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ECONOMIC SECURITY and OPPORTUNITY INITIATIVE

Matching Timing to Need

Refundable Tax Credit Disbursement Options

STEVE HOLT, KALI GRANT, & FUNKE ADERONMU

NOVEMBER 2020

Georgetown Center on Poverty and Inequality

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Introduction & Summary

Refundable tax credits such as the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) are powerful tools for advancing economic security and opportunity; reducing poverty; and improving health, education, and long-term employment outcomes, especially among children.[1] Tax credits such as the EITC are also particularly consequential for women of color, who are often relegated to low-paid jobs with minimal benefits and face persistent discrimination in pay and hiring.[2] The EITC, for example, is accessed by the vast majority of eligible families,[3] and frequently represents one-third of a low- or moderate-income family's pre-tax income, as Figure 8 shows. In contrast, decades of disinvestments from cash assistance have created programs ill-equipped to respond to need; cash assistance through the Temporary Assistance for Needy Families (TANF) and General Assistance programs reaches a fraction of the more than one in ten people experiencing poverty[4, 5] and can be entirely inaccessible to workers with modest earnings.[6, 7] The size of these tax credits, the long-term demise of alternative cash assistance,[8, 9] and the persistence of hardship throughout the years among participating families[10] all suggest a value in establishing attractive recurring tax credit payment options.

Now is the Time for Periodic Payment Options

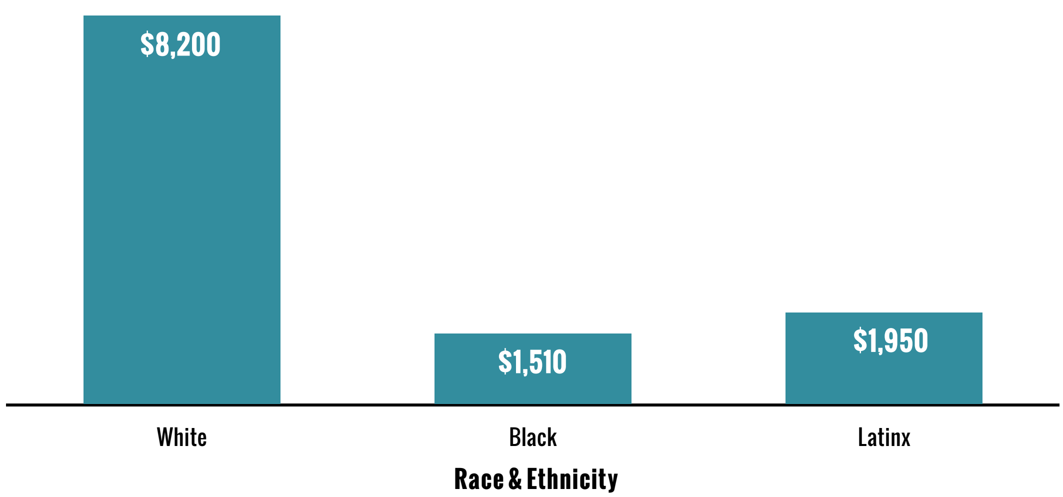
The COVID-19 public health and economic crisis has stoked interest in and highlighted the need for recurring cash transfers,[11] as well as renewed calls to expand the EITC and CTC.[12, 13] Even before the crisis, various proposals with substantial Congressional support would expand eligibility for the tax credits and increase their values.[14] Now, the disconnect between the timing of need and receipt of tax disbursements typical of tax credits may limit people's capacity to weather the economic downturn and support their families. Indeed, for the first time in U.S. history, a winning presidential candidate has embraced periodic payment of tax credits.[15]

While periodic payment options are most often associated with the federal EITC,[16] the concept has broader applicability to other tax credits, including the CTC and expenditure-based credits such as the American Opportunity Tax Credit (AOTC), which offsets costs of higher education, and the Child and Dependent Care Tax Credit (CDCTC), which offsets the costs of dependent care (see Appendix for more).[17] Though these credits are not substitutes for direct spending and other policies that support economic security and mobility, such as income supports, child care and higher education investments, or higher minimum wages, they can help address the daunting liquidity challenges faced by low-paid and low-resource households. Periodic payment options can reconcile advantages of administering social benefits through the tax code with some of those benefits' programmatic goals, such as ensuring ongoing resources for child rearing, higher education, or transportation. Periodic payment options also could further economic, racial, and gender equity, as they would provide more readily-available income support on a schedule that better matches the needs of people working low-paid or precarious jobs. They could also better meet the needs of people who are the least likely to have significant liquid savings, particularly women and Black and Latinx families (see Figure 1).[18]

TAX CREDITS such as the EITC are also particularly consequential for **WOMEN OF COLOR**, who are often relegated to **LOW-PAID JOBS** with minimal benefits & face **PERSISTENT DISCRIMINATION** in pay & hiring

FIGURE 1. Black & Latinx Families Have Substantially Less Cash Reserves Than White Families

Median Cash Reserves by Race & Ethnicity, 2019



Note: Race and ethnicity have been defined here as mutually exclusive categories. Latinx includes people of any race, whereas all other categories exclude people identifying as Latinx. Cash reserves refer to the total value of all transaction accounts families have access to. Median cash reserves are in 2019 dollars.

Source: GCPI analysis of Federal Reserve 2019 Survey of Consumer Finances data. Available at https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Transaction_Accounts;demographic:racecl4;population:all;units:median;range:1989,2019.

As tax-administered social benefits expand in size and scope, federal, state, and local policy proposals increasingly include some reference to periodic payment options. Periodic payment options' growing relevance calls for greater attention to how they can be optimally designed and suitably employed to effectively promote economic security and racial and gender equity. Breaking free of exclusive reliance on the annual disbursement inherent in the income tax system would be a serious undertaking. It would be justified only through a clear understanding of the investment required and the value of providing options that better match timing to need—an analysis this report intends to provide.

Report Overview

This report examines these design and implementation questions and identifies important tradeoffs and their potential impacts within the context of economic, race, and gender equity. It positions periodic payment as an equitable and viable strategy for helping address the liquidity challenges low-paid workers and their families experience, and creates a framework for policymakers to design tax credit disbursement policies that do not rely solely on increasingly large year-end tax refunds.

The first section of the report, "The Growing Need for Periodic Payment Options," explains how the current timing of tax credits does not align with families' needs, argues that periodic payment delivery can be an integral and cost-effective mechanism for addressing this challenge, and makes the case for why now is an appropriate time to push for periodic payment. This section argues that periodic payment is an important consideration independent from more ambitious proposals that would expand and improve the tax credit system, given periodic payment options' ability to advance racial and gender economic equity and expand economic security for working families. Further, this section describes how the COVID-19 pandemic and resulting recession have increased the need, and saliency, of periodic payment delivery.

The second section, "Landscape of Periodic Payment: Present & Proposed," provides an overview of periodic payment provisions in past, current, and proposed policies. This section demonstrates that periodic payment is far from a new idea, having been implemented in countries across the world (as well as in the United States). It also argues that the numerous recent efforts to advance periodic payment through federal and state proposals suggest that there may be substantial public, expert, and political interest in establishing periodic payment delivery for tax credits in the U.S.

The third section, "A Framework for Periodic Payment Design," provides a framework for the principles and design elements involved in making tax credits viably available outside of annual tax return filing. Questions of program suitability and administrative responsibility are explored in detail, as are the parameters shaping the choices for program participants, such as whether to participate, how to receive periodic payments, how frequently to disburse them, and in what amounts they might be provided. Other design elements involve determining which program participants would be eligible to enroll in periodic payment and the basis for calculating payments, as well as how amounts paid during the year would be reconciled to the annual settlement of accounts that is the backbone of the income tax system.

The final section, "Applied Recommendations," applies the framework to the EITC and CTC, arguing that components of a periodically-paid credit should include:

- **Embedment in the tax code.** Periodic payment options are fundamentally tied to the income tax system as a means of delivering social benefits. Accordingly, we argue that the Internal Revenue Service (IRS) would be the appropriate administrator and promoter of periodic payment, but this would require new infrastructure (possibly including individual online accounts) and incentives and partnerships to foster participation.
- **Education & outreach.** Robust education and outreach are central to creating equitable periodic payment options. The IRS could leverage and strengthen external partnerships with non-profit tax organizations and community tax preparation providers, such as the Volunteer Income Tax Assistance program (VITA), to effectively disseminate information about periodic payment options to eligible individuals and households.
- **Opt-in participation.** Periodic payment would be a new alternative that would meet the needs of some participants and not others. Thus, we argue that it should require an affirmative choice, at least until both the IRS and participants can become accustomed to the option.
- **Direct deposit.** Periodic payment is particularly useful to recipients when received through a direct deposit. In consideration of the large unbanked and underbanked population currently benefitting from tax credits, we argue that suitable depository vehicles, such as a bank account, be provided to participants who do not already have them.
- **Monthly, quarterly, one-time, or deferred payment.** Each participant household has unique financial circumstances and money management strategies. We recommend the eventual development of and experimentation with a range of structured choices for matching timing to need.
- **Partial payments only.** The year-end credit reconciliation during the traditional "tax season" may subject financially vulnerable participants to unreasonable risk. We recommend that periodic payments be available for only a portion of the likely full value of tax credits to taxpayers.
- **Eligibility based on prior-year receipt.** Program integrity, and specifically ensuring that payments are sent only to eligible participants, is important for sustaining periodic payment options. We recommend that the option initially be limited to established tax credit recipients, and that all participants submit a declaration of anticipated year-end eligibility.
- **Informed estimation.** The amount of credit available through periodic payment should be set with ease and accuracy in mind. We recommend that it be determined through a combination of prior-year receipt and estimates of income and household configuration for the current year.
- **Reconciliation.** The income tax system's annual settling of accounts should be honored, with provision for recapture of excessive or improper payments, but there should also be protections against imposition of unreasonable repayment burdens.

The Growing Need for Periodic Payment Options

A number of systemic and environmental factors contribute to a growing need for periodic payment options in the U.S. Today, many workers and their families—especially many Black and Brown families—are struggling to meet competing challenges related to (and stemming from) low-paying jobs: living paycheck to paycheck; unpredictable and uneven hours; a dearth of worker supports and benefits; rising housing and other living costs;[19, 20] exclusion from mainstream financial institutions, including savings vehicles; and more. The global public health crisis and economic downturn spurred by COVID-19 have also exacerbated existing burdens on families and imposed new ones.[21] Under such conditions, annually-paid refundable tax credits such as the EITC and CTC—which are well-established, powerful anti-poverty tools[22]—are even more essential. Adding periodic payment options for these credits would better help families make ends meet throughout the year and would better align the credits with the changing and emerging needs of families today. Periodic payment options would also help address challenges for families related to liquidity constraints, as well as economic insecurity and inequities, particularly for workers of color and women.

Despite their international prevalence, the U.S. has been slower to adopt periodic payment options. This has begun to change in recent years, however, with periodic payment elements increasingly proposed in the U.S. at both the federal and state levels as an enhancement to refundable tax credits (for more, see the “Landscape of Periodic Payment: Present & Proposed” section of this report). It is unlikely that anyone specifically intended a system where some of the taxpayers most in need of tax credits would become reliant on receiving a significant portion of their annual resource inflow through a single tax refund delivered in the dead of winter. A series of increases in the size of the EITC (and the CTC) over many decades have resulted today in substantial tax refunds; as Figure 9 shows, the EITC and CTC combine to be a significant percentage of families' adjusted gross incomes.[23]

Just as the tax return constitutes an annual settling of accounts, the annual and frequently large tax refund provides low- and moderate-income households an opportunity to pay down debt, make deferred purchases large and small, and experience the relief of a temporary financial cushion.[24] Businesses serving lower-income taxpayers happily take their cut (earned and unearned).[25] Non-profit organizations take advantage of the opportunities afforded by this annual disbursement schedule and lump sum, including by encouraging taxpayers to save their refunds—though these efforts may be curtailed or eclipsed by other, more immediate, intended or realized uses for the refunds.[26]

> Periodic payment options would also help address challenges for families related to **LIQUIDITY CONSTRAINTS**, as well as **ECONOMIC INSECURITY** & **INEQUITIES**, particularly for **WORKERS OF COLOR** & **WOMEN**

This state of affairs may in fact be optimal for some, especially those who benefit from the forced savings aspect of annual payouts. But the current system is not without its shortcomings. Just as there are costs in pursuing periodic payment, there are costs—foregone benefits experienced negatively by program participants—of preserving the status quo. The tax credits households implicitly accrue during the year represent dollars many people could better use if there were less constraint on drawing them down. Although a large tax refund is desired up and down the income distribution,[27] few would likely opt for the lost liquidity, unmet needs, and missed opportunities of having such a large share of household income tied up unavailable for so long. At the least, millions of households with liquidity constraints facing financial insecurity and other resource challenges deserve a realistic alternative.

This report considers periodic payment separately from other related discussions around how to improve, strengthen, and expand existing tax credits and the tax code itself. Of course, improvements in other areas could positively affect the cost/benefit analysis for considering EITC or CTC periodic payment adoption.[28] For example, increased IRS investment and broad technological modernization could greatly reduce the infrastructure costs,[29, 30, 31] could ease enrollment (estimating the annual credit and keeping it updated), and enhance program integrity.

The Timing of Credit Disbursements Does Not Align With Need

Today's families—especially low-income families and families of color—could benefit from the timing of refundable tax credit disbursements better aligning with need. In 2018, the EITC alone kept approximately 5.6 million people out of poverty, including approximately 3 million children,[32] and lessened the severity of the effects of poverty for an additional 17.5 million people, including 6.4 million children.[33] Despite these successes the potential benefits of tax credits for some families are limited by a key misalignment: unlike the annual disbursement of benefits, meager paychecks and unaffordable living expenses are not experienced once a year.[34] Tax credits should be modernized to mitigate the resulting hardships low-paid workers and low-income families face. Adding periodic payment options is a key step in that direction.

ADDRESSING SYSTEMIC BARRIERS TO ECONOMIC SECURITY REQUIRES MORE FREQUENT TAX CREDIT DISBURSEMENTS

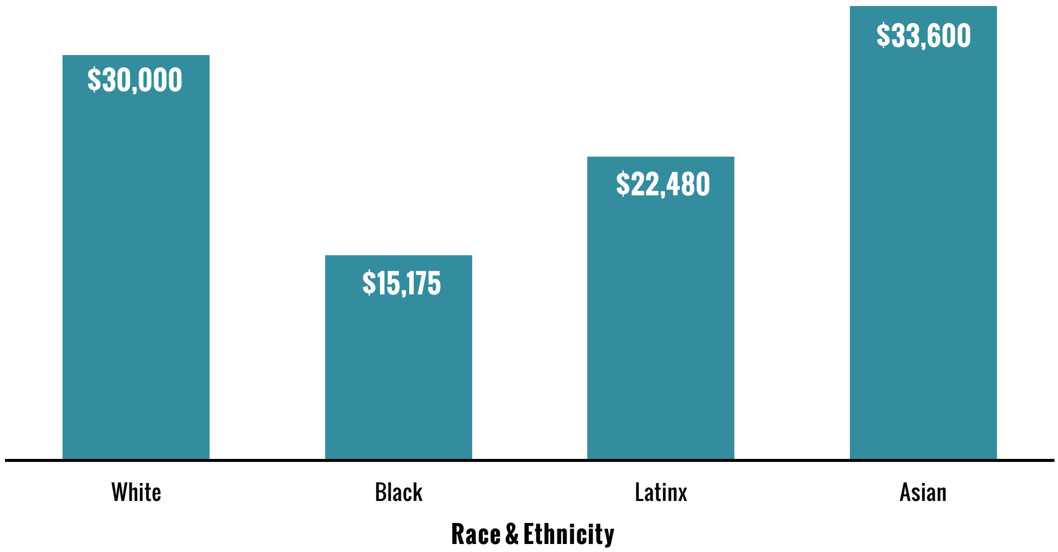
Systemic inequities embedded in the labor market contribute to the need for periodic payment disbursements of tax credits. Low-paid workers experience a persistent, growing gap between their labor market returns and costs of living. In 2019, there were 1.6 million workers paid hourly at or below the federal minimum wage of $7.25 an hour,[35] or $15,080 per year for a full-time year-round worker.[36] For a single parent with two children in 2020, such earnings would land them at 69 percent of the applicable federal poverty guideline.[37] Even in states with higher minimum wages, working full-time frequently would not provide sufficient resources for a decent standard of living, as growing costs of child care, a lack of access to employer-provided benefits such as health care, and other rising costs of living continue to eclipse minimum wage gains.[38] Indeed, close to half of all workers earn below $15.00 an hour—which in all but four states is insufficient for a full-time worker to be able to cover average rent for a modest two-bedroom.[39, 40, 41] A periodic payment would be particularly meaningful for low-paid workers, helping them mitigate challenges related to having limited and sometimes unpredictable income, by providing timely and reliable access to needed resources.

The decline of stable, adequate paying jobs with benefits over the past few decades[42] has left many workers struggling with income volatility and economic insecurity; an estimated 26 percent of U.S. residents now live below or near official measures of poverty (below 200 percent of federal poverty line).[43] The risk of economic insecurity is even higher for women workers and workers of color, who face persistent discrimination in pay and hiring, and more likely to live in poverty or close to poverty, than their white male counterparts.[44] Women make up two-thirds of workers in the 40 lowest paying jobs, and more than half of working mothers of color in low-paid jobs earned below 200 percent of the federal poverty line for a single parent with two children, even while working full-time.[45] Black women face the greatest gaps in both take-home income and liquid assets compared to White men.[46] Workers with disabilities also face significant barriers to stable, decent paying jobs in part due to labor market discrimination and inadequate workplace supports,[47] frequently alongside higher health care and caregiving costs.[48]

Even if workers earn relatively high minimum wages, they may lack sufficient resources to achieve economic security. Apart from wages, individuals employed in low-paid jobs often lack crucial benefits such as health care that are linked to increased economic insecurity.[49] For working parents, an increase in the minimum wage is still unlikely to cover high and rising costs of child care,[50] a crucial support for keeping parents, particularly mothers engaged in the labor force.[51] Further, workers in low-paid or minimum-wage jobs are often the least able to withstand financial losses arising from an economic downturn or unexpected expenses.[52] Data indicate that women workers,[53] workers of color[54] and immigrant workers are more likely than white male workers to suffer economic injury from major crises.[55, 56] In light of the insufficient wages and incomes for many households, especially Black and Latinx households (see Figure 2), income supports can be more effective if they better match the timing of workers' economic needs.

FIGURE 2. Lower-Income Black & Latinx Individuals Have Lower Incomes Than Their White & Asian Peers

Household Income at 20th Percentile of Distribution for Selected Races & Ethnicities, 2019



Note: Race and ethnicity have been defined here as mutually exclusive categories. Latinx includes people of any race, whereas all other categories exclude people identifying as Latinx.

Source: GCPI's analysis of the 2019 Current Population Survey, Annual Social and Economic Supplements. Available at: https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html

Moreover, the nature of work is evolving, creating new challenges for workers in low-paying jobs while compounding existing ones. Today, work for many is not a stable or single job, but a series of multiple engagements patched together to try to make ends meet.[57] Income volatility, unpredictable and uneven schedules, and a lack of access to non-predatory banking and savings vehicles are all prevalent and pressing issues for many working families.[58] While restructuring refundable tax credits to better respond to current economic realities is not without challenges (many of which are explored throughout the course of this report), having tax credits that work for families' changing needs in today's labor market is more important than ever.

PERIODIC PAYMENT OPTIONS COULD HELP MITIGATE WEALTH & ASSET INEQUITIES

People with low incomes typically lack the liquid wealth that could help them afford basic needs and sustain a shock to their household budgets. In 2017, 40 percent of adults, disproportionately people with low incomes, reported difficulty meeting their food, health care, housing, or utility needs.[59, 60] Many households are or would be unable to cover the median major financial shock of $2,000,[61] a smaller emergency expense of $1,000,[62] or even $400.[63] The inability of such a large proportion of U.S. households to address financial shocks suggests a need to distribute additional income support throughout the year so that families are better prepared for and can manage unexpected expenses.

For many households living paycheck-to-paycheck,[64] a substantial share of their available resources[65]—36 percent of after-tax income for the single parent with one child working full-time at minimum wage[66]—are available only retroactively through the combination of the EITC and CTC in once-a-year tax disbursements (see Figure 9). While emergencies and unexpected expenses affect all families, they hit low-income households hardest. Households with low incomes, particularly households of color, have less access to wealth or liquid saving vehicles than middle- and higher-income households.[67] Periodic payments facilitated through tax credits could better help low-income households mitigate unexpected expenses by providing households with more frequent, and thus timely, access to financial resources.

The current design of tax credit disbursement does little to allow low- and moderate-income families to address unplanned expenses and emergencies as they arise. Even the disbursement of annual credits is not without its own delays (there is a statutory delay imposed on processing refunds for EITC returns),[68] which can further exacerbate the challenges associated with having limited economic resources.[69] Faced with immediate or recurring expenses and insufficient earnings from low-paying jobs, low-paid workers may take out high-interest loans from payday lenders or other predatory or alternative financial services to cover expenses.[70, 71] Such circumstances can force individuals and families to choosing between necessities like housing or health care, in turn accumulating debt from loans or missed payments, and then seeking to claim the refund as soon as possible no matter the cost.[72] This suggests that families could be better off, and better equipped to meet their needs, if they could access tax credits periodically throughout the year, rather than in an annual lump sum disbursement.

PERIODIC PAYMENT COULD HELP ADVANCE RACIAL & GENDER ECONOMIC EQUITY

Periodic payments can help advance racial and gender economic equity by improving economic security for people who are disproportionately likely to be in low-paid and precarious jobs, including women, people of color, persons with disabilities and chronic health conditions,[73] immigrants, and others with limited English proficiency.[74]

REFUNDABLE TAX CREDITS are one of the most robust federal **ANTI-POVERTY TOOLS**, helping millions of families meet a **BASIC STANDARD OF LIVING** & alleviating hardship & poverty

Periodic payment can improve the capacity of tax credits like the EITC and CTC to better respond to the needs of working individuals and families and advance economic mobility along racial and gender lines. How periodic payment options are structured, and which considerations are taken into account in their design will have implications for racial and gender equity, as is discussed in the next section. Refundable tax credits are one of the most robust federal anti-poverty tools, helping millions of families meet a basic standard of living and alleviating hardship and poverty. But even the most effective and well-established credits, the EITC and CTC, use annual disbursement schedules. This limits these credits' ability to positively impact low- and moderate-income families.

Periodic payments can enhance economic security and opportunity for individuals and families facing economic burdens. These periodic payment options could be particularly meaningful for people of color and women, who face disproportionate economic hardship and barriers to economic security. This does not suggest that by itself, periodic payment delivery of tax credits can fully alleviate systemic racial and gender inequities that underpin the economy; however, if implemented, periodic payments could meaningfully advance racial and gender economic equity.

The EITC gives a much-needed boost to workers' overall incomes due to insufficient pay and lack of benefits, but periodic payments would bolster their effectiveness by reducing the lag between when workers need additional supports and when they actually receive the credit payments.[75] Better matching the timing of workers' needs can help reduce their likelihood of going without foundational supports during the year or taking on harmful debt particularly from predatory financial lenders, to cover recurring or unexpected costs. Particularly during and after the 2007–2009 Financial Crisis, the rise of payday lending,[76] car title loans,[77] overdraft fees and other prohibitive penalties and policies adopted by mainstream financial institutions,[78] as well as other predatory financial services—all of which disproportionately affect communities of color[79]—indicate a need for periodic payment options so that families can have more control over and options for meeting their recurring and unexpected expenses. For example, with a periodic payment option for the EITC, a family might be better positioned to cover an emergency expense without having to utilize a predatory financial service, and thus could sidestep additional high fees or debt. In turn, periodic payment options can further the effectiveness of refundable credits in reducing economic insecurity and advancing racial and gender equity.

Tax credits such as the EITC and CTC can also be a viable tool for wealth building[80] among communities that have historically been denied access to wealth building tools.[81] These credits serve as a counter to tax breaks and subsidies that largely benefit high-income households and corporations, reinforcing race and gender wealth disparities (median net worth of $200 and $100 for single Black women and single Latinx women, respectively, in sharp contrast to median net worth of single white men of $28,900 in 2013).[82, 83] A body of evidence highlights the importance of wealth inequality as a barrier to opportunities like higher education and homeownership,[84] leaving many families of color and women-led families with low wealth limited paths to economic mobility.[85]

Although lump sum credit payments are helpful for many families in building savings and assets,[86] other research highlights the costs to some families of not having immediate access to credit funds, particularly in the form of incurring debt; a significant share of families may use the EITC to pay down debts accumulated during the year.[87] An analysis of EITC recipients of over a decade found that up to eight percent of EITC payments families received went towards paying interest on their debt.[88] With limited access to credit funds outside of tax time, families with low incomes may be forced to take on debt and the accompanying interest during the year to meet more immediate needs. The resulting use of the credit to partially pay down debt interest may undermine these families' capacity to build assets that can support wealth and economic mobility. Having periodic payments as an option may help families reduce their debt loads by enabling access to much needed financial resources to meet recurring or unexpected needs throughout the year. Ultimately, periodic payment can enhance the effectiveness of refundable tax credits as tools for addressing racial and gender wealth inequities, as they are more likely to benefit households with low incomes, where women and people of color are overrepresented.[89]

Periodic Payment Options Will Strengthen Current & Proposed Tax Credits

Periodic payment options are, by themselves, an essential, cost-effective, and feasible step to help strengthen tax credits. Of course, periodic payments are not a substitute for policies that would support greater economic well-being and mobility for low- and moderate-income families. Rather, periodic payments could enable tax credits to better address the needs of low-income workers and families, but, by itself, are not intended to replace more ambitious policies to advance economic security and opportunity. For example, while the EITC could certainly be strengthened and expanded to reach more individuals and families,[90] the scope of this report is contained to exploring the opportunities for leveraging periodic payment options to enhance the credits in both their current and potential future states.

BOX 1.

SEPARATING PERIODIC PAYMENT OPTIONS OUT FROM OTHER RELATED PROPOSALS

Periodic payment, meaning the payment of tax-based benefits more frequently than once a year, is rarely considered on its own. It is typically an adjunct to broader policy initiatives. This makes sense in so far as disbursement methods are tools of implementation. Yet this means the concept is left largely underexplored as considerations of periodic payment become enmeshed in other policy debates, muddying questions of the appropriateness and viability of alternative approaches to disbursement. This report is premised on the idea that periodic payment options are worthy of assessment as a distinct policy question.

Periodic payment specifically addresses the primary shortcoming of income tax administration of social benefits: reliance on annual payment disbursement. Refundable tax credits represent policy choices directed at ameliorating income-based disparities observed in labor and product and service markets. In comparison, periodic payment options would serve to enhance the positive impacts of tax credits so that low-income families have more consistent access to necessary supports to help them address their economic needs. For this purpose, this report separates periodic payments from other, more ambitious, proposals to enhance the tax credit system.

Separating Periodic Payment from Linked Policy Questions
The current patchwork of tax-administered income supports is not optimally rational from any number of perspectives.[91] Using the tax code for program delivery is often the product of indirect influences such as the political framing of tax expenditures versus tax increases, tax-based outlays versus appropriations, and Congressional committee jurisdictions. Often left unexplored is the threshold question of the relative wisdom of subsidization through the tax code rather than making direct program investments (this is especially true for higher education and child care, where direct spending and tax credit programs co-exist).[92, 93, 94, 95] The fragmented expansion of the EITC over time provides an unwieldy amalgam of program objectives, but its success as one of the largest anti-poverty programs has disincentivized instituting innovations that could rationalize it (such as making the earnings supplementation and child benefit functions distinct).[96]

There are also philosophical questions (with practical implications) of the appropriate role of work in qualifying for tax-based social benefits. The recent attention to guaranteed income and universal basic income concepts arise from new perspectives on who should be considered a worker—and thus an earner for purposes of the EITC.[97, 98, 99] Benefits intended for children could be more universally available if they're less intertwined with the employment of the adults in their lives;[100] young children can need and benefit from more income support than older children;[101] effective assistance may also require recognition of caregiving arrangements that are infinitely variable and ill-suited to current tax law categorization, which was not designed for modern family structures.[102]

Another unresolved philosophical and political dispute is the appropriate capability of the tax administrator. Some want a vigorous IRS capable of aggressive enforcement of tax obligations—simultaneous with its administering social benefit programs[103]—while others are concerned more with restraining the agency's power.[104] Culturally, the IRS views its mission narrowly, primarily as a law enforcement agency.[105] The stalemate about its organizational character has left the IRS depleted in time, talent, and technology,[106] with policymakers skeptical of the agency's ability to take on anything new.[107] However, recent developments out of the COVID-19 crises, including the CARES Act Economic Impact Payments, demonstrate that the administrative infrastructure does exist—albeit not without flaws—to deliver payments within a relatively short time frame, outside existing or regular disbursement schedules, to better meet families' needs.

A MODEST, EFFECTIVE OPTION TO IMPROVE TAX CREDITS

When considered within a broader continuum of potential changes to strengthen and expand tax credits, periodic payment is a modest but effective option to improve the credits now while also better positioning them for additional, more expansive and/or ambitious changes in the future.

Along the spectrum of changes that could be made to improve refundable tax credits, periodic payments is an intermediate, incremental, cost-effective change with large potential benefits.[108, 109] Periodic payments can improve refundable tax credits in the short term and prepare them for more optimal functionality in the future, which would maximize benefits of long-term enhancements to tax credit systems. Periodic payments would also align the U.S. with other peer countries that already utilize more consistent delivery of refundable credits (see Figure 3). Periodic payments would help amplify the positive effects of tax credits by better matching the patterns and timing of families' needs when they arise. Periodic payments are also not a substitute for needed macro changes to economic and societal wellbeing, including people earning living wages and having access to adequate worker protections, benefits and work supports such as child care, paid family and medical leave, and more. However, periodic payments can meaningfully mitigate financial hardships for families, while modernizing the disbursement system of tax credits. Providing families with only one annual option for disbursement of tax credits, rather than equipping them with more choices that could facilitate more consistent access to financial resources, does not align with modern families' economic needs.

> Periodic payments is an intermediate, incremental, **COST-EFFECTIVE CHANGE** with **LARGE POTENTIAL BENEFITS**

Quantifying the value—present and future—of the prospective benefit of better matching timing to need is difficult.[110] It requires casting a wide net: for example, participants may currently be paying artificially higher prices at tax refund time due to sellers' awareness of the once-yearly lump sum of money households gain though their tax refund; a more dispersed (and less predictable) disbursement calendar might extend the value of credit dollars.[111] Knowing beneficiary preferences in the absence of a viable, real-world mechanism is impossible.[112] An additional consideration perhaps never quantifiable but undeniably valuable is the contribution of truly need-responsive programs—especially those operating through an income tax system that affirms core civic rights and responsibilities[113]—to the social fabric. Taking the additional step of making disbursement of those supports more accommodating to the underlying need would only enhance the social contribution.

While it's difficult to quantify the likely benefits of periodic payments, providing working families with more consistent access to financial resources should materially improve their well-being. And while implementing periodic payments may require upfront investments, these investments will help modernize the tax credit system in a way that could yield additional benefits. Periodic payments can therefore enhance economic security through cost-effective measures even without more significant changes that would make tax credits more generous.

An Opportune Time for Advancing Periodic Payment Options

A longstanding bipartisan commitment—at least rhetorically—to making work pay has produced income supports provided through the federal income tax code, the oldest and largest of which is the Earned Income Tax Credit (EITC), and another, the Child Tax Credit (CTC), which serves working families. This commitment should be—and can be—leveraged to advance periodic payment delivery, to the benefit of working families. Policymakers and other stakeholders should capitalize on this bipartisan commitment, as well as the increased economic needs stemming from COVID-19 (see Box 2), to modernize the tax credit payment system and establish periodic payments.

The need to design refundable tax credits in ways that better match timing to need has only grown as families require enhanced economic security. In particular, as proposals to expand existing credits gain momentum and other proposals involving direct cash transfers to low-income households push to the forefront of public discourse and become more salient, the necessity of having mechanisms that facilitate their distribution in ways and frequencies that makes sense for working families will only continue to grow.

The growing need for periodic payment delivery is even clearer amidst the COVID-19 pandemic and resulting recession. COVID-19 has exacerbated economic inequality, contributed to losses of income, and raised financial hardship for low-income households nationwide.[114] COVID-19 has also brought significant attention to the widespread need to modernize government information technology systems. The pandemic provides an opportunity to reshape systems and break out of the current paradigm in which system limitations shape the form and function of tax credits.[115] For these reasons, the COVID-19 pandemic and resulting recession increase the saliency of periodic payments.

Implementing periodic payments would be in tandem with other tax credit system modernization efforts, and thus would help facilitate more ambitious efforts to advance structural changes, should they happen in the future. In that sense, periodic payments are integral to ensuring effectiveness of future proposals to expand and strengthen tax credits. Recent proposals to expand tax credits are so large that it would not make sense to continue with an annual disbursement schedule. Establishing periodic payments now can therefore help facilitate the effectiveness of ambitious efforts to expand and strengthen the size and reach of tax credits.

Periodic payments options for tax credits address a clear need among workers and have garnered growing political support. With especially widespread support for sizeable expansions of tax credits for workers and their families in Congress—expansions that would make periodic payment options more desirable and beneficial—the time to push for periodic payments is now.

BOX 2.

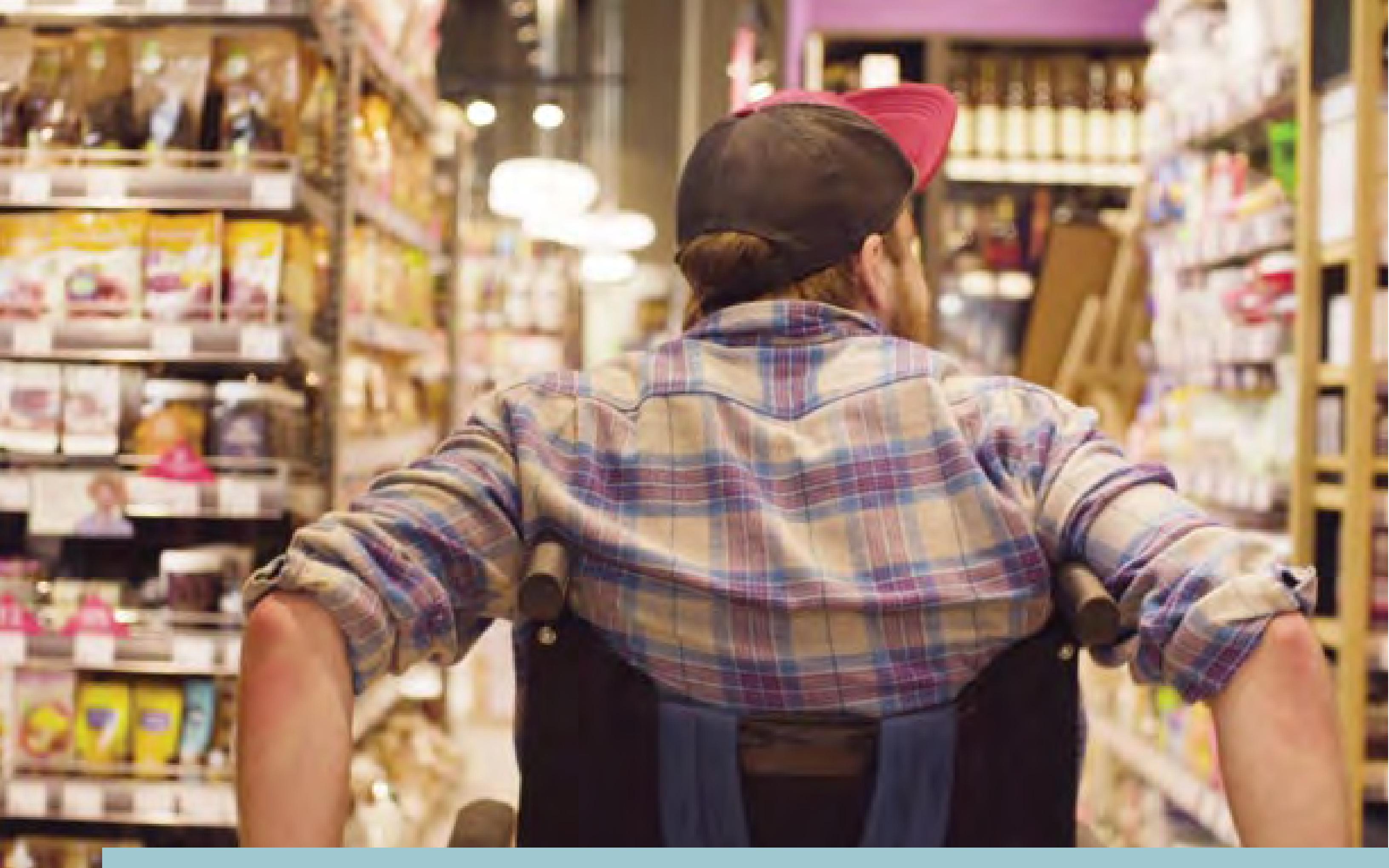
THE COVID-19 RESPONSE ILLUSTRATES NEED & POSSIBILITIES FOR PERIODIC PAYMENT

The economic precarity many low-paid workers face has been severely exacerbated by the COVID-19 crisis. In the first months of the pandemic, close to 1 in 5 people could no longer work due to the pandemic, 40 percent of whom came from households with annual incomes below $40,000.[116, 117] In response to the slowdown spurred by the pandemic, Congress passed the CARES Act, a federal funding package for which provisions included one-time Economic Impact Payments of as much as $1,200 per eligible adult and $500 per child.

The CARES Economic Impact Payments demonstrated both significant administrative successes in delivering cash payments in a time of severe need and considerable challenges to reaching all households affected by the crisis (including groups facing compounded economic burdens).[118] Administered through the IRS, the payments represent the first *advance, fully refundable* tax credits directly paid to households, without any future reconciliation, in U.S. history.[119] Households who would not otherwise have filed a tax return (for example, Social Security recipients not subject to a filing requirement) still qualified for the payments and recipients were not liable for changes in their income after receiving the payments.[120]

While the one-time rebate payments were a significant administrative accomplishment in direct cash delivery, they fell short of reaching all who suffered severe economic loss due to the pandemic.[121] Some challenges faced by the IRS were structural—such as using dated tax returns—while others, especially the need to rapidly stand up a new program amidst a contagious disease pandemic, were specific to the crises of 2020. The rebate payments included provisions that specifically excluded individuals without a social security number (SSN), including ITIN filers,[122] as well as individuals who were incarcerated.[123] Such a policy decision disproportionally impacted many immigrant families, particularly undocumented and mixed-status households, leaving out more than 15 million people who would otherwise have qualified for the payments.[124] An alternative to the filing requirement could be the creation of a non-filer portal, through which non-filers could provide necessary information that the IRS could use to determine tax credit eligibility, calculate, and deduct tax credit payments.[125] In the wake of the devastation spurred by the COVID-19 pandemic, there is a compelling need for a stronger social administrative infrastructure, beyond the one-time recovery rebate payments, to rapidly meet needs during major crises and downturns.

In addition to strengthening tax credits to support wealth building among individuals and families with low incomes, periodic payments also stand to improve the capacity of tax credits in helping low-paid and other disadvantaged workers weather periods of economic downturns or unexpected crises. In the wake of the 2019-20 COVID-19 pandemic and ensuing economic fallout, close to 10 million workers lost their jobs in a two-week period,[126] raising demand for cash assistance to help meet immediate housing, health care and other needs.[127] Women workers, workers of color,[128] workers with disabilities,[129] as well as workers in previously-held low-pay jobs without benefits face both increased risk of infection[130] and worsened economic insecurity. Periodic payment of credits can be part of a robust federal response to shore up workers against the worst effects of an economic downturn.



Landscape of Periodic Payment: Present & Proposed

Periodic payment is not a new concept. Among peer countries, the sole reliance of the U.S. on annual disbursement is an outlier today.[131] An advance payment option was available for several years for the EITC,[132] and advance payment as a mechanism for delivery is the backbone of the tax credits provided to low- and moderate-income customers of the health insurance marketplaces. In recent years, federal and state refundable tax credit proposals have increasingly included periodic payment elements. There is much to be learned from existing proposals and models about how to design a periodic payment element that better matches timing to need. This section provides an overview of past (the experience with the EITC's advance payment option), present (the Affordable Care Act's Advance Premium Tax Credit, as well as the experience of other countries with similar income supports), and proposed (federal legislation regarding the EITC and CTC, and state innovations) periodic payment proposals and models.

Current & Past Uses of Periodic Payment

Within the U.S., there have been limited—but informative—instances in which programs have had advance or periodic payment features. In contrast, there is widespread availability of periodic payment mechanisms in other wealthy countries.

U.S. PERIODIC PAYMENT MODELS

The two prominent examples of use of periodic payment in the U.S. are both federal: the now-discontinued Advance Earned Income Credit (AEIC) option for receipt through employers,[133] and the extant Advance Premium Tax Credit (APTC) paid to health insurers on behalf of individuals and families under the Affordable Care Act.[134, 135]

EITC Advance Payment Experience (1979 – 2011)

Beginning in 1979, the AEIC option enabled a worker expecting to be eligible for the EITC to submit IRS Form W-5 to their employer and receive a portion of their credit as an addition to each paycheck. The employer would recover the amounts advanced by reducing its quarterly tax payment to the IRS. The maximum advance amount varied but was capped in 1993 for all participants at 60 percent of the EITC for a worker with one qualifying child. The worker's year-end tax return would determine the actual EITC earned, and this would be reduced by the total advances reported by the employer on Form W-2.[136]

The AEIC was largely unsuccessful, but provides several useful lessons (explored further in the "Framework" and "Applied Recommendations" sections) for policymakers considering periodic payment options for refundable tax credits. Only about three percent of eligible EITC recipients opted in to receiving the advances, even after several years of targeted efforts to increase use.[137] Likely factors for the low take-up were the small amounts of each advance (most advances were smaller than the maximum, which was $35 per week in 2010), the barriers associated with the opt-in component (such as filing a unique form with the employer), fear of owing money back at the end of the year, and aversion to claiming a benefit through an employer. For employers, there was—as is typical with any mandated interaction with workers—a perceived administrative burden.[138] Moreover, there were several compliance challenges: some employers refused to meet their legal obligation to honor the W-5 election, some reported advances that were never made or failed to report payments that were made, and some workers did not report advanced amounts on their tax returns.[139] At the urging of the Obama Administration, Congress eliminated the AEIC in 2010, beginning with tax year 2011.[140] The tenure of the AEIC highlights the importance of considering program design and implementation factors and their influence on program effectiveness.

ACA Advance Premium Tax Credit (2011 – Present)

The Affordable Care Act established state and federal health insurance marketplaces for Americans without access to private or public insurance coverage. Individuals with incomes between 100 percent and 400 percent of the federal poverty line could have all or a portion of the cost of marketplace premiums offset by a refundable tax credit.[141] Recognizing that health insurance premium payments are due monthly, the law provides a periodic payment option through the APTC. While the payment goes to the insurer rather than direct cash to households, the APTC still represents a method of disbursement of refundable tax credits other than in lump sum through the tax return, and provides strong evidence of the feasibility of advance or periodic payment within the U.S. context. Equally important, the emergence of the APTC highlights the relevance of and need for periodic payment in promoting economic security and well-being. The APTC partially relieves the burden health care costs can often levy on many working individuals and households, which in turn threaten financial insecurity and pose barriers to health care access.[142, 143]

The marketplaces use a taxpayer's estimate of current year income (with income verified with known electronically-transferred income sources[144]) in the projection of the total credit amount; one-twelfth of this amount can be paid monthly by the IRS directly to the insurance company to reduce the net premium due. As with the AEIC, the actual credit amount is determined on the annual tax return and reduced by the total advances paid. If the APTC payments exceeded the actual credit, some or all of the excess becomes an amount owed on the tax return, with the amount of required repayment varying by income.[145] The IRS and marketplaces encourage recipients to make timely reports of changes in income or household composition to minimize repayment risk.[146]

PERIODIC PAYMENT OPTIONS may also lead to ... families experiencing **FEWER LATE FEES CUTOFFS & EVICTIONS**; less utilization of high-cost, dead-end loans ... **GREATER HOUSING STABILITY**

Of the tax returns filed during the 2019 filing season, 4.8 million claimed $38 billion in Premium Tax Credits.[147] Most of this (97.5 percent of the total) had been paid during the year as the APTC, reflecting the central role of the default choice of monthly advances—experienced as reductions in insurance premiums due—in the credit design.[148] The amount advanced was less than the actual credit that could be claimed for 38 percent of taxpayers, resulting in an average additional $722 received through tax returns.[149] On the other hand, for 54 percent of taxpayers, the APTC exceeded the actual credit that could be claimed, by an average of $1,731; 29 percent of the total excess was not required to be repaid, and the remainder became part of the refund or balance due calculation on the return.[150] Taxpayers with incomes below 400 percent of the federal poverty line are not required to repay the full amount of APTC overpayment, based on a sliding scale, with individuals under 200 percent of poverty ($24,280 in 2019) never owing back no more than $300.[151] Policymakers could investigate in detail APTC data, including how taxpayers interact with the credit throughout the year and at tax time, to better inform the design of any new periodic payment options.

EITC Periodic Payment Pilot (2014 – 2015)

Apart from the AEIC and APTC, there has also been small-scale experimentation to explore the feasibility and potential impact of periodic payment options. The most recent EITC periodic payment experiment—with admitted limitations of size and evaluative suitability (see Box 3)—found significant financial and other benefits from more frequent receipt of a portion of the credit.[152] Aside from the study's findings, periodic payment options may also lead to additional positive outcomes such as families experiencing fewer late fees, cutoffs, and evictions; less utilization of high-cost dead-end loans (including those whose sole purpose is to accelerate the long-anticipated receipt of the big lump sum by a few days or weeks); greater household stability; and more chances to keep the car repaired or the youth sports league joined or the relatives visited.[153] Behavioral science has also shown that periodic payments are associated with less perceived financial stress for participants compared to lump-sum payments.[154] More quantitative and qualitative research could help shape our understanding of the benefits side of the scale.

BOX 3.

CHICAGO EITC PERIODIC PAYMENT PILOT

In 2014, the City of Chicago contracted with the Center for Economic Progress (CEP, a local community tax program) to test periodic payment of the EITC. The pilot provided 343 recipients of housing assistance the lesser of 50 percent of their expected EITC or $2,000 in four payments during the year. Prospective enrollees completed an income estimation worksheet in Excel and consented to release of the prior two years' tax account records. Eligibility required prior receipt of the EITC and no refund interceptions. Participants received payments by electronic funds transfer (65 percent to traditional financial institution accounts) in June, August, October, and December. Participants were expected to keep CEP informed of changes in income, household configuration, and direct deposit account. The periodic payments were structured as loans against the EITC claimed on 2014 tax returns; 230 participants completed the project by providing full 2014 tax return data to CEP. For 88 percent of participants, the periodic payments totaled 20 percent to 60 percent of the claimed EITC. Only two percent received excessive advances.[155]

A research team from the University of Illinois at Urbana-Champaign conducted a mixed-methods process and outcomes evaluation of the pilot. In post-pilot interviews, 90 percent of participants said they preferred the pilot's payment structure to a single lump-sum payment (current law) or other payment alternatives.[156] Compared to a non-randomized control group of 164 EITC recipients not receiving periodic payment, pilot participants "experienced significantly lower levels of perceived financial stress;" they had less need to borrow money and fewer unpaid bills.[157] They were significantly less likely to experience food insecurity.[158]

INTERNATIONAL PERIODIC PAYMENT MODELS

International models of periodic payment, particularly those in Canada and New Zealand,[159] offer useful lessons for implementation within the US context. Similar to the EITC and CTC, earnings supplements disbursed through the tax code (typically known in other countries as in-work benefits) and child benefits or allowances are common across the nations comprising the OECD.[160, 161] These tax credits have reduced poverty. For example, in the United Kingdom, such tax credits have led to significant poverty reduction among participating households, particularly for single-parent households and households with multiple children.[162] Similar findings come from the Child Benefit tax credit in Canada, introduced in 2016, which was on track to cut child poverty in half by 2026, before the COVID-19 pandemic hit.[163]

FIGURE 3. Periodic Payments Mechanisms Vary Across Countries

International Comparison of Periodic Payments for In-Work Tax Benefits

COUNTRY	AUSTRALIA	CANADA	IRELAND	NEW ZEALAND	UNITED KINGDOM
PROGRAM NAME	Family Tax Benefit, Parts A & B	Canada Child Benefit	Working Family Payment (Formerly Family Income Supplement)	Working for Families Tax Credits	Universal Credit
ADMINISTERING AGENCY	Family Assistance Office; Australian Taxation Office	Canada Revenue Agency	Department of Social and Family Affairs	Inland Revenue Department; Ministry of Social Development	Department for Work and Pensions
PAYMENT FREQUENCY OPTIONS	Periodic (biweekly) or lump sum direct payment; reduced with-holding	Periodic (monthly) direct payment	Periodic (weekly) direct payment	Periodic (weekly or biweekly) or lump sum direct payment; may vary by credit component	Periodic (monthly, bimonthly in Northern Ireland, bimonthly option in Scotland) direct payment
ERROR RECONCILIATION	Year-end reconciliation with portion payable only at year-end; excess payments recovered	No over-payments based on income but those from unreported family changes recovered	No over-payments (eligibility fully established in advance)	Year-end reconciliation; excess payments recovered	Overpayments (due to unreported income or family changes or errors) recovered

Source: Georgetown Center on Poverty and Inequality, 2020; "Family Tax Benefit." Department of Social Services, Australian Government, 6 August 2020. Available at www.dss.gov.au/families-and-children/benefits-payments/family-tax-benefit; "Canada child benefit." Government of Canada, 24 June 2020. Available at https://www.canada.ca/en/revenue-agency/services/child-family-benefits/ canada-child-benefit-overview.html; "Working Family Payment." Ireland Department of Employment Affairs and Social Protection, 16 March 2020. Available at https://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/social_welfare_payments_to_families_and_children/family_income_supplement.html; "Working for Families Payments." New Zealand Government, 2020. Available at https://www.govt.nz/browse/family-and-whanau/financial-help-for-your-family/working-for-families-payments; "Universal Credit." GOV.UK. Available at https://www.gov.uk/universal-cred-it#:~:text=Universal%20Credit%20is%20a%20payment,work%20or%20you%20 cannot%20work.

These benefits are administered by the national tax or revenue agency (as in the U.S.), by human services or social welfare agencies, or some combination of these agencies.

The key takeaway from the international perspective is that EITC counterparts in other countries feature some form of periodic payment, ranging from weekly to twice-yearly.[164] Among the nations providing in-work benefits (or cash benefits tied to work), the U.S. stands alone in its sole reliance on a single year-end disbursement.

In looking for models for reforming the EITC, scholar Michelle Drumbl focused on New Zealand and Canada as having the most similarly administered refundable credits: the revenue agencies play a significant role and the credit designs include a family-based component, but unlike the EITC, the benefits are ongoing and recurring.[165] Most beneficiaries in New Zealand choose periodic receipt (weekly or every two weeks) rather than annual disbursement.[166] Canada has a child benefit—paid monthly by the revenue agency—that is income-based but not tied to work;[167] those with earned income can claim a separate tax credit both periodically (partial payment of up to 50 percent of the benefit in four installments) and annually.[168]

Other nations have engaged with the elements of periodic payment design outlined later in this report and encountered challenges. For example, Canada has had very low take-up of advance payment of its earnings-based tax credit (0.06 percent, or fewer than 1,000 households, in 2013[169]), in part because the quarterly payment was at most just $237 (in 2017).[170, 171] Australia has experienced high rates of taxpayers receiving periodic payment owing a share back at year end, yet most households still opt for being paid every two weeks. While these programs have flaws in both design and implementation, they offer models which the U.S. can utilize to design its own system of periodic payment delivery. Box 5 looks at different approaches to establishing the base amount used for calculating periodic payments, and Box 6 highlights problems experienced in reconciling year-end credit amounts to in-year advances. The U.S. can look at other nations' experiences for insights into aspects of periodic payment design, notwithstanding the cultural, historical, and administrative idiosyncrasies of each country.[172]

Federal & State Periodic Payment Proposals

The current periodic payment landscape includes federal proposals that would expand the federal EITC or CTC (such as The Worker Relief and Credit Reform Act,[173] the Working Families Tax Relief Act,[174] and the American Family Act),[175] and ideas under consideration in several states, such as California, Maine, and Wisconsin. Periodic payment is also a potential option for other federal and state expenditure-based tax credits, i.e. those tied to spending on specific goods and services, such as health care (see Appendix for more information).

FEDERAL PROPOSALS

Numerous bills pending in the 116th Congress (2019-2020), which build upon previous proposals and adapt them to current economic realities, would create periodic payment options for the EITC or related benefits. The Worker Relief and Credit Reform Act[176] would make 75 percent of the credit payable in monthly advances. The Working Families Tax Relief Act[177] and the Cost-of-Living Refund Act[178] would each make a one-time advance of up to $500 (indexed for future inflation in $10 increments) available through employers once an eligible worker has completed six months of employment each year. The Refund to Rainy Day Savings Act[179] would permit deferred receipt of up to 20 percent of the EITC into a six-month interest-bearing savings account (with a provision for piloting a savings match); the EITC Modernization Act[180] would allow deferred receipt of the full EITC into subsequent monthly payments. The Working Families Tax Relief Act and the American Family Act[181] call for monthly (or as frequently as found administratively feasible) advance payments of the CTC. Recipients of the Middle Class Tax Credit envisioned by the LIFT (Livable Incomes for Families Today) the Middle Class Act,[182] and the Building Our Opportunities to Survive and Thrive Act[183] could receive 12 monthly payments that combine advance and deferral elements by being disbursed on a July to June calendar.

Other bills, also introduced in the 116th Congress, create a periodic payment option for an expanded, fully refundable version of the CTC. The American Family Act[184] and the Working Families Tax Relief Act[185] would permit monthly receipt of the full credit amount, which for most households would be a standard amount based solely on the number of qualified children.

In response to the prolonged economic effects of COVID-19, the House of Representatives passed the HEROES Act of 2020, which among other things, includes expansions of the EITC, CDCTC, and CTC.[186] Notably, the HEROES Act includes provisions in the CTC that build on the 2019 American Family Act,[187] namely: calling for the Treasury Department to deliver advance or periodic payments of the credit where possible, making a greater portion of the credit refundable,[188] as well as expanding benefits from $2,000 to $3,000 for each child age 6 and above and to $3,600 for each child younger than age 6.[189] (The HEROES Act represents the first time since passage of the Affordable Care Act that a chamber of Congress has passed legislation instituting periodic payments of refundable tax credits through the APTC.[190] It is also worth noting that the HEROES Act also would expand eligibility for a new round of stimulus cash payments to the 30 million people left out of the CARES Act payments, by making them available to adults with an ITIN, thereby enabling non-US citizen immigrant families to access relief payments.[191]) Unlike the APTC credit and the AEIC, the CTC advance payment provision is likely the first passed by a chamber of Congress to issue periodic payments as direct cash payments to households. The HEROES Act has been endorsed by 2020 President-Elect Joe Biden, whose campaign has made explicit that the President-Elect "… will allow families to receive monthly [CTC] payments if they chose," as would the bill.[192] Another proposal, the Payments for the People Act, introduced by Representatives Cartwright and Dean, would send quarterly payments to families through automatic triggers until national unemployment is below 5.5 percent.[193] Figure 4 outlines recent federal proposals for periodic payment options in tax credit benefit systems.

BOX 4.

ONE-TIME ECONOMIC STIMULUS PAYMENTS

There are analogies to periodic payment in the one-time payments the IRS has disbursed as part of the federal fiscal response to economic crises in 2001, 2008, and 2020. The 2001 and 2009 payments were disbursed in the form of paper checks.[194] Most recently, there is the one-time Economic Impact Payment[195] included in the 2020 CARES Act provided during the COVID-19 pandemic, which uses multiple disbursement methods.[196] Households for which the U.S. Treasury had depository account information (accounts previously used to make direct deposit of tax refunds or Social Security or other federal benefit payments) received the payments by electronic funds transfer. Other households were mailed a paper check or a prepaid debit card,[197] unless they used a web portal deployed by the IRS to submit direct deposit information.[198] The IRS disbursed a total of $267 billion in Economic Impact Payments between April and June, 2020. These payments provide additional data points regarding the stretches and limitations of IRS capabilities relevant for periodic payment options.

The EIP was structured as a fully refundable tax credit for tax year 2020 in the amount of $1,200 per adult and $500 per qualifying child.[199] The credit phased out at higher incomes (beginning at $75,001 for single tax filers and $150,001 for joint filers), based on household income reported on 2019 or 2018 tax returns.[200] The EIP was paid in advance during calendar year 2020.[201] Eligible households for whom income or household information was not available and who did not provide it using a special-purpose web portal the IRS deployed can claim the full credit on a 2020 tax return. Households for whom 2020 income or family circumstances provided a larger credit than the amount of the advance payment could claim the balance on the 2020 tax return. However, households for whom tax year 2020 information would have calculated a smaller credit do not incur any repayment obligation for the excess amount.[202]

FIGURE 4. Members of Congress Have Introduced an Array of Tax Credit Expansions with Periodic Payment Components

Federal Proposals for Period Payment Options in Tax Credits, 2019 - 2020

PROGRAM NAME	PAYMENT FREQUENCY	PAYMENT AMOUNT	BENEFICIARIES	INTRODUCED	STATUS
The Worker Relief and Credit Reform Act	Monthly advances	75% of total EITC payment, distributed into monthly payments	EITC recipients	11/26/19 by Rep. Gwen Moore	Referred to House Committee on Ways and Means on 11/26/19 – no further action
The Working Families Tax Relief Act	One-time advance	Up to $500	Workers with at least 6 mo. experience at current job	6/6/19 by Rep. Daniel Kildee	Referred to the Committee on Ways and Means, & to Committee on Natural Resources on 6/6/19 – no further action
Cost-of-Living Refund Act	One-time advance	Up to $500	Workers with at least 6 mo. experience at current job	2/28/19 by Rep. Ro Khanna	Referred to House Committee on Ways and Means on 2/28/19 – no further action
The Refund to Rainy Day Savings Act	Deferred receipt into a 6-mo. interest-bearing savings account	Up to 20% of EITC payment	EITC recipients	4/3/19 by Sen. Cory Booker. A House companion bill was introduced on 4/4/19 by Rep. Watson Coleman	Referred to Senate Committee on Health, Education, Labor, and Pensions – no further action
The EITC Modernization Act	Deferred monthly payments	Monthly installment totaling the EITC	EITC recipients	2/28/19 by Rep. Bonnie Watson Coleman	Referred to House Committee on Ways and Means – no further action
The Working Families Tax Relief Act	Monthly advance payments	Monthly installment totaling the CTC	CTC recipients	6/6/19 by Rep. Daniel Kildee	Referred to House Committee on Ways and Means, & to Committee on Natural Resources – no further action
The American Family Act	Monthly advance payments	Monthly installment totaling the CTC	CTC recipients	3/6/19 by Sen. Michael Bennet	Referred to Senate Committee on Finance
LIFT (Livable Incomes for Families Today) the Middle Class Act	Monthly advance payments	Up to $3,000 for individuals & $6,000 for married couples	Unmarried workers with no children who make less than $50,000 per year; married workers, or single workers with children, who make less than $100,000 per year	1/3/19 by Sen. Kamala Harris	Referred to Senate Committee on Finance
Building Our Opportunities to Survive and Thrive Act (The BOOST Act)	Monthly advance payments	Up to $3,000 for individuals & up to $6,000 for married couples and families	Single, childless adults with incomes less than $50,000 per year; married couples with incomes less than $100,000 per year; single parents with incomes less than $80,000 per year	6/27/19 by Rep. Rashida Tlaib	Referred to House Committee on Ways and Means
The HEROES Act	Advance payments (frequency to be determined)	Up to $3,000 for household with kids age 6+; up to $3,600 for household with kids under 6 years	CTC recipients	5/12/20 by Rep. Nita Lowey	Passed House & received in Senate on 5/20/20; committee on Small Business and Entrepreneurship held hearings on 7/23/20

Source: Georgetown Center on Poverty and Inequality, 2020;
H.R. 5271. 116th Congress, introduced 26 November 2019. Available at https://www.congress.gov/bill/116th-congress/house-bill/5271;
S.1138/H.R.3157, 116th Congress, introduced 10 April 2019. Available at www.congress.gov/bill/116th-congress/senate-bill/1138;
S. 527/H.R. 1431. 116th Congress, introduced 28 February 2019. Available at https://www.congress.gov/bill/116th-congress/house-bill/1431;
S. 1018. 116th Congress, introduced 3 April 2019. Available at https://www.congress.gov/bill/116th-congress/senate-bill/1018/text;
H.R.2112. 116th Congress, introduced 04 April 2019. Available at https://www.congress.gov/bill/116th-congress/house-bill/2112;
H.R.1436, 116th Congress, introduced 28 February 2019. Available at www.congress.gov/bill/116th-congress/house-bill/1436;
H.R. 3157, 116th Congress, introduced 6 June 2019. Available at www.congress.gov/bill/116th-congress/house-bill/3157;
S.690/H.R.1560, 116th Congress. Introduced 6 March 2019. Available at www.congress.gov/bill/116th-congress/senate-bill/690;
H.R. 3590. 116th Congress, introduced 27 June 2019. Available at www. congress.gov/bill/116th-congress/house-bill/3590;
Edwards-Luce, Aubrey, et al. "Fact Sheet: Aid to Children and Families in the HEROES Act (H.R. 6800)." First Focus on Children, 22 May 2020. Available at https://firstfocus.org/resources/fact-sheet/fact-sheet-aid-to-children-and-families-in-the-heroes-act-h-r-6800.

STATE PROPOSALS

Several states have considered or are currently looking at periodic payment in recent years. In 2018, a proposed ballot initiative in Colorado would have made monthly deferred receipt of a Working Families Tax Credit the default option.[203] California Governor Newsom's proposed 2019-20 state budget[204] would have permitted monthly advances of the state EITC; although not included in the enacted budget, the provision remains under consideration.[205, 206] In 2019, the Maine Legislature created a working group that is looking at optional periodic payment of a combination of state tax credits.[207] Proposed legislation in Washington[208] would allow monthly or quarterly advances of a state EITC; in part because Washington does not have a state income tax, the state agency responsible for unemployment insurance would administer the payments. A "Deep Poverty" initiative of the Department of Human Services in Minnesota has been looking at tax credit periodic payment as an income-smoothing device for the lowest-income households.[209] The Chicago Resilient Families Task Force created by the City Council and Mayor called for an expanded Illinois EITC and possible city EITC that would feature optional monthly advances.[210]

FIGURE 5. States Have Introduced a Variety of Periodic Payment Tax Credit Options

State Proposals for Periodic Payment-Options in Tax Credits, 2017 - 2020

STATE	IDENTIFIER	CREDITS AFFECTED	KEY ELEMENTS	STATUS
California	Governor's proposed 2019-20 budget	State EITC	Monthly advance / opt-in	Not enacted, but under informal consideration
Colorado	Working Families Tax Credit (2018 Initiative #134)	State EITC	Monthly deferred / opt-out; Deferral applicable if refund >$240	Did not pass
Illinois	Working Families Tax Credit	State EITC	Monthly advance / opt-in	Proposed – delayed pending Nov 2020 graduated income tax referendum
Maine	Cost-of-Living Tax Credit (2019 LD 1491)	State EITC + other state credits	Sponsor anticipates quarterly / opt-in	Enacted legislation created working group to consider
Washington	Working Families Tax Credit (2018 HB 1527 / SB 5810)	State EITC	Monthly (or quarterly) advance; Administered by state UI agency	Did not pass
Wisconsin	2017 Act 270	State + federal EITC	Monthly advance of 2/3 / selected randomly; 2-year random-assignment pilot (100 in each group)	IRS rejected participation

Source: Georgetown Center on Poverty and Inequality, 2020; "Governor's Budget Summary, 2019-20." 9 January 2019. Available at www.ebudget.ca.gov/2019-20/pdf/BudgetSummary/FullBudgetSummary.pdf; "Results for Proposed Initiative #134." Colorado Secretary of State Jena Griswold, 21 February 2018. Available at www.sos.state.co.us/pubs/elections/ Initiatives/titleBoard/results/2017-2018/134Results.html; "Big Shoulders, Big Solutions: Economic Security for Chicagoans." Chicago Resilient Families Task Force. February 2019. Available at docs.wixstatic.com/ugd/c3a825_4f18fb8689714ac083c3c0d38a1133a4.pdf; Maine Resolves 2019. Available at legislature.maine.gov/legis/ bills/bills_129th/chapters/RESOLVE74.asp; HB 1527/SB 5810, 66th Legislature, first reading 23 January 2019. Available at lawfilesext.leg.wa.gov/biennium/2019-20/Pdf/Bills/House%20Bills/1527.pdf; 2017 Wisconsin Act 270, enacted 10 April 2018. Available at docs.legis.wisconsin.gov/2017/related/acts/270.pdf.

Wisconsin has the only state statute providing for periodic payment.[211] In 2018, the Republican-controlled Legislature authorized a random assignment experimental pilot that would make monthly payments of up to two-thirds of a household's estimated combined federal and state EITCs over a two-year period.[212] The sponsors see periodic payment as better aligning receipt of the credit with work while improving recipients' financial stability.[213] The law predicates the pilot on IRS participation; the initiative is on hold, as the IRS has indicated it does not have authority to participate in the manner envisioned by the statute.[214]

A Framework for Periodic Payment Design

Periodic payment options aim to better match the timing of tax credit and income support disbursements to shifting and growing participant needs. This section provides a framework to help guide policymakers through various design and implementation considerations.

Periodic payment options are fundamentally tied to the income tax system. Tax administration can offer several advantages relative to direct spending programs: a relatively low threshold for many to access benefits, resulting in high participation rates; low direct governmental administrative costs; and other associated benefits such as increased social inclusion.[215] Tax administration is particularly favorable for managing the complexities associated with disbursing benefits that vary by income level.

Understanding how best to address this distinct policy question—how to include periodic payment options in tax credit and income support disbursements—in the context of particular programs and existing systems requires analyzing several key design elements with a clear focus on accessibility and equity, namely:

- **Administrative Responsibility**, including administrative infrastructure and integrity;
- **Eligibility**; and
- **Participant Choice & Access**, including participant defaults, disbursement methods, and tax filing reconciliation.

Conceptual Principles

Policymakers looking to advance periodic payment options for refundable tax credits such as the EITC or CTC may find inherent tradeoffs and limitations within the design—and implementation—process. For example, implementing an option that prioritizes advancing equity may require more upfront investment of resources, particularly in administrative infrastructure. While not all of these tensions can be fully reconciled, policymakers should consider their interactions and how they may influence the efficacy of the refundable credit in meeting the intended program goals. In particular, as periodic payment options are typically motivated by the desire to better match timing to need, equity and accessibility must be appropriately weighed alongside discussion of administrative barriers, cost considerations, and other factors.

Several key principles can help guide policymakers in their considerations of various periodic payment design elements, both individually and collectively:

- **Equity**, particularly racial, gender, and economic equity;
- **Feasibility**, such as in terms of administration;
- **Effectiveness**, including in participant choice parameters and accessibility; and
- **Efficiency**, including disbursement methods and cost-benefit tradeoffs.

Key Design Elements

Periodic payment options could provide crucial flexibility for refundable tax credit recipients—particularly EITC and CTC recipients—by allowing them to match credit disbursement timing to their and their families' needs. This section outlines several key design elements to consider, with a focus on accessibility and racial, gender, and economic equity.

ADMINISTRATIVE RESPONSIBILITY

Administering a periodic payment option would **REQUIRE THE IRS TO RECOGNIZE** its **DUAL ROLE** as both a **REVENUE COLLECTOR** & **BENEFIT ADMINISTRATOR**

Since embedment in existing tax administration structures is a basic principle of periodic payment, the IRS is the obvious first choice for administration of the disbursement of tax-based income supports. Periodic payment administration by the IRS would have several benefits. Periodic payment options could leverage IRS capabilities[216] by utilizing the agency's experience interacting with taxpayers lacking a Social Security Number and by taking advantage of the information already coming into and partially verified by the tax system in a largely proven regime of voluntary compliance.[217] However, the IRS currently defines itself primarily as a revenue collection and tax enforcement agency. Administering a periodic payment option would require the IRS to recognize its dual role as both a revenue collector and benefit administrator.

Another entity may be better positioned to administer periodic payment options for particular programs. For example, the Social Security Administration (SSA) also has individual tax and wage data and already pays out benefits on a monthly basis—a key sign of potential infrastructure for periodic payment disbursement. SSA has also been considered for administering credits that are primarily tied to demographic factors rather than earned income, such as an expanded and reformed CTC.[218] However, some administrative challenges, such as calculating and disbursing payments to a population like EITC-eligible workers, where participants may frequently qualify or lose qualification for the credit due to phaseout requirements or income shocks,[219] likely make the IRS the more suitable entity for administration.

OTHER ADMINISTRATIVE CONSIDERATIONS

Other administration considerations include administrative roles and institutional approaches to facilitate and prompt access (through organizational culture shifts, and investment in outreach, promotion, and partnerships); modernization of administrative infrastructure; and administrative integrity.

Administrative Roles & Institutional Approaches

Administrative responsibility of a periodic payment option would require the IRS to embrace its role as a disburser of social benefits. This extends to the promotion of the tax-based benefit and its payment options, including outreach and education, and hiring of employees with proper skill sets. The promotional approach should be robust and creative, with particular attention—given the populations being served—to accessibility and equity. (See the “Education & Outreach” section of this report for more information about the potential role for the IRS Volunteer Income Tax Assistance Program, or VITA.)

Effective administration and promotion may require close partnerships with other agencies; for example, periodic payment of the AOTC likely requires a significant role for the Department of Education,[220] just as the APTC involves the Department of Health and Human Services and the insurance marketplaces. Even if the IRS maintains administrative responsibility, this does not preclude engagement of non-governmental actors in promotion and delivery.

Commercial, nonprofit, and community tax preparation providers could all play roles in outreach, promotion, and other activities that help facilitate access to qualifying credits. Private and commercial actors might be reluctant to take on significant administrative burden, as noted in the case of the AEIC, which might impact their effectiveness as partners in promotion and delivery (see the “EITC Advance Payment Experience [1979-2011]” section of this report for more information on the AEIC). Such considerations should be taken into account in determining how administrative responsibility is distributed among key stakeholders in the tax filing ecosystem.

Administrative Infrastructure

Instituting periodic payment options is likely to require some upfront and ongoing investments in infrastructure, as well personnel and other resources. In some cases, policymakers and administrators might find that some infrastructure investments and changes needed to facilitate periodic payment options were necessary anyway for the continuing functioning and success of the credits in their current iterations, with or without periodic payment options attached. When weighing administrative investments, particularly upfront infrastructure costs, policymakers should consider these factors alongside the potential macro benefits of periodic payment options, such as ensuring payment timing maximizes benefits for participants and other positive externalities.

COVID-19-spurred developments have expanded our understanding of what is or could be possible administratively with regard to disbursing cash to a wide range of individuals through a number of methods, even under existing systemic constraints.[221] As Box 2 illustrates, it also highlighted various weak points in administration that are overdue for modernization and improvement, including areas in which access and program efficacy are hindered by antiquated information technology systems, institutional barriers, challenges related to reaching marginalized populations, and other issues.

Ongoing periodic payment options would require a fundamental shift in the income tax disbursement system. The big step is breaking free of sole reliance on the annual disbursement inherent in the income tax system; once overcome, multiple and flexible options could be established. A significant investment required would be the technical infrastructure for a robust enrollment, calculation, disbursement, and reconciliation system. Even though participation in the early years of implementation would likely be low,[222] the system must be built with capacity for full-scale utilization. Software currently in use by state revenue administrators may provide opportunities to limit the expense of designing completely from scratch.[223] Nonetheless, the technological requirements are beyond the scope of current IRS technology budgets and priorities (see Box 4).[224] Investment through training and education for IRS staff would also help develop and embrace the agency's expanded role as a benefits administrator.

Periodic payment options would require a **FUNDAMENTAL SHIFT** in the income tax **DISBURSEMENT SYSTEM**

Contemporary tax administration systems aim for automation,[225] limiting the need for human involvement and corresponding staffing levels. Automation enables scaled implementation, but it also introduces opportunities for unchecked error[226] and curtails program accessibility.[227] The experience of EITC households with computer-generated auditing processes presents a cautionary tale and points to the need for investing in personnel for ongoing periodic payment administration.[228] In her last report to Congress, former National Taxpayer Advocate Nina Olson called for IRS utilization of social workers and similar professionals capable of bridging the inevitable gaps when real people encounter challenges navigating the rigidity of a complex and largely automated system.[229] Facilitating processes such as enrollment questionnaires, online account management, and hardship waivers would require a human touch.[230] The proposed Worker Relief and Credit Reform Act (the legislative proposal adding periodic payments to EITC referenced earlier in this report) specifies an online portal plus the availability of one-on-one consultations to assist taxpayers with advance payment enrollment.[231]

Administrative responsibility encompasses educating beneficiaries and promoting the available options. While the IRS may not be considered an agile marketer, the EITC under IRS administration has nonetheless achieved a high take-up rate.[232,233] This is likely due in part to the incentives of other actors in the broader return-filing ecosystem to promote full participation,[234] but the IRS does engage in education and promotion activities for tax credits, especially the EITC.[235] The key challenges for promoting an EITC periodic payment would be harnessing this distributed infrastructure of public, private, and nonprofit actors to communicate the availability of disbursement alternatives and leveraging the reach and services of non-IRS actors (e.g., tax return preparers, financial institutions, retailers, etc.) while not exposing participants to predatory business practices.[236]

Administrative Integrity

As for potential integrity risks, a well-designed periodic payment program would minimize tax revenue loss and improper payment. Of course, just as with the annual return filing process and other public benefit systems, some leakage, including overpayments and underpayments, is unavoidable.[237] At the same time, more frequent payments of smaller amounts (and reduced refunds) could decrease the incidence of improper payments by making them less attractive targets for hackers and scammers.[238]

While it is important to consider potential integrity risks from periodic payment options, there is already disproportionate focus on lower-income refundable tax credit participants[239] and away from non-compliance by high-income earners. Indeed, losses from underreporting of individual income account for 56 percent of total tax revenue loss from non-compliance, in contrast to instances of EITC overpayment which represent a significantly smaller share (six percent) of total tax revenue lost.[240] Given the imbalance in compliance enforcement, a robust strategy to limit program integrity risks would also employ adequate resources into auditing and pursuing tax compliance among high income earners.

ELIGIBILITY

Eligibility requirements for refundable tax credits involve numerous factors;[241] for example, the EITC has tests related to earned and unearned income, relationship to and residency of children, age (of children or the taxpayer), marital status, and prior errors in claiming.[242] In the case of periodic payment options, eligibility affects and is affected by program size, administration, equity, and other design considerations. Limiting criteria could include credit size (small annual amounts may be administratively or practically infeasible or behaviorally ineffective when broken into multiple payments), program tenure (preferencing, for instance, either new or longstanding participants), household stability (variability in who constitutes the tax household can be an indicator of particular need or an obstacle to requisite predictability), or data reliability (expenditure-based credits, in particular, can involve third parties of uneven trustworthiness).[243]

With a number of benefits and provisions embedded in the tax code, eligibility requirements that may be race-, gender- or otherwise neutral on the surface can have racially disparate impacts and other inequitable outcomes.[244, 245] Accordingly, an effective and equitably designed periodic payment will have eligibility standards that have been assessed and tested for disparate impact, by race and gender in particular. If narrower participant eligibility is required, due to funding or administrative constraints, policymakers should evaluate and choose eligibility design options for their ability to limit racial and gender disparities.

BOX 5.

ELIGIBILITY & CALCULATION OF PERIODIC PAYMENT AMOUNTS INTERNATIONALLY

In Ireland, the amount of the Family Income Supplement (disbursed weekly) is based on income from the four weeks prior to filing a claim (if the applicant is paid weekly or biweekly), the prior two months (if paid monthly), or on another appropriate basis such as the weekly average for the prior year.[246] The benefit amount does not change for 52 weeks regardless of earnings, and it may be increased if the households adds a child. Calculation of the Canada Child Benefit uses as family income the prior year's tax return and is adjusted each July, but participants must report promptly any changes in marital status or number of children and must repay any overpayments resulting from a failure to report.[247]
To be sure, foreign calculations of eligibility may not serve as perfect examples for periodic payment options in the U.S. tax system. Many foreign jurisdictions have administratively simpler systems for taxpayers (such as true Pay-As-You-Earn systems),[248] and individual parts of those tax systems may be difficult to add to the U.S.' more complex system. On the other hand, policymakers should understand the successes from other countries and consider how they can be applied in a U.S. context.

PARTICIPANT CHOICE & ACCESS

Participants are best positioned to make decisions about when and how tax credit disbursements best meet their needs. Current law provides considerable latitude for program participant choice. EITC and CTC dollars can be spent however a household sees fit without a standardized determination of what is best for people. Premium Tax Credit and AOTC dollars must be spent on health insurance and higher education, respectively, but it is up to the participant to choose what policy or institution provides the best use of the available subsidy within a set of constrains. At present, however, public policy severely constrains participant choice by failing to account for the temporal aspects of need and the limited liquidity of lower-income households. Periodic payment options are a vehicle for affirming the empowerment provided by refundable tax credits. Well-designed periodic payment options provide a range of reasonable and viable choices from which beneficiaries can choose as best fits their needs. These include choices such as participation in alternative disbursement to the year-end tax refund, the method of disbursement, the preferred frequency, and the preferred amount.

PUBLIC POLICY severely constrains participant choice by **FAILING TO ACCOUNT** for the temporal aspects of need & the **LIMITED LIQUIDITY** of lower-income households

Although participants are able to determine the best use of refundable tax credits, a complete range of choice is neither administratively feasible nor likely to result in desired outcomes (for example, research has shown the detrimental impacts of an overwhelming number of choices, or choice overload, on consumers[249]). The degree of necessary constraint depends in part on the nature of the program, with cash-equivalent boosts affording the most flexibility and expenditure-based subsidies having limits shaped by the characteristics of the markets affected.

Appropriate policy design decisions can also mitigate the overall risks of disbursement and ensure that tax credits reach tax filers securely. More frequent disbursement and use of unconventional channels (such as online taxpayer accounts) increase the number of access points and could multiply the cybersecurity risks. Periodic payment appropriately advances program purpose when it includes attention to data security and safeguards against improper participation.

Some of the key elements of periodic payment design are expressed in the parameters setting the bounds of beneficiary choice.

FIGURE 6. Parameters Shaping Participant Choice

Questions to Consider While Designing Periodic Payment Credits

PARAMETER	GUIDING QUESTION	ADDITIONAL QUESTION(S)
Participation Defaults	Does a tax credit recipient receive periodic payments only if they opt-in, or does everyone participate in periodic payments unless they opt-out?	Are participant decisions presumed to remain in place until they are affirmatively changed by the participant?
Disbursement Method	How does the disbursement method of a tax credit affect who is eligible to receive the actual payment?	Are there reasons to allow individuals receiving the disbursement to direct payments to another party?
Frequency	Can participants choose between multiple options of how frequently they receive their payments?	Are beneficiaries empowered to choose frequency options that best suit their circumstances or are they overwhelmed by multiple options? Are appropriate limitations set to promote compliance with program policies?
Amount	Is the entire amount of a tax credit subject to periodic payments, or is just a portion of the credit available to receive periodically?	Does the amount available for periodic payments achieve the program goal, protection of participants, & program integrity?
Other Considerations (Accessibility, Equity, Administrative Resources, etc.)	Are equity & accessibility prioritized in the periodic payment option ?	Does prioritizing equity and accessibility create unintended consequences – such as administrative barriers & increased costs – in trying to match timing to need? Does prioritizing equity & accessibility improve effectiveness in meeting program goals?

Source: Georgetown Center on Poverty and Inequality, 2020.

Participation Defaults

Periodic payment will require a system-wide default enrollment option—either opt-in or opt-out. An opt-in default would make annual disbursement standard and require participant action to receive a periodic payment option; an opt-out default would make a periodic payment option standard and require participant action to receive an annual disbursement.[250] As policymakers consider potential periodic payment options, they should consider how participation defaults might minimize or contribute to taxpayer burden while ensuring accuracy. A related question is whether participant decisions are presumed to remain in place until affirmatively changed.

Enrollment should be thought of as an ongoing rather than one-time process, encompassing not only how and when to trigger periodic payment but also the process for communicating changes that may modify disbursements and the manner for discontinuing participation. This requires thoughtful administrative communication protocols and methodologies that enable rather than curtail or discourage participation.

Disbursement Method

The method/mechanism for delivery of the credit (i.e., who is eligible to receive the actual payments, and through what medium) may vary depending on the purpose of the credit (e.g., the beneficiary may not be the party receiving the disbursement), as well as other political and feasibility factors related to administration, cost, and efficiency. Options for disbursement include a special purpose account associated with the credit,[251, 252] and Direct Express debit cards, which allow beneficiaries to access federal benefits without having a bank account.[253] Or, in some cases, the credit disbursement method may be a restrictive provision; for example, the existing APTC can be received only by the participant's health insurer,[254] and it may be preferable to direct other expenditure-based credits to vendors. Alternatively, the disbursement method could be an expansive feature, permitting participants to assign disbursements for direct payment to another party,[255, 256] (such as a landlord or creditor). Box 7 describes how individuals who are un- or under-banked, or lack broadband access, could still receive periodic payments of their tax credits.

Frequency

The frequency of periodic payments can be set or variable. They can be at regularly scheduled intervals (weekly, biweekly, monthly, bimonthly, quarterly, etc.),[257] tied to an external calendar (for example, for expenditure-based credits, to billing cycles), or on-demand (with a set or unlimited number of occurrences). Multiple options to maximize participant choice is a desirable objective, but some limitations are likely needed for reasons both administrative (related to program integrity, ensuring that dollars are spent for purposes intended by policy) and behavioral (guarding against decision-making paralysis from too many choices for participants).[258]

Amount

The full amount or only a portion of the annual credit may be available for payment periodically. Such decisions may be influenced by program purpose goals (maximizing the impact of credit receipt), program integrity safeguards (discouraging fraudulent receipt or improper participation), and protection of participants (minimizing repayment obligations, if the reconciliation element of the periodic payment design creates risks). The size of the amount disbursed can be consequential for take-up of periodic payment. As was explored in the discussion of the now discontinued AEIC (see the EITC Advance Payment Experience [1979 - 2011] section of this report), having too small an amount available for advance payment can make periodic payment less attractive to eligible participants, who may not see it as worth opting into.

Basis of Calculation

Because periodic payment is simply an alternative disbursement method for an annual tax credit, it requires calculation of the annual amount. The old AEIC had employers use reverse withholding tables that projected the worker's annual income (and thus the expected EITC) as if the current pay period's amount were received for the full year (thus, the basis for calculation could change every pay period).[259] The APTC makes a complex calculation based on estimated annual income, current household configuration, and the local market cost of health insurance; taxpayers are expected to report income and household changes, which can trigger recalculation.[260]

Rather than estimating forward, an alternative could be modeled on the calculation of the Income Related Monthly Adjustment Amount added to the monthly Medicare Part B premiums of higher-income beneficiaries.[261] This method of calculation uses income as reported by tax return two years previously in place of current year income.[262] A participant whose actual current income is less due to specified life-changing events can communicate that[263] and have the Part B premium (and a similar prescription drug coverage charge under Part D) accordingly reduced. Increased current year income will not affect monthly premiums until two years later. Calculating income from the two-year prior tax return could ensure that changes to credit eligibility or amount received do not create adverse shocks. Evidence suggest that many families would struggle to cover a financial shock of $2,000,[264] a smaller emergency expenses of $1,000,[265] or even $400; unexpected expenses (particularly health care costs) are a key driver of increased debt among families.[266] By estimating income backwards, such a method of calculation could reduce the likelihood of an unexpected shock to recipients' income and consumption patterns due to changes in eligibility and credit amount.

The basis of calculation could be a hybrid of these forward- and backward-looking methods, with or without an expectation of making in-year adjustments.

Tax Filing Reconciliation

Reconciliation is arguably the most difficult periodic payment element to design.[267] Fear of owing money back to the IRS (even though unlikely given the payment design) was probably a major factor in the low utilization of the AEIC,[268] and protecting resource-strapped households from unexpected tax bills is a major source now of opposition to the EITC periodic payment concept.[269] Reconciliation has also been a challenge for the international analogues of the EITC (see Box 6).

BOX 6.

INTERNATIONAL EXPERIENCE WITH RECONCILIATION

In New Zealand, the combination of periodic payments and annual reconciliation of credit entitlement initially resulted in high rates of both overpayment and underpayment; subsequent administrative initiatives reduced these errors.[270] After the United Kingdom in 2003 introduced its Child and Working Tax Credits (predecessors to the current Universal Credit), the number of families receiving overpayments was twice what had been anticipated; this was attributed to several factors, including high incidence of income volatility and claimants not reporting changes in circumstances during the year.[271]

The policy responses included broadening the types of changes triggering required reporting, an advertising campaign regarding the need to report changes, and a tenfold increase in the amount of additional income disregarded during reconciliation.[272] Australia has experienced high rates of taxpayers receiving periodic payment owing a share back at year end, yet most households still opt for being paid every two weeks.[273]

The foundational periodic payment principle of being embedded in tax administration requires honoring the annual settlement of accounts. Protecting program integrity requires respecting the underlying merits of the idea that only those who qualify for a benefit receive it. Because periodic payment operates within the context of the income tax system and its annual settlement of accounts, the default action is to use the tax return to reconcile payments received to payments deemed properly owed. The AEIC used,[274] and the current APTC uses now, a straightforward approach: a recalculation of the true credit amount (based on other information from the tax return), subtraction of total disbursements made during the year, and incorporating the resulting positive or negative amount into the return's determination of refund or balance due.[275] For the APTC, a negative calculation may be reduced by a percentage based on income (for example, an individual with income between 200 percent and 300 percent of the federal poverty line does not have to repay more than $800 in overpaid APTC).[276]

Other approaches to reconciliation are politically and administratively possible. There could be full safe harbors[277] that do not require any repayment or apply in certain circumstances—as with the CARES Economic Impact Payments during the COVID-19 pandemic and recession.[278] These could be presumed applicable or be triggerable by taxpayer action. The basis of calculation could be accepted as a valid measure of proper participation; in other words, the predicted credit amount becomes the amount for which the recipient is eligible. If repayment is required, it could be assessed outside of the current year tax return; for example, reductions in subsequent periodic payments, installment payments on future tax returns, or through separate payment plans. And more frequent and higher quality reporting of payroll and other earnings data could facilitate new approaches altogether. Investments in outreach and education, including through the VITA program, are also integral to ensuring reconciliation concerns do not prevent or hinder utilization of periodic payment options. Implementing basic competency standards for paid tax preparers could bolster the effectiveness of these approaches.

BOX 7.

REACHING PEOPLE WHEN THEY ARE UN- OR UNDER-BANKED, OR LACK BROADBAND ACCESS

The Economic Impact Payment (EIP) disbursed in 2020 in response to the COVID-19 pandemic provides useful insights into payment mechanics. Households for which the U.S. Treasury had depository account information on file because the account had been used previously used to make direct deposit of tax refunds or Social Security or other federal benefit payments had the EIP deposited into that account automatically. They also had the option of using a special web portal deployed by the IRS to update or provide information for an alternative depository account. In most cases, the funds went to a traditional financial institution checking or savings account, but the depository account could also be a prepaid debit card or online account (for example, PayPal).[279] Treasury also mailed some recipients a prepaid debit card loaded with the EIP[280] (though some recipients did not recognize this as a legitimate payment and discarded the envelope or card[281]). It is important to note, however, that EIP payments are not protected from garnishment by creditors once the funds are deposited into a taxpayer's account.[282]

The federal government has additional options for making payments to households without a depository account.[283] Some Social Security and other federal benefit payments are made to the Direct Express prepaid debit card sponsored by the Treasury Department. Other versions of prepaid debit cards provided by state governments include EBT (Electronic Benefits Transfer) cards for disbursement of food and sometimes cash assistance and EPC (Electronic Payment Cards) for child support and some other assistance payments.

Access to mainstream banking is crucial in order to have widespread access to these sorts of payments and other government benefits; however, 25 percent of U.S. households are unbanked or underbanked.[284] Such gaps in access have led to various guaranteed banking proposals (such as postal banking, public-private partnerships, etc.) Some of the most recent proposals were released by the Michael Bloomberg, Elizabeth Warren, and Bernie Sanders 2020 presidential campaigns,[285] along with proposals from Senator Kirsten Gillibrand and Representative Alexandria Ocasio-Cortez, and a proposal from the Great Democracy Initiative called "FedAccounts."[286] Such proposals aim to provide basic banking services at post offices across the country to reach unbanked and underbanked communities (for example, in the 2019 Sanders/Ocasio-Cortez proposal, services include post offices having ATMs and being able to cash a check, pay bills, and conduct electronic money transfers). "FedAccounts" would offer central banking services to the unbanked and underbanked, providing all users the same interest rates that commercial banks get, and eliminating interchange fees for debit card payments.[287] The 2018 Gillibrand proposal would have directed the post offices to offer inexpensive small loans, remittance, and banking accounts with debit cards and online services available. The deposit accounts could hold up to $20,000 per account, and would be offered by the U.S. Postal Service alone or in connection with a bank or credit union.[288] Broadband access is intertwined with accessible banking. Nearly 44 percent of individuals from households earning less than $30,000 annually lack broadband internet access, making it important that banking proposals include elements that would create secure phone-based transaction and information options, in addition to offering various online (and mobile-enabled) and other accessible options.[289]

Applied Recommendations

The periodic payment design considerations outlined above can be applied to any refundable tax credit or similar program. This section makes recommendations specific to the EITC and CTC. In assessing the key considerations for periodic payment design, policymakers and other stakeholders should center recommendations that advance racial, gender, and economic equity. Each refundable tax credit would benefit from more flexible disbursement options; though, *as presently configured,* the EITC may be better suited to periodic payment than the CTC, primarily because the EITC typically offers a larger payment to eligible families with low incomes. This section first offers detailed periodic payment recommendations for the EITC, and then builds off that discussion to offer concise recommendations for the CTC.

Earned Income Tax Credit

The federal EITC is the program most frequently considered for incorporation of periodic payment options. In 2018 the EITC reached over 22 million people nationwide, kept 5.6 million people above the poverty line (including three million children)[290]; it has been demonstrated to reduce poverty over time.[291] Given the credit's often large size (up to $6,660 in 2020), its unavailability during the year particularly limits its effectiveness as an income support. The EITC's powerful anti-poverty effects could be boosted by better aligning disbursement timing to need. As a result, the EITC is a good candidate for incorporating periodic payment, and the IRS is best suited to lead the disbursement option's administration and promotion. It could be reasonable to pursue periodic payment of the EITC if the costs of implementation are likely to be exceeded by greater realization of the program's goals of bridging the gap between labor income and basic costs of living.

THE IRS SHOULD MAINTAIN ADMINISTRATIVE RESPONSIBILITY FOR EITC PERIODIC PAYMENT

The IRS should maintain administrative responsibility for EITC periodic payment. One potential objection to IRS administration is that the agency is not set up to make recurring disbursements. Although it is true that refund payments tend to be concentrated at certain points within the January to April filing season and that the typical taxpayer receives only a single payment in any year, the IRS does issue payments year-round,[292] and it can and does make multiple payments to a taxpayer for a single tax return as it corrects errors and resolves disputes.[293] Moreover, the Treasury Department's Bureau of the Fiscal Service has experience with issuing payments periodically, including to Social Security and Veterans' beneficiaries as well as vendors of federal agencies.[294]

The IRS would require new infrastructure to handle the two-way enrollment communications required for effective periodic payment administration: signing up, indicating pertinent household changes, and opting out after having enrolled. This likely would require procuring expertise from outside the agency; a white-label arrangement utilizing a private contractor in a way that is invisible to users could take advantage of technological capabilities in the private sector for design, implementation, and even hosting, while preserving the public safeguards and affirmation of IRS responsibility. This infrastructure design must guard against the incentives for third parties—seen in the history of the EITC—to promote administrative burdens that increase the need for their involvement.[295]

The EITC's powerful **ANTI-POVERTY EFFECTS** could be **BOOSTED** by better **ALIGNING DISBURSEMENT TIMING** to need

An approach to periodic payment administration that would meet the requirements of program design is individual online accounts. Such accounts have been envisioned more broadly as an objective of IRS modernization,[296] and they would mimic how many people in the U.S. access and manage other aspects of daily financial life.[297] Online accounts do introduce significant security risks[298] which would need to be addressed aggressively to protect program integrity. They would also require close attention to accessibility concerns related to technological access and capability,[299] individual communication challenges, and taxpayer preferences.[300,301] For people without broadband access, proposals have suggested creating secure phone lines that individuals can call to apply for these payments.[302]

When considering program integrity, the IRS should shift its current unbalanced scrutiny of lower-income refundable tax credit participants[303] toward non-compliance from high-income earners. Maximizing this shift likely would require additional Congressional appropriations. However, even within current resource limitations, it is difficult to justify the higher audit rates frequently faced by tax filers with lower incomes than by those with higher incomes.[304]

Robust Education & Outreach Are Central to Equitable Periodic Payment Options

The IRS relies heavily on the commercial tax return preparation industry (particularly software providers) to execute the annual filing process.[305, 306] The non-profit sector—especially community-based tax preparers and advocates that provide free return preparation[307]—could play an increased intermediary role with tax credit recipients. In particular, nonprofit and community tax preparation providers such as the Volunteer Income Tax Assistance program (VITA)[308] enable EITC recipients to keep the full sum of their payments, whereas private tax preparation providers charge fees for their services that reduce the benefit to the taxpayer.[309] Due to its partnerships with both for-profit and nonprofit actors, the IRS could leverage both private and nonprofit channels of outreach to effectively disseminate information about periodic payment options to eligible individuals and households. And with increased Congressional appropriations, VITA in particular could play a meaningful role in implementation and access to this important option.

Along with partnerships, education and outreach are also crucial to ensuring meaningful take up of periodic payments. As it stands, one in five people eligible for the EITC do not claim the credit, in part due to lack of awareness.[310] Among eligible workers, Latinx parents with low incomes are the least likely to know about the EITC, and parents with very low incomes are less likely than higher-income eligible families to know about the EITC.[311, 312] Given the significant income boost and poverty-reduction effects of tax credits like the EITC,[313] increased awareness would likely bolster these effects. Education and outreach efforts must be accessible, targeted, and culturally competent to reach key populations such as workers of color and workers with disabilities. Creative and effective promotion likely requires engaging external marketing expertise. Such efforts should involve partnerships with community-based and nonprofit tax organizations as well as private tax preparation providers that have developed productive relationships with eligible tax filers. Effective promotion also necessitates materials and resources in multiple languages with disability-friendly formats,[314] to reduce barriers to information access and reduce existing disparities.

1 IN 5 people eligible for the EITC **DO NOT CLAIM THE CREDIT**, in part due to lack of awareness

KEY PARAMETERS SHOULD SHAPE PARTICIPANT CHOICE

Several key design elements related to participant choice should be considered to ensure that EITC periodic payment options adequately match timing to need: participation, disbursement method, payment frequency, and payment amount.

Participation Should Be on an Opt-In Basis

EITC recipients should opt-in to periodic payments. This would undoubtedly depress participation, and it could be revisited a few years into implementation if a particular taxpayer preference emerges that would warrant presuming a desired choice from which an EITC recipient could then opt out. Generally, however, underlying this approach to periodic payment is a recognition that financial needs and desires vary considerably across households and may vary considerably for any single household over the life course.[315] Accordingly, participation decisions initially should not carry over from year-to-year but must be annually reviewed. To facilitate this, each individual or family that chooses a periodic payment option should receive notification of their prior year's decision, and ask whether they would like to continue with their decision for the following year.

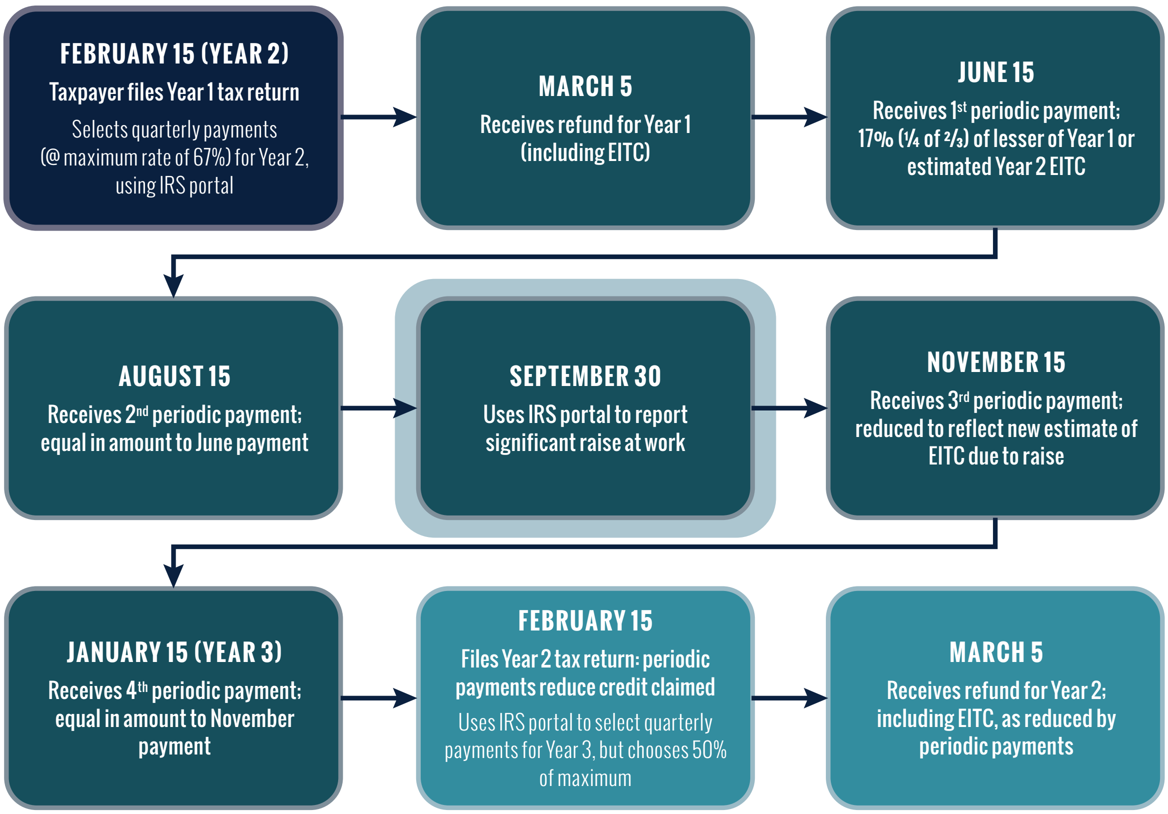
The timing of the opt-in decision should vary by the selected frequency (see below):

- **Monthly or Quarterly**—on or concurrent with filing the prior year tax return, or separately before the prior year return filing deadline;
- **One-Time**—30 days in advance of desired receipt, on or after July 1; and
- **Deferral**—on the current year tax return.

Those receiving monthly or quarterly payments would be expected to communicate significant changes in income or household composition within 60 days. The IRS would adjust future payments based on the new information. Monthly and quarterly recipients can elect to discontinue receipt of remaining payments with 30-day notice.

FIGURE 7. How Periodic Payments Could be Scheduled in the EITC

Sample Annual Process for Receiving Periodic Payments in EITC



Source: Georgetown Center on Poverty and Inequality, 2020.

Facilitating a Variety of Disbursement Methods Could Ensure Extensive Access

Accounts in the taxpayer's name capable of receiving direct deposit should be the preferred means of EITC periodic payment receipt. Although many households may not have a traditional bank account, most people in the U.S. have access to a means of receiving direct deposit,[316] including prepaid debit cards (though such cards are not a silver bullet and may put some participants at financial risk[317]), and even PayPal accounts.[318] The Department of Treasury-recommended Direct Express prepaid debit card provides an additional option for individuals without financial institution accounts,[319] and some EIPs were disbursed via a prepaid card in 2020.[320] Eligible accounts would include special-purpose restricted savings accounts held by the IRS for those choosing deferred periodic payment.

Participants Should Have Multiple Options for Frequency of Payment Receipt

Frequency design provides the most robust expression of recipient choice. Eventually, eligible participants should be able to choose from four periodic payment frequencies: 1) monthly advance; 2) quarterly advance; 3) one-time advance; and 4) set-term deferral:

- **Monthly:** Nine payments total, with one paid each month from June through January;
- **Quarterly (could alternatively be denoted bimonthly):** Four payments total, in June, August, November, and January;
- **One-Time:** A single drawdown of anticipated credit dollars on or after August 1; and
- **Deferral:** Single payment from a three-month or six-month special-purpose savings account.

Although the limited evidence on beneficiary preference points to the quarterly option,[321] these four options provide flexible opportunities for matching timing to need. This approach also best insulates periodic payment from perception distortion (i.e. the belief that they are no longer tax credits) and local rent-seeking from merchants and others taking advantage of widespread incidence of moments of increased liquidity.[322]

Maximum Periodic Payment Amounts Should Vary by Frequency

To limit harmful reconciliation at tax filing, only a portion of the likely full value of the tax credit should be made available for periodic payments. The maximum amount that could be received through periodic payment should vary by the selected frequency. Suggested initial maximums range from one-fifth to two-thirds:

- **Monthly or Quarterly:** 67 percent;[323]
- **One-Time:** 25 percent;[324] and
- **Deferral:** 20 percent.[325]

These maximums may require adjustment depending on the final reconciliation design.

ELIGIBILITY FOR EITC PERIODIC PAYMENTS SHOULD BE BASED ON PRIOR RECEIPT

The scope of eligible participation is one of the more difficult elements for EITC periodic payment design, in addition to reconciliation. Bridging the gap between earnings and the cost of basic living—the core program purpose—would ideally be immediately responsive to need; coming closer to that goal is the rationale for periodic payment. But ascertaining who is eligible to receive the credit is already difficult, even in the backward-looking context of a tax return,[326] and the tension between the tax system's voluntary compliance norm of self-declaration and indicators of improper payments clouds broad support for the credit.[327]

Eligibility for periodic payment options should be based upon previous year receipt of the EITC or a declaration of anticipated year-end eligibility for the credit. Eligibility based on prior year receipt of the EITC (versus also allowing untested claims of eligibility for the credit) would reflect that a prior claim has been made under penalty of perjury and that nothing was found in return processing[328] to warrant denying the claim (so the credit was paid). However, that compromise does not serve the newly eligible, who would remain subject to the status quo delay in the interest of program integrity.

Given the significant year-to-year changes in EITC eligibility, it is important not to equate prior year receipt to current year credit eligibility.[329] Many workers in low-paid jobs often face unpredictable and unstable work schedules or seasonal work, which can result in inconsistent earnings and income flows. Such income volatility can be a challenge in estimating EITC eligibility.[330] Families in deep poverty have low levels of earned income, making them ineligible for the maximum EITC credit, which affects take-up rates.[331] In addition to eligibility based on prior year receipt, the second criterion should be a declaration (following voluntary compliance standards, under penalty of perjury) of anticipated year-end eligibility for the credit. The required content of this declaration may depend on the basis of calculation design. For example, if the advance credit can vary by the number of qualified children, the declaration should ask questions about any such children in the household.

Periodic Payment Credit Should Be Calculated Through Prior-Year Receipt & Current-Year Estimates of Income & Household Configuration

The enrollment process needs to include informed estimation of the taxpayer's anticipated current year EITC. The amount could be calculated using either the taxpayer's anticipated EITC for the current year or the EITC amount they received the year before (whichever is the lower amount). Although this likely would not assist those anticipating increased financial hardship, it echoes the necessary compromise of the design decision to restrict participation to prior year EITC recipients.

When considering program integrity, **THE IRS SHOULD SHIFT ITS CURRENT UNBALANCED SCRUTINY** of lower-income refundable tax credit participants **TOWARD NON-COMPLIANCE FROM HIGH-INCOME EARNERS**

Requiring an estimate of the current year credit introduces considerable complexity and complicates the annual enrollment process. Although the limited experimentation to date provides a model for a questionnaire-based approach that would guide taxpayers in discerning and reporting the key factors affecting eligibility and credit size,[332, 333] experience with Form W-4 for calculating withholding allowances highlights the implementation challenge.[334] Moreover, unlike with Form W-4, the approach advocated here envisions communicating directly with the IRS and the IRS conducting an independent assessment; this greatly increases the infrastructure requirements for implementation. A method analogous to Medicare Part B premium setting and the The Economic Impact Payment (EIP) disbursed in 2020 in response to the COVID-19 pandemic[335]—accepting prior year data as presumptively accurate and providing for only those adjustments favorable to the taxpayer—would be much easier for all parties. However, given the known eligibility volatility of the EITC population, this would likely greatly increase program cost, reduce efficiency, and—depending on the metric used to determine the rate—increase the improper payment rate.[336]

PERIODIC PAYMENT REQUIRES CLEAR RULES FOR RETURN FILING & RECONCILIATION

Well-designed periodic payment of the EITC—with a strong basis for calculation, correctly calibrated maximum amounts, and easy taxpayer communication of changes—should give rise to few painful reconciliations, and reconciliation is not an issue for those who select deferred payment receipt.[337] The limited experimentation to date confirms this: for most participants, other components of year-end refunds can easily satisfy any repayment obligations.[338] The design challenge is addressing the outlier cases (for example, the single low-paid parent unexpectedly unable to claim some or all of their children at year's end)[339] and mitigating, as reasonable, any potential for moral hazard.

Advance Payment Receipt Should Be Reconciled Through Annual Return Filings

Receiving an EITC advance payment should trigger a federal income tax filing requirement. The tax return would calculate the actual EITC, subtract total advances, and forward any difference into the calculation of refund or balance due.[340] Any overall balance due attributable to periodic payments received should constitute a payable collectible in equal installments on the two subsequent year tax returns (which would be required filings). Interest should accrue on the owed amounts, but no penalty would be imposed[341] (unless there is a subsequent finding of gross negligence or intentional fraud).

The IRS Can Ensure Equitable Resolution of Reconciliation

The consequences for receiving one or more EITC periodic payments and then escaping reconciliation by not filing a tax return would depend on the circumstances. If the taxpayer failed to file, or purposefully did not filing to avoid reconciliation, they would become ineligible to receive any further EITC (in either periodic or year-end form) and would be subject to standard IRS action for failure to meet the filing requirement. However, to encourage compliance, both EITC ineligibility and any enforcement would cease immediately upon the taxpayer's filing the missing return and initiating reconciliation. If the taxpayer had intentionally received periodic payments with no expectation of current or future EITC eligibility, full IRS enforcement of non-filer sanctions would be applicable and appropriate.[342]

Although this approach offers significant reconciliation protection, it is insufficient for the true outlier cases. An automatic safe harbor provision is attractive for respecting the honesty and integrity of EITC households, but its potentially broad applicability introduces excessive risk. Preferable is a hardship waiver rooted in the same principle: not penalizing someone experiencing an unforeseen change of circumstances. Taxpayers with overall balances due could seek relief through a simple waiver application that would be resolved prior to the next filing season. An additional useful taxpayer safeguard would be income-based forgiveness of owed amounts not discharged after the three years of filing required returns.

Child Tax Credit

The CTC, like the EITC, is suitable for periodic payment. It is a refundable tax credit intended to bridge the gap between earnings and the costs of supporting children; families incur these costs throughout the year and could benefit from a closer match in time between resources and expenses. A viable periodic payment alternative for the CTC is possible, either in lieu of or in combination with periodic payment of the EITC. Additionally, the CTC could be structured as a complement to an EITC periodic payment program. Many of the CTC periodic payment policy design recommendations listed align with the recommendations crafted for the EITC. However, there are several distinct design decisions between the two tax credit systems.

MANY CTC & EITC PERIODIC PAYMENT CONSIDERATIONS ARE SIMILAR

The CTC in its current form could be made available through periodic payment similarly to the EITC.

The IRS Should Invest in CTC Periodic Payment Education & Outreach

Like with the EITC, the IRS should invest in education and outreach, particularly through increased appropriations for the VITA program, to help facilitate awareness and take-up of periodic payment options for the CTC for eligible families and households.

The IRS Should Maintain Administrative Responsibility for CTC Periodic Payment

The IRS is best positioned for taking primary responsibility to administer periodic payment of the CTC (including promoting the availability of the option). The costs incurred in infrastructure and risks to program integrity would be similar to those required for EITC periodic payment, and similar types of benefits could be expected to accrue.

CTC Participant Options Should Be Similar to Those of the EITC

The recommended structure would follow that outlined above for the EITC:

- Opt-in participation (at least until the option is established and participant preferences emerge)
- Electronic direct deposit to the taxpayer's account
- Monthly, quarterly, one-time, or deferred receipt
- Choice of amount to be paid periodically, subject to maximums varying by payment frequency; if the EITC and CTC are simultaneously available through periodic payment, the maximums for each credit would need to be reduced to account for the unavailability of the other as a cushion against incurring a net repayment obligation during year-end reconciliation[343]

CTC Periodic Payment Eligibility Should Be Limited to Those With Prior-Year Receipt

Prior-year CTC receipt should be required for enrolling in periodic payment, with estimation of income and household configuration for the current year to calculate the anticipated CTC (the base used to set the maximum available periodically capped at the prior year's CTC).

CTC Reconciliation Should Be Similar to EITC Reconciliation

Determination should be on the tax return of the actual CTC for the year, with any difference added or subtracted from the calculation of refund or balance due. There should be a collection of the overall balance due from future tax returns, with a hardship appeals process for unforeseen change of circumstances.

DISTINCTIVE ASPECTS OF THE CTC WARRANT SPECIAL CONSIDERATIONS FOR PERIODIC PAYMENT

The CTC in its current form is different from the EITC in ways that both enhance and diminish its suitability for periodic payment, with significant consequences for economic equity.

Like the EITC, the CTC phases in as earnings rise; unlike the EITC, the CTC does not phase out until a high level of income. This means that there is limited risk of overpayment among taxpayers who might struggle to pay back excessive advance payments, which would be the most common reconciliation issue for the EITC.[344]

The CTC would be subject to reconciliation issues similar to the EITC arising from changes in household configuration that affect credit eligibility. Although much less common than income estimation errors, the effect of these errors is much more significant,[345] because not being able to claim a child can mean (for the CTC) a $2,000 loss in eligibility, compared to typically much smaller effects from misgauging the year's income.

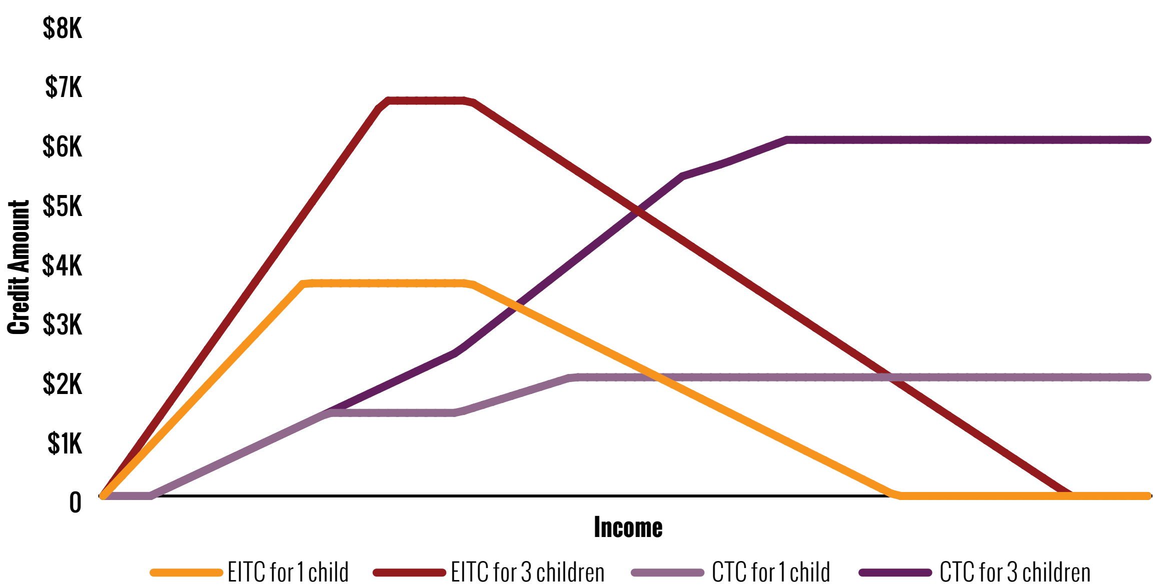
Many more households are eligible for the CTC compared to the EITC, so a much broader population could have access to periodic payment. This wide reach could affect its political attractiveness and durability.[346] Administrative costs would be spread over a larger number of potential participants, but a larger share of benefits likely would accrue to less financially vulnerable households.

The size and structure of the CTC affects the return on investment in other ways. As shown in Figure 8, for lower-income taxpayers, the current CTC is much smaller than the EITC, and it remains less substantial for smaller families as income rises. This would limit the size of periodic payments (monthly payments could be especially small), reducing the ability of alternative disbursement to address gaps in household finances.

The relative sizes of the CTC and EITC are also significant in terms of the role each credit can play for reducing repayment risks and preserving sizeable year-end tax refunds: under current law, the generally smaller CTC may be more suitable as a reliable lump sum counterweight to a periodically-paid EITC than an annual disbursement EITC would be to a periodically-paid CTC.

FIGURE 8. EITC & CTC Can be Substantial for Many Low- & Moderate-Income Families

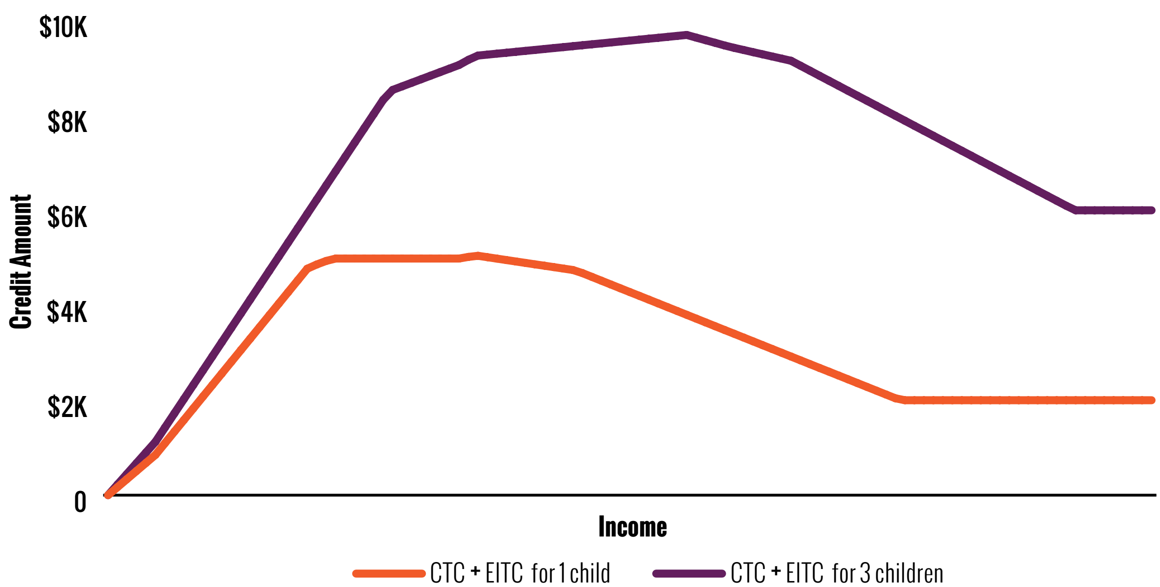
Credit Amount Schedules of EITC & CTC for Tax Units with One or Three Qualified Children, 2020



Source: "26 CFR 601.602: Tax forms and instructions." Internal Revenue Service, retrieved 27 March 2020. Available at https://www.irs.gov/pub/irs-drop/rp-19-44.pdf.

FIGURE 9. EITC & CTC Can Combine to Provide Significant Financial Supports to Families

Credit Amount Schedules of EITC & CTC for Tax Units with One or Three Qualified Children, 2020



Source: "26 CFR 601.602: Tax forms and instructions." Internal Revenue Service, retrieved 27 March 2020. Available at https://www.irs.gov/pub/irs-drop/rp-19-44.pdf.

FUTURE CTC REFORMS COULD SUBSTANTIALLY AFFECT THE VIABILITY & PARAMETERS FOR PERIODIC PAYMENT

Proposed modifications to the CTC would affect the assessment of its suitability for periodic payment. A larger credit per child[347] would enhance the attractiveness of a periodically-paid CTC relative to the EITC, as would a more rapid phase-in of the credit for very low-income taxpayers.[348] If signed into law, the expansions and periodic payment mechanism of CTC under the HEROES Act (provisions that are essentially a temporary version of the American Family Act of 2019) could significantly bolster the anti-poverty effects of the tax credit, particularly among children.[349, 350] Elimination of the phase-in so that all claimants would receive the full amount per child[351] would enable extending the benefits of periodic payment to the most financially insecure households. However, divorcing the CTC from earnings and incomes (except at very high incomes) would diminish the suitability of the IRS as the most advantageous agency to administer this purer form of child allowance, both because the credit becomes more reliant on data similarly available to another agency that disburses periodic payments—the Social Security Administration—and because a larger share of eligible recipients would not normally be tax filers.

Conclusion

Many workers with low pay and families with low incomes face a precarious future amidst high unemployment and underemployment and a long-term decline in the availability of stable, adequate paying jobs with benefits. Women, people of color, persons with disabilities and chronic health conditions, immigrants, and others with limited English proficiency, in particular, bear the brunt of these changes, as decades of significant wage disparities[352] and labor market discrimination[353] leave many with low-paid and precarious jobs.

This changing nature of work and the economy, along with policy failures (such as a declining real minimum wage), threaten to undermine the ostensible bipartisan commitment to making work pay by using income supports administered through the income tax system (of which the Earned Income Tax Credit is especially robust and effective). Providing income supports through the tax system offers several advantages and remains a politically-preferred method of delivering cash to households. However, the current approach has a significant flaw: reliance on the annual tax return for disbursement of support. The resulting timing mismatch between when bills must be paid and when adequate money is available to households can amplify income volatility. During a crisis, the disconnect between the timing of need and receipt of tax disbursements typical of tax credits may limit people's capacity to weather the economic downturn and support their families, especially without incurring harmful debt.

Periodic payment—the availability of tax credit dollars at times in addition to annual refunds—offers the ability to better match the timing of support to the underlying needs the credits address. Policy proposals increasingly recognize the potential of this mechanism to achieve program objectives, but the critical question of disbursement itself has been underattended to. Periodic payment options can ensure program integrity and respect participant choice. They can co-exist with the architecture of the tax system while aligning with the real needs of families. Ultimately, breaking free of established practice will be a serious challenge, but doing so can offer social benefits to justify the investment, including advancing racial, gender, and economic equity.

Appendix

Advance Payments Through De Facto Workarounds

Manipulating tax withholding can function as a device to obtain periodic payment for some taxpayers anticipating refundable tax credit receipt. Although it is more common for EITC recipients—like many other households—to maximize payroll withholding to increase the size of the year-end refund (voluntary forced savings), taxpayers who follow prevailing expert advice to aim for neither receiving nor owing at tax time,[354] could technically minimize or eliminate income tax withholding and effectively receive a portion of their EITC through each paycheck rather than wait until year end.

Although minimizing or eliminating tax withholdings could technically be more easily implemented as an alternative to instituting formal periodic payment for the EITC, this would be feasible for only a small subset of EITC participants.[355] The option to reduce tax withholdings as a form of de facto periodic payments requires that individuals must earn enough income to have federal tax liability. Reducing or eliminating income tax withholding from paychecks as a de facto periodic payment mechanism can work only for workers in the higher-income range of EITC eligibility,[356] because it works only for the portion of the credit that offsets their annual federal income tax liabilities.[357] Someone earning $15 an hour for full-time work has a weekly income of $600 and an annual income of $31,200 (if working year-round). A head-of household with two children will likely have $25 a week withheld for federal income taxes in 2020, totaling $1,300 for the year. With two children, the EITC will be $3,420. Not having any taxes withheld would equate to having received about 38 percent of the credit in periodic payments.[358] EITC eligible workers at the lower end of the income spectrum would not be able to take advantage of withholdings as *de facto* periodic payments since they are less likely to owe any federal taxes. A worker earning the federal minimum wage of $7.25 an hour is effectively already exempt from withholding, because they will owe no federal income tax. Therefore, none of their $5,920 in EITC would be available to them during the year even in this *de facto* periodic payment strategy.[359] Consequently, the option to reduce tax withholdings as a form of periodic payment would only be viable for a narrow subset of eligible workers, leaving many workers still without access to the financial resources to help smooth income and mitigate economic insecurity during the year.

Relying on withholdings as a *de facto* workaround to periodic payment in part relies on assumptions that eligible workers have access to the level of resources needed to take advantage of the workaround. Yet such requisites, including financial resources to afford professional tax prepare assistance, as well as time to research and navigate the process for modifying their withholdings, would likely be barriers to access for many EITC eligible workers, even if they do have tax liabilities. In this way, manipulating tax withholdings to receive periodic payments indirectly may be further inaccessible to many EITC participants, as it may effectively place an additional burden of navigating complex tax systems on individuals and households who already face strains from economic insecurity, notably from low-paying jobs often with little to no benefits.

SELF-EMPLOYED EITC RECIPIENTS

For self-employed workers, manipulating quarterly estimated tax payments could similarly mimic periodic payment. The IRS expects those with self-employment income (or anyone else receiving income not subject to withholding) to pay their anticipated income taxes in April, June, September, and January installments. Not making those payments can result in a large balance due on the tax return as well as underpayment penalties. Taxpayers avoid this penalty if they owe less than $1,000 in tax after subtracting withholding *and refundable credits*.[360] There is anecdotal evidence to suggest that some self-employed EITC recipients forego—intentionally or inadvertently—estimated payments without negative consequence because the tax credit effectively covers their annual tax obligations. Such use of the EITC may present unique challenges for administering periodic payments in the case of self-employed workers.[361] For periodic payment options to be viable for self-employed EITC recipients, policymakers should ensure any income estimation mechanics for periodic payments takes into account self-employment income.

APPLICABILITY TO EXPENDITURE-BASED REFUNDABLE CREDITS

The APTC is an example of an expenditure-based tax credit: eligibility requires incurring a qualified expense in furtherance of the program purpose. The AOTC (for college students) is another expenditure-based credit; this partially refundable benefit tries to encourage pursuit of higher education by offsetting some of the costs.[362, 363, 364] Unlike the APTC, which is available concurrent with incurring the expenses (and is fully refundable), the AOTC has a significant timing mismatch: those wanting to claim the credit must incur and pay large tuition and fee bills months before credit receipt through tax return filing. Periodic payment might better facilitate the program's college enrollment goals by making the payment of school bills more feasible from a cash flow perspective for low-income students.[365, 366, 367]

Federal and state tax codes include several expenditure-based tax credits that are fully non-refundable; i.e., the credits can be used only to offset positive income tax liabilities, making them largely unavailable to lower-income taxpayers. Federal examples include the Child and Dependent Care Tax Credit (CDCTC),[368] the Adoption Tax Credit,[369] and the Retirement Savings Contributions Credit.[370, 371] The CDCTC's timing mismatch (between having to make eligible expenditures and receiving the dollars to offset them) has similarities to the AOTC. Bills to increase the CDCTC and make it fully refundable—such as the PACE Act[372]—could better achieve their program objectives with the addition of periodic payment options.[373, 374, 375]

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347 The American Family Act (S.690/H.R.1560) increases the CTC from $2,000 to $3,000 per child, adds an additional 20 percent for each child under the age of six, and indexes both amounts for inflation. The Working Families Tax Relief Act (S.1138/H.R.3157) includes the indexing for inflation and increases the CTC to $3,000 for each child under six.

348 The CTC could be phased-in, like the EITC, beginning with the first $1 of earnings (rather than beginning at $2,500 under current law), the phase-in rate could be increased, and/or the cap on the refundable portion that may be claimed could be increased from the current $1,400 or eliminated.

349 Forthcoming analysis by the Columbia Center on Poverty and Social Policy suggests that CTC provisions under the HEROES Act would cut the rate of deep poverty among children nearly by half, from 4.6 percent to 2.4 percent. Shared with Georgetown Center on Poverty and Inequality via email on 16 June 2020.

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