

# Marginal Tax Rates and Work Disincentives: Family Perceptions and Labor Force Decisions

Client: Office of Human Services Policy, Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services

## Overview

The Office of Human Services Policy in the Office of the Assistant Secretary for Planning and Evaluation conducts policy research, analysis, and evaluation related to issues such as poverty, family strengthening, work supports, childcare, and economic self-sufficiency for families. In particular, the office seeks to promote the long-term self-sufficiency and well-being of families with low incomes.

Means-tested benefit programs that target working families can produce both work incentives, as benefits phase in, and disincentives, as benefits phase out at higher levels of income. Economists have studied the relationship between assistance programs, such as the Supplemental Nutrition Assistance Program and the Earned Income Tax Credit, and participation in the labor force. One potential influence on work effort is the effective marginal tax, which quantifies the portion of new earnings not retained by families after factoring in taxes on the new earnings and reduction in government benefits resulting from the new

earnings. Little is known, however, about this marginal tax rate and families' perceptions and understanding of how program benefits change with additional earnings.

This study explores whether fear of losing access to benefit programs creates perceived work disincentives and the potential effects of perceived disincentives on subsequent labor force decisions. Through focus groups, Insight seeks to answer the following specific research questions:

- Among families receiving federal means-tested programs, what are the families' perceptions or understanding of how their total resources would change with an increase in earnings or a decrease in earnings?
- How do these perceptions of potential changes in program benefits appear to influence labor force decisions?

Specifically, Insight—

- Developed recruitment materials (e.g., posters, flyers, ads, social media posts) to encourage participation
- Identified, screened, contacted, and invited focus group participants
- Developed a demographic questionnaire and protocols for participants
- Facilitated focus groups
- Transcribed focus groups and prepared summary memos and reports

## Products

Final report

