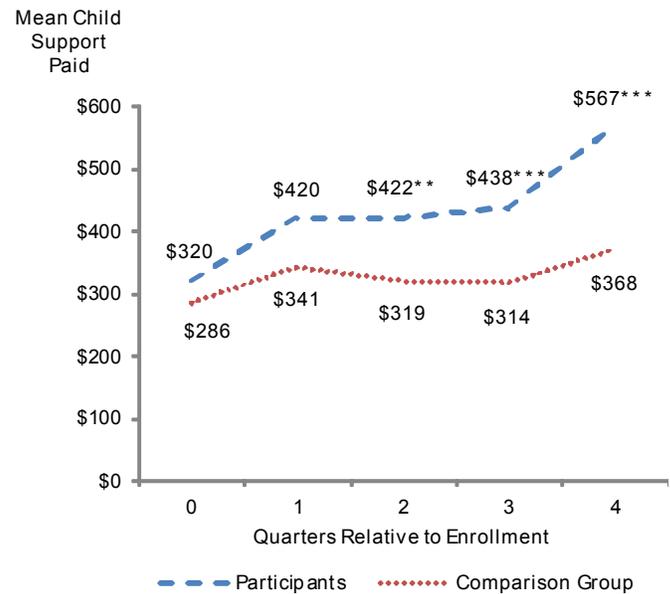
The study also found evidence that the employment-oriented programs were successful. As noted above, these parents were typically unemployed, faced multiple employment barriers, and owed substantial amounts of back child support. The five pilot programs provided job-oriented and other support services that helped parents find work and pay their child support. After taking part in these programs, participants increased their earnings by 22 percent (figure 1) and their child support payments by 38 percent (figure 2), compared with a similar group of noncustodial parents who did not receive these services. Thus, the program benefitted the noncustodial parents through higher earnings and helped their children through greater child support.

Since only 141 parents participated in both components of the initiative, we were limited in our ability to analyze the joint effects of the tax credit and work-oriented programs. However, our analysis found no conclusive evidence that the two programs together did more to encourage employment or child support payments than either program did individually.

**Figure 1. Quarterly Wages of Participants and Comparison Group**



**Figure 2. Child Support Paid by Participants and Comparison Group (in final year of program only)**



Stars indicate significant difference between groups: †  $p < .10$ ; \*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$ . Enrollment quarter mean is unadjusted for covariates, but presented for comparison purposes.

## Recommendations

The noncustodial parent EITC is due to sunset in 2015. Our findings suggest that the New York legislature should extend the tax credit beyond 2015. As time passes, more people will learn about this tax credit, which should increase its positive effects. The New York Division of Child Support Enforcement could increase enrollment in the tax credit by identifying which parents meet the NCP EITC's child support requirements and informing them that they may be eligible.

These findings also suggest that allocating new funding to the employment-oriented component of the Strengthening Families Through Stronger Fathers Initiative is worthwhile. New funding has not been allocated for these programs since fiscal year 2009. In 2010 and 2011, the New York legislature expanded the authority of family courts to refer unemployed noncustodial parents to employment-oriented programs when child support orders are established and when they are modified, as well as at enforcement hearings.<sup>3</sup> However, no funding was included to operate employment programs.

Finally, these findings suggest that other states and the federal government should consider implementing these policies. Low-income fathers across the country often find it difficult to meet their child support obligations because of employment instability. These policies encourage and enable these low-income fathers to support themselves and their children.

## Notes

This brief is funded by the Smith Richardson Foundation. It draws from a series of reports that the Urban Institute has completed on the Strengthening Families Through Stronger Fathers Initiative, which received funding from several sources, including the New York State Office of Temporary and Disability Assistance, the Open Society Foundation, the Smith Richardson Foundation, and the Federal Office of Child Support Enforcement.

1. Elaine Sorensen and Helen Oliver "Policy Reforms Are Needed to Increase Child Support from Poor Fathers." Washington, DC: The Urban Institute, 2002.
2. Article VII in the 2012 budget bill (chapter 59 of the laws of 2012).
3. A.8952/S.5570 was enacted in 2010; A.7794A/S.4091B was enacted in 2011.