Policy Options for Direct Payments
January 2021

There are many policy choices that matter in designing direct stimulus payments effectively. To be most powerful, the payments should be substantial, recurring, and income-targeted.

Extending unemployment insurance is essential and has been critical for those who have been able to access it, but it doesn’t reach most people who are struggling. With an economy in freefall for the second time in a year, recurring direct payments would massively reduce poverty and help stabilize the middle class.

KEY RECOMMENDATIONS

- **Recurring cash payments until the economy recovers**: Start with an initial $1,400 to raise the recent payments to $2,000, followed by $1,000 payments quarterly. This should last until the employment-to-population ratio has reached 60% or four payments (i.e., $1,400 plus 3 x $1,000), whichever comes first, followed by a required congressional vote on whether to extend.

- **Target to those who need it most and will spend it the quickest**: Concentrate all these payments on the bottom 60% of earners and keep a top-end income of $100K, to visibly help middle-class families:
  - Single: Phaseout begins at $30,000 and ends at $40,000.
  - Married with no kids or head of household (single parents): Phaseout begins at $40,000 and ends at $80,000.
  - Married with kids: Phaseout begins at $50,000 and ends at $100,000.

- **Immigrant workers and dependents of all ages with an equal credit amount**: Include workers who pay taxes with Individual Tax ID Numbers (ITINs), regardless of immigration status, and older dependents including disabled and elderly dependents and those over the age of 16 still claimed as dependents.

- **Improved administration including automatic payments to all eligible households, and stronger outreach to communities left behind in previous rounds**: Treasury should automatically pay remaining CARES Act payments and future payments to likely eligible recipients for whom the IRS has 1099 or W-2 wage data.

Our recommendation for income-targeted payments can deliver a year’s worth of checks – starting with the boost to raise the December payments to $2,000, followed by quarterly $1,000 – for $775 billion. Though some may criticize the initial payments for not including everyone, that will be offset by the plan being more generous than the promised $2,000. To the extent that overall cost is a significant concern, even the initial check boosting to $2,000 followed by a single $1,000 check three months later can be sent for about the same cost as the administration’s initial proposal.

More options are modeled in the appendix below.
EXPLORING KEY POLICY CHOICES

1. How many checks?
   1.1. Why recurring checks are essential

   ■ This is the Inequality Recession: Low- and middle-income people need relief most, and will spend it, but a one-time check will only last them weeks to a couple of months.
   ■ Recurring checks cut poverty, reaching people UI cannot, and provide stability:
     ● Poverty fell by 4M after the CARES Act, then rose by 8M after checks ran out.
     ● The second checks came too late as millions of people now face food insecurity, evictions, and utility shutoffs.
     ● UI is essential too, but two checks keep 3.5x more people out of poverty than UI alone (per Urban Institute/Tax Policy Center modeling of two $1,200 HEROES Act checks – see graph at right).
   ■ Unemployment insurance is an essential support, but still challenging to access. In Census Bureau data, 40 million people earning less than $50K report a loss of job income last year, but only 14 million report accessing unemployment insurance.
   ■ Recurring checks add certainty for households. Low-income people spent the checks immediately, because they had to. Middle-income people spent and saved, but data show that even they are now spending down their savings. Recurring checks allow people to spend them, because they know more money is on the way and Congress won’t stiff them again.
   ■ Politics. As Georgia showed, checks are the primary way most people experience government relief from these COVID packages. Keeping them coming will remind people of this Administration’s support and distinguish this Administration from the last one. We need to provide at least one year’s worth of checks in the first package, so that Congressional gridlock doesn’t force more families into poverty and hunger.
   ■ Timeline. The initial stimulus may very well be the most significant economic legislation of the next two years (with few if any possibilities for more relief), making it essential to create recurring checks to avoid a stalled recession or an unnecessarily delayed recovery, similar to 2009. We can’t easily go back to the well. One check runs out, and its boost on the economy runs out. Jason Furman on 1/8/21 Jobs Day: “I’m worried some of the scarring is extensive enough that we will be far from fully recovered at the end of 2021...We will not be back in perfect condition until 2022 or 2023. It’s going to take a while in some places.”
   ■ Recurring checks provide valuable help to families with children: the Child Tax Credit plus two $1,200 checks gives 3x as much to families with kids as CTC alone.
   ■ Making cash payments a part of the standard response to a recession, with an automatic stabilizer, would be a valuable structural change that economists have long advocated.
1.2. **Frequency: monthly vs. quarterly**

- Monthly is better politics – no voter thinks about their quarterly budget, which is why there are multiple congressional bills for monthly checks and 2 million signatures on a petition for $2,000/month checks. But quarterly has a good policy rationale: some people spend it even more quickly but most low- & middle-income people spend most of it in that time, and is probably more realistic given competing priorities.

1.3. **Triggers: how long should payments last?**

- Checks should last at least until economic conditions begin to approach pre-recession conditions.
- The most straightforward approach is to tie duration to employment conditions. Existing bills and proposals have used thresholds of the unemployment rate dropping to 5.5% or 6.5% (for two months in a row), or the employment-to-population ratio reaching 60%. Some have used graduated thresholds, such as the Dean/Cartwright bill, which required $2k quarterly checks while unemployment rate > 8.5%; $1.5k while UR > 7%; $1k while UR > 5.5%, which can recognize an improving economy and keep costs manageable while still keeping payments going. However, the unemployment rate obscures the millions who have dropped out of the labor force, so employment rate (EPOP), recommended by Jason Furman, is likely a better measure. Other legislation like Sen. Sanders & Harris’ bill has pegged it to 3-6 months after the public health emergency is declared ended.
- CBO might make worst-case-scenario assumptions about a slow recovery and the number of future payments required and score such a bill as potentially requiring a significant number of payments (dynamic scoring might help with this). Good options to avoid that include a hard limit on the number of payments (e.g. 4 quarterly payments, or EPOP reaches 60%, whichever comes first), followed by a required, privileged (non-filibusterable) congressional vote on additional checks.
- It is worth considering that even when unemployment is back down to 5.5% or even 3.5%, many low-wage workers are still struggling economically, and there might be consideration of other measures that recognize that, e.g. once UR hits 5.5%, Congress is required to vote on a smaller set of payments to a narrower population.
- Ideally, there should be a trigger to restart payments in a future recession, such as the Sahm Rule, which predicts the onset of recessions early and accurately.

2. **How big is each check?**

2.1. **Payment amount**

- Payments should be substantial enough to make a real difference for the average family, as well as feel like a real boost to induce spending. An initial $1,400 payment followed by $1,000 a quarter is a good benchmark.
- Vice President-Elect Kamala Harris, for instance, has advocated for $2,000 per month, and dozens of Congressional leaders have proposed a range between the $2,000 one-time commitment and Harris’s proposal (See Appendix). Most quarterly payment proposals have been $1,200 or higher, but the most important thing is recurring payments. Recognizing that there are multiple goals in an economic stimulus package, even payments of $500 quarterly, while not ideal, would still provide valuable support.
Ultimately, the amount will likely be a political decision made in negotiations, but the higher the amount, the greater the reduction in poverty and the faster the economy exits its recession.

3. **Who is eligible?**

3.1. **Dependents and dependent amount**

- Child dependents should be included, either with a smaller payment as in the CARES Act, or better, a payment equal to adults, as Democrats proposed in the HEROES and CASH Acts. [Children’s Defense Fund has written](https://www.childrensdff.org/) about the rationale for an equal-sized payment.
- CARES excluded 15 million dependents over the age of 16, including elderly and disabled adult dependents. They should also get an equal credit amount, as outlined in HEROES and CASH Acts.
- Other dependents include 17-year-old children (who were excluded from the CARES Act but should receive a child credit); and college-age adults who are claimed on their parents’ tax returns.
- None of these dependents are tax filers themselves, so they are completely excluded: barred from receiving credits on their own, and their parents or caretakers are otherwise barred from receiving dependent credits on their behalf.

3.2. **Immigrant workers and their families**

- There are more than 7.5 million immigrant workers who pay taxes in this country with Individual Taxpayer ID Numbers (ITINs), regardless of immigration status, and should be included in payments. This has been a major priority for progressive organizations. The CARES Act excluded all non-citizen tax filers except for military spouses. The HEROES Act included ITIN filers – an estimated 4.3 million adults and 3.5 million children – and several other Democratic proposals have, too. The relief package in December adopted a Republican proposal to cover U.S. citizen children and spouses in households where one spouse is an ITIN filer, but not the ITIN filers themselves. This created a new baseline, but the Biden administration should go further. More information: [CRS report](https://crsreports.gov/) and [Ways & Means FAQ](https://waysandmeans.house.gov/about/faq/).
- In addition, by executive memorandum, President Biden can ensure that any data gathered by federal agencies, including IRS, about ITIN holders is used solely for its intended purpose, and not for use by ICE or any other agency to identify people who are undocumented.

4. **Income targeting**

See our [slide deck](https://www.childrensdff.org/) on this topic.

4.1. **Why consider setting a lower income ceiling**

- CARES Act payments went to 92% of Americans, including many with incomes over $200K. Income targeting concentrates payments on struggling low- and middle-income ready to spend the funds, stimulating the economy. Targeting also reduces the cost, enabling dollars to go further and making recurring payments feasible, while addressing targeting concerns raised by some centrist senators.
- This recession is unique: low- and middle-income families are much more likely to have lost jobs and to have lost income, including from pay and hours cuts even if they remained employed. Tens of millions who have lost income have not been able to
access unemployment insurance, per Census data. Among those who have lost income, low-income people and Black and Latinx families are much less likely to have seen their income bounce back compared to wealthier and whiter groups. Indeed, the vast majority have not recovered.

- Lower-income families spend their payments while higher-income families tend to save their payments: Census data confirm that 84% of low- and middle-income families spent or planned to spend CARES Act payments on expenses, compared to 60% of higher-income families. The NBER paper that drew wide attention, though only one of several data sources on this point, found different numbers but the same pattern, and Raj Chetty’s data showed, “Stimulus payments made to households in mid-April 2020 increased spending among low-income households sharply, nearly restoring their spending to pre-COVID levels by late April.” Spending increased steadily until leveling out again in mid June, suggesting that the stimulative impact slowed after about two months, when many families had spent their checks.

4.2. Factors to consider in setting income thresholds

- Median income ($33K for singles, $69K for households): The phase-out could start or end at median income (if inflation-adjusting is desired, as part of an automatic stabilizer proposal intended to last for many years), or be generally in that area.
- Concentrating benefits on the bottom 60% of earners ($65k and below). That is generally progressive but also prioritizes those who will spend checks.
- Keeping a top-end income of $100K, to help middle-class families.
- Having simple and clear phase-out endpoints, while not making the phase-out too steep even for larger families. Few voters or policymakers understand that CARES payments phased out well above $200K for larger families, and the gradual 5% phase-out accounted for a significant portion of the cost of those payments, as well as for very high-income families receiving payments they did not need.
- Being more generous to families with kids by going further up the income spectrum.

4.3. Our proposal on income thresholds and phase-outs

- Single: $30,000 - $40,000
- Married with no kids or head of household (single parents): $40,000 - $80,000
- Married with kids: $50,000 - $100,000

4.4. Impacts and racial equity benefits of income-targeting:

- It’s progressive (in a taxation sense): most benefit to the bottom 60% of earners
  - 65% of Americans benefit with our phase-outs, vs. 92% in CARES Act
  - 84% of total benefits to bottom 60% of households (under $65,000), vs. 59% in CARES Act
- It’s the most racially equitable option, with outsized impacts for households of color
  - Unemployment insurance is harder to access for workers of color, especially Black workers. Programs like PPP, even those aimed at households of color, failed to provide the significant relief needed. As a result, Black and Brown families are some of the hardest hit by the pandemic – economically and from a health standpoint. Cash is one of the only tools that flips that dynamic on its head, reaching the vast majority of Black and Brown families.
  - 75% of Black/Latinx families get a check in our proposal vs. 61% of white families.
  - 41% of total benefits go to households of color vs. 31% for HEROES Act payments
- It’s the most stimulative option, with the most bang for the buck
● Estimates of fiscal multipliers for relief proposals vary widely depending on methodology. Moody’s Analytics estimated the checks in the HEROES Act would generate at least $1.06 in GDP for every $1 in stimulus checks – better than most programs but not as high as unemployment insurance. CBO and Brookings Institution have made similar findings about the relative benefits of checks.

● Targeting checks to low- and middle-income families who largely spend them will bring the multiplier closer to that of unemployment insurance, which receives higher scores because it goes to people who are likely to spend it, but which leaves out millions who also need help.

5. Essential Details on Administration

5.1. Automatic payments to all eligible households, to reach millions of non-filers

■ **Automatically pay** new payments and outstanding EIPs to eligible households who have not received them. IRS has a trove of new income data from the first round of CARES Act payments with which to make most payments automatically. For the remaining households, the Treasury Department should be directed to use its vast income and wage data to automatically pay any remaining CARES Act payments and all future payments to likely eligible recipients – those who didn’t apply on the online Non-Filer Portal but who appear eligible based on the income data IRS already has on all Americans (via forms W2, 1099-MISC, and 1099-NEC).

■ Congress should also instruct the IRS to release detailed data on payments and Portal users to date to help identify who hasn’t been paid, including the number of payments that were attempted and completed, the number of returns in examination queues, and statistics by zip code. This will help local community organizations identify where to focus their outreach efforts.

■ A related memo from New America and Nina Olson (former National Taxpayer Advocate) that includes many of these recommendations can be found [here](#).

5.2. Other issues around uptake

■ Keep the IRS portals open, so non-filers can still claim their checks.

■ Fix the “EITC filing trap.” During the CARES Act payment, families who used the non-filer portal unknowingly locked themselves out of receiving their 2019 EITC, because the portal filed a simplified return for them. The portal should be modified to include a couple additional key questions to record information pertinent to EITC and CTC eligibility, and allow low-income families to qualify through the portal.

■ Stronger outreach to communities left behind in previous rounds.

5.3. Timing with respect to tax filing season

■ If checks are approved in February, Congress should direct IRS to determine income eligibility based on 2020 returns if they have them, and 2019 in the alternative. IRS can process 2020 payments (as advance credits on 2021 returns) and 2020 tax returns simultaneously through separate processes. To speed the delivery of checks, Congress could extend the tax filing deadline once again to allow IRS to concentrate its resources on getting payments out.

5.4. No garnishment of payments

■ CARES Act prohibited some garnishment of payments, but allowed payments to be garnished by private banks and for debt such as back child pay. All garnishment should be prohibited in future payments.
5.5. Clarify that inmates are eligible.

5.6. Building the infrastructure for regular payments

- The progress made by IRS this past year in setting up systems for direct payments has been enormous, and despite some hiccups has overall been a huge success. The new Administration can continue in this direction, creating infrastructure in the IRS and the Treasury department that makes it possible for future payments to be administered quickly and accurately when needed.

**APPENDIX: POLICY OPTIONS**

- All modeled amounts are by the Institute on Taxation and Economic Policy (ITEP) and are slightly low as they cannot incorporate ITIN filers into each model, but their analysis of including 7.9 million adults and children in ITIN households, as proposed in the HEROES Act, totals $9.4 billion.
- “Targeted” below means using our recommended phase-outs.
- More detailed ITEP modeling: [Estimates for Cash Payment Options (Jan 2021)]

<table>
<thead>
<tr>
<th>Payment amt (adult/dep) &amp; frequency</th>
<th>Increase $600 check to $2,000 (similar to CASH Act)</th>
<th>$1,400 now, then one $1,000 check (both targeted)</th>
<th>$1,400 now then $1,000 quarterly (both targeted)</th>
<th>$2,000 checks, quarterly (targeted)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment amt (adult/dep) &amp; frequency</strong></td>
<td>$1,400/$1,400 one-time</td>
<td>$1,400/$1,400 one-time, then $1,000/$1,000 one-time</td>
<td>$1,400/$1,400 initially, then $1,000/$1,000 for 3 quarters</td>
<td>$2,000/$2,000, quarterly</td>
</tr>
<tr>
<td><strong>Income limits</strong></td>
<td>CARES</td>
<td>Targeted</td>
<td>Targeted</td>
<td>Targeted</td>
</tr>
<tr>
<td><strong>Cost per payment</strong></td>
<td>$434 billion</td>
<td>$423 billion ($247B + $176B)</td>
<td>$775 billion ($247B initial + $176B x 3)</td>
<td>$1.4 trillion ($353B x 4)</td>
</tr>
<tr>
<td><strong>Share of households eligible</strong></td>
<td>95%</td>
<td>65%</td>
<td>65%</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Share to bottom 60%</strong></td>
<td>56%</td>
<td>84%</td>
<td>84%</td>
<td>84%</td>
</tr>
</tbody>
</table>
### Modeling of key single payment amounts

<table>
<thead>
<tr>
<th></th>
<th>CASH Act</th>
<th>Targeted CASH Act</th>
<th>$2000 checks</th>
<th>Targeted $2,000 checks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment amount</strong></td>
<td>$1,400/</td>
<td>$1,400/</td>
<td>$2,000/</td>
<td>$2,000/</td>
</tr>
<tr>
<td></td>
<td>$1,400</td>
<td>$1,400</td>
<td>$2,000</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Income limits</strong></td>
<td>CARES</td>
<td>Targeted</td>
<td>CARES</td>
<td>Targeted</td>
</tr>
<tr>
<td><strong>Cost per payment</strong></td>
<td>$434 billion</td>
<td>$247 billion</td>
<td>$590 billion</td>
<td>$352 billion</td>
</tr>
<tr>
<td><strong>Share of households eligible</strong></td>
<td>95%</td>
<td>65%</td>
<td>95%</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Share to bottom 60%</strong></td>
<td>56%</td>
<td>84%</td>
<td>57%</td>
<td>84%</td>
</tr>
</tbody>
</table>

Note that because of fixed phase-outs, targeted payments’ total costs are approximately proportional to amounts, i.e. targeted $1,000 checks costs 2x a round of $500 checks.

### Other payments, for comparison (more data here)

<table>
<thead>
<tr>
<th></th>
<th>Targeted HEROES</th>
<th>Targeted CARES</th>
<th>HEROES</th>
<th>CARES</th>
<th>$2000 checks</th>
<th>$600 checks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment amount</strong></td>
<td>$1,200/$1,200</td>
<td>$1,200/$500</td>
<td>$1,200/</td>
<td>$1,200/</td>
<td>$2,000/$2,000</td>
<td>$600/$600</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,200/1,200</td>
<td>$1,200/</td>
<td>$2,000</td>
<td></td>
</tr>
<tr>
<td><strong>Cost per payment</strong></td>
<td>$207 billion</td>
<td>$166 billion</td>
<td>$338 billion</td>
<td>$266 billion</td>
<td>$590 billion</td>
<td>$156 billion</td>
</tr>
<tr>
<td><strong>Share of households eligible</strong></td>
<td>65%</td>
<td>65%</td>
<td>92%</td>
<td>92%</td>
<td>95%</td>
<td>89%</td>
</tr>
<tr>
<td><strong>Share to bottom 60%</strong></td>
<td>84%</td>
<td>84%</td>
<td>58%</td>
<td>59%</td>
<td>57%</td>
<td>60%</td>
</tr>
</tbody>
</table>