Do earned income tax credits for older workers prolong labor market participation and boost earned income?  
Evidence from Australia’s Mature Age Worker Tax Offset 

Andrew Carter and Robert Breunig  
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**Key findings**

The Mature Age Worker Tax Offset (MA WTO) was an Australian Government Earned Income Tax Credit (EITC) that:

- had a small impact of about 0.5 percentage points of increased labor market participation amongst older workers;
- had roughly similar effects for both men and women; however
- examination of years with no policy changes and demographic patterns, suggest that this ‘effect’ is not distinguishable from noise; and thus
- there is no compelling evidence that the MA WTO had a material effect on labour force participation of older workers.

**What we knew**

- The MA WTO was introduced on 1 July 2004 and was available for 10 years before it was repealed on 1 July 2014. It offered a tax credit of up to $500 to workers aged 55 or over by the end of a given financial year.
- There is strong consensus that EITCs have a positive impact on labor supply (the extensive margin), and there is mixed evidence on the effect for individuals who are already in the labour market (the intensive margin). See Hotz and Scholz (2003) and Nichols and Rothstein (2015).
- A novel difference, relative to other EITCs programs, is that the MA WTO targeted older workers.  
  - Compared with typical EITC recipients, the labour force behaviour of older workers may be heavily influenced by other stage-of-life factors that may not necessarily be financial (e.g. health status or desire for more leisure time). Older workers are also more likely to have accumulated wealth which may reduce the attractiveness of a modest tax credit.

**What we do**

- Using Australian Government administrative data, we use a difference-in-differences (D-i-D) approach to compare the changes in participation and earnings for people aged 54 (who do not qualify) and 55 years (who did qualify when the policy was in place) by comparing periods before and after the introduction of the policy.
- Similarly, we repeat this analysis in the MAWTO’s final year to examine the effect of repealing the MAWTO on participation and earnings.
What we know now

- We find an apparent small positive effect on labor supply of the MA WTO and, for women only, a small effect on earnings.

- However, we can not rule out that our point estimates are driven by noise rather than an effect of the MA WTO, following careful examination of placebo tests and demographic patterns.

- Taking our point estimates at face value, we estimate that it cost between $37,000 and $78,000 in foregone revenue terms for each additional worker who was induced to remain in the labor force.

What this means for policy

- Our results suggest that tax credits for older workers are an expensive and relatively ineffective way to increase labor supply.

- Aspects of the MA WTO’s design may have impeded its effect. These included:
  - The complexity of the qualifying ‘earned income’ definition made it difficult for individuals to optimise earnings; the MA WTO benefit was calculated automatically after tax filing by the ATO, meaning it was not visible; and the MA WTO was a non-refundable tax credit, meaning some qualifying individuals may not have been able to use all of their tax credit.
  - A further downside was that the benefits were transferred after the financial year in which the benefit was earned; introducing a timing delay issue.

- Other studies find that EITC recipients are often unaware they received the credit and, if they are, do not take the EITC schedule into account when making marginal earnings decisions (see Chetty, Looney and Kroft (2009)).

Where to now?

- How to retain mature age workers in the labor market remains a question of policy interest around the world as countries grapple with the challenges posed by ageing populations. As such, Governments will continue to develop targeted interventions aimed at retaining older workers.

- It would be interesting to test whether more visible methods to boost wages would be more effective compared with, in the MA WTO’s case, automatic administration in the background of the tax return system.

More information


- We would welcome the opportunity to present our research to your team and to discuss potential joint research projects on related or similar topics.

- Contact us at andrew.carter@anu.edu.au or robert.breunig@anu.edu.au
References

