The Need for Monthly Tax Credit Payments in California

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Struggling to pay the bills -- every month.

Californians were struggling to make ends meet before the pandemic -- with nearly one in five households reporting that their expenses outstripped their income. The pandemic has only exacerbated the extreme economic hardship millions of households face each month, including: trouble affording food, rent and utilities, and running out of savings.

For Black and Latinx families, it's much worse: 8 in 10 Latinx and 7 in 10 Black families with children are having difficulty affording basic necessities like food and housing.

Cash assistance is critical. Making it monthly makes it more effective.

State-level cash assistance programs can radically reduce this economic precarity. This includes current programs like the California Earned Income Tax Credit (EITC) and Young Child Tax Credits (YCTC), as well as Guaranteed Income policy that California could enact in the future. For these programs to be most effective, they should provide support when it's needed. Bills come every month, and so should payments.

WHY MONTHLY?

Low-income households struggle with income volatility; it's worse for Black and Brown families.

Monthly payment for programs like the EITC, YCTC, and Guaranteed Income could smooth incomes, helping recipients cover necessities like food or housing, save for a rainy day, and avoid going into debt.

While many families experience income volatility -- destabilizing swings in income month to month -- research shows that Black, Latinx and families with low incomes experience the most severe income volatility. And because these households have less wealth, they are less able to weather drops in income. Dramatic swings in earnings month to month makes it hard to stay on top of regularly occurring bills. This means that by the time tax credits are paid out at the end of the year, low-income households are behind. One study found that 84% of EITC recipients used a significant portion of their tax refund to pay overdue bills and debt; few were able to allocate to savings.

Monthly payments, in contrast, enable households to weather swings in earnings and afford regular necessities. One study of a Chicago periodic payment pilot program found that paying out EITC payments throughout the year significantly decreased the likelihood of the household experiencing food insecurity.

People prefer monthly payments

In a 2019 nationwide online poll via Google Consumer Surveys of adults with self-reported income below $50,000, a majority (53%) indicated a **preference for advance periodic payments**, compared to a lump sum.

A similar survey in Illinois in 2018 found a **majority of survey respondents would prefer a periodic option**. In a series of 2017 California focus groups by David Binder Research, low-income voters were concerned about the rising cost of living. All groups, but especially women of color, worried that they were one bad break away from financial ruin, and that **regular payments would help with cash flow, paying off debt, and items for their children**.

People who have received periodic payments enthusiastically support it: the Chicago pilot found that **90% of recipients preferred periodic payments** over a single lump sum (even though before the pilot most said they liked lump sum). Most recipients also reported experiencing less stress in meeting monthly expenses.

Federal policy experts support paying tax credits monthly, and the current Biden administration proposal to expand the Child Tax Credit includes paying it out monthly.

HOW TO IMPLEMENT A MONTHLY OPTION IN CALIFORNIA

Provide credits in real time as they are earned, hold harmless filers who receive erroneous overpayments, and explore mechanisms to prevent overpayments.

To pay credits monthly as they are earned, eligibility determinations need to be made in advance. To address this challenge and take reasonable precautions against overpayments, consider the following safeguards:

- Establish a hold harmless standard for erroneous payments, meaning that unless fraud is indicated, overpayments will not be required to be repaid.
- Initially, support only flat credits (like the YCTC or a Guaranteed Income) available for periodic disbursement. Flat credits do not vary based on income except at the phaseout, and so predicting income eligibility is much easier. (In addition, part of the YCTC could be paid out monthly, with the remainder paid out as a lump sum at the end of the year.)
- Create an online portal to allow people to adjust income during the year if needed.

Reduce administrative costs by:

- Setting a minimum benefit amount to be eligible for monthly payments.
- Sending payments electronically. In addition to reducing administrative costs, electronic payments prevent recipients from losing money to check-cashing fees. Prepaid debit cards should be available as an option for unbanked recipients.

Note that Colorado estimated the administrative burden of an expanded state EITC including a monthly option. It estimated that if 25% of refunds were on debit cards, the cost of debit card servicing would be 0.2% of the cost of the state EITC. The estimate treated the cost of electronic funds transfers as a minor expense.