A MONTHLY EITC TO BOOST FINANCIAL STABILITY

Many hard-working Americans struggle each month just to pay their rent, put food on the table and provide basic necessities for their families. By modernizing the Earned Income Tax Credit or creating a new Working Families Tax Credit, we can give workers the option to receive a monthly electronic payment, providing earned tax credits throughout the year to increase their financial security in real time.

Research highlights the economic precarity that a number of families grapple with on a daily basis: a survey conducted in 2016 highlighted that 49 percent of respondents said they do not have enough funds to cover monthly expenses,[1] and other research has pointed out that low-income families often experience a shortfall of only a few hundred dollars.[2]

The Earned Income Tax Credit (EITC) is a popular, proven, and effective policy intervention that lifts more families out of poverty than food stamps, housing subsidies, and unemployment insurance combined. It has garnered broad bipartisan support.

However, this 40-year old policy must be modernized so it better supports working people. One key innovation is to make the credit available to families each month so they can have financial stability through a regular electronic payment. While some recipients like the enforced savings of getting their whole credit once a year, many have expressed that since bills don't come in once a year, they would like the option to get their credit paid out on a regular basis.

When paid annually, the credit often goes toward paying debt accrued over the previous year. Instead, a modernized, monthly EITC could help recipients make ends meet and avoid debt in the first place.

WHY MONTHLY RATHER THAN YEARLY?

Monthly payment of the EITC or a Working Families Tax Credit could smooth incomes, helping recipients cover necessities like food or housing, save for a rainy day, and avoid going into debt. As a low-income woman in Fresno said in a focus group, **"That's the phone bill, or that's the electric."** With 52 percent of Americans lacking enough cash on hand to cover a $400 unforeseen expense, many people badly need a safety net.[3]

Financial instability forces families to take on debt, which accrues interest and can sometimes exceed the full EITC lump sum payment. Low and moderate-income households often turn to credit cards to finance basic needs, with more than one in four paying interest rates above 20 percent.[2] Others resort to even more exorbitant payday loans. This puts low-income families further behind and makes saving extraordinarily difficult. A 2012 study found that 84 percent of EITC recipients used a significant portion of their tax refund to pay overdue bills and debt, while only a few were able to allocate any of their refund to savings.[4]

In 2015, the Center for Economic Progress released a report detailing a recent EITC Periodic Payment Pilot in Chicago. Participants were given most of their EITC quarterly through a mailed check or direct deposit. The report concluded that:

- **Monthly injections of cash are used mainly on necessities:** 86 percent of the periodic funds were used to pay down or avoid debt, pay current bills, and purchase necessities. [5]
- **Periodic payments help people save money:** the share of participants planning to save a portion of their 2014 tax refund doubled from the year before, suggesting that periodic payments might improve recipients' capacity for saving at tax time.[6] Thus, a state EITC paid monthly would allow recipients to save more of their federal EITC as a financial cushion.
- **Nearly all preferred regular payments:** perhaps most importantly, at the end of the study, nine in 10 recipients expressed a preference for the periodic payment model over a single lump sum. One remarked that it is "nice to have extra money to attend to and balance out monthly expenses and to be in a position to save for emergencies and rainy days." Most recipients also reported experiencing less stress in meeting monthly expenses.[7]

Others expressed support for monthly payments in a series of California focus groups in 2017 conducted by David Binder Research. Low-income voters were deeply concerned about the rising cost of living, including housing and gas. Across all groups, especially women of color, some members felt that they were one bad break away from financial ruin, and said that regular payments would help with cash flow, paying off debt, and items their children needed.

HOW TO IMPLEMENT A MONTHLY OPTION

- **Pay out the previous year's credit:** the monthly payment should be one-twelfth of the credit earned in the previous tax year, so it is a credit already earned. For example, a recipient might earn an $1,800 credit in tax year 2018, and when she files her taxes in April, 2019, she will begin receiving $150 a month in May, 2019, for the next 12 months. She should also receive a notice in May, 2019 alerting her to the payment of her first installment.

  Alternately, a payment can be constructed as an advance. If the benefit is increased sufficiently for a broad enough income range, almost no one is at risk of having to pay any back, because even if their income is moderately greater or smaller than anticipated, they are still getting a comparably high credit. A safe harbor would ensure that families aren't penalized for getting ahead at work, thus improving the effectiveness of the EITC as a pro-work and anti-poverty program. [8]

- **A monthly state option complements an annual federal benefit:** as long as the federal EITC is still paid annually, a monthly state EITC payment will allow working Americans to get help throughout the year in real time, but still preserve the savings and debt reduction assistance people receive through the annual federal payment.
- **A periodic option is preferred:** given the evidence from the Chicago pilot showing half of control group participants were interested in a periodic option but 90 percent of those who were assigned to periodic payments preferred to keep receiving it that way, it is reasonable to create a small incentive for monthly payments while still giving recipients a choice. The best option for a state EITC is to make monthly payments the default and allow taxpayers who prefer a lump-sum payment to file a tax form requesting one.
- **Set a minimum amount for a monthly payment:** it is worth considering whether monthly payments should be limited to refunds over $20, to reduce administrative costs.
- **Electronic payments**: it is essential that monthly payments be made available primarily by electronic payments, to reduce administrative costs and to prevent recipients from losing a substantial amount each month in check-cashing fees. Most recipients will use direct deposit, and prepaid debit cards should be available as an option for unbanked recipients. Many states have existing contracts with debit card vendors for other social programs.

MONTHLY PAYMENTS ARE FEASIBLE

The Chicago pilot found that "Periodic EITC payments are administratively feasible. All participants were able to provide initial bank account or prepaid debit card information to receive the payments electronically and keep the direct deposit information updated throughout the year."[9]

In addition, there is a similar precedent: from 1979 to 2010, the federal EITC offered a partial advance payment, paid during the year in installments tacked onto one's paycheck called the Advanced Earned Income Tax Credit. (There was little to no publicity about this option and it was little-used. It was also complex for employers to administer and required recipients to estimate their income and credit ahead of time, at risk of owing taxes in April if they guessed wrong.)[10]

Periodic payment of the credit has some bipartisan support. Conservatives such as the American Enterprise Institute [11] as well as progressive voices such as the Center for American Progress who, in a 2014 report, argued for a similar provision in the EITC that would allow workers to access a portion of their projected credit before tax time, have endorsed the idea. [12] A 2014 report by the House Budget Committee, chaired at the time by now-Speaker Paul Ryan, also endorsed the idea. [12]

In Colorado, the state estimated the administrative burden of an expanded state EITC including a monthly option. It estimated that if 25 percent of refunds were on debit cards, the cost of debit card servicing would be 0.2 percent of the cost of the state EITC. Its estimate treated the cost of electronic funds transfers as a minor expense.[14]

Monthly payments of an EITC or Working Families Tax Credit would substantially improve financial stability, savings, debt avoidance, and help working people make ends meet at tough moments.

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ENDNOTES

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