

# Chicago Earned Income Tax Credit (EITC) Periodic Payment Pilot

## Project Summary

The Periodic Earned Income Tax Credit (EITC) Payment Pilot Project (EITC Pilot) is a collaborative program that brings together the Center for Economic Progress (CEP), Office of Chicago Mayor Rahm Emanuel, Chicago Housing Authority (CHA), and the University of Illinois at Urbana-Champaign. The pilot is providing quarterly advance EITC payments to a cohort of 343 households in 2014. Should the pilot program prove administratively feasible and beneficial for participants, the partners will demonstrate how the advanced payment program could be scaled up as a national policy.

## Background on the EITC

The EITC is the largest federal anti-poverty program for families with children, annually providing earnings supplementation and family support to nearly 20% (about 30 million workers) of tax filers. Under current law, the EITC is available only as a lump-sum credit payable after a tax return is filed. This is over a year after the credit begins to be earned. The EITC can be as large as \$6,143, and the average amount claimed by families with children is \$2,905. In 2011, the IRS paid out \$62 billion in EITC benefits.

A functional advanced payment option would provide EITC beneficiaries with opportunities to make ends meet throughout the year. While an employer-based advance EITC payment option existed from 1977 – 2010, the Obama Administration eliminated it due to persistently low participation and operational challenges. Any new option will have to prove easier to administer and be demonstrably useful to tax filers receiving the credit.

## Project Design

### *Participant Eligibility*

Between the months of March and June 2014, Participants in the EITC Pilot went through eligibility screening. The basic eligibility requirements are that the individual received an EITC for a qualifying child for 2013 and that the estimated EITC for 2014 is at least \$600. Individuals with a history of refund intercepts for collection of back taxes, student loans, and child support are not ineligible.

### *Periodic Payment*

In order to participate, participants were required to execute a loan agreement. If the EITC periodic payment option were part of federal tax policy, the payments made during the year would reduce the amount of EITC payable by the IRS at year-end through the tax return. As a privately-operated experiment, the Periodic Payment Pilot will not affect participants' ability to claim their full EITC on their 2014 tax returns. To avoid double payment, the periodic payments will be considered a loan to be repaid from the 2014 tax refund. The Periodic Payment Pilot has received assurances that any payments received through the program will be treated as regular EITC payments for purposes of exclusion from income and resource determinations made by public assistance programs.

## Project Goals

In exploring the creation of a viable option for periodic payment of the EITC, experts have identified two key areas of concern: 1) administrative feasibility; and 2) recipient utility.

### *Issues related to administrative feasibility include the following:*

- **Future Eligibility.** Any advance credit payment mechanism must successfully identify taxpayers who will in fact be eligible to claim the credit at year-end. There is considerable year-to-year change in the EITC eligible population. The Periodic Payment Pilot hypothesizes that 1) the eligibility criteria of prior-year receipt of a credit for qualifying children of at least \$600, and 2) simple screening for anticipated eligibility, would be effective for ensuring receipt by credit-eligible households.
- **Changes in Income.** The EITC can vary significantly based on relatively small changes in income, meaning that overpayments could easily result from advances that are too large. The Periodic Payment Pilot hypothesizes that limiting total periodic payment to 50% of the anticipated EITC will prevent overpayment.
- **Disbursement of Advanced Credit.** An effective periodic payment option must have low disbursement costs, so reliance on direct deposit via electronic funds transfer will be key. Though recruitment it was found that all participants were able to provide bank account or pre-paid debt card information in order to receive payments.

### *Issues related to recipient utility include the following:*

- **Attractiveness to Recipients.** The prior advance payment option was not well publicized by the IRS and also faced broad and persistent disinterest among EITC recipients that hindered take-up. Studies found a clear preference for maximizing year-end lump-sum payments as well as significant fear of incurring repayment obligations to the IRS. To be viable, an EITC periodic payment option must demonstrate its attractiveness to a sizeable portion of the recipient population. The Periodic Payment Pilot hypothesizes that less-frequent, larger direct payments would address the principal recipient concerns with the former advance payment option (including employer involvement, an effective bias toward low-priority consumption, and actual and perceived repayment risks).
- **Supplement with Savings.** There is an assumption that accelerating receipt of at least some of the EITC would improve the credit's functioning as an earnings supplement and family support. An alternative view is that the forced savings element of year-end disbursement is more beneficial to recipient families. The Periodic Payment Pilot hypothesizes that a mixed approach – accelerated but infrequent accessibility of a portion of credit dollars and year-end receipt of a sizeable lump-sum would be optimal.
- **Reduction in Liquidity Constraints.** Liquidity constraints require many EITC households to resort to financial remedies they find undesirable (relying on friends and family, using emergency food assistance, not paying bills) or that have long-term destabilizing consequences (exhausting savings, using payday or car title loans, increasing credit card debt, forgoing health care or nutrition). The Periodic Payment Pilot hypothesizes that periodic cash infusions at regular intervals drawing on the EITC would meaningfully ease liquidity constraints and their negative consequences.

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**David Marzahl**

President & CEO

Tel: (312) 630-0250

[dmarzahl@economicprogress.org](mailto:dmarzahl@economicprogress.org)