



Monthly EITC Payments

Recommendations for States

February 2019

Monthly payment of the EITC helps make ends meet. Instead of waiting until tax time, families receive distributions throughout the year, raising their income in real time.

OVERVIEW

As more states and local jurisdictions consider modernizing their earned income tax credits, many are considering innovative ideas to get cash into working Americans' wallets as needs arise. ESP advocates for monthly payment of the EITC to better help families make ends meet. Instead of waiting all year to receive their EITC at tax time, families would receive distributions throughout the year, raising their income in real time.

After deciding to pursue periodic payment of the EITC, state policymakers will face several additional policy and implementation questions that will need to be resolved before the program can be launched. This memo summarizes some of the most important questions to consider.

KEY POLICY QUESTIONS AND RECOMMENDATIONS:

Some of the issues summarized below require detailed conversations about implementation considerations that can only be resolved on a state-by-state basis. However, these recommendations apply to the creation of any periodic EITC payment program.

1. *Should the program provide real-time disbursement or delayed payment?*

Typically, EITC is paid out in a lump sum based on the previous year's income. Disbursing the EITC during the tax year in which claimants earn the credit (the current tax year, rather than waiting until tax time the following year) helps families when they actually need funds, but requires advance prediction of annual income to determine eligibility. Delayed payment (paying out the credit starting at tax time the next year and spread out over the following 12 months) does not require prediction, but does not respond to financial needs as they arise.

Recommendation: Provide real-time EITC payment, not deferred receipt, but provide a safe harbor provision. Real-time payments provide help when it's needed. But to ensure that good faith claimants don't face large penalties for an unexpected change in circumstances such as a mid-year raise, consider providing safe harbor for some amount of overpayment: 50% of the credit, with a minimum safe harbor of \$250. The public popularity of the ACA advance premium tax credits, which can result in overpayment at the end of the year, indicate that the existence of some overpayment in a program is not a fatal flaw.

2. *Who should be eligible for periodic payments?*

While states may want to allow anyone who believes they will be eligible for periodic payments to receive them, there is some risk of overpayments, particularly to those unfamiliar with the EITC. Restricting eligibility to filers who have been eligible in the past reduces this problem, but excludes otherwise eligible needy recipients. (This is not a problem for delayed payment.)

Recommendation: Make periodic payments available to all EITC recipients. To reach the largest population possible of those in need, periodic payments should be available to all recipients. A more limited (and complex) approach would be to restrict eligibility initially to those who have received the EITC previously in the past two years, relying on IRS administration in those years.

3. *What agency should administer payments?*

States could delegate responsibility for the program to tax agencies or to agencies that run existing benefit programs and may have existing infrastructure for monthly payments.

Recommendation: Consider delegating administration to revenue agencies. They collect income data necessary to calculate EITC benefits and eligibility, and largely have payment infrastructure in place. However, states should take account of their individual circumstances before making this choice. In some instances, a benefits agency may be better positioned to administer monthly payments.

4. *How should payments be distributed?*

Payments could be offered by debit card, direct deposit, check, or added to paychecks by adjusting withholding.

Recommendation: Mandate electronic payments, by direct deposit or debit cards only. Check cashing and predatory loan companies prey on financially vulnerable Americans, and payments by check increase their opportunity to do so. Dispersal through a paycheck line item may go unnoticed and burdens employers with administering a program. Paying by direct deposit or debit cards ensures that those who need these payments actually recognize and receive them, provided that debit cards do not charge significant fees.

6. *Should periodic payments be made monthly or quarterly?*

Monthly payments provide more consistent assistance and additional flexibility, but quarterly payments provide larger sums.

Recommendation: Make periodic payments monthly. Monthly payment makes sense for the simple reason that a significant portion of expenses for low- and middle-income families are monthly or more frequent (e.g., rent, child care, utility bills). Monthly payments also give recipients the flexibility to save a small amount at a time and build up a savings cushion.

5. *Should monthly payments be optional or mandatory for the recipient?*

A universal system of monthly payments may be simpler to administer. However, EITC filers accustomed to receiving a lump sum may be surprised not to receive it. Making the monthly payments optional gives recipients the ability to choose which mode is better for them.

Recommendation: Make monthly payments optional for the recipient. Surveys have found that about half of respondents would initially prefer a periodic payment to receive help in real time, and half would rather receive a lump-sum payment that some find preferable for savings. Some studies have also found that filers are very satisfied with periodic payments once they receive them. Data from behavioral economics suggests that the best mechanism for this selection is a simple forced choice (with no default option) between monthly payments and a lump sum payment. A middle option could also be added, for “half of your refund in periodic payments and the other half in a lump sum.” (In a state with an advance credit, clearly a worker needs to be able to claim a lump sum credit the next year if they don’t file for an advance.)

7. *Should periodic payments be available to all EITC recipients?*

A range of recipients may prefer monthly payments, but some may be eligible only for small amounts.

Recommendation: Make periodic payments worth electing. Some participants in prior studies on periodic payments found them unhelpful when the payments were too small. Consider extending eligibility for periodic payments only to those who will be entitled to at least \$20 per month. If monthly periodic payments would be too low to make a meaningful difference for many recipients, consider allowing taxpayers to elect quarterly payments instead.

8. *Will monthly payments affect other safety net programs?*

Generally, tax refunds are not treated as income for the purposes of eligibility for other programs.

Recommendation: Work with your Congressional delegation and across state agencies to ensure these payments do not penalize recipients of other government aid.

ADDITIONAL CONSIDERATIONS FOR IMPLEMENTATION:

Policymakers should engage early in conversations with the agencies who will oversee periodic payments to ensure that they are prepared for implementation, and so they can provide information about their existing limitations that will need to be mitigated.

Consider asking:

1. For real-time distribution, when will the agency need filers to predict the year’s income?
2. What process will the agency set up to allow filers to update their income and eligibility for the credit throughout the year, or to change their direct deposit information?
3. How will the agency develop a method for reconciliation of possible overpayments on the year’s tax return?
4. What will the costs of administering a periodic payment program be? (*Note: The state of Colorado estimated this cost, including about \$1 per recipient for debit card servicing, and about \$3.50 per recipient for additional staffing.*)