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Periodic Payment of the Earned Income Tax Credit Revisited

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Each year, one in five households filing a federal income tax return claims the Earned Income Tax Credit (EITC). Targeted primarily to lower-income workers with children, it is one of many credits and deductions filers take each year on their federal income tax forms. However, unlike typical credits and deductions, the EITC is a refundable credit, meaning that after offsetting what is owed to the government filers receive the remainder of the benefit as a refund.

By supplementing earnings for low- and moderate-income households, the EITC helps bridge the gap between what the labor market provides and what it takes to support a family. It encourages and rewards work and has become one of the nation's largest and most effective anti-poverty programs.[1] In contrast to other work support and poverty alleviation programs, it achieves this with very little bureaucracy beyond what otherwise exists to administer the tax code.

Although the EITC began in 1975 as a small credit (no more than $400), a number of targeted expansions in subsequent years mean that today the EITC's assistance can be considerable. In 2015, a single parent with three children working full-time all year at the federal minimum wage ($7.25 an hour) is eligible for a credit of $6,242, a boost of more than 40 percent above her earnings of $15,080 (though combined it still leaves her 12 percent below the federal poverty level).[2]

However, the only way to obtain these substantial benefits is to claim the EITC on the annual federal income tax return. While lump-sum payments have perceived benefits (such as being able to pay off debts, make larger purchases, or force savings), the EITC's single annual disbursement can present a challenge for the working parent

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1. Steve Holt, "The Earned Income Tax Credit at Age 30: What We Know" (Washington: Brookings Institution, 2006).

2. The average credit received varies greatly depending on the number of children an EITC filer claims. For instance, in tax year 2013 (the most recent year for which data are available), a filer without a qualifying child (23 percent of EITC filers) claimed just $281 on average through the EITC, while a working family with three or more qualifying children (13 percent of filers) received an average credit of $4,036. Those with one (37 percent) or two children (27 percent) claimed average credits of $2,316 and $3,682, respectively. See Elizabeth Kneebone, "New Local Data on EITC Benefits by Number of Children," available at www.brookings.edu/blogs/the-avenue/posts/2015/10/13-local-data-eitc-benefits-children-kneebone (October 2015).

trying to make ends meet throughout the year. It can also be problematic for households wanting to stretch out their refund as an emergency savings reserve.

My 2008 paper, "Periodic Payment of the Earned Income Tax Credit," proposed an option that would allow a family to receive a portion of the EITC outside of tax time, striking a balance between lump-sum delivery and the need for resources throughout the year.[3] Specifically, half of the credit could be claimed in four payments spread out during the year, while the remaining credit would continue to be paid as part of the tax refund.

Since then, several significant developments have occurred. A little-used option for receiving some of the EITC in each paycheck ended in 2010. In 2014, the federal government initiated a new tax credit advance payment process to subsidize health insurance premiums through monthly disbursement of the Affordable Care Act's Premium Tax Credit. Other countries providing assistance similar to the EITC have continued to innovate and offer access to benefits during the year. Finally, members of Congress and think tanks have proposed alternatives to a single lump-sum disbursement of the EITC, and others have begun to explore and experiment with alternatives, most notably in Chicago, where a 2014 pilot program made quarterly payments to 343 households.

In light of these developments, this paper reviews the author's original EITC periodic payment proposal, examines emerging alternatives, and addresses the following key questions:

- What is the **demand** for periodic payment alternatives?
- What **benefits** will accrue from the availability of periodic payment?
- What **risks** are associated with periodic payment and how can they be managed?
- What is the administrative **feasibility** of periodic payment?

The emerging answers point a way forward for identifying different distribution options that would enhance the EITC's value to low- and moderate-income working families.

3. Steve Holt, "Periodic Payment of the Earned Income Tax Credit" (Washington: Brookings Institution, 2008).

Making the case for a new approach to periodic payment

By definition, the EITC acknowledges the need of lower-wage working families to bridge the gap between labor market returns and the costs of maintaining a household. A challenge for the EITC—which has been exacerbated as the credit's proven success has led to its expansion—is reconciling the once-a-year framework of the income tax system with the day-to-day needs of its beneficiaries.

1. The lump-sum delivery of the EITC is at odds with the day-to-day resource needs of low-income working families.

The 2015 book "It's Not Like I'm Poor" vividly portrays the financial needs of households receiving the EITC.[4] It finds that during the year between tax refunds, making ends meet is a constant struggle of juggling bills, doing without, relying on family and friends, and taking on debt. The next tax refund provides relief and an opportunity to catch up, but then the cycle often repeats. Stress can be relentless. Being able to save and build a stronger foundation of assets is difficult and, more often than not, elusive.

Low-wage workers feel the gap between paychecks and bills all year long. The EITC is a powerful yet clunky tool from the perspective of managing household finances. While most Americans like tax refunds and love them large, that preference is generally not at the expense of being able to afford day-to-day living. Without a viable option for matching the EITC's availability to when it is needed, the concept of "forced saving" associated with tax refunds has a harsh edge.

2. The paycheck-based advanced payment mechanism proved unsuccessful.

Because the gap between earnings and basic household expenses can be constant, one response might be to pay out the EITC through a series of small, frequent allotments. In fact, from 1979 to 2010, a worker expecting to be eligible for the EITC could receive advance payment of the Earned Income Tax Credit (referred to as AEIC) in

4. Sarah Halpern-Meekin, et al., It's Not Like I'm Poor: How Working Families Make Ends Meet in a Post-Welfare World (Oakland: University of California, 2015).

each paycheck by submitting IRS Form W-5 to her employer. Using a variation of a withholding table, the employer would add an amount each pay period. The employer would then recover the advances by an offset against quarterly payments to the IRS of payroll taxes and withholdings. The maximum amount that could be claimed in advance changed over time until it was capped in 1993 at 60 percent of the EITC that would be available if that pay period's earnings were received each pay period throughout the year and the worker claimed one qualifying child (meaning a maximum advance percentage well below 60 percent for those claiming the higher credit for two or more children). The employee's Form W-2 at the end of the year was supposed to show the total advanced, and this was supposed to be reconciled through the tax return against the actual credit earned (with differences becoming either an added refund or an additional tax owed).

In practice, there were a number of compliance issues with this mechanism. Although employers were required to honor each W-5, they sometimes chose not to take on the additional work, and enforcement options were limited. Some employers reported advances that were never made or failed to report payments that were made, and some recipients failed to report advances on their tax returns.[5]

In addition, one of the dissatisfactions potential recipients reported was the small amount it boosted each paycheck; for many, the difference felt negligible (the maximum weekly advance in 2010 was $35) and not worth the risk of potentially owing money back at the end of the year. Although financial need may be constant, there tends to be a lumpiness to household expenses. Having a lumpy—but predictable—stream of income would better match spending needs and the psychological and behavioral challenges of budgeting.

The complexity, involvement of employers, and too-small disbursements made the AEIC an ineffective tool seldom used. The utilization rate among EITC claimants never exceeded 2 percent. The Obama administration advocated eliminating the AEIC, and Congress did so in 2010.

5. Government Accountability Office, "Advance Earned Income Tax Credit: Low Use and Small Dollars Impede IRS's Efforts to Reduce High Noncompliance" (2007).

3. The growing use of and interest in refundable tax credits requires attention to periodic payment mechanisms.

In addition to the need for a more effective alternative to replace the failed AEIC, other existing credits would benefit from the development of a viable periodic payment option. New and proposed credits increasingly include such mechanisms.

The Advance Premium Tax Credit

Enacted in 2010 and first disbursed in 2014, the Affordable Care Act's Premium Tax Credit (PTC) subsidizes the purchase of health coverage through the state and federal insurance marketplaces and includes a periodic payment option.

Marketplace enrollees must estimate what their income will be for the coming year and use that estimate to project the annual PTC amount. Some or all of the projected credit can be (and usually is) claimed during the year through the Advance PTC—a monthly payment made by the IRS to the insurance company to reduce the net premium due.[6] After the end of the year, the actual credit amount is determined on the income tax return based on actual income. If the total Advance PTC exceeds the actual credit amount, some or all of the excess must be repaid to the IRS, with the amount of required repayment varying by income. If the advances were less than the credit amount, the balance constitutes an additional credit on the tax return. To avoid repayment obligations, Advance PTC recipients are encouraged to report changes in income or household composition to the marketplace as they occur. An advanced payment option for the EITC could make use of the same income estimation and tax time reconciliation features already in place for the Advance PTC.

Existing refundable credits

Like the EITC, the Child Tax Credit (CTC) targets working families with children, and it includes a refundable component for lower- and moderate-income families that could also be suited to meeting the year-round financial needs of low-wage working parents through accelerated disbursement. Although the credit amounts are generally much lower than the EITC (meaning the advance payments would also be smaller), the CTC has the advantage of phasing out at relatively high incomes, greatly reducing the risk of overpayment.

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6. Of those claiming the PTC, 97 percent received at least a portion in advance. See John Koskinen, Letter to Members of Congress dated July 17, 2015.

The American Opportunity Tax Credit (AOTC), the partially-refundable credit to offset some of the costs of higher education, has an even greater timing mismatch than the EITC, because to qualify claimants must make large outlays months ahead of receiving the credit subsidy. An advance payment option could greatly improve the AOTC's effectiveness in promoting college enrollment and completion, but it would require innovation in how schools and students communicate with the IRS.[7] The IRS now advises parents and students to use a work-around method of periodic payment to gain some of the benefit of the AOTC during the year by claiming additional withholding allowances to have less tax taken out of paychecks.[8]

Proposed credits

As debates continue over addressing climate change, a recurrent proposal is the imposition of a tax on carbon. Recognizing the effects of resultant increases in energy and other prices on low- and moderate-income households, a frequent feature is a rebate mechanism functioning similarly to the EITC.

In 2009, the Center on Budget and Policy Priorities outlined an approach to offset the higher energy costs lower-income households would incur throughout the year from an emissions cap (estimated at $700 for a single person and $1,300 for a household of three); this included an EITC-type tax credit (possibly disbursed as an adjustment to employer tax withholding) and direct payments (probably quarterly) to those not filing tax returns.[9] More recently, the American Opportunity Carbon Fee Act of 2015 introduced by Sens. Whitehouse (D-R.I.) and Schatz (D-Hawaii) would create a new refundable tax credit for every American worker equal to 6.2 percent of earnings up to a maximum of $500 ($1,000 for couples).

7. Steve Holt, "Help When It's Needed: Advancing the AOTC" (Washington: CLASP, 2014).
8. Internal Revenue Service, "Back-to-School Reminder for Parents and Students: Check Out College Tax Credits for 2015 and Years Ahead" (2015).
9. Sharon Parrott, Dottie Rosenbaum, and Chad Stone, "How to Use Existing Tax and Benefit Systems to Offset Consumers' Higher Energy Costs Under and Emissions Cap" (Washington: Center on Budget and Policy Priorities, 2009).

4. Many other countries have implemented periodic payment.

Just as interest in using the tax code to deliver benefits and transfer payments has grown in the United States, other countries have increasingly implemented such policies. Given differences in cultures and governance structures, it can be hard (and even risky) to draw conclusions for the United States based on practices elsewhere, but insights are nonetheless available.

As noted by Whittaker: "Once primarily an Anglo-Saxon phenomenon, tax credits and in-work benefits designed to get people into employment and make work pay have been springing up across OECD countries over the last decade or so."[10] What these programs have in common—outside of the United States—is a presumption, or least an option, of drawing down benefits periodically rather than in a single annual lump sum. France's Revenu de solidarité active is paid monthly. Families in Australia who choose periodic payment of the Family Tax Benefit can elect to receive it every two weeks or opt for a one-time or twice-yearly advance. The Irish Family Income Supplement disburses every Thursday. New Zealanders eligible for the Working Family Tax Credits can choose to receive the money weekly or biweekly rather than as a lump sum. The United Kingdom offers a choice of weekly or monthly disbursements for its Child Tax Benefit and Working Tax Credit. Those credits soon are gradually being replaced by the new Universal Credit, which will only be available as a monthly payment.

In 2007, Canada initiated an earnings-based refundable tax credit called the Working Income Tax Benefit (WITB) that has many similarities to the EITC. The credit can be claimed as a lump sum on the annual tax return, but there is also an advance payment option, which disburses half of the estimated WITB in four payments and uses the tax return to reconcile the advances to the actual credit amount.

Exploring options for a new periodic payment mechanism

Since the publication of the 2008 periodic payment proposal, a number of other proposals for alternative payment options have emerged. The range of options proposed fall into the following three categories: **accelerated disbursement**, **early advance**, and

10. Matthew Whittaker, "Tax credits, child poverty and low wages" (OECD, 2012).

deferred savings. In addition, a series of experiments have begun to test the demand for and feasibility of periodic payment.

1. The 2008 proposal laid out parameters for advanced payment of the EITC on a quarterly basis.

The EITC periodic payment concept proposed in 2008—which could also be thought of as a proposal for accelerated disbursement—would allow EITC households with children to choose to receive half of their expected credit in four equal payments during the year.[11] Table 1 summarizes the proposal's key elements.

Table 1. Key parameters for periodic payment of the EITC

Who administers it?	Internal Revenue Service
Who is eligible to participate?	Taxpayers who declare their expected eligibility based on income and the presences of qualifying children
Who decides participation?	Recipients choose to opt in (at least initially)
How are payments made?	Direct deposit (with provision of debit card or special deposit accounts as needed)
How frequently?	Quarterly
How much is paid?	50 percent of anticipated total credit (over 4 payments)
How is eligibility updated?	Mail, phone, or online methods for periodic verification
What happens if too much is paid?	"Safe harbor" (no repayment obligation) for payments based on valid expectations of eligibility

Source: Holt, "Periodic Payment of the Earned Income Tax Credit"

By limiting eligibility to EITC filers with children, this option targets filers who tend to have larger credits, meaning their in-year quarterly payments would be sizeable enough to preserve much of the benefit of lump-sum disbursement. By capping the amount that

11. Holt, "Periodic Payment of the Earned Income Tax Credit."

can be disbursed to half of the expected credit, this method offers a cushion during the reconciliation process at tax time for estimation errors and unexpected eligibility changes that might lead to overpayments.

2. In recent years, a number of other proposals for EITC periodic payment options have emerged.

Renewed recognition of the significance and success of the EITC and the potential for enhancing it through periodic payment have inspired other proposals.

Some of these alternatives would provide advance payment of the EITC during the year, but rather than disburse a succession of scheduled payments, these early advance options would permit some type of on-demand claiming of a portion of a household's anticipated EITC:

> *Early Refund EITC (Center for American Progress) – beginning on each July 1, EITC-eligible workers could access the portion of the credit earned to date, up to $500 (the limit would be indexed for inflation);*[12]

> *Early Refund EITC (Senator Sherrod Brown, D-OH) – similar to the Center for American Progress proposal, but with enrollment through employers.*

More generally, the omnibus tax reform plan proposed in 2014 by former Representative Dave Camp (R-Mich.) included a directive for the Treasury Department to make recommendations regarding the best method of providing prompt advance payment for the bill's revamped EITC and Child Tax Credit.[13]

Other proposed alternatives are deferred savings options that seek to promote savings by creating mechanisms and incentives for recipients to defer payment of a portion of the EITC once it has been claimed at the end of the tax year. Those proposals include:

> *SAEF Accounts (Sarah Sternberg Greene) – 20 percent of the EITC (with the option of up to 40 percent deferral) would be automatically deposited into an interest-bearing Savings and Emergency Fund Account held by IRS. Participants*

12. Rebecca Vallas, Melissa Boteach, and Rachel West, "Harnessing the EITC and Other Tax Credits to Promote Financial Stability and Economic Mobility" (Washington: Center for American Progress, 2014).
13. H.R.1, Tax Reform Act of 2014, Section 1103(f).

would receive an annual bonus based on the percent of the account balance retained each year;[14]

Deferred EITC (Sarah Halpern-Meekin et al.) – a variation of the SAEF account, this option would offer periodic disbursements that include a bonus based on the portion of the refund deferred;[15]

Rainy Day EITC (CFED) – another modification of the SAEF and Deferred EITC ideas, this option would allow participants to opt-in by deferring 20 percent of their EITC for six months. They would then receive a match payment that would be equal to 50 percent of the amount they saved at the time of disbursement.[16]

3. A series of experiments have begun to explore options for periodic payment implementation.

The 2008 proposal, in particular, prompted a number of efforts to test the feasibility, structure, and function of EITC periodic payment, ranging from survey questions to the recent pilot of an actual advance payment option.

Surveying of tax filers

During the 2012 return filing season, five community tax programs in five different states (Georgia, Florida, Massachusetts, Minnesota, and New York) included three to six standardized questions related to EITC periodic payment in some or all of the intake surveys completed by clients accessing return preparation services.[17] The questions addressed the helpfulness of both advance and deferred periodic payments, payment frequency, months when it was hardest to make ends meet, and how the respondent would address an unexpected $2,000 bill to pay.[18]

14. Sara Sternberg Greene, "The Broken Safety Net: A Study of Earned Income Tax Credit Recipients and a Proposal for Repair." New York University Law Review 88 (2) (2013): 515-588.
15. Halpern-Meekin, et al., *It's Not Like I'm Poor*.
16. Kathryn Edin et al, "The Rainy Day EITC: A Reform to Boost Financial Security by Helping Low-Wage Workers Build Emergency Savings." (Washington: CFED, 2015).
17. The surveying organizations were AccountAbility Minnesota, Atlanta Community Food Bank, Cambridge (MA) Economic Opportunity Committee, The Financial Clinic (New York City), and United Way Center for Financial Stability (Miami-Dade, FL).
18. Because use of the questions varied, the number of responses for each question ranged from

Simulation exercises

In Atlanta and in Colorado, local programs engaged a small number of EITC households over time to think about how receipt of partial credit payments during the year would affect household finances and to get their perspectives on the desirability of such an option. The programs worked with participants to estimate EITC amounts, created a simulated payment schedule (of two to four payments, depending on when during the year the exercise began), and conducted interviews at or near the time of each simulated payment. Participants received gift cards or other incentives for their involvement.

The Atlanta Community Food Bank conducted a two-payment simulation in 2012.[19] In that same year, the Colorado Department of Human Services (CDHS) oversaw three rounds of simulation exercises administered through three community partner organizations. In 2013, CDHS directly implemented a three-payment simulation at one location, and in 2014 they conducted a four-payment exercise in two communities.[20]

Chicago EITC Periodic Payment Pilot

With the leadership and support of Mayor Rahm Emanuel, the city of Chicago contracted with the Center for Economic Progress (CEP, the leading local community tax program) to implement a real-payment pilot project, coupled with an independent process and outcomes evaluation by the University of Illinois at Urbana-Champaign.[21]

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612 to 9,375. Survey documentation is available from the author.

19. Nine participants completed interviews in October and December and a final interview in 2013 after having their 2012 returns prepared.

20. There were 14 participants in 2012 in Denver, Loveland, and Arapahoe County. The 2013 exercise in Monument had eight participants. The 2014 simulation in Monument and metropolitan Denver had an initial group of 44 participants; 28 completed the exercise in early 2015. Findings cited in this paper are from Steve Holt, “EITC Periodic Payment Simulation Exercise for Tax Year 2014” (Denver: Colorado Department of Human Services, 2015), and are available on request from CDHS.

21. Findings from the Chicago pilot cited in this paper are from Dylan Belisle and David Marzahl, “Restructuring the EITC: A Credit for the Modern Worker” (Chicago: Center for Economic Progress, 2015); Ruby Mendenhall et al., “Chicago Earned Income Tax Credit Periodic Payment Pilot Final Evaluation” (Urbana-Champaign: University of Illinois, 2015); and the author’s analysis of project data on behalf of CEP.

Similar to the author's 2008 proposal, the pilot offered 343 Chicago public housing residents the opportunity to receive 50 percent of their expected EITC in advance through four evenly-spaced payments. Because these payments constituted a loan against the full credit that would be received from the IRS during the 2015 filing season, CEP provided free appointments for return preparation assistance to facilitate repayment.[22]

These efforts yielded a number of practical lessons that can inform future rounds of experimentation designed to craft effective periodic payment options.

Addressing key questions about periodic payment

Given the developments that have shifted the policy environment around periodic payment, and the experimental exploration of payment options, we are now in a better position than in 2008 to address the following key questions:

- What is the **demand** for periodic payment alternatives?
- What **benefits** will accrue from the availability of periodic payment?
- What **risks** are associated with periodic payment and how can they be managed?
- What is the administrative **feasibility** of periodic payment?

The emerging answers to these questions can help identify and refine areas for further exploration, testing, and analysis.

1. What is the demand for periodic payment alternatives?

The potential demand among beneficiary households for a periodic payment alternative has two components: need and interest.

22. Among the 343 original participants, 230 completed the pilot, meaning they provided 2014 tax return data to CEP, usually in conjunction with repayment of the amounts advanced during 2014 through periodic payments. For consistency, all subsequent references to the Chicago program are for the pilot completers unless otherwise specified.

Need

The responses of survey and simulation participants help illuminate the timing and types of financial needs working families faced throughout the year, and how and when periodic payment of the EITC could be most useful.

The 2012 tax site surveys demonstrated both the value of tax refunds in reducing financial need early in the year and the increase in need as the year progressed. Among 613 respondents who selected the months (up to four) when it was hardest to make ends meet, three-quarters selected December and half said November and January. (Even the earliest tax filers generally do not receive their refunds until February.) Over a third said September, and a quarter each selected October and August.

Among the 1,779 respondents to the 2012 surveys who expressed an interest in receiving refund payments during the year, the majority (55 percent) preferred a monthly payment, while 20 percent said three or four times a year, 16 percent said twice a year, and 9 percent opted for every other month. Those selecting the quarterly distribution had moderately higher incomes than those preferring monthly payments.

The Colorado exercise also demonstrates how financial need evolves over the course of the year. At each interview during 2014, participants projected how they would have spent the periodic payment scheduled for that time if it had been actual money. Paying past-due bills (which in many cases included unpaid heat, electricity, cable, and phone charges a household may be juggling) and trying to put a little aside as a cushion against unexpected expenses were significant projected uses for all four payments. But the August interviews showed more of a focus on back-to-school clothing and school-related fees, and participants in December were focused on Christmas gifts.

In addition, of the 31 2014 Colorado simulation participants who completed late-year interviews, 26 reported having experienced an unexpected financial shock during the year, where the ability to access a portion of their EITC would have been particularly useful. The most common event was a necessary major car repair (thirteen households), and an additional four had to replace their vehicle. Seven participants had unanticipated major medical expenses, including hospitalization, replacement contact lenses, orthodontics, and higher than expected insurance premiums.

Interest

For years, the principal objection to developing a periodic payment option has been simple: the belief that nobody (or hardly anyone) wants it. Indeed, the experience with the AEIC creates a presumption that—whatever the merits for addressing financial need—the intended beneficiaries are not interested in moving away from the single lump-sum payment that provides very large refunds to many.

Like the AEIC, Canada's WITB has shown very low enrollments rates in the advance payment option. By filing Form RC201 annually, recipients can draw down half of their estimated credit in four equal payments in April, July, October, and January. The option has been available since 2008, but only 0.06 percent, or fewer than 1,000 households, claimed advance payments (averaging C$138 each quarter) in 2013. The explanations given for the low take-up rate—lack of awareness, cumbersome process, and small payment amounts—are reminiscent of what was said about the old AEIC option.

On the other hand, a majority of those eligible for the Working Family Tax Credits in New Zealand—and particularly those claiming larger credits—choose in-year payment. In Australia, about 90 percent of Family Tax Benefit recipients select payment every two weeks versus only a year-end lump sum.[23]

In the United States, recent surveys and experiments have shown mixed levels of interest—not nearly so low as the AEIC option but not always as high as seen in many international examples. The periodic payment mechanism offered and the level of understanding of how the mechanism would work seem to make a difference in reported interest.

In the 2012 tax site surveys, of 896 participants (which included filers not claiming the EITC) who responded to the question "Would it help you out if you got some of next year's tax refund ahead of time in regular payments during the year?" only about one in five respondents (22 percent) said yes, while 43 percent said not really or not at all. Deferred disbursement (spreading receipt of a refund over multiple months after return filing) was even more unpopular, with 74 percent of 9,375 taxpayers saying it would not be helpful and only 5 percent responding affirmatively that it would. However, there was

23. Valerie Braithwaite and her colleagues posit that the high use of fortnightly payments is due both to the economic needs of recipient families and to the framing of the benefits when they were introduced (as government support to help parents meet their children's daily needs). See Valerie Braithwaite et al., "Family Tax Benefit and Cash Economy Activity" (Canberra: Regulatory Institutions Network, 2005).

anecdotal evidence from programs that were able to engage in dialogue with survey respondents that putting periodic payments in the context of specific times or events during the year (like the holiday season or back-to-school time) increased interest in receiving advances.

The Colorado simulations specifically explored evolution of opinions over time. At the conclusion of the 2012 exercise, 10 of 13 participants liked advance periodic payment; in 2013, every participant said periodic payment was a valuable tool that should be available as an option, and five of seven said they would participate in a real-dollar pilot. Among the 28 who completed the 2014 exercise, 54 percent liked the advance payment option at the time of enrollment, and this grew to 68 percent at project completion (with an additional 18 percent not sure). Only six (21 percent) said they would not consider participating in a real-payment demonstration.

Among the control group in the Chicago pilot (those not receiving periodic payments but completing surveys similar to payment recipients), the majority of respondents expressed interest in periodic payment, with 47 percent preferring advance disbursement and 8 percent choosing deferred payment. The remaining 45 percent said the single-payment status quo was their preferred method of receiving the EITC.

Perhaps the most instructive insights about the desirability of periodic payment come from those who received periodic payments in the Chicago experiment. After receipt of the first disbursement, 86 percent of participants said they would sign up again for advance EITC receipt, and 82 percent answered similarly after the third of the four payments. At the project's conclusion—after filing the tax return and receiving a smaller refund because of the advance payments—interest in repeating the pilot fell to 72 percent. However, when then asked their preferred method of EITC receipt, 90 percent of participants chose the payment structure used in the pilot over the status quo or other alternatives.[24]

24. The project evaluation team noted one possible reason for the difference between interest in participating again and preferred method of payment: several participants said they wanted to choose their own return preparer (the pilot design involved having returns prepared by CEP) and did not like sharing personal information with the pilot program staff. This issue first surfaced during participant recruitment, and it likely explains some of the failure of one-third of the participants to utilize CEP's tax services and complete the project.

2. What benefits will accrue from the availability of periodic payment?

Some benefit of accelerated periodic payment can be presumed: Money now is more valuable than the same amount of money later. Having access to money sooner also addresses the gap in the household balance sheet of lower-wage working families that grows as the year goes on. Yet there is a real value—both practical and psychological—to the forced saving aspect of the year-end refund. Knowing you have some money in reserve is a powerful financial management tool (and is the motivation for deferred periodic payment proposals). Each of the periodic payment proposals outlined above attempt to strike a balance by maintaining receipt of at least half of the credit at tax time, and preserving some lumpiness in the in-year payments (whether disbursed once, twice, or quarterly).

Participants in the Colorado simulation exercises identified the greatest advantages of the advance periodic payment option as: (1) the availability of funds at times throughout the year to meet what were almost inevitable unforeseen expenses, and (2) the ability to pay bills without resorting to costly loans (which encompassed non-financial costs associated with seeking help from family and friends) or incurring fees and penalties. These benefits were sometimes described as not having to play catch-up all the time.

Colorado participants envisioned specific benefits EITC periodic payments would provide. One realized she would have been able to pay her semi-annual auto insurance bill in full and pocket the significant discount that would provide. Another could have paid the $400 school activity fee (on top of uniform and equipment costs) that prevented her child from playing baseball. Several participants imagined being able to manage car purchases or car repairs more effectively.

The Chicago CEP pilot conducted a more systematic examination of periodic payment benefits by comparing the experiences of those receiving payments with a similar group of non-participants who functioned as a control group. The evaluation researchers identified several positive effects of the advance payments: increased economic security (fewer missed bills and late fees, less food insecurity), decreased borrowing (payday loans and loans from family and friends), higher capacity to afford child care and education or training, and decreased financial stress (the ability to make ends meet from week to week).

Providing choice is an express goal of periodic payment. The financial circumstances and needs of those receiving the EITC vary greatly, both across households and for any given family over time. A frequent theme among Colorado participants was that a tax

refund is one's own money that one should have more options for managing. Among the 47 percent of Chicago pilot control group members who said they would prefer some type of advance disbursement, just over half said they would like to be able to decide how many payments to receive based on their financial situation. Enabling this kind of empowerment is a benefit in itself.

A different perspective on the potential benefits of an advance periodic payment option is on eligibility for participation. The simulations and the Chicago pilot required prior-year receipt of the EITC. But a noted function of the EITC is as a safety net for those encountering a moment of financial need (due to, for example, job loss or change in family situation). There may be just one or two years of EITC receipt that perform a trampoline effect and support a return to greater financial capability. This newly eligible population might derive particular benefit from more rapid access to credit dollars, but they also introduce additional risk. Both need to be considered when developing eligibility criteria.

3. What risks are associated with periodic payment and how can they be managed?

There are two key aspects of risk associated with periodic payment options involving advances: making payments to those who are ineligible and paying eligible recipients more than they are entitled to claim.

Improper participation

Refundable tax credits are an innovative policy hybrid—a transfer payment administered through the tax code—that can, as proven with the EITC, be remarkably effective. However, they can also be an inviting target for criminals. A fake or impersonated or improperly prepared tax return could generate a sizeable refund, and large-scale schemes could defraud the public of millions.[25] The EITC may become more of a target for such schemes if periodic payment permitted earlier access to the credit.

25. The susceptibility to organized fraud is a distinct issue from the frequently discussed EITC "improper payment rate", which is not primarily about fraud but is the product both of measurement error by the IRS and unintentional errors made by credit claimants. See Robert Greenstein, John Wancheck, and Chuck Marr, "Reducing Overpayments in the Earned Income Tax Credit."(Washington: Center on Budget and Policy Priorities, 2015).

A less egregious form of improper participation involves use of advance periodic payment to avoid Treasury interception of tax refunds to collect child support, student loan, or other debt. This was an attractive feature of the AEIC to some recipients, because the advances by the employer were outside the intercept process. This would presumably not be an issue with IRS-administered disbursement, because the same mechanism used by Treasury's Bureau of the Fiscal Service (formerly Financial Management Service) in intercepting refunds would be applied equally to periodic payments. This would, however, need to be a consideration for any non-IRS disbursement agent.

In general, managing the risk of improper participation will require data controls as part of the enrollment process. Protection against fraud may make it impossible to give newly-eligible EITC households access to the accelerated disbursement option even though it might be particularly beneficial to them. On the other hand, it would be unreasonable to require multiple years of valid EITC claiming as a program qualification. Automating the review conducted by CEP in the Chicago pilot—in which they verified program participants had not been subject to refund intercepts in the prior two years—could strike a sensible balance. If the Chicago procedure had been used in Colorado, four households (14 percent of those completing the exercise) would have been excluded from participation due to prior-year intercepts or agreements to claim qualifying children in shared custody every other year.

Overpayment

Disbursing EITC advances prior to definitive determination of the credit amount carries the inherent risk of paying too much. The greatest concerns expressed by Colorado simulation participants were the inability to guess one's income and fear of the consequences of making a mistake. Mitigating the risk of overpayment starts with a well-designed (yet streamlined) estimation process at enrollment and involves keeping recipient information updated during the year, but the most significant protection is limiting the amount of expected credit that can be claimed in advance.

The Advance PTC of the Affordable Care Act does not cap the percentage that can be claimed in advance because that would conflict with the goal of enabling the purchase of health insurance. There are statutory caps on the amount of overpayment that must be repaid, which vary by income. Single filers with incomes below 200 percent of the federal poverty level have a maximum repayment liability of $300, those with incomes between 200 percent and 300 percent of poverty are capped at $750, and between 300 and 400 percent the limit is $1,250 (the caps are twice as large for married filers). There is no

repayment protection for those whose income ends up being more than the eligibility ceiling of 400 percent of poverty.

As of March 2015, the average monthly Advance PTC was $272, equal to $3,264 annually or roughly equivalent to the maximum EITC that could be claimed in advance with a 50 percent limitation ($3,121 in 2015).[26] Roughly half of 2014 Advance PTC recipients had excessive advances paid to their insurers. About one-quarter of those benefited from the repayment caps. The average net repayment obligation was about $800, while the average amount of additional PTC claimed by those who received insufficient advances was about $600.[27]

The 2008 EITC periodic payment proposal included a different kind of limitation on repayment obligations. A "safe harbor" would not require repayment of excessive advances resulting from unforeseen income or household changes. The hypothesis was that an easily understood limitation on liability would be necessary to encourage significant participation. At the same time, the risk mitigation elements built into the option (like capping advance payments at 50 percent of the total expected credit) would mean that resort to the safe harbor would rarely be required. In other words, it would function as a low-cost insurance policy.

Challenges in administering a safe harbor provision include differences about what should be regarded as "unforeseen." One standard—consistent with principles of voluntary compliance—would create a presumption of reasonableness for estimates made under penalty of perjury. This could be coupled with a requirement of timely notification of changes. For example, if someone received a much higher paying job on August 1, the expectation would be that this change must be communicated by September 1. If this were not done, any overpayments resulting from unadjusted payments made after September 1 would not be covered by the safe harbor.

On the other hand, there are situations where tax time generates genuine surprise. In two of the three years of simulation exercises in Colorado, a participant learned only after the end of the year that someone else would be claiming the children that had previously qualified her for a large EITC. Assuming those circumstances would qualify as

26. Treasury Inspector General for Tax Administration, "Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims" (2015).
27. These preliminary data from the 2015 filing season are from IRS Commissioner John Koskinen's letter to members of Congress, dated July 27th, 2015.

unforeseen, the total cost of the safe harbor protection for those two participants would have been $1,420, which would have represented an additional program cost equal to 1.87 percent of the total EITC claimed.

If the purpose of the safe harbor is to address taxpayer fear, the protection might reasonably be tied not to overpayments of the credit itself but to what is likely the bottom-line concern of the recipient: not owing money back (a balance due return). Nearly two-thirds of those with 2014 Advance PTC repayment liabilities may not have noticed them because they still claimed a net refund.[28] Overpayments could be first offset against other refundable items the typical EITC recipient has before determining the repayment limitation.

In fact, one argument for not creating a periodic payment option for the CTC—beside the fact that the credit amounts are generally much lower than the EITC, meaning the value of the periodic payments would be much less—is the loss of the safe harbor mitigation otherwise provided by CTC refunds. Given that buffer, it might even make sense to limit EITC periodic payment eligibility to those also receiving the CTC.

A related concern identified by the Chicago pilot involves EITC households with significant income from self-employment. Self-employed persons are generally expected to make quarterly estimated tax payments. However, this may not be required of someone who had no prior-year tax liability, which is likely the case for many of the self-employed eligible for the EITC. Some self-employed taxpayers are exercising a de facto periodic payment option by retaining what would have been paid to the IRS in quarterly estimated payments as advances against their EITC. An advance periodic payment mechanism should probably include a formula for households with self-employment that balances liquidity needs with tax obligations and withholds a portion of the periodic payments as a payment of estimated tax.

4. What is the administrative feasibility of periodic payment?

The question of feasibility centers on both conceptual and practical issues of program administration.

An advance periodic payment system has four principal components: enrollment (including an estimation process), disbursement, communication, and reconciliation. A deferred payment system involves enrollment, communication, a different type of reconciliation (to determine any possible match payment), and disbursement.

28. Ibid.

Enrollment

Enrollment has two elements: becoming a candidate for participation, and verifying eligibility to participate. As noted in the 2008 paper, take up of periodic payment would be maximized by automatically enrolling recipients in the option and requiring those who did not want to participate to opt out. However, at least initially, the unfamiliarity, uncertainty, and risk associated with a new program argue for a model where participants would continue to receive the traditional annual disbursement unless they choose to opt in to periodic payment. That type of approach is also more consistent with the goal of presenting viable options and allowing recipients to choose which would be most beneficial to them. CFED came to the same conclusion for its Rainy Day EITC proposal, which also features opt in enrollment.

In terms of the mechanics of opting in, the 2008 paper suggested prior year recipients could sign up for advance payment through Schedule EIC (which would also be the presumed vehicle for electing deferred disbursement), while new claimants could fill out a declaration of expected eligibility. The experimental work indicates a need for enrollees to provide—or at least go through a process of considering—more detailed projections for advance payment. Canada's three-page Form RC201 (though little-utilized to date) demonstrates a more thorough approach.

With respect to verifying eligibility, for deferred payment approaches, it is largely pro forma, because eligibility is established by claiming a refund. On the other hand, advance payment requires a screening process to determine likely receipt of the credit for the coming year. The most readily available eligibility information is prior year(s)'s receipt of the EITC, but even this may be a poor predictor on its own. Research describing the volatility of the EITC population shows that, very roughly, a third of those who claim the EITC do so for only one year, another third moves in and out of eligibility for short spells over time, and only about a third are longer-term recipients.[29] Even for those with ongoing eligibility, prior year information is generally just a start and not determinative due to year-to-year changes in income and family composition.

The simulation exercises and the Chicago pilot—which each had prior year receipt of the EITC with qualifying children as a prerequisite for participation—used an estimation worksheet to guide a brief interview at enrollment. This Excel worksheet started with

29. Deena Ackermana, Janet Holtzblatt, and Karen Masken, "The Pattern of EITC Claims Over Time: A Panel Data Analysis" (Washington: Internal Revenue Service, 2009).

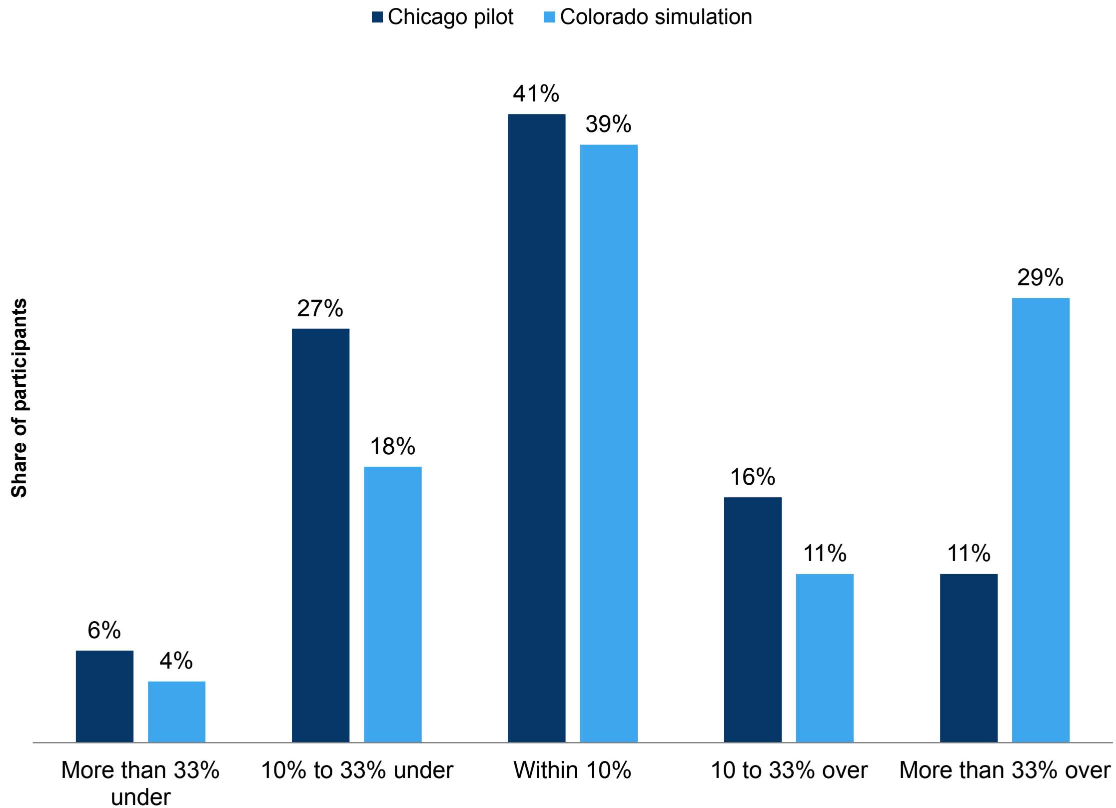
eight items supplied by the prospective participant from the prior year tax return and, based on those, asked a few questions to elicit anticipated changes in work, income, and family configuration. The result was a determination of anticipated eligibility and calculation of the periodic payment amount.

The EITC eligibility formula presents a calculation challenge for some higher-income (phase-out range) households for whom unearned taxable income—such as unemployment compensation, alimony, and IRA distributions—reduces the EITC (and could make someone ineligible). The presence of these items in prior-year return data would not automatically bar someone from eligibility, because these are often one-time occurrences that will not affect the current year credit amount. The estimation worksheet included a trigger (if there were a significant difference between prior-year earned and adjusted gross income) to ask about anticipated recurrence and used a formula to adjust the estimate. In the Chicago CEP pilot, 12 percent of participants had an estimate adjustment of this type.

The Chicago CEP pilot took a further step of reviewing (with applicant consent) two years of each applicant's IRS account records. The primary purpose was to assess risks of refund interception that would affect the project's ability to recover the advances, but it could also identify questions regarding credit eligibility requiring further exploration. Based on the review of tax records, CEP staff reduced the upfront EITC estimates for 14 percent of project completers.

Income estimation proved problematic for some in the experiments. In Colorado in 2014, fewer than half the participants were able to make a prediction within 10 percent of their actual income. Those with moderate underestimates outnumbered those with moderate overestimates, but there were many more with large overestimates than with large underestimates. The largest underestimate was due to going unexpectedly from part-time to full-time work. There was no consistent pattern for those with the largest overestimates.

Figure 1. Participant projections of earned income compared to actual earned income



Source: Author's analysis of Center for Economic Progress data

The Chicago CEP pilot showed similar results. About four in 10 participants were able to estimate income within 10 percent of what they actually received. Moderate underestimates (10 percent to 33 percent under) were more than 1.5 times more likely than moderate overestimates, while large overestimates (more than 33 percent over) outnumbered large underestimates by almost two to one (11 percent of participants versus 6 percent). Overall, the median overestimate was by $2,485 (16 percent) and the median underestimate was by $2,005 (11 percent).

The income estimation process for the Advance PTC is more structurally reliant on past income (generally the most recent available tax return), though applicants can provide more current estimates (with verification if a significant decrease is predicted). A Kaiser

Family Foundation study projected that if only 2013 income were used, 49 percent of households eligible for subsidized health care marketplace coverage would see an increase or decrease of more than 20 percent in their 2014 income.[30] Statistics on actual income estimation errors in 2014 are not currently available.

The other estimation required for advance payment is prediction of the year's household configuration. Changes in marital status and children living in or away from the home (for all or part of the year) can increase or decrease the EITC that may be claimed. In Colorado in 2014, just half of the four predicting a change in number of qualifying children were correct, while an equal number failed to anticipate a change that occurred.[31] In Chicago, CEP saw more successful household estimations, with 84 percent predicting the correct number of qualifying children.[32] It is unclear whether the difference was attributable to the participating population or the enrollment process.

Having a minimum payment threshold for eligibility appears to make sense. The Chicago pilot disqualified anyone with an estimated EITC of less than $600, meaning that the minimum periodic payment in the program was $75 (one-half of the anticipated credit disbursed in four payments). The three Colorado simulation participants with small payments ($55 or less) had difficulty envisioning that receiving them would be significantly worthwhile. Chicago also had a payment cap of $2,000 due to program funding limitations rather than a policy design choice. If there had been no cap, the average periodic payment would have risen from $421 to $513, and the highest would have been $756. The merits of a maximum payment relate more to the risk management of protecting against overpayments.

Disbursement

One frequently voiced concern with respect to feasibility is the ability to effectively and efficiently disburse the periodic payments to a vulnerable population who may be discon-

30. Cynthia Cox, et al., "Repayments and Refunds: Estimating the Effects of 2014 Premium Tax Credit Reconciliation" (Menlo Park: The Henry J. Kaiser Family Foundation, 2015).
31. Two participants predicted changes in marital status that did not occur. Change in marital status affects the EITC payable for the same income in the phase-out calculation range but is likely to have a more significant effect from the inclusion or exclusion of another person's income.
32. Almost all Chicago participants (98 percent) correctly projected their year-end marital status. The one participant who proved ineligible for the 2014 EITC had actual income more than twice her estimate (to an amount well over the EITC eligibility ceiling) due to inclusion of her spouse's earnings.

nected from the traditional financial transaction system. For example, a review of New York City's Conditional Cash Transfer program—which relied solely on direct deposit and also made special accounts available (which were opened by 55 percent of participating households)—found that 14 percent of households said they had failed to receive at least one payment over an eighteen-month period from 2007 to 2009 due to account problems.[33]

This was not the case in the EITC experiments. The Colorado simulations asked at enrollment for designation of a depository account that could have been used to receive funds electronically if actual payments were being made. All were able to identify an account (and only one was not a standard financial institution account). Among those whose information could be tracked over time, 92 percent reported no changes in the account. All participants could have successfully received a direct deposit at the time of each payment.

In Chicago, a project-facilitated debit card was available if needed, but all participants were able to designate their own traditional financial institution (65 percent) or prepaid debit card account at enrollment. Through a payment processor, CEP successfully completed 1,348 electronic transfers. Some deposits were initially rejected (this occurred at least once for 14 percent of traditional account holders and 18 percent of debit card users), but all payments were successfully made on resubmission.

Another question about disbursement relates to frequency. As noted above, although the 2012 tax site survey saw a preference for monthly payments over less frequent advances, participants in Colorado and Chicago pilot tended to like having fewer but larger periodic payments. By being separate from the stream of monthly bills, the EITC payments functioned more as emergency savings.

Chicago's four-payment schedule (similar to Colorado's) appears apt and was well received. EITC households tend to receive their refunds in February and March, and the 2012 surveys found March, April, and May to be the months with the lowest incidence of problems making ends meet. June is associated with costs for children's summer activities; August features back-to-school spending; October and December see higher utility bills and the pressure to spend on holiday-related expenses. Nonetheless, an alternative schedule (with the final two payments in November and January) might be useful for coping with the financial stress that extends into the early part of the new year.

33. James Riccio et al., "Toward Reduced Poverty Across Generations: Early Findings from New York City's Conditional Cash Transfer Program" (New York: MDRC, 2010).

Communication

For advance payments, the inaccuracies inherent in early-year estimation can be mitigated through in-year reporting of changes that may affect eligibility. This is an expectation of the health insurance marketplaces to maintain the accuracy of advance PTC payments, and it is likewise expected by other countries with periodic payment of work-based income supports. The threshold change triggering a reporting requirement varies as does the permissible time frame.

In an effort to control program costs and increase compliance, the United Kingdom has notably tightened its requirements for the Child Tax Benefit and Working Tax Credit in recent years. Not only has the allowance for unreported income changes that would trigger an overpayment been sharply reduced—from £25,000 to £5,000—but there are also new penalties assessable for estimation and reporting errors and more aggressive recovery of overpayments (including use of professional debt collectors).

Interview data from the Colorado simulation exercise indicates that in-year communication of changes would have adjusted the payment amounts of five participants (18 percent of those completing the project). The Chicago pilot asked participants to communicate work and household changes, but only one did. CEP staff initiated contact midway through the project and adjusted or suspended subsequent payments for five participants. However, participants typically did report depository account changes in advance of payment dates; only two direct deposits failed due to unreported account closings.

Whether reporting income or family changes that might affect advance payment or account changes that would affect receipt of either advance or deferred payments, some type of facilitated updating capability is an essential feature for any periodic payment option. The federal health insurance marketplace enables reporting of “life changes” online (through the account interface) or by phone. Canada handles changes affecting the WITB by phone (though a marital status change can be reported online). Australia offers in-person, phone (including automated self-service), and online change reporting options and is centralizing online access through its myGov accounts. The United Kingdom’s new Universal Credit—which obtains earnings information from real-time employer reporting but relies on recipient reporting of family changes—is designed for online interface only (which has been a factor in the implementation delays).

In addition to update reporting, a workable periodic payment option needs to include the ability to communicate at any time a choice to terminate participation, and the program administrator needs a mechanism for contacting former recipients of advances about proper year-end reconciliation.

Reconciliation

When credit eligibility and amount are determined prospectively (based on estimates for the year), there must be a process to reconcile payment advances to actual credit amounts. The general practice for advance periodic payment (the former AEIC and current Advance PTC as well as in other countries) is to process reconciliation through the annual tax return. If the actual credit for the year is more than the advances, the balance is paid at tax time (usually resulting in a larger refund). If the total advances exceed the credit that may be claimed, the overpayment can be subject to recovery.

The critical question is the extent to which uncorrected estimation errors lead to overpayments.[34] The translation of income estimation errors into incorrect EITC estimates is complicated by the phase-in/plateau/phase-out design for calculating the credit. An underestimate can lead to overpayment when more income results in a lower credit (those in the phase-out range and some in the maximum credit plateau); an overestimate can lead to overpayment for those in the phase-in range and some in the plateau.

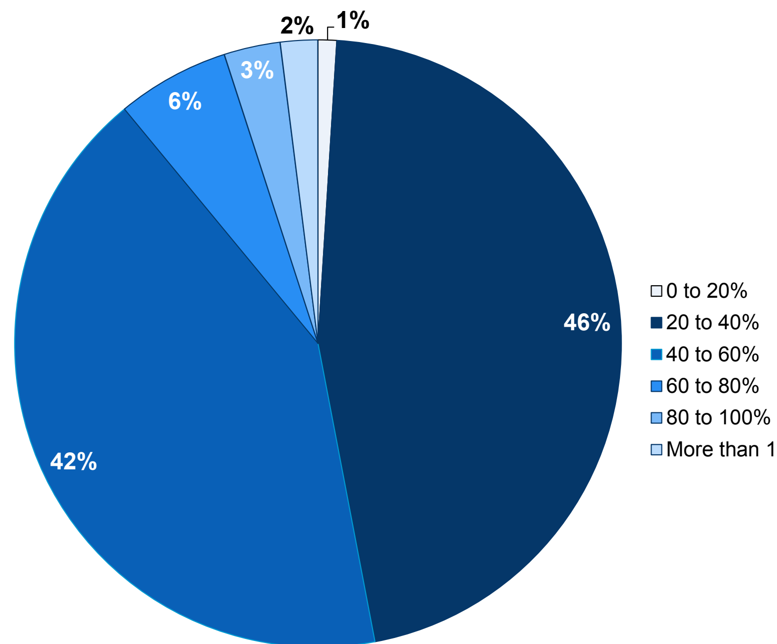
In the 2014 Colorado simulation, although the estimated EITC for a third of participants was within $200 of the actual amount claimed, nearly a third had sizeable overestimates (anticipated EITC more than $800 over actual). In three of the eight cases, an error in estimating the number of qualifying children was responsible; in four, it was an underestimation of income, and one had overestimated income.

The Chicago pilot also had a third of households with an estimated EITC within $200 of the actual amount claimed. Large ($800 or more) EITC overestimates were less common but still affected 17 percent of participants. The most frequent factors in a lower than expected EITC were overestimating the number of qualifying children and underestimating income by 10 to 33 percent, followed by underestimating income by more than 33 percent.

34. Of course, uncorrected errors can also lead to underpayments, denying eligible households some of what they could be receiving during the year, but they are then made whole at year-end.

Making only half the estimated EITC payable in advance provides a cushion against mistaken projections. Nonetheless, in Colorado, four participants (14 percent) would have received more in advance than the credit amount they could have claimed. However, at least two of those errors would not have occurred if in-year adjustment of the periodic payments had been made (or if an upfront account review similar to Chicago's had occurred prior to enrollment). In Chicago, only 2 percent of participants received excessive advances.

Figure 2. Share of filers in Chicago's periodic payment pilot by portion of actual EITC paid in advance



Source: Author's analysis of Center for Economic Progress data

Most EITC households have additional cushions—such as the CTC and over-withheld payroll taxes—to protect against excessive periodic EITC payments that would generate a balance due on the tax return. In Colorado in 2013, none of the eight participants would have had a balance due. In 2014, three (11 percent) might have owed money, depending on the communication of known changes during the year and adjustment of subsequent payment amounts. In Chicago, three households (1.3 percent) had balances due, ranging from $12 to $4,024. (If there had been no $2,000 cap, 2 percent would have had balances due, ranging from $65 to $4,823). The initial estimation errors that led to net tax liability were not anticipating a change in marital status, income overes-

timated by more than 33 percent, and a combination of overestimation of number of qualifying children and overestimation of income by more than 33 percent.

Another goal of the 50 percent advance is to balance in-year needs with the affinity for sizeable tax refunds. In the 2014 Colorado simulation, the median periodic payment would have been $406 each, and the median 2014 federal refund would have been $2,840 (compared to the median 2013 refund for the participants of $4,299). In Chicago, the median periodic payment was $456, and the median refund was $4,704 (versus $6,467 in 2013).

The most significant reconciliation problem the Chicago pilot faced was the failure of some participants to repay the advances. Just over a third of participants failed to do so. This constituted default of the loan agreement executed at enrollment, but CEP (given the research nature of the pilot) did not pursue collection. This was a known upfront risk with the program design, and even though great efforts were made (and incentives given) to ensure that participants had their 2014 returns prepared by CEP so that the loans could be repaid directly from refunds, there was no means of enforcement (a few participants who had their returns prepared elsewhere did make repayment). This reconciliation problem is not intrinsic to periodic payment but was a product of the pilot design; if the IRS were administering or partnering with the program, the advances would be deducted from any refund issued.

Administration

The more immediate question of feasibility is how the conceptual model of enrollment, disbursement, communication, and reconciliation could be implemented. Because the EITC is a tax credit, there is a default presumption that the IRS would administer a periodic payment program. But the IRS currently faces deep challenges. It is caught between an expanding mandate (for example, implementing the tax provisions of the Affordable Care Act) and a constricting budget.

Proposed IRS improvements could make its management of EITC periodic payment more feasible.[35] A “real-time tax system” would make third-party information returns (reporting wages, self-employment income, etc.) available during the filing season. An

35. For more on aspects of a “real-time tax system,” other IRS modernization efforts, and their potential benefits, see Prepared Remarks of IRS Commissioner Doug Shulman at the National Press Club (April 6, 2011) and National Taxpayer Advocate, “FY 2016 Objectives Report to Congress” (Washington: Taxpayer Advocate Service, 2015).

online account interface could facilitate most aspects of a periodic payment process (potentially for the AOTC and other credits in addition to the EITC). However, these are longer-term solutions that do not affect current feasibility.

The natural question is whether another agency would be better suited to handle EITC periodic payment. Carbon tax rebate proposals often envision use of other agencies (notably the Social Security Administration) that already make monthly or other periodic payments. In New Zealand, families for whom means-tested benefits are the primary source of income tend to receive their tax credit payments through the social welfare system. Australia links tax and social service agencies through an interface managed by the Department of Human Services. However, the reality in the United States is that the IRS has by far the broadest reach among EITC beneficiary households.

The AEIC used employers to make periodic payments, and some—such as Senator Brown with his Early EITC proposal—suggest employers should play that role again. Although seemingly a good fit for an earnings supplementation program, employer-based approaches are likely unworkable. An employer does not know everything needed for enrollment. The AEIC experience appears to indicate that most workers are not interested in interacting with their employers in this regard. Companies would undoubtedly object to being given an unfunded social welfare mandate. As noted in 2008, nothing in the international experience with periodic payment indicates a viable employer role.

Much of current tax administration is now effectively conducted by third-party intermediaries. Commercial entities play a large role with return preparation, do-it-yourself return preparation software, electronic filing, and bank settlement products. These supplant functions the IRS would otherwise perform (in the process shifting administrative costs to the taxpayer). They have also proven to be vehicles for predatory practices by some, although the tax system would not function without them. Many commercial preparers would like the opportunity to provide services to their customers throughout the year and might be able to play a role in enhancing the feasibility of EITC periodic payment options. However, at least without targeted regulation that does not currently exist, past practices indicate there is a significant risk of exploiting recipient vulnerabilities.

States and municipalities that administer EITCs could be conduits for establishing periodic payment. These could be tied solely to their own credits (though the smaller amounts involved could jeopardize the feasibility of that approach) or as a tandem with the federal EITC in partnership with the IRS.

Next steps for experimentation

The study and experimentation of recent years—particularly the successful pilot test conducted by CEP in Chicago—provide proof of concept of the EITC periodic payment idea proposed in 2008. On the table now also are plausible proposals for more modest versions of periodic payment encompassing both advance and deferred disbursement. Together, these could offer credit-eligible households a range of options for more effectively integrating the EITC into their lives as a tool of financial empowerment. More needs to be known, but there is greater clarity about the path forward.

To move from conceptual validity to policy will require a concerted program of rigorous experimentation. Enough is known to conduct meaningful tests with good prospects for success; enough is unknown to require proceeding carefully at a manageable scale. The merits of EITC periodic payment are sufficient to warrant making options available to EITC recipients as soon as possible, but the challenges are sufficient to dictate cautious exploration.

The best way to proceed is to foster multiple pilot projects that test different elements of the most promising EITC periodic payment options. Given the challenges the IRS currently faces, these pilots will require innovative partnerships among government, philanthropy, and the private sector (non-profit and for-profit).

1. Future experiments should test alternative options for the timing, targeting, and administration of disbursements.

The proposals outlined above offer three differently timed mechanisms for periodic payment that deserve further exploration: **accelerated disbursement** (delivered in four equal payments); **early advance** (on-demand payments available once or twice a year); and **deferred savings** (designed to promote savings after tax time).

Accelerated disbursement

One goal of accelerated disbursement pilots will be to see if the findings from the Chicago pilot and other experimentation are replicated in different contexts, including among different participating populations (broader than the public housing residents included in Chicago's pilot), geographies (e.g., rural or tribal communities), and project size. Multi-year pilots could explore how household budgeting adapts to the altered

liquidity, including whether there is an increase in spending associated with the advance payments that results in a lower net benefit over time.

Accelerated disbursement pilots should also look at implementation issues, such as:

- Optimal enrollment eligibility criteria
- Treatment of self-employment income
- Estimation software for self-enrollment and/or facilitated use
- Adjustments to the payment schedule
- Efficient mechanisms for communicating changes in income or household
- Risk quantification
- Effects of and issues presented by continuation for more than one year
- Appropriate roles for intermediaries (public agencies, the non-profit community, private firms)
- Probable administrative cost

Although the focus here is on the federal credit, valuable lessons might be learned from pilots involving the states and localities with sizeable EITCs of their own.

Early advance

Many of the design issues for the early advance proposals are similar to those for accelerated disbursement: enrollment eligibility criteria, estimation, disbursement mechanism, and reconciliation, though both the risks and benefits would likely be smaller. Because of the envisioned on-demand design, pilots could focus on testing alternative administrative vehicles as outlined by the Center for American Progress.

Deferred savings

Deferred savings options present very different issues for pilot testing. The risks associated with estimation and reconciliation are not present. Experimentation would likely involve variations on amount of deferral, duration and return of savings, and bonus incentives. The disbursement mechanics could be similar to accelerated disbursement and early advance (single or multiple electronic transfers to depository accounts) or distinct (creation of specialized savings vehicles). Testing could also look at different early termination options.

2. The IRS needs to be a partner in future pilots.

The EITC is under IRS jurisdiction, so ideally the agency would conduct the pilots and incorporate findings into program administration. However, the current IRS reality is far from ideal, and it does not have capacity today to take on a new task of this scope. This fact notwithstanding, the experience of the Chicago pilot shows clearly that successful future experimentation with accelerated disbursement (as well as early advance) will depend on the IRS being able to play two very specific roles in the public-private partnerships a network of pilots will require.

Information exchange

Effective eligibility screening and anticipated credit estimation requires some degree of review of household tax data. As an operator of an IRS Low-Income Taxpayer Clinic, CEP was able to use existing infrastructure and experience to request tax account records, and staff was able to work with some prospective participants to obtain information through the IRS Get Transcript interface (since suspended due to data security breaches). Even with these tools, the process proved complicated and time-consuming. Pilots will need the ability—with taxpayer consent—to work with the IRS on expedited records review.

Refund interception

CEP, operating independently of the IRS and with no assured mechanism of recovering the funds advanced in the periodic payments, expended considerable project resources on risk management. Even with these efforts, a substantial portion of the advances were not recovered. Although different pilot environments might offer somewhat less risk, effective experimentation will require a mechanism for intercepting participant refunds and recovering periodic payments. Otherwise, project budgets will be prohibitively expensive, and, more importantly, the policy test will be skewed. There needs to be a process for designating partnership pilots, and there may need to be Congressional authorization to make the intercepts.

Conclusion

The EITC leverages some of the most effective aspects of both tax and transfer payment systems. Through successive expansions, the credit has become a large and successful tool for alleviating poverty and enhancing economic vitality. But there is unfinished

business to optimize what this program can do. Empowering beneficiaries to choose to move outside the annual distribution framework inherited from the tax system and have more flexible options for receiving credit dollars will help the EITC achieve its full potential. The experience of recent years shows that the viewpoint of "it can't be done, and people don't want it anyway" is no longer tenable. Designing the program details will be challenging and will not happen overnight. The needed partnerships await identification, and the funds have yet to be raised, but there is a clear path ahead. ■

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