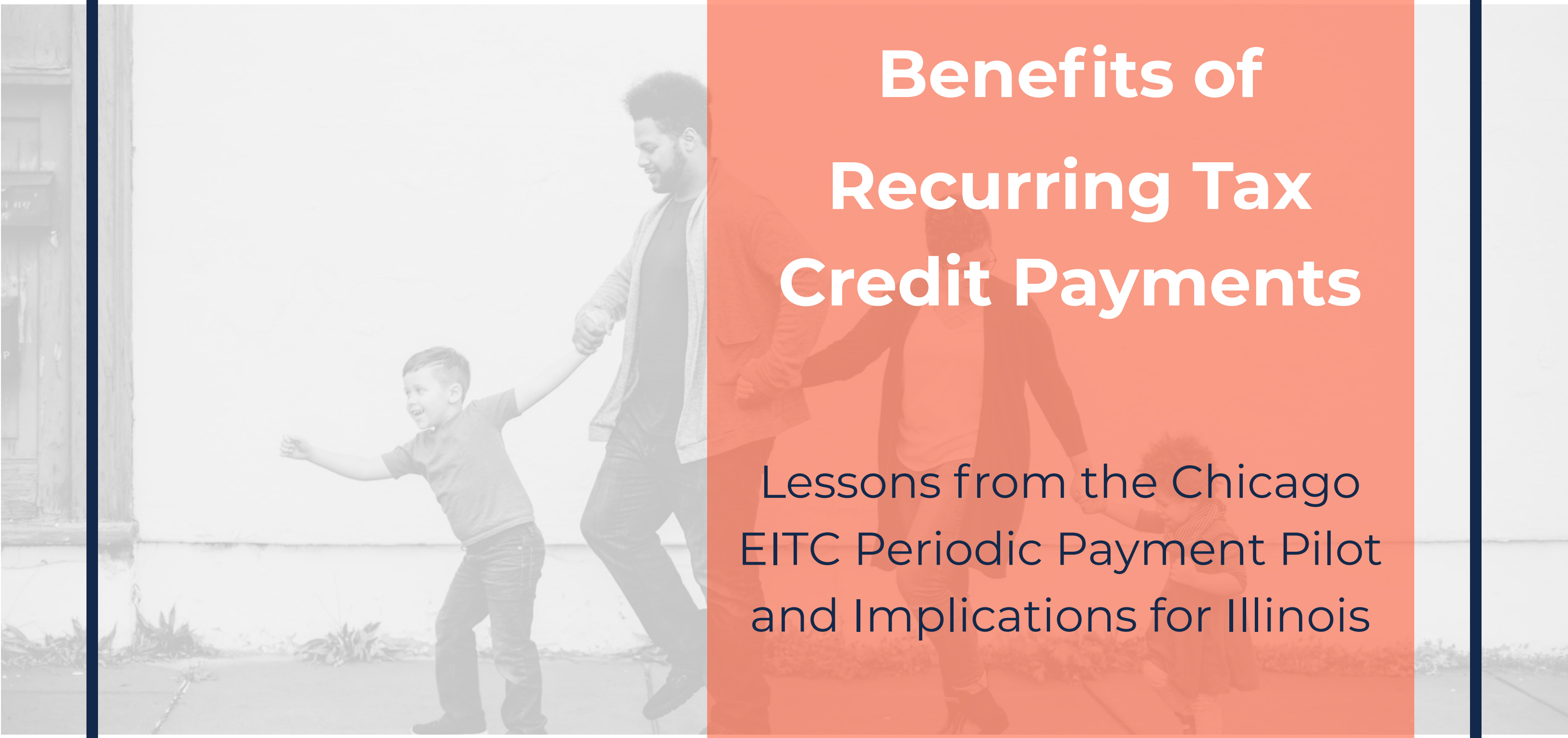

Benefits of Recurring Tax Credit Payments

Lessons from the Chicago EITC Periodic Payment Pilot and Implications for Illinois

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EXECUTIVE SUMMARY

The Biden Administration's American Rescue Plan Act (ARP), passed in early 2021, is designed to respond to the immediate economic needs of the millions of Americans who have been impacted by the economic fallout of the COVID-19 pandemic. This report considers one aspect of the ARP: the expansion of the Child Tax Credit (CTC), which provides a temporary income boost to parents with dependent age children (under 18 years old). The expanded CTC is also the first time the federal government has opted to deliver a portion of the tax credit via monthly payments instead of delivering it all in a lump sum annually.

While it will take time to fully understand the impact of the CTC expansion, the goal of this report is to provide empirical evidence from a demonstration pilot in Chicago on a companion policy, the Earned Income Tax Credit (EITC), as we may expect to see comparable results given the similarities of the policies. The Chicago EITC Periodic Payment Pilot (CEPPP) was a large-scale demonstration project that provided low and moderate-income parents up to half of their EITC via four periodic payments during the 2014 tax year. Like the advance CTC, the CEPPP began with the premise that families need tax relief and economic support throughout the year. We also had questions about the administrative feasibility of delivering recurring payments of a tax credit, particularly when the payments are paid in advance of when taxpayers determine their eligibility for the credit. Therefore, this report addresses individual-level impact of CEPPP recipients compared to a control group who received a lump sum and the administrative feasibility of periodic payments. Thus, it provides a window onto the likely impact of the advance CTC.

Summarized Findings

Beneficiaries overwhelmingly favored the recurring periodic payments.
At the completion of the CEPPP, 90% of those who received the EITC periodic payments preferred the periodic payment model over the traditional lump sum tax refund.

Recurring payments of tax credits help families pay their bills and debt and promote economic well-being.
In total, participants allocated 86% of the EITC periodic payment funds to pay bills (e.g. utilities, car notes) and debt, and for basic needs like food and clothing.

Compared to control group participants, intervention participants experienced lower levels of economic hardship during the year, as observed by reports of lower levels of borrowing from family and friends, use of payday loans, unpaid bills, late fees, and food insecurity.

By helping families pay their bills on time and address other economic needs, recurring payments of tax credits can help reduce financial stress and depressive symptoms.
Analyses demonstrate that increases in financial resources via the EITC periodic payments helped families address their immediate material needs, which in turn led to a statistically significant reduction in reported financial stress and depressive symptoms

Recurring payments of tax credits can help provide financial stability, which in turn can reduce housing instability among low-income families.
Intervention group participants who experienced job loss, income reductions, and income volatility detailed how the EITC periodic payments helped them pay their rent.

EXECUTIVE SUMMARY

Recurring payments of tax credits can increase recipients' capacity to work by helping them pay costs related to maintaining employment.
Intervention group participants reported statistically less stress about affording childcare compared to those who did not receive the EITC periodic payments.

EITC periodic payments appeared to help intervention group participants reduce the number of missed work days due to transportation costs.

Recurring payments of tax credits may help facilitate intergenerational social mobility by helping parents make ongoing investments in their children's education.
Three-fourths of recipients with children in college reported allocating some of their EITC periodic payments to assist this child.

Families can reasonably estimate their future eligibility for the EITC, which would translate to fairly accurate estimations of future CTC eligibility.
Eighty-four percent of intervention participants accurately predicted the number of qualifying children they claimed in the subsequent year.
Forty-two percent of intervention participants received between 40% and 60% of their EITC via periodic payments, and only three participants (1.3%) had received payments in excess of the amount they were entitled to at tax time.

Direct deposit of the EITC periodic payments was overwhelmingly successful.
While 15% of participants needed to change their direct deposit information over the course of the pilot, 99% of direct deposits were successfully delivered.

Opportunities, Challenges and Recommendations.
Expansion of the CTC and monthly advance payments is likely to support the financial well-being and social mobility of low-income families. In Illinois, the temporary CTC expansion will bring nearly $3.5 billion of additional cash into the hands of Illinois parents, generate over $1 billion in new consumer spending and nearly $68 million in state and local tax revenue (Hammond & Orr, 2021). A permanent expansion of the CTC may generate long-term positive outcomes for Illinois families and children, especially among the most economically vulnerable. The federal government and the IRS should identify the continual challenges of processing tax returns and delivering tax credit payments in a timely manner, including the advance CTC. Policymakers should consider including young adults and adult children with disabilities under CTC eligibility given the ongoing financial support parents provide to their children.

More action is needed to address systemic and structural racism, classism, and sexism. Expansion of the CTC will provide families relief from some systemic stressors brought on by economic precarity, but it will not address the unequal distribution of systemic stressors which is caused by systemic and structural racism, classism, and sexism. Families of color, particularly families led by Black women, face unique social, economic, and political conditions that negatively impact their mental, physical, and economic well-being that may diminish the impact of the expanded CTC.

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ABOUT THE PROJECT FOR MIDDLE CLASS RENEWAL

The Project for Middle Class Renewal's mission is to investigate the working conditions of workers in today's economy and elevate public discourse on issues affecting workers with research, analysis and education in order to develop and propose public policies that will reduce poverty, provide forms of representation to all workers, prevent gender, race, and LGBTQ+ discrimination, create more stable forms of employment, and promote middle-class paying jobs. Each year, the Project publishes critical research studies and holds education forums on contemporary public policies and practices impacting labor and workplace issues. If you would like to partner with the Labor Education Program in supporting the work of the Project or have questions about the Project please contact Robert Bruno, Director of the Labor Education Program, at (312) 996-2491.

Introduction

The United States is one of the wealthiest countries in the world, yet it is ranked 37 out of 38 Organization for Economic Co-operation and Development member countries in family benefits and public spending (OECD, 2020). Family benefits and public spending typically includes child allowances, childcare assistance, paid family leave, and other family policies. The Biden Administration's American Rescue Plan Act (ARP) passed in early 2021 included short-term funding to address various needs of families with children. The Act's provisions included a temporary expansion of the Child Tax Credit (CTC), increasing the maximum credit amount from $2,000 to $3,000 for each child six years of age and older and $3,600 for each child under the age of six. Half of the CTC will be made available to families during 2021 via monthly payments, which began July this year. The Institute on Taxation and Economic Policy estimates the expanded CTC, which will increase the average annual amount that families in the bottom 20% of the income distribution from about $1,000 to $5,590, will increase family income in this group by 37.4%. Parolin et al. (2021) estimate it will reduce the 2021 annual child poverty rate by 56%.

We are excited to see the implementation of this policy. Our experience and research on advanced periodic payments of the EITC in Chicago shows the potential for advanced periodic payments to provide vital recurring economic resources families can draw on to address their material and social needs. While the expanded CTC is temporary, advocates are pushing to make it permanent, and the Biden Administration has proposed a five-year extension of the policy in the American Families Plan Act. While there are important differences between the two tax policies, we believe this policy report on the Chicago EITC Periodic Payment Pilot (CEPPP) will to provide timely evidence on the potential benefits of recurring intra-year tax credit payments to families with children, particularly low-income families.

Summary of the Chicago EITC Periodic Payment Pilot (CEPPP)

The CEPPP was a collaborative research pilot conducted between 2014 and 2015 that involved the University of Illinois at Urbana-Champaign, the Center for Economic Progress, the City of Chicago Office of the Mayor, and the Chicago Housing Authority. The goal of the CEPPP was to assess the administrative feasibility and financial impact of providing periodic payments of the EITC to families. During 2014, 339 residents of the Chicago Housing Authority (CHA) were recruited and received four payments equal to half of their estimated 2014 EITC up to $2,000.

The payments functioned as an interest-free loan that participants repaid in 2015 after filling their 2014 tax return. They were made by direct deposit to participants' bank account or prepaid debit card in May or June, August, October, and December. In the early part of 2015, participants in the intervention group returned to the Center for Economic Progress to complete their taxes and "reconcile" the payments, which involved deducting the total amount of funds the participants received during 2014 from their tax refund. A control group of 164 Chicago residents, about fifteen percent of whom were also CHA residents, who did not receive the periodic payments was recruited as a comparison group to measure the impact of the periodic payments on financial and social well-being. Over the year, participants in both groups completed four waves of surveys, and a small sample of intervention and control group participants also participated in individual interviews and focus groups.

While the EITC and the CTC differ in some respects, the CEPPP provides evidence that intra-year payments of tax credits can be administratively feasible and that they positively impact financial and social well-being of low-and moderate-income families. Furthermore, most of those who participated in the study were interested in receiving at least some of their tax refund via recurring payments during the year (intervention - 95%, control – 47%). Together, we believe these findings provide helpful evidence for policymakers and legislators looking to continue providing monthly CTC payments beyond 2021. Our report is structured in three sections. The first section provides an overview of the report methodology and the CEPPP sample. The second section summarizes the social, political, and historical contexts that low-income families encounter. In the third section, we review our research on the impact of EITC periodic payments on the individual and family well-being. The fourth section summarizes several of the important administrative challenges of delivering recurring EITC cash payments. We end the report with a discussion of potential benefits of the advanced CTC payments given our research, the current administrative challenges the IRS faces in delivering the CTC payments to all parents, and how policymakers can take steps to further address the economic conditions families face, particularly low-income families.

Report Methodology

Research Questions

The overarching CEPPP research questions consisted of assessing the economic utility and impact, and the administrative feasibility of EITC periodic payments. In this report, we review six primary research questions regarding the economic utility and impact of the EITC periodic payments:

1. How do the participants spend their EITC periodic payments, and are there any significant differences in allocation decisions with the lump sum tax refund?
2. Do EITC periodic payments increase economic security by allowing participants to pay their bills on time, avoid high-cost borrowing, and decrease food insecurity?
3. Do EITC periodic payments increase participants' disposable income and savings?
4. What impact do EITC periodic payments have on participants' housing options, decisions, and economic hardship?
5. Do EITC periodic payments increase participants' capacity to maintain employment by augmenting participants' ability to afford childcare and transportation costs?
6. In what ways do EITC periodic payments support social mobility, specifically through investments in education?

We also discuss two primary research questions concerning administrative feasibility.

1. Can EITC periodic payments, estimated at no more than 50% of the participant's future EITC eligibility, be advanced to participants during the year without an overpayment of the credit and balance due at tax time?
2. Can EITC periodic payments be reliably delivered to participants via direct deposit?

Our findings in response to these questions point to both the potential national impact of the advance CTC payments and that administrative difficulties are likely to be generally minimal, though specific populations may experience challenges.

Data Sources and Mixed Methods Design

This report summarizes and contextualizes the findings from four peer-reviewed journal articles, two policy reports, and the CEPPP final evaluation report, which provide more detailed descriptions of research design and methodology. The original evaluation involved collecting both quantitative and qualitative data and followed a convergent mixed-methods design, which consists of collecting quantitative and qualitative data concurrently (Creswell & Clark, 2017). The data included survey, interview, and focus group data that was collected at four points in time: wave one (March–July 2014), wave two (June–July 2014), wave three (November 2014–April 2015), and wave four (January–May 2015). Reasons for the overlap and varied timing for data collection included the rolling basis on which participants were enrolled into the study, challenges in reaching participants, and the desire to have participants receive their tax refund in 2015 and an opportunity to spend it. The collection of longitudinal quantitative and qualitative data enabled the researchers to understand how the EITC periodic payments shaped participants' spending decisions and their impact on economic insecurity. In addition, 2013 tax return data was collected during enrollment into the study, and 2014 tax return data was collected at the end of the study – typically when the participants filed their taxes.

Various quantitative analyses were deployed to examine the feasibility and utility of the periodic payments, typically by comparing the intervention group to the control group participants. Three journal articles reviewed in this report used multivariate regressions and difference-in-difference estimates to evaluate the between-person differences and control for covariates that may influence the outcomes of interest and the demographic differences between the two groups. A combination of inductive and deductive data analysis methods was used to analyze the qualitative data gathered from interviews and focus groups. This process involved coding and analyzing interview and focus group data for the key themes of interest (e.g., employment, social mobility, housing, etc.) and comparing themes with current theory. We encourage readers to view the journal articles to obtain further information on the adopted analyses.

Characteristics of the Participants

A total of 505 individuals were recruited and participated in the wave one survey (intervention n=339 and control n = 166). Participants in the intervention group received up to half of their expected EITC for the year (with a cap of $2,000 total) via four periodic payments. The control group did not receive the periodic payments and filed their tax return as they typically would. Participants self-selected into intervention, and efforts were made to recruit similar participants into the two groups.

While most intervention group participants completed the pilot and received all four payments, only 217 completed all four surveys. A total of 76 control group participants completed all four surveys. To ensure the validity of the findings, only participants who completed all four waves of the surveys were included in the final evaluation and journal articles. Table 1 lays out the similarities and differences between the intervention and control groups. There were statistically significant differences in household size, monthly salary, and the reported number of months participants could not pay their bills. The intervention group on average had larger households (3.8 vs. 2.97, p<0.001), higher monthly salary ($1,275 vs. $1,026, p<0.01), and more months of unpaid bills (1.9 vs. 0.96, p<0.05). The control group reported marginally larger savings (878 vs. 218, p<0.10). Furthermore, the intervention group was statistically more likely to be female (97% vs. 88%, p<0.05), marginally more likely to be single/not married (96% vs. 87%, p<0.10), and more likely to identify as Black or African American (90% vs. 78%, p<0.05). All of the intervention group were recruited from among Chicago Housing Authority residents, whereas only 15% of the control group were such residents (p<0.001). We took steps to control for these group differences in the multivariate and difference-in-difference analyses. That said, there was no statistical difference between the two groups in terms of household per capita income, debt, housing burden rate, and education.

Table 1: EITC Periodic Payment Participant Characteristics

	Intervention Group (Mean or Percentage)	Control Group (Mean or Percent-age)	p-value
Individual/Household Characteristics			
Single/Not Married	96%	87%	<0.10
Female	97%	88%	<0.05
Household Size	3.80	2.97	<0.001
Race/Ethnicity			
Black/African American	90.0%	78.4%	<0.05
Latino/Hispanic	7.6%	13.5%	
White	0.5%	5.4%	
Other	1.9%	2.8%	
Economic Characteristics			
Monthly Salary	$1,275	$1,026.00	<0.01
Monthly Salary Per Person	$376	$402	NS
Debt	$8,768	$11,228	NS
Savings	$218	$879	<0.10
# of Missed Bills Last Month	1.29	0.92	NS
N	217	76	

Social, Political, & Historical Context

Families that experience low incomes and poverty are more likely to be exposed to what sociologist Carol Aneshensel terms "systemic stressors." Aneshensel (1992) defines systemic stressors as socio-environmental and economic factors that are unequally shared across social groups. Systemic stressors that arise from economic conditions include experiences such as difficulties paying bills and the inability to pay rent/mortgage. Given that these systemic stressors arise from economic conditions, low-income families are disproportionately exposed to stressors compared to their higher-income peers (Grzywacz et al., 2004; Hutton, 2015; Turner et al., 1995). Furthermore, legacies of racialized exploitation, exclusion, and segregation have resulted in disproportionately higher rates of poverty among families of color, and contemporary seemingly "race-neutral" policies and racial discrimination help to maintain racial and economic inequality (Collins, 2000; Josephson, 2016; Pager & Shepherd, 2008). Furthermore, as one of the authors of this report has documented, Black mothers, in particular, encounter interlocking systems of racism, classism, and sexism that influence the social and physical conditions in which they live, work, and raise their children that threaten their mental, physical, and economic well-being (Mendenhall, 2018).

Families of color, especially Black families, are disproportionately exposed to systemic stressors compared to their White peers. This context of racialized disparity is crucial for considering the Chicago EITC periodic payment pilot as the majority of those who participated in the pilot identified as single Black women (see Table 1). All the research participants are classified as having low- and moderate-income. Indeed, the mean monthly household earned income of the intervention group was $1,275 and $1,026 for the control group, which is lower than the monthly federal poverty line of $1,310 for a family of two in 2014, the year in which we collected the data. Furthermore, the study participants lived in racially segregated neighborhoods (73% Black) and high poverty (36%). For comparison, in the broader Cook County where the pilot occurred, African Americans comprise about 29% of the population, and the poverty rate is about 19%. Therefore, in many ways, the majority of the participants in the pilot are caught between a rock (financial stress and hardship) and a hard place (racially and economically segregated neighborhoods with higher levels of violence). As such, nearly half (46%) of the intervention group and over half (59%) of the control group reported that their neighborhoods were very or extremely stressful.

We hypothesized that the EITC periodic payments might help to alleviate some of the ongoing stressors that are associated with limited economic resources. The periodic payments, structured as recurring payments every few months, could provide economic stability that could fill in the gaps of participants' budgets when their wage income was insufficient and help cover unexpected expenses during the year. Furthermore, given that research suggests that EITC recipients use a portion of their tax refund to pay debt and bills they accumulated during the year (Halpern-Meekin et al., 2014; Jones & Michelmore, 2018; Mendenhall et al., 2012; Shaefer et al., 2013), periodic payments may provide an opportunity for families to pay their bills and expenses as they arise, instead of deferring payments and accumulating debt and late fees until tax time.

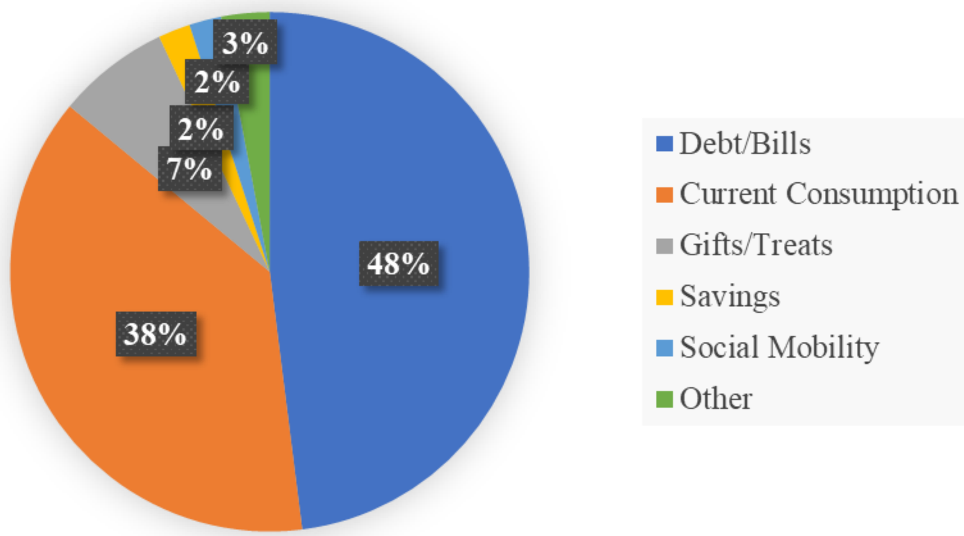
Lastly, recurring income may provide opportunities for families to invest in social mobility via investments in their children's education, moving to a different neighborhood that offers more opportunity, or saving for a down payment for a house. Periodic payments of the EITC helped address the liquidity constraints created by chronic income instability that threatens the short and long-term economic well-being of low-income families, family members' socio-emotional well-being, and their children's academic prospects.

Impact on Individual and Family Well-Being

Staying on Top of Bills, Reducing Financial Stress, and Depressive Symptoms

The EITC periodic payments were structured to help mitigate exposure to systemic stressors by providing parents with additional resources throughout the year, thereby alleviating some of the stress associated with limited economic resources. Findings indicate that those who received the EITC periodic payments allocated the payments in a similar manner as their lump sum tax refund and their allocations were similar to what was observed in prior research. As seen in Figure 1, participants allocated 86% of the total EITC periodic payment funds towards debt, bills, and current consumption, which includes expenses like food, clothing, and child expenses. This percentage is comparable to the 81% Mendenhall et al. (2012) found in calculating how their study participants allocated their lump sum tax refund.

Figure 1: EITC Periodic Payment Allocations

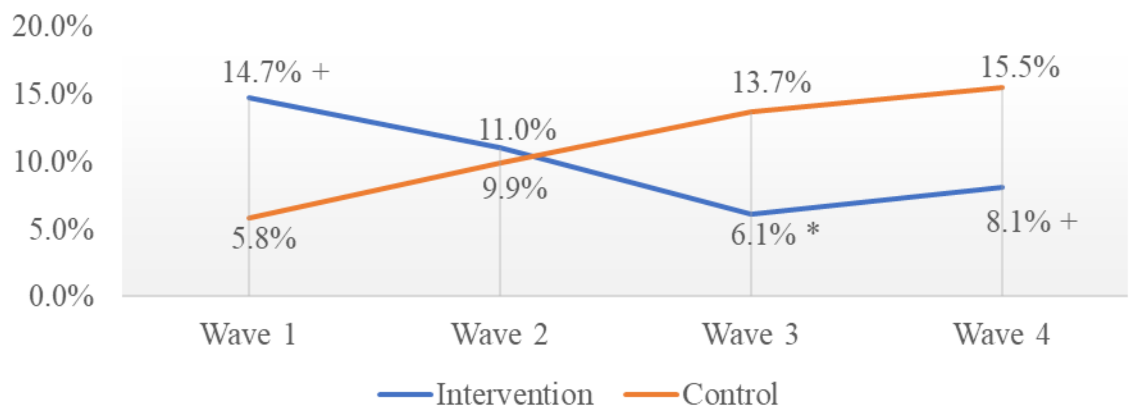


Notably, while the EITC is a vital resource, its payment as a lump sum limits its ability to address ongoing expenses and material needs and, therefore, reduces systemic stressors less effectively. In Kramer et al. (2019), we tested whether the EITC period payments were more effective in addressing systemic stressors by examining their impact on perceived financial stress. We hypothesized that the participants who received the payments (the intervention group) would report lower levels of financial stress and that decreases in various negative economic outcomes would mediate the relationship between the payments and perceived financial stress. These outcomes included financial stressors and financial resources. Financial stressors included borrowing money from family or friends, food insecurity, and unpaid bills. Financial resources included reported dollar amounts of savings and disposable income.

At wave 1, we found that the intervention group reported higher levels of borrowing, food insecurity, and more unpaid bills compared to the control group. Yet, over time, the intervention group reported significant decreases in these financial stressors compared to the control group, demonstrating that the periodic payments helped reduce the systemic stressors created by economic hardship. Next, we examined whether the periodic payments were associated with increases in financial resources. Examining aggregated savings and disposable income across the four waves, we found little evidence that the periodic payment group accumulated more financial resources than the control group.

In additional analyses, we found that the percentage of intervention group participants who reported having disposable income in the last month doubled, from 10% to 20%. We also found that the percentage of intervention group participants experiencing late fees decreased over time, while it increased for the control group. For example, at wave 4, 43% of control group participants reported paying late fees in the past two months, compared to only 18% of the intervention group participants – a statistically significant difference at the p<0.001 level. In addition, the percentage of intervention group participants who reported having payday loans decreased throughout the study, while it increased for control group participants. As shown in Figure 2, there was a crossover in the percentage of the intervention and control groups' reports of payday loans from wave 1 to 4. That is, the intervention group reported more economic hardship than the control at wave 1, but less at wave 4. These differences are marginally significant at the p<0.10 level. Findings suggest that periodic payments helped the intervention group catch up on bills, pay their bills on time, and rely less on friends and family and payday loans for resources. However, the intervention group's financial resources did not drastically increase, which is unsurprising given their low-income status at wave 1.

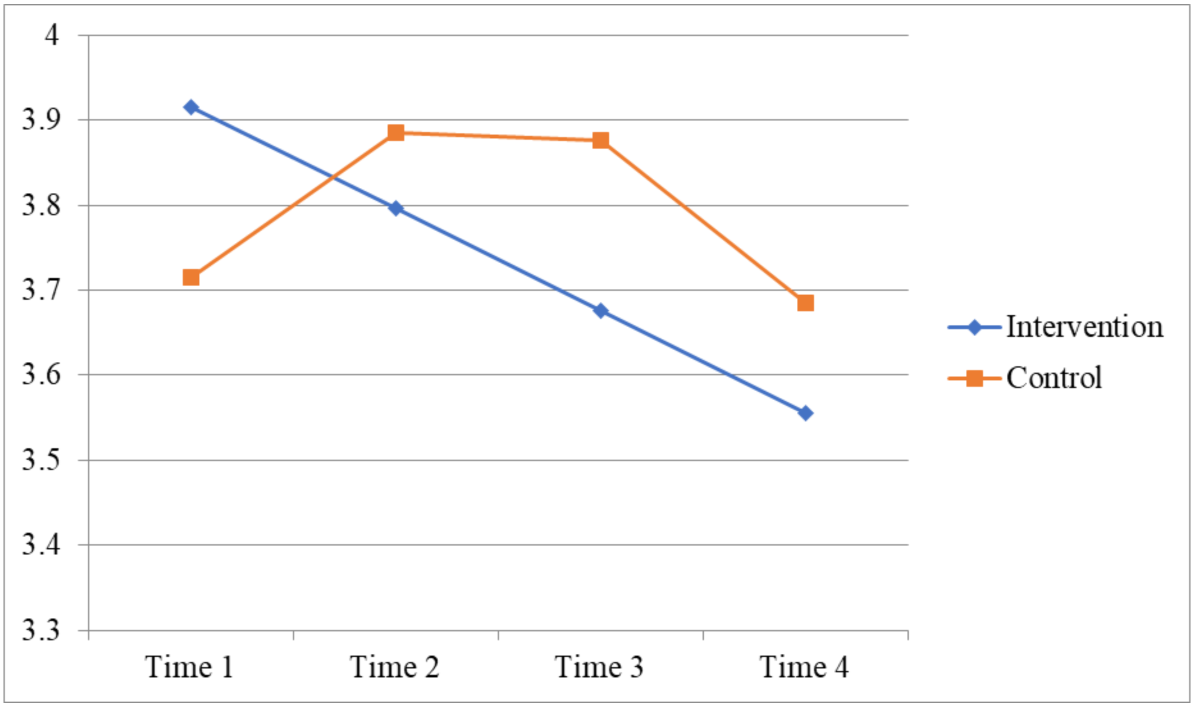
Figure 2: Percentage with Payday Loans



To further examine the impact of periodic payments on financial stress, we conducted a series of multilevel analyses. Given the nature of the periodic payments as a recurring source of income, we hypothesized that over time those who received the payments would report lower levels of perceived financial stress than the control group. At wave 1, we found that the intervention group reported significantly higher levels of financial stress compared to the control group. Yet, over time those receiving the periodic payments steadily reported less financial stress at subsequent time points, while the control group reported increases in financial stress at waves 2 and 3 (see Figure 3).

Impact on Individual and Family Well-Being

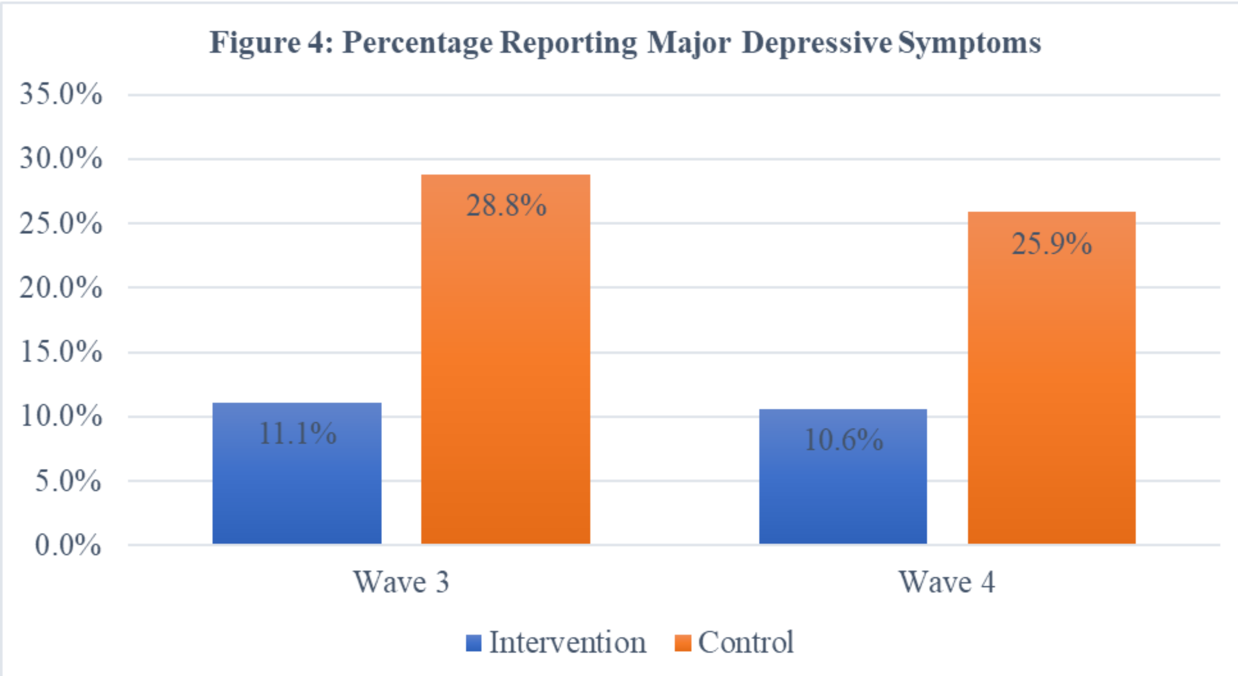
Figure 3: Perceived Financial Stress of Intervention and Control Participants



Next, we explored whether the periodic payments affected reported financial stress by reducing specific financial stressors and increasing financial resources. Using a multilevel regression, we found that reported decreases in the three financial stressors among the intervention group partially mediated the reductions in their financial stress. Savings and disposable income did not mediate the relationship between the periodic payments and financial stress. However, our findings suggest that the periodic payments reduced financial stress by helping participants to pay their bills on time, purchase enough food for their family, and reduce their borrowing money from family and friends.

Systemic stressors like those associated with financial stress are also related to higher levels of reported depressive symptoms. Extant research has demonstrated a connection between income poverty and material hardship and depressive symptoms in general, and these symptoms are accentuated among low-income mothers, given the compounding stress of not having enough resources for themselves and their children. In Andrade et al. (2017) we hypothesized that those receiving the EITC periodic payments would report lower levels of depressive symptoms[1] compared to the control group, through decreases in reported financial stress. Results from the mixed-effect regressions supported our hypothesis that the differences in reported depressive symptoms between the intervention and control groups were related to differences in financial stress. This analysis suggests that the periodic payments reduced participants' financial stress, which in turn reduced their reported depressive symptoms. Furthermore, the percentage of control group participants who reported "major depressive symptoms" was more than twice that of the intervention group at waves 3 and 4, 28.8% vs. 11.1% at wave 3 and 25.9% vs. 10.6% at wave 4 (see Figure 4).

Impact on Individual and Family Well-Being



Together, this research provides robust evidence that recurring tax credits payments can improve financial and mental well-being. These findings align with a rich literature that documents the adverse effect of financial stress and income poverty on various health outcomes. Furthermore, while we could not assess child health outcomes, other research documents the role of various financial stressors on child and infant health. Future research on the ACTC could explicitly explore its impact on financial stress and health outcomes among parents and children.

Maintaining Housing

Recent research finds that the EITC may impact housing and living arrangements by reducing housing cost burdens and "doubling up," or multi-generational co-residence (Pilkauskas & Michelmore, 2019). In addition, three of the authors of this report find evidence that some EITC recipients may benefit from packaging various resources with their EITC benefit to make down- payments on homes and move to neighborhoods that provide access to valuable resources that also ties to more financially advantaged family and friends can offer additional advantages for social mobility (Mendenhall et al., 2018). This suggests that individuals' social and economic context shape the impact of the EITC and EITC periodic payments on housing (Greenlee et al., 2020), and thus the need for context-specific analyses with large quantitative data sets to sort out such impacts. Our interview data provide possible avenues through which the EITC may impact housing outcomes that future research might explore.

The interview data align with the concept of residual income, which purports that households pay their housing costs (e.g., rent, mortgage) first because of the value of stability associated with housing (Stone 2006). This suggests that recipients may earmark additional money, like the EITC periodic payments, for other bills and basic needs. However, financial instability caused by inconsistent work hours can result in monthly liquidity constraints and the EITC periodic payment may help ease those liquidity constraints as they provide an additional stable source of income that families can draw on when earned income from employment diminishes.

Several interview participants shared their experiences of financial instability and how the periodic payments helped them through those periods. Susan summarizes this experience:

> *There are certain times of the year when I just do not have the funds available to make it happen. May that be with rent, utilities, things for the kids, I tend to fall off my square. I began to rob Peter to pay Paul. I think with a little extra coming in that's tax-free with no hidden fees works great for me, especially in my time of need. What better way to look at it? "Some now" and "some later." Very simple.*

Another respondent shared how her job did not accommodate her during her pregnancy, and she lost her job, which resulted in her accumulating debt over six months, stating:

> *I was off for six months. Within those six months, my car note fell behind. My rent fell behind – a whole lot of things. So now I'm just really getting on track. And this first payment is actually going towards my condo, because I fell behind so much, my condo went to $502.00 for the next five months. So this first payment is going right towards my condo.*

This respondent was fortunate enough to have a landlord who accommodated her during her six months of unemployment, but it also resulted in her rent increasing for five months to pay back what she owed. Also, her experience speaks to the risk of workplace discrimination that women who work low-wage jobs encounter when they are pregnant. Another participant explained how the periodic payment helped prevent her from being evicted:

> *I was in a situation where I needed to pay my rent, because I had gotten behind in my rent. And it's like, the money actually came right on time… [My landlord] wanted to evict me and I was like, "Wait, hold on. I've got another source of income. This is about to come." So she actually gave me a chance.*

"Right on time" was a phrase used by many of the interviewed participants for the periodic payments. But no time is not "right on time" for most of these participants, as many described constantly treading water financially, or as Susan described above, "robbing Peter to pay Paul" – really only failing to pay Peter money owed because it became so urgent to pay Paul.

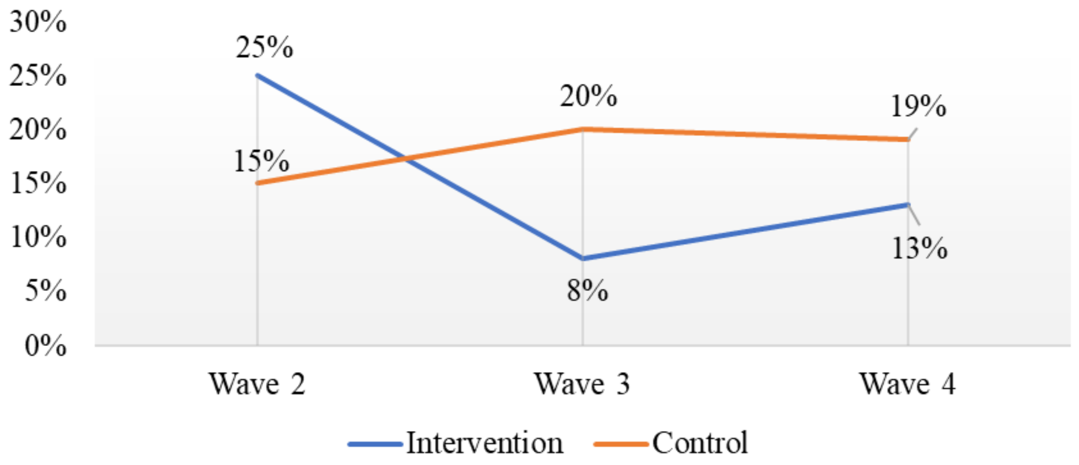
Capacity to Work: Maintaining Employment

An additional concern regarding the expansion of the CTC and its delivery through monthly benefits is potential impact on recipients' labor force participation. Research demonstrates that economic precarity is a major factor making it difficult for low- and moderate-income adults to maintain employment (H. D. Hill et al., 2017; Kalleberg, 2011). In particular, costs related to childcare and transportation can present challenges to workers, particularly those who have work schedules that are unstable and unpredictable (Carrillo et al., 2017; Henly & Lambert, 2005; Lambert, 2008; Sandstrom & Chaudry, 2012). Therefore, we hypothesized that periodic payments would augment recipients' capacity to work.

Regarding childcare, those who received the periodic payments reported experiencing less stress at waves 2 and 3 related to their ability to afford childcare. However, less than 10% of both the intervention and control groups reported missing workdays because they lacked the resources to pay for children. As this suggests, most were able to patch together childcare in some way. Yet, research also shows that many low-income families must rely on a patchwork of childcare arrangements, including with family and friends, due to the high cost and limited availability of childcare options as well as in some cases preferences for family care arrangements.

Transportation costs to and from work were a significant challenge for many participants in our study. For example, analyses indicated that transportation costs resulted in at least 368 days of missed workdays among the entire sample over the course of the year of the study. Analyses provide suggestive evidence that the periodic payments may have helped participants afford their transportation costs to work. The intervention group was more likely to report missing at least one day of work in the past month due to transportation costs than the control group at wave 2, with 25% and 15% respectively. However the intervention group's likelihood of missing a day for this reason dropped to 8% at wave 3, and was 13% at wave 4 while the control group's rate raised to 20% at wave 3 and remained there at wave 4 (see Figure 5). Unfortunately, our limited sample size precluded us from detecting statistical differences between the intervention and control groups; additional research with larger data sets could further explore how periodic payments affect the ability to afford transportation.

Figure 5: Percentage Who Missed Work Due To Not Having Money For transportation



Social Mobility: Children's Education

Research has documented the positive impact of the EITC on educational outcomes, which may lead to social mobility for children (Bastian & Michelmore, 2018; House Committee on the Budget, 2018; Marr et al., 2012). One possible mechanism of such impact is increased parental financial investments in their children's education. We found evidence that EITC periodic payments provided opportunities for parents to invest in their child's education, allowing them to pay school fees, purchase school supplies, and make tuition payments at private schools to an extent the control group could not.

Interviews and focus groups with participants provided contextualized information on how the payments helped some respondents pay school fees they found to be financially challenging. For example, Tondrea, a grandmother raising two high school students, reported having to pay yearly school fees of over $90 for each of her grandchildren, which she described as substantial and far easier to make with the EITC periodic payment. Samantha described her concern about the monthly tuition at her son's Catholic high school. She said that because of the EITC periodic payment, she was able to make the December payment, and now she could "*work on [saving for] January. Relief, such a big relief!*"

Previous research also suggests that the EITC positively impacts social mobility through increased college enrollment and completion among children of EITC beneficiaries. One possible mechanism explaining this is that parents supply direct financial support to their children enrolled in college. We found evidence that the EITC periodic payments augmented such supports. About a quarter of the intervention group participants reported having children enrolled at a college or university. Of these families, about three-fourths reported using some of their periodic payments to support their child in college. For example, during waves 3 and 4, intervention group parents reported giving an average of $178 and $271 respectively to their adult children to assist with college expenses. These results suggest that EITC periodic payments may augment the EITC's impact on college outcomes, a question future research should explore.

Administrative Feasibility

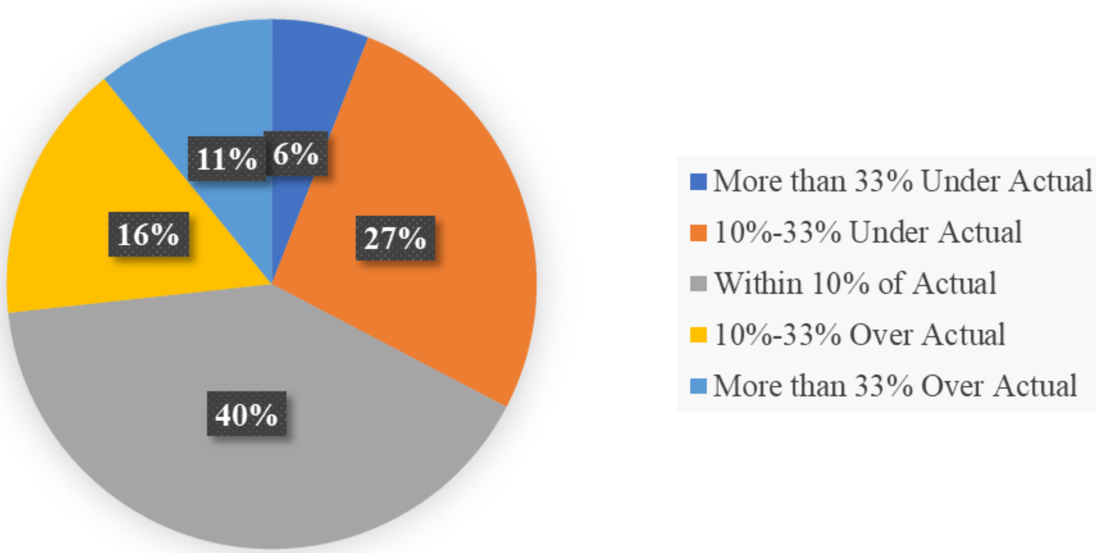
We examined two administrative issues concerning the EITC periodic payments. First, policymakers and taxpayers alike are concerned about possible overpayments of advance tax credits that result in a tax balance due at tax time. Overpayments of advance tax credits that result in a tax balance at tax time could create a financial burden that undermines the positive impact of advance payments. Three primary factors can influence the amount of the credit due under EITC: 1) amount of earned income; 2) the number of qualifying children claimed; and 3) filing status (e.g., head of household, married filing jointly). We were also concerned whether participants could reliably receive their periodic payments via direct deposit. "Unbanked" individuals would not have an account for direct deposit. This did not emerge as a significant issue among those who participated. Some participants needed to change where the payments were deposited due to account closures, but this did not result in missed payments. This suggests that opening new accounts did not pose an undue burden and that participants recognized the value of the periodic payments

Estimating Future Eligibility for the EITC

As part of determining eligibility for the pilot and the amount of the periodic payments, in the early part of 2014 participants were asked a series of questions that simulated their tax filing and EITC eligibility determination. These questions included the number of children they expected to claim, their children's ages and school enrollment status, their marital status, and their estimated income (including earned income, unemployment insurance, and other sources of income).

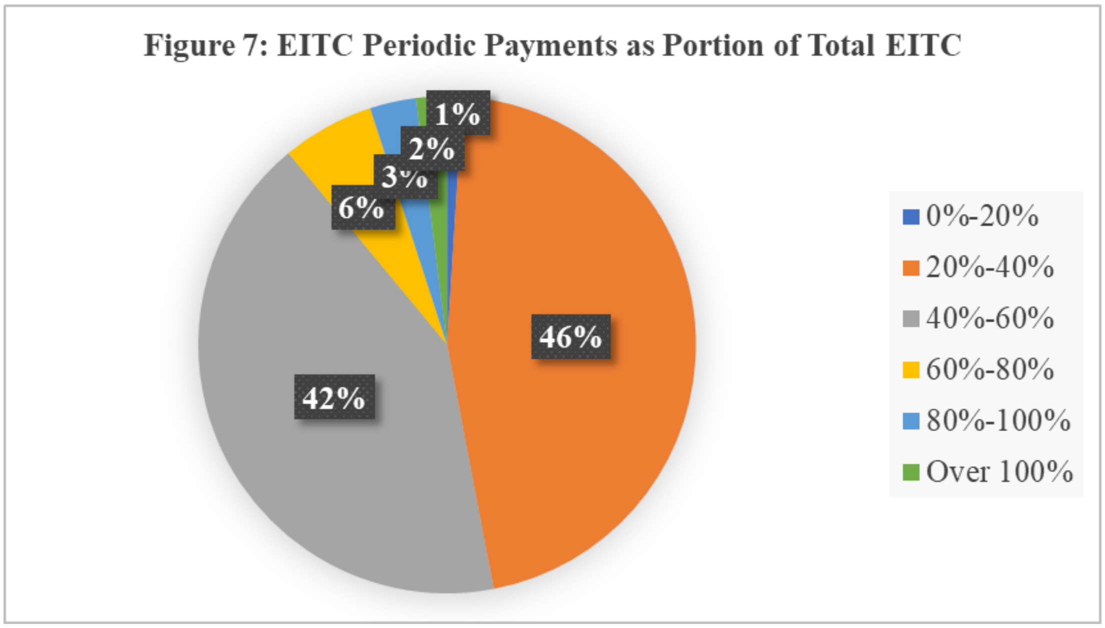
The overwhelming majority of intervention group participants (84%) accurately predicted how many EITC qualifying children they would claim in the subsequent year. Only one participant inaccurately predicted their filing status for 2014 – they expected they would file as Head of Household but filed as Married, Filing Jointly. While income can be challenging to predict accurately, 41% of the participants estimated their annual income within 10% (see Figure 6). A slightly larger percentage of participants, 36%, underestimated their yearly income than those who overestimated their income, 27%. However, the median overestimate was 16%, at $2,485, and the median underestimate was 11%, at $2,005 (Holt, 2015).

Figure 6: Projected Income Compared to Actual Income



Administrative Feasibility

While the accuracy of annual income and household configurations are essential for determining eligibility for an advanced tax credit, the structure of the EITC allows for some leeway for sub-optimal estimates, especially as it relates to income, because it only pays out half of the estimated sum and because of the $2,000 cap. A third of intervention group participants estimated their future EITC eligibility within $200, and over half (57%) estimated their EITC within $500. This translated to about 90% of participants receiving periodic payments less than 60% of their EITC (see Figure 7). Forty-two percent of participants received between 40% and 60% of their EITC via the advance periodic payments. Another 46% received between 20% and 40 percent of their EITC via periodic payments. Participants with two or more children who received the maximum EITC were particularly likely to receive less than half the amount in periodic payments.



Participants had the option to pause, discontinue or reduce the amount of their EITC periodic payments to avoid overpayment of the EITC during the year to avoid a balance due or because they wanted to preserve the size of their tax refund at filing time. The Center for Economic Progress did outreach to participants who reported changes in their household living arrangements (e.g., one of their children no longer living with them) or drastic changes in earned income (e.g., new higher paying job or job loss) to help them make such adjustments as needed. Four participants (1.2% of the intervention group) reported income changes that were large enough to substantially reduce their EITC and, therefore, tax refund. Three of these discontinued their remaining EITC periodic payments, and the fourth opted to reduce the amount of their payments.

Because of the safeguards and structure of the CEPPP program, coupled with other tax credits that participants were eligible for (e.g., the CTC), and over-withholding of payroll taxes, only three participants had balances due at tax time. One owed $12, another owed $122, and a third, who had married, owed $4,024. These numbers would have been higher without the $2,000 cap, ranging from $65 to $4,823 (Holt, 2015). Notably, the participant with the balance of $4,024 was ineligible for the EITC due to the change in their marital status from Head of Household to Married, Filing Jointly. Besides this participant, the balance due did not exceed $122. Therefore, while a few participants received EITC periodic payments in excess of their actual EITC, the overwhelming majority of participants made fairly accurate estimations of their future EITC eligibility. While any balance might constitute a hardship, the number affected was clearly small.

Administrative Feasibility

Successes and Challenges of Direct Deposit of Advanced Periodic Payments

The requirement that all participants receive their payments via direct deposit eased administrative challenges in providing the payments. All of the participants receiving advance payments declined the prepaid debit card that the Center of Economic Progress offered for this purpose. However, we were concerned about the successful delivery of the payments to the participants' accounts and the need to change the direct deposit information due to account closures.

The success rate was 99%. Over the four rounds of payments involving 1,349 electronic transfers, only 20 attempts were unsuccessful. All but one of these were initial attempts and in most cases the second attempt was successful, and all but four involved the participant providing incorrect account and/or routing numbers, in some cases after opening a new account. One payment required a third attempt. There were four errors caused by a spreadsheet rounding the routing numbers that CEP supplied to the issuing bank. Importantly, none of the transferred funds were lost; either the direct deposit was returned to the issuing bank, or the participant's bank issued them a check.

Changes to direct deposit information were more common. To ensure smooth receipt of payments, participants were required to submit new direct deposit information at least one week before the issuing of the next periodic payment. This required a signed form with the new account and routing numbers. Fifty participants, nearly 15 percent of all participants, changed their direct deposit information, and four participants (just over 1 percent) changed it twice.

Discussion

While there are important differences between the EITC and the CTC, our research points to the potential benefits of the monthly advance CTC payments that parents will experience over the second half of 2021, particularly among low- and moderate-income families. The impact of the CEPPP program clearly indicate that recurring cash payments, no-strings attached, offer financial stability to families that encounter challenges to maintaining sufficient income to pay their bills on time, avoid high-cost debt and late payment fees, and make crucial investments in their children's education. Given the similarities between the advance EITC periodic payments and the advance CTC monthly payments, we predict that many of the positive outcomes realized in the EITC periodic payment pilot will also be realized among the millions of families that will receive the CTC monthly payments for the remainder of 2021.

Table 2. Expected Positive Outcomes from CTC Payments for Low-Income Families

Increased Economic Well-Being Families will be able to pay their bills on time and in full and avoid late fees. Families will be able to reduce high-cost borrowing (e.g. payday loans). Families will reduce their reliance on family and friends to fill gaps in their budget.
Increased Financial Stability Families will have an additional recurring source of income they can draw on for monthly bills and unexpected expenses.
Increased Financial Well-Being Increases in economic well-being and financial stability will reduce parents' experience of financial stress.
Increased Capacity to Work Parents will have additional funds to draw on to afford costs related to maintaining employ-
Increased Social Mobility Families will have additional funds to draw on to invest in educational and extracurricular activities for their children. Parents with children in college will have additional funds to support their college-going children, which could translate to better higher education outcomes.

Still, there are various structural, economic, and programmatic challenges that may threaten the efficacy of the CTC monthly payments. Furthermore, the temporary nature of the CTC monthly payments may limit its ability to enact a lasting impact. Indeed, the COVID-19 pandemic and its economic fallout continues to ravage the financial well-being of families across the United States, and millions of families experienced poverty and economic insecurity in the pre-pandemic economy in spite of it being considered "strong." The remainder of this report will be dedicated to discussing what we see as some major challenges moving forward, the concerns we have about efficacy of the CTC monthly payments, and how we think legislators can build on the temporary expansion of the CTC.

Discussion

Challenges, Opportunities and Recommendations

While the federal government has passed unprecedented pandemic and economic relief packages since March 2020, implementation has faced delays and challenges that raise concerns about the CTC. For example, millions of taxpayers experienced long delays receiving stimulus payments. The impact of recurring tax credit payments on family financial well-being is dependent upon the timely receipt of payments, particularly for those who have experienced job and income loss. The Internal Revenue Service (IRS) should be commended for creating the infrastructure to deliver economic impact payments on a shoestring budget, and effectively building the plane as they were flying it. Additional actions are necessary to build infrastructure to address the delays taxpayers are experiencing in receiving their tax refunds and CTC payments, which will continue without proper attention. Yet, years of underfunding has had a deleterious impact on how taxpayers interact with the IRS, and limits the agency's capacity to respond to the taxpayers who need the greatest assistance.[2] For example, the Taxpayer Advocate Service (TAS) states that the IRS is currently unable to answer millions of taxpayer phone calls every year and process taxpayer correspondence in a timely manner. These challenges have escalated during the COVID-19 pandemic.

Currently there is little data on how successful the IRS has been in delivering the first rounds of CTC payments. Recent news reports provide anecdotal evidence of taxpayers experiencing delays in their receipt of the payment, not receiving a payment at all, and receiving incorrect amounts.[3] Also, millions of taxpayers continue to wait for their 2020 tax returns to be processed to receive their subsequent tax refunds.[4] While statistics are currently unavailable, the TAS and the IRS have noted that taxpayer errors in using the "look back" provision allowing them to use their 2019 earnings for the purpose of claiming the EITC and/or the CTC have resulted in delays as the IRS must manually review tax returns with these errors.[5] Therefore, it may be that those who would benefit the most from the advance CTC payments are most likely to be experiencing delays.

Furthermore, while legislators took decisive action to exclude the first $10,200 of unemployment compensation from taxation, many taxpayers had already filed their tax returns. While the IRS is manually adjusting their tax returns, the agency is prioritizing the simplest tax returns, which were filed by those who file as single and do not claim tax credits.[6] Taxpayers with children and who claim the EITC and CTC have therefore had longer wait times for such adjustments. Also, those who became eligible for the EITC and additional CTC due to the unemployment compensation exclusion are required to amend their return, which represents an additional hurdle.[7] Along with the other delays, this may mean that lower income families, those in the greatest need, may be more likely to be experiencing delays in their tax refunds and CTC payments.

The delay of tax refunds and tax credit payments can be particularly challenging for lower income families – like those who receive the EITC – as many depend on and plan their finances (e.g., pay school fees, etc.) around their tax refunds (Halpern-Meekin et al., 2014; Mendenhall et al., 2012). Furthermore, taxpayers may experience a delay in receiving their advance CTC payments if the IRS is currently processing their 2020 tax return. If legislators are serious about easing administrative burdens and delays, particularly for the lowest income families, it is imperative to invest in research to understand which taxpayers were more likely to experience delays and strategies to mitigate the delays. Understanding who was more likely to experience delays will also help policy researchers better assess the impact of the stimulus payments and the CTC payments.

Nonetheless, we commend the IRS's creation of the Child Tax Credit Update Portal (CTC UP), which will allow taxpayers to provide updates on their CTC eligibility and bank account information online. As noted in this report, a small percentage of the CEPPP participants had changes in the number of qualifying children they planned to claim, their income, and marital status. This will allow taxpayers to avoid overpayment of the CTC due to changes, and it seems it will allow taxpayers to receive additional credit amounts if they have an additional child through birth or adoption. New parents may particularly benefit from the ability to receive payments during their child's first year. Also, as previously noted, about 15 percent of EITC PPP participants had to update their bank account information to receive subsequent payments. Economic precarity may cause banking precarity, and allowing low-income taxpayers to update their bank account information is imperative. We recommend that the IRS expand its partnerships with non-profit organizations, churches, and community groups that supported outreach events July 2021[8], to host events that help families navigate this new system. The IRS could also consider employing local community residents to create public service announcements that discuss how to access the CTC.

The Expanded Child Tax Credit in Illinois

The expanded CTC is estimated to have a large impact on Illinois families. Hammond and Orr (2021) estimate that Illinois will receive nearly $3.5 billion in additional CTC benefit in 2021, with Illinois families receiving an average additional benefit of $683. Furthermore, expansion will spur an additional $1 billion in consumer spending, translate to nearly $68 million in additional tax revenue, and create 18,000 new jobs (Hammond & Orr, 2021). Beyond the initial increased tax revenue and job creation, Garfinkle et al (2021) estimate an eightfold short- and long-term benefit from the expansion. These short- and long-term benefits include cost savings from improved parent and child health outcomes, increased children general well-being, decreased neo-natal morality, increased future child earnings, and reductions in criminal justice expenditures.

The expanded CTC also eliminates policy rules that rendered a disproportionate number of Black and Latinx children ineligible for the credit (Curran, 2021), thereby advancing racial economic equity in Illinois by narrowing the child poverty gap between Black and Latinx children and White children. Income poverty is reduced by 52% among Black children, 41% among Latinx children, and 36% among White children. Therefore, the poverty gap between Black and White children decreases from 11 percentage points to 5 percentage points, and from 13 percentage points to 8 percentage points between White and Latinx children (Acs & Werner, 2021). Therefore, making the expanded CTC permanent is a smart policy for the economy and financial well-being of Illinois and the nation and millions of families and children across the state.

Building on Expanded Child Tax Credit

The results from the CEPPP point to the overwhelming benefits of providing recurring, no-strings attached, cash payments to low-income families. We expect similar outcomes for the millions of families that will receive the advance CTC payments for the remainder of the year, particularly for lower income families (see Table 2). The advance CTC payments, like the EITC periodic payments, provide families with a stable source of income that can help to mitigate the financial insecurity and distress that arises from income volatility driven by unstable and unpredictable work schedules. The reach of the ACTC payments is broader, with an estimated 88 percent of children in the United States benefiting[9], and thus the impact of the expanded CTC may vary.

Making the CTC expansion permanent could lead to long-term positive outcomes such as those researchers have found associated with the EITC, including maternal and child health, increased labor participation, and improved child educational outcomes (Bastian & Michelmore, 2018; Center on Budget and Policy Priorities, 2017; Chyi, 2012; B. Hill & Gurley-Calvez, 2019; Schanzenbach & Strain, 2021). Furthermore, while the EITC periodic payments were not associated with increases in overall savings and discretionary income, this may be due to the short-term nature of the pilot. Due to decades of stagnant wages, increases in the cost of basic living expenses, and the continued racial income and wealth gap (Darity Jr. et al., 2018; Duncan & Murnane, 2011; Kalleberg, 2011; McCall & Percheski, 2010; Shapiro & Oliver, 1995; Western et al., 2012), low-income families, especially families of color, may need several years of recurring cash payments to pay down debt and create the financial stability necessary to begin building savings and wealth.

Discussion

Including Young Adults and Adults with Disabilities

In addition, while making the CTC expansion permanent would create the nation's first "child allowance," there are various opportunities to build a more comprehensive program. CTC expansion covers children under the age of 18. Therefore most families will not receive the support they need during their child's last year of high school. Furthermore, changes in the political economy over the past 50 years have made a college education a general requirement for obtaining employment that provides a good living wage, full benefits, and economic security (Autor, 2014; Kalleberg, 2011; Rauscher & Elliott, 2014; Weil, 2014). Millions of young adults rely on the continued economic support of their parents while they attend college, or struggle to combine low-wage work and school during their early 20s (Addo et al., 2016; Daire et al., 2007; Elliott, 2013; Elliott & Friedline, 2013; Serido et al., 2010). The fact that three-fourths of CEPPP participants who had children in college allocated some of their EITC periodic payments to support their child in college suggest that expanding the CTC to include qualifying children between 18 to 24 years old if they are in school full-time, in line with EITC eligibility requirements, could increase the impact of the program. We would also recommend loosening the school requirement so that children attending school part-time can be covered. Likewise, the CTC might cover children regardless of age if they are permanently disabled, much as the EITC does.

The Need to Address Systemic and Structural Racism, Classism, and Sexism

Even if the CTC expansion is made permanent and the recommended expansions are enacted, various communities may experience disparate benefits from the expansions. Interlocking systems of racism, classism, and sexism that shape the social and physical conditions in which families of color, especially Black families, live and work, negatively affect their mental, physical, and economic well-being and their children's future opportunities (Mendenhall, 2018). While additional income may help families of color navigate and manage the systemic stressors they encounter, it doesn't address the root cause of those stressors – systemic and structural racism, classism, and sexism. Researchers and policy makers should consider these interlocking conditions when evaluating the impact of the CTC expansion and the payments, and advocates have an important role to play in pushing for policies that address the sources of systemic and structural racism in our efforts to create a more just society.

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Footnotes

1. We used the Patient Health Questionnaire depression scale (PHQ-8) to assess depression.

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