

# KWDI Issue Paper

**Research Title:** How Women are Affected by the EITC, CTC, and Minimum Wage, with Measures for Improvement

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## Strategies to Improve the Earned Income Tax Credit, Child Tax Credit, and Minimum Wage to Support the Economic Welfare of Low-Income Households

### Abstract

- ◆ In 2018, the Earned Income Tax Credit (EITC) expanded its eligibility criteria and increased the maximum payment for qualifying households, while the minimum wage saw relatively substantial increases in both 2018 and 2019.
- ◆ The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) (hereinafter referred to as EITC or CTC) and the minimum wage are principal schemes for enhancing the incomes of low-income working households; although they serve the same objectives, they operate under considerably different criteria and methods for determining eligibility and scale of benefits. This necessitates an examination of the characteristics of the beneficiary groups for each scheme and proposes improvements taking these characteristics into account.
- ◆ The proportion of workers earning below the minimum wage is more than twice as high for women than for men, with industries employing a higher proportion of women, such as manufacturing, wholesale and retail trade, accommodation and food services, and human health and social work activities, showing higher incidence rate of minimum wage noncompliance.
- ◆ Regarding of the EITC or CTC, it appears to have boosted work activity among women householders in the 60+ age group throughout the phase-in range of income (i.e., where minimum wage is applicable), mainly via public jobs programs; meanwhile, work hours were reduced among women who were spouses of householders.
- ◆ An examination of the combined impact of the minimum wage and the EITC or CTC shows that households affected by all these schemes experience increases in annual working hours and family income. This suggests that the schemes positively impact the economic activities of low-income households, which have relatively low income and asset levels and whose members earn wages close to the minimum wage.

- ◆ For the EITC, considering that the net effect of the policy is maximized in lower income brackets, it would be more effective to provide adequate support to low-wage, low-income workers rather than excessively expanding the income eligibility range. Moreover, systematic annual adjustments of the eligibility criteria and maximum payment should be made in relation to median household income and inflation rates, rather than through irregular legislative enactments.
- ◆ With respect to the minimum wage, while it is important to raise the level of the minimum wage, considering that about 10% of wage workers receive hourly wages below the minimum wage, it is essential to prioritize the management and enforcement of the minimum wage compliance, especially in industries characterized by a high incidence of below the minimum wage.

## Background and Issues

- Recent studies have indicated that the EITC and the minimum wage must work in conjunction to increase the incomes of low-income households (Williams, Erica, and Samantha Waxman, 2020; Rothstein and Zipperer, 2020; Burkhauser, Richard V. and Kevin Corinth, 2021).
- Research done by Williams, Erica, and Samantha Waxman (2020) and Burkhauser, Richard V. and Kevin Corinth (2021) has demonstrated the effects of the minimum wage system and the EITC on low-income households and by applying some of their findings to the context of South Korea, the results can be summarized as follows:
  - ▶ There can be an overlap between the groups affected by the minimum wage increase and those eligible for the EITC·CTC, though they may apply to different groups. The EITC·CTC targets low-income households with modest assets, regardless of whether they are wage workers or self-employed, and the support amount increases with the number of dependent children. The minimum wage targets wage workers who work for the minimum wage level, regardless of household income or assets.
  - ▶ Simultaneously expanding both the minimum wage system and the EITC·CTC can provide additional support to the most economically vulnerable working households. An increase in the minimum wage can enhance the in-work benefits for households with very low annual incomes that are within the EITC's phase-in range.
  - ▶ Workers who receive both a minimum wage increase and EITC·CTC benefits receive these benefits at different times. The increase in the minimum wage provides an immediate pay increase, helping to cover the workers' everyday living costs. On the other hand, the EITC·CTC benefits are paid once or twice a year in lump sums, which can be used for significant one-time household expenses.
  - ▶ Utilizing both the minimum wage and the EITC·CTC to support low-income households allows the costs of increasing worker wages to be shared between public and private sectors.

Considering that the two schemes, the minimum wage and the EITC-CTC, determine their eligibility and benefit levels based on considerably different criteria and methods, this study examines the characteristics of the target recipients of each scheme. Specifically, this analysis examines the traits of workers below minimum wage and beneficiaries of the EITC-CTC, particularly on female recipients, to understand the conditions of households impacted by both policies, as well as those affected by only one, in order to propose targeted improvements based on the distinct profiles of these beneficiary groups.

## Research and Analysis Results

### Current Policy Landscape

The EITC-CTC have seen irregular legislative updates that altered eligibility, requirements, and maximum payments. Notably, the 2018 amendments substantially expanded the eligibility criteria and maximum payments for the EITC, reducing the phase-in range while broadening the plateau and phase-out ranges.

In 2018, the upper income threshold for one-person households was established at KRW 20 million, closely aligned with the median household income for a single-household, which was approximately KRW 1.672 million per month. For single-earner households, the income limit was above 75% of the median household income for two-person households (KRW 2.135 million monthly) and below that for three-person households (KRW 2.762 million monthly). For dual-earner households, the cap exceeded 75% of the median for three-person households but remained under the median for four-person households, which was KRW 3.389 million monthly.

<Table 1> Major Amendments to the EITC

(KRW)

Income Thresholds	'08	'11	'12	'13	'14	'15	'16~'17	'18	'21
Eligibility	Earned income	Earned income, insurance producers, door-to-door salespeople			Includes self-employed (excludes professionals, such as lawyers and CPAs)				
Income Requirements (million)	Married couple 1.7k	No dependent child: 1.3K 1 dependent: 1.7K 2 dependents: 2.1K 3+ dependents: 2.5K		Single: 1.3K Single-earner: 2.1K Dual-earner: 2.5K			Single: 2K Single-earner: 3K Dual-earner: 3.6K		Single: 2.2K Single-earner: 3.2K Dual-earner: 3.8K
Dependent Child Requirements	At least 1 dependent child under age 18	Single: 2.2K Single-earner: 3.2K Dual-earner: 3.8K		Includes single households for age 60+		Age 50+	40 and 30 years old respectively	Age requirement abolished	
Housing Requirements	No-homeowner or single homeownership under 50M KRW	No-homeowner or single homeownership under 60M KRW			No-homeowner or single homeownership		Housing requirement abolished		
Property Requirements	Aggregate of land, house, building, money for lease on a deposit basis, motor vehicle, etc., less than 100M KRW				Aggregate of property less than 140M KRW			Aggregate of property less than 140M KRW	
Maximum Payment (million)	1.2M	No dependent child: 0.7M 1 dependent: 1.4M 2 dependents: 1.7M 3+ dependents: 2.0M		Single: 0.7M Single-earner: 1.7M Dual-earner: 2.1M		Annual increase by 10%		Single: 1.5M Single-earner: 2.6M Dual-earner: 3.0M	

Source: Data from 2008 to 2013 were compiled based on Table 1 by Lee, Kwon, and Moon (2015); Data from 2014 onward were compiled using the statutes of the Act on Restriction on Special Cases Concerning Taxation.

<Table 2> Major Amendments to the CTC

(KRW)

Income Thresholds	'14	'17	'18
Eligibility	Earned income and self-employed (excludes professionals, such as lawyers and CPAs)		
Income Requirements	Annual joint income of married couple less than 40M		
Property Requirements	Aggregate of property less than 140M	Aggregate of property less than 200 million	
Maximum Payment	500K per dependent child (under age 18)		700K per dependent child (under age 18)

Source: Compiled by the author based on Article 100-27 to 100-31 of the Act On Restriction On Special Cases Concerning Taxation

<Table 3> EITC Eligibility Based on Total Wage Amount and Changes to the EITC

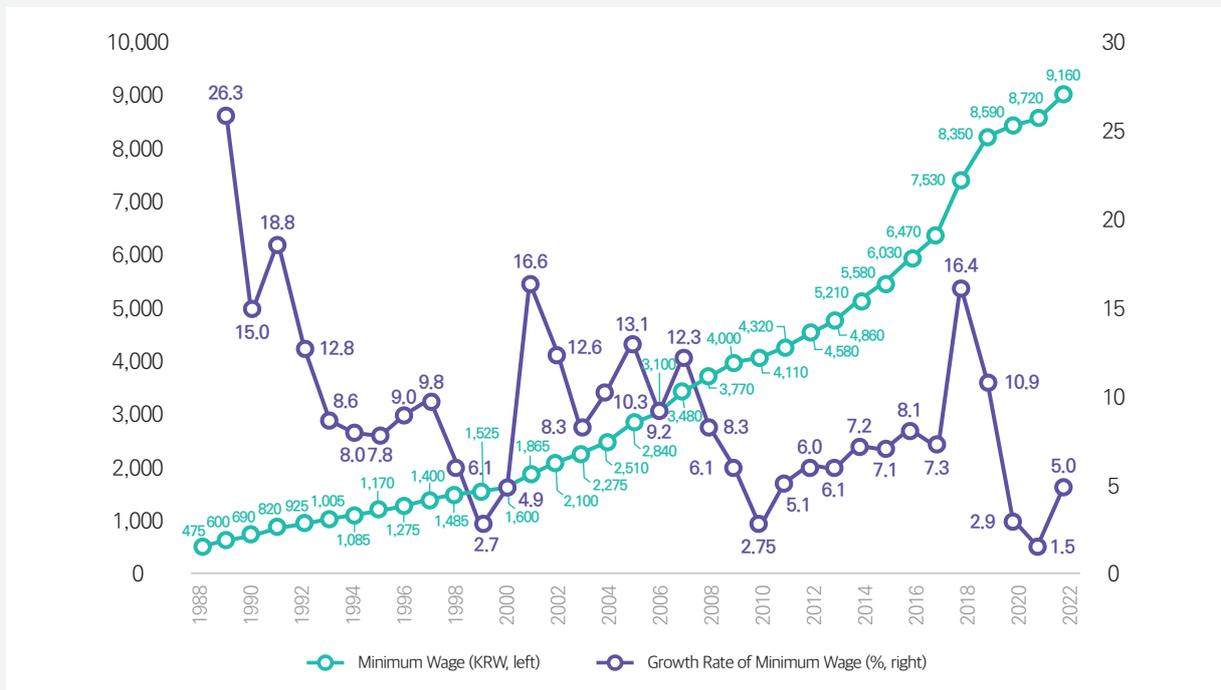
(KRW)

Single	Income Threshold in 2017		Income Threshold in 2018	
	Total Wage	EITC	Total Wage	EITC
Phase-in	Less than 6M	Total wage×(85/600)	Less than 4M	Total wage×(150/400)
Plateau	More than 6M and less than 9M	850K	More than 4M and less than 9M	1.5M
Phase-out	More than 9M and less than 1.3M	$850K - (\text{total wage} - 90M) \times (85/400)$	More than 9M and less than 20M	$1.5 \text{ million} - (\text{total wage} - 90M) \times (85/400)$
Single-earner	Total Wage	EITC	Total Wage	EITC
Phase-in	Less than 9M	Total wage×(200/900)	Less than 7M	Total wage×(260/700)
Plateau	More than 9M and less than 1.2M	2M	More than 7M and less than 1.4M	2.6M
Phase-out	More than 1.2M and less than 2.1M	$2M - (\text{total wage} - 1.2M) \times (200/900)$	More than 1.4M and less than 30M	$2.6M - (\text{total wage} - 1.4M) \times (260/1,600)$
Dual-earner	Total Wage	EITC	Total Wage	EITC
Phase-in	Less than 10M	Total wage×(250/1,000)	Less than 8M	Total wage×(300/800)
Plateau	More than 10M and less than 1.3M	2.5M	More than 8M and less than 1.7M	3M
Phase-out	More than 1.3M and less than 2.5M	$2.5M - (\text{total wage} - 1.3M) \times (250/1,200)$	More than 1.7M and less than 3.6M	$3M - (\text{total wage} - 1.7M) \times (300/1,900)$

Source: Compiled by the author based on Article 100-5 of the Act On Restriction On Special Cases Concerning Taxation

- In contrast to the annual growth rate of approximately 7% from 2010 to 2017, the minimum wage experienced significant increases in 2018 and 2019.

<Figure 1> Minimum Wage and Rate of Increase from 1988 to 2022



Source: Minimum Wage Council website, Current Minimum Wage Status <https://www.minimumwage.go.kr/minWage/policy/decisionMain.do> (Accessed on March 21, 2022).

## ● Characteristics of Workers Earning Below Minimum Wage

- The incidence rate of minimum wage noncompliance for women stood at more than twice that for men.
  - ▶ Both women and men in the 15-24 age group and those 60+ exhibit higher minimum wage noncompliance. This underscores the necessity for stringent enforcement and monitoring of minimum wage compliance, especially in the group of women over 60.
  - ▶ Furthermore, noncompliance was also higher among women of low education in temporary and daily positions.
  - ▶ By industry, minimum wage noncompliance was high mainly in sectors with a high share of women labor, such as manufacturing, wholesale and retail trade, accommodation and food services, and human health and social work activities.

## ● Characteristics of Households Receiving EITC or CTC Payments

- It appears to have boosted work activity among women householders in the 60+ age group throughout the phase-in range of income (i.e., where minimum wage is applicable), mainly via public jobs programs; meanwhile, work hours were reduced among women who were spouses of householders.

- ▶ This is particularly relevant for societies with high poverty rate among the elderly, such as Korea that employment among the elderly provides not only jobs but also income support, encouraging the elderly to keep up an adequate level of activity while alleviating the state's fiscal burden through a combination of basic pension and public assistance.
- ▶ The rising share of female householders among EITC recipients and the much lower levels of assets held by women relative to men indicate that households headed by women still face greater economic hardships compared to those headed by men. This appears to be due to the fact that women's vulnerable position in the labor market becomes mutually compounded with the double burden of care labor.
- ▶ Although income supports such as the EITC are vital for bolstering low-income working households, these cash-grant initiatives are insufficient to bridge the care gaps that obstruct women's entry into the labor market, underscoring the critical need for enhanced social care.

### ● Impacts of Combining the Minimum Wage with the EITC and CTC

- **For Minimum Wage(MW)-affected households (having a MW-affected householder), as well as households eligible for EITC and CTC, there is a notable increase in annual working hours and family income. These households, which generally possess lower income and asset levels and earn hourly wages near the minimum wage threshold, demonstrate that such schemes substantially enhance the economic conditions of low-income families.**
- ▶ Even among the only MW-affected group, it has a positive effect on working hours. This effect was especially pronounced under a broad definition, wherein households with any member affected by the minimum wage were classified as MW-affected. This suggests that the effect is stronger among secondary earners than among primary earners.

## Policy Recommendations

- **In 2018, the South Korean EITC underwent revisions that substantially increased the upper income threshold.**
- ▶ Considering that the standard for low-income households in South Korea is set at 75% of the median income, the upper income threshold tends to be relatively high.
- ▶ Excessively broadening the income condition range for the EITC primarily increases tax expenditures rather than effectively enhancing household labor participation or income redistribution. The analysis indicates that female-headed households over 60 increase their labor activity within the low-income brackets where the EITC's net effect is maximized. Similarly, households impacted by the minimum wage and receiving the EITC show increased working hours and family income. It can be inferred that the net effect of the scheme is maximized among the low income bracket.

▶ It is necessary to systematically adjust the income conditions of the EITC in correlation with the median household income. It is also recommended that the maximum payment amounts be designed to automatically adjust annually based on the inflation rate and other economic indicators.

● **For the minimum wage, it is essential to emphasize the management and enforcement of the minimum wage compliance, especially in industries characterized by a high incidence of below the minimum wage.**

- ▶ The minimum wage continuously aims to increase the level of minimum wage.
- ▶ Consequently, although the income levels of low-wage workers earning at the minimum wage have likely risen, 18.8% of female wage workers and 8.7% of male wage workers continue to receive wages below this threshold. Notably, a significant proportion of elderly women earn below the minimum wage and given the high poverty rates among the elderly in Korea, enhancing their income is critical.
- ▶ In alignment with these efforts, it is imperative to emphasize the management and enforcement of the minimum wage compliance, especially in industries characterized by a high incidence of below the minimum wage.

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Responsible Ministries : Ministry of Economy and Finance(Income Tax Policy Division),  
Ministry of Employment and Labor(Labor Standard Policy Division)

Relevant Ministries : Ministry of Gender Equality and Family(Women Workforce Development Division),  
Ministry of Employment and Labor(Women's Employment Policy Division)