960459

Pilot Program: Early Refund of Refundable Tax Credits
The TaxCredit Express

Executive Summary

The TaxCredit Express is the pilot project included in 1995 welfare reform legislation that provides low-income people the option of receiving their income tax credits and property tax refund in monthly installments rather than a lump sum. The monthly payment option is a means of encouraging and rewarding work as an alternative to welfare. We then hope to measure the success of that program in getting people into jobs and a tax situation that will keep them off welfare.

As part of our pilot planning process, we conducted several focus groups with potential recipients of credit pre-payments in Minnesota. These citizens believed that the monthly credit payments would have to be $200 to $250 dollars to make such a system worthwhile and allow them to make significant improvements such as a better apartment, child care, or transportation to and from a job.

To reach that level of monthly payments through the TaxCredit Express, it is essential that the federal Advance Earned Income Credit (AEIC) be included as a part of the package. Without federal approval to include the AEIC, we do not believe that the TaxCredit Express pilot can be successful in reaching its goals. As of yet no authority allowing Minnesota to incorporate the AEIC payments is included in bills currently before Congress, although we do have indications it is likely to be considered early in 1996.

In light of the feedback from taxpayers, as well as the uncertainty over when authority to include the AEIC in Tax Credit Express will be forthcoming, we have committed to begin the TaxCredit Express pilot approximately three months after the passage of federal enabling legislation (and within the time frame that we expect will be required for the federal government to act on the state requests once the legislation is passed). This will assure that when we do begin our pilot program it will be headed for success.

While we wait for federal legislation to be enacted, we will continue to lay the groundwork for the pilot program as well as the general policy goals that lie behind it. We will develop Minnesota's application so it is ready to go when federal law is changed to permit it. We will promote wider general use of the federal AEIC through employer payrolls via partnership efforts between the Department of Revenue and employers, building on the successful existing outreach with low-income populations on tax issues. We will continue to plan and offer training to county human services workers and other local program staff to enable them to better educate their clients about the AEIC program and how to take advantage of it and other income tax credits.

Under current law, the TaxCredit Express pilot is allowed only to workers on public assistance and must be started in the first quarter of 1996. In order to take the most advantage of the pilot and to learn as much as we can about all prospective users of the pre-payment program, we also plan to ask the 1996 legislature for a broader pilot perspective (including some non-AFDC recipients), but within current funding levels, and the leeway to start the program only after the federal approval for inclusion of the AEIC is received.

Pursuant to 1995 Minn. Laws Chap. 178
Art. 3 Sec. 2

Asking the Customer

Preliminary planning for delivering pre-payments of Minnesota's income tax credits and property tax refund to lower-income working families had included the assumption that we would *require* participation in the program for those defined in the pilot. We also assumed that people would prefer to get a tax refund, however small, in advance in order to meet daily living needs, instead of having the money distributed in larger amounts to be used for big-ticket expenses. After talking with prospective users of the TaxCredit Express, we modified our working and planning assumptions.

After passage of the "Working Family Credits Joint Venture" legislation (see Appendix A) in the 1995 legislative session, we held town meetings with individuals who might be future participants in the TaxCredit Express program. (See Appendix B for more detail on the feedback from those meetings.) We asked taxpayers who were qualified for the AEIC and who may or may not have been on AFDC how they thought some hypothetical low-income families would like to receive their tax credit dollars. At three geographical locations in the state -- from the counties around Beltrami County, Crow Wing County, and in Dakota County -- the customers agreed with each other as they made these statements:

- Many did not know about the option of the currently-available AEIC.
- Getting credits in advance should be an "option" available to the taxpayers. Everyone has different levels of comfort with the complexities of personal finance. For the same reason, they needed options on how the money actually arrived (checks, direct deposit, ATM cards).
- They were cautious about becoming involved in a program that might cost the government more money than it's worth to the TaxCredit Express recipients and the Minnesota taxpayers.
- It's hard to understand the credits and the pre-payment plans unless they have a chance to ask a person about them face-to-face.
- If they're going to go to the trouble of getting the credits early, they want the amounts of the payments to be big enough to make a difference in their lives. Most agreed that $200 to $250 of additional payments per month would be what it would take to move to a better neighborhood, pay for child care, or pay for transportation to work. If they received smaller payments, the individual families' spending patterns made a difference in whether the money would actually be used to raise the standard of living for the low-income families.
- It's very risky to get money ahead of time and then not qualify for it and have to pay it back.

How the Pilot Program Will Work

While incorporating the feedback from the town meetings, we planned the process to ensure that participation in the program is an option, that the payments are large enough to make a difference, and that we offer enough in-person training to give the taxpayers some level of comfort about not getting pre-payments so high they will need to repay them. Here are the steps we have planned so far:

Application Process:

- Taxpayers are eligible if they currently are eligible for the federal AEIC and are estimated to be able to receive more than $200 in monthly prepayments from all tax credits. We may allow some who qualify for less money, but that would only occur if we needed more participants to fill up the 1,500 quota for participation in the TaxCredit Express pilot.
- Taxpayers on public assistance will choose to participate in the program, select how the payments will come, and provide information to estimate their rent/property tax on a separate application. Other data necessary for credit computation will be transferred from the MAXIS system at DHS directly to DOR.
- Taxpayers who do not receive public assistance will indicate their wish to participate and estimate all of the following items on the application sent to DOR:
    1. Filing Status
    2. Number of Qualifying Dependents
    3. Number of Children in Child Care
    4. Child Care Expenses
    5. Either Spouse 65 or over?
    6. Estimated annual wages, self-employment income, social security income, welfare benefits, and workers' compensation
    7. Annual Rent or Homestead Property Tax Paid
- Taxpayers who are in a Revenue Recapture situation will not be allowed to participate in this pilot.

Education and Communications

Because of the risk to participants in any program that requires them to "know" in advance their income and filing status for the next year, much of our success in the TaxCredit Express pilot will depend on educating our taxpayers about their options. We will be offering these communications opportunities:

- Offer training classes for county human services staff and other local program staff so that they can explain the credit options to the people who are both working and receiving some public assistance.
- Update and expand current computer program which calculates estimated tax credits; train DHS workers to use it in their in-person or phone interviews; make it simple enough so that DHS clients or the general public could enter the required information and get an estimate of their lump-sum credits or their TaxCredit Express payments.
- Set up a separate hotline in the DOR Telephone Taxpayer Assistance unit to answer questions about the credits and the TaxCredit Express.
- Use current training occasions to train VITA volunteers and tax preparers in the options available.
- Strengthen relationships with advocates for low-income people, nonprofit programs, churches and other community-based efforts, in order that they understand and can help TaxCredit Express succeed.

Payment Process

As the DOR receives the first 1,500 applicants, these procedures will be followed:

- Data will be entered from non-welfare applications by DOR staff.
- Data will be entered from welfare applications by DOR staff and matched to data from the DHS system.
- Applicants will be screened for taxpaying records and Revenue Recapture amounts owed.
- Pre-payments will be calculated at 50% of these total credits for the year.
    1. Federal AEIC (at 60% as provided in preliminary federal legislation)
    2. MN Working Family Credit
    3. MN Child and Dependent Care Credit
    4. MN Property Tax Refund
- Payments will begin on the 15th of either January, February, or March, depending on the timing of federal approval allowing the state to distribute the AEIC.
- Payments will be either 1/12, 1/11, or 1/10 of 50% of the total credits, depending on the month that the program is started.
- The pre-payments will be delivered to the taxpayer's choice of:
    1. Direct deposit if they have a checking account.
    2. ATM card if that option is available in the applicant's geographic area.
    3. Checks in the mail.
- The lowest monthly payment will be $50.
- Records will be kept on DOR's Taxpayer Accounting System to have a history of payments necessary for eventual reconciliation when return is filed.
- At any time throughout the year when the marital status or income or family size of an applicant changes, the DOR must be notified to recalculate payments and/or stop payments.
- DOR and DHS will exchange monthly information about the TaxCredit Express participants to determine whether they continue to remain eligible for the pre-payments.
- DOR and DES will exchange information from the DES computer files submitted quarterly by employers and containing the working status of the applicants. If an applicant's initial status changes, the payment will be adjusted accordingly.

Reconciliation of Pre-Payments and Credits Earned

After ten to twelve months of pre-payments, the payments will stop, and the reconciliation process will begin. Pilot participants will now have to file their federal income tax, Minnesota income tax and the Minnesota property tax refund forms to receive the other part of their credits. The process will contain these steps:

- DOR will send out notification to the participants of how much AEIC they already received, so it can be used on the 1040 to offset the amount of the remaining EIC to which they are entitled.

- Participants will file the Minnesota forms as they usually do. We will not change the forms to include special lines for these 1,500 pilot participants because of the confusion it would cause our other two million taxpayers. The DOR processing system will flag the TaxCredit Express taxpayers and set their income tax and property refund returns aside for special processing and reconciliation.
- People who have not filed by the end of the filing year will be referred to the DOR Non-Filer Unit for communication.
- Participants who received too much in pre-payments will have their refunds reduced by the overpayment or will be notified of the amount of overpayment due. Amounts which are past due will be referred to DOR Collections.
- As stipulated in the law, no penalties and no interest will be assessed on these overpayments.

Measurements to Tell Us How Effective the Pilot Was

When we have reconciled the returns of the pilot participants, we must begin to assess how effective such a program will be if we were to implement it and even market it for everyone who might be eligible. These measurements would help us answer questions about whether we should go on with the program:

- How many people have moved off welfare because of this program?
- What are the administrative costs of this program? Do the benefits outweigh the cost?
- What will be the effect of the state's cash flow?
- Would it reduce costs to the employers?
- What are the participation rates?
- How much fraud has occurred?
- Are there better alternatives?
- How did the state agencies work together?
- Did we increase participation in these credits by offering them in advance?
- How many participants ended up with overpayments?
- What was the average amount of payments?
- Use a survey instrument to measure the participants' satisfaction with the TaxCredit Express.

Why Wait for Federal Legislation?

In an estimate of the 1996 credits for a single, two-children parent working full time at minimum wage, the monthly pre-payments (at 50%) would be $250 with the AEIC and $102 without it. The AEIC makes up over half of the proposed payment and adds enough to make the pre-payment for this taxpayer significant enough to make a change in lifestyle.

The magnitude of influence as shown in this example and the observations from the focus groups were instrumental in our decision to wait until we had federal permission to allow the states to distribute the federal AEIC; we are committed to encouraging that federal legislation. Our neighboring states of Wisconsin and Michigan are also vocal proponents of such a federal program. (See an example of the proposed federal language in Appendix 3.)

Additional Legislation Needed in Minnesota

Further study about the reason for the TaxCredit Express has also led us to enhance the focus of the pilot. If we are attempting to determine whether the TaxCredit Express can keep the working poor people who have never been on welfare off of it, then we should include them in our pilot. This project was originally envisioned to include a second year of the pilot in which the program was offered to this general working-poor public. We would like to broaden the current pilot now to allow that to happen.

Another change is prompted by the detail in the proposed federal legislation. States will be given the option of distributing 60 to 75 percent of the AEIC in pre-payments. The proposed legislation for Minnesota was changed to reflect those possible thresholds.

Also, while we have temporarily taken advantage of the fact that the commissioner of revenue "may implement a pilot program" and have put the project on hold, we would like to have legislation that allows us to start the pilot after federal permission for distribution of the AEIC is received. When we know we will be able to include the AEIC in the pre-payments, we will have everything in place to start the pilot. In Appendix 4 a draft of the possible Minnesota legislation is included. Including people who are eligible for EIC and not on welfare, allowing us to wait for federal waivers to distribute the AEIC, and allowing 60% of the AEIC to be refunded are the only changes of substance. Of course, the appropriation would need to be repeated in the next year's legislation. We will be returning this fiscal year's appropriation if federal waivers do not come through before March of this fiscal year.

While We are Waiting for Federal and Minnesota Legislation

In preparation for eventual initiation of the TaxCredit Express program, much can be done:

- The application for the federal approval must be ready to go when the federal enabling legislation is passed. This document will contain information on how we will make the advance payments, how we will verify estimated payments, and how we would run the program generally. We can work on this now.
- Already in process is a DOR promotion of the AEIC, working with Minnesota employers and others. As we have successfully done in the past, we will use community advocates and marketing techniques to enlist the cooperation of the business owners and community leaders in spreading the word about the AEIC as it is currently available. Slowly changing the mindset of our employers and new AEIC recruits will help when we attempt to expand the advance credit idea to include Minnesota's credits.
- In cooperation with the counties and with the DHS, we are planning to make human services case managers and financial workers aware of the credits available as an incentive to their clients who may choose to try working. These professionals will also be learning about the current AEIC. This is the place for the one-on-one communication with the working poor people about options open to them.

- Also in cooperation with other advocacy groups, we are updating a user-friendly computer program that will allow county workers to input certain household data and give the customer an estimate of what the monthly payments or the lump-sum amount of credits will be. Not only will the customers learn of the credits that are available, but they will also learn of the advance credits that are available.
- Preliminary work has been done and continues to be done about the transfer of corroborating data between DHS, DOR and DES. Plans have already been made about the flow of applications and the processing of payments, so that we are ready to send out checks when the federal approval comes.

Appendix A: The Law Requiring The Report

Sec. 2. [JOINT EFFORT; INCENTIVE TO WORK.]

The departments of human services and revenue, in consultation with the department of economic security, must jointly develop a plan and seek federal waivers as necessary to develop a pilot project to provide the following tax credits on a monthly basis to eligible working taxpayers eligible to participate in the pilot program: Minnesota working family credit under section 290.0671, property tax refund under section 290A.04, dependent care credit under section 290.067, and, if the required federal waiver or waivers are granted, the federal earned income tax credit under section 32 of the Internal Revenue Code. The commissioners of human services and revenue shall report on the plan for implementation of the pilot program to the chairs of the human services policy and funding committees, and the chairs of the tax committees of the legislature by January 1, 1996.

Sec. 3. [PILOT PROGRAM: EARLY REFUND OF REFUNDABLE TAX CREDITS.]

Notwithstanding any law to the contrary, the commissioner of revenue may implement a pilot program to run for one calendar year beginning in the first quarter of calendar year 1996, to refund on a monthly basis to persons eligible for the AFDC program under Minnesota Statutes, sections 256.72 to 256.87, MFIP under Minnesota Statutes, sections 256.031 to 256.0361, or persons eligible for the GA program under Minnesota Statutes, sections 256D.01 to 256D.16 as a family assistance unit. An amount based on 50 percent of an estimate of how much the refundable credits of Minnesota Statutes, sections 290.067, 290.0671, and 290A.04, and, if the required federal waiver or waivers are granted, section 32 of the Internal Revenue Code, generated in a month exceed the estimated tax imposed under Minnesota Statutes, section 290.06, for the month. The commissioner of revenue shall use information provided by the commissioner of human services and department of revenue data to estimate the credits and tax for participating taxpayers. Taxpayers eligible for the pilot program must complete a form prepared and distributed by the commissioner of revenue to participate. The form must request information necessary for administering the program, and must include a statement that the commissioners of human services and revenue will share data relating to program participants as necessary for program administration. Refunds issued under this program will be considered a tax on the taxpayer for the year in which the credits are generated for the purposes of assessing and collecting overpayments of the credits, except that the commissioner of revenue must abate any interest and penalties generated by the failure to timely repay any overpaid credits. By March 1, 1997, the commissioners of revenue and human services shall report on the implementation of the pilot program, with recommendations to the chairs of the house and senate human services policy and funding committees and to the chairs of the tax committees in both houses.

Sec. 4. [APPROPRIATION; TAX CREDITS.]

$100,000 is appropriated from the general fund to the commissioner of revenue for the biennium ending June 30, 1996, for purposes of implementing sections 1 to 3.

Appendix B: Detail from Town Meetings

Tax Credit Express Town Meetings
June 1995
Bemidji, Brainerd and Dakota County

How do you think low-income Minnesotans would like to get their tax refund dollars?

Purpose was to determine preferences for obtaining tax refund dollars

We decided to hold a series of town meetings to help the Department of Revenue and the Department of Human Services in making decisions about implementation of the Tax Credit Express pilot. Tax Credit Express is planned to provide monthly prepayments of federal and state refundable income tax/property tax credits to people who receive AFDC, GA or MFIP and who also earn income from a job.

We asked for feedback about the proposed Tax Credit Express as well as the two options now available to taxpayers: traditional tax refund filings in April and August; and the Advance Earned Income Credit combined with traditional tax refunds for the other tax breaks.

Invited people who were EIC eligible, or were helping professionals

We randomly selected 75 people from four demographic groups in three locations (for a total of 12 groups) in hopes of talking to about 25 people in each of these sets of invited parties:

1. Taxpayers who (according to DOR data) qualified for the earned income tax credit (EIC) but did not take it.

2. Taxpayers who took the EIC and were not on AFDC.

3. Taxpayers who took the EIC and were also on AFDC (similar to our Tax Credit Express pilot group).

4. Providers of services to people who are struggling to make ends meet. These people included social workers, welfare case managers, food shelf workers and others who had volunteered to help in our annual EIC/WFC outreach campaign.

Meeting participants from the first three groups (all low-income workers) were paid $50 for actually attending. Providers of services to low-income people were not paid.

Where we went

We held meetings in three locations, two of which are in north central Minnesota -- the poorest region of our state -- and the third in the metropolitan area. Four meetings were held at each site, representing each group of selected people. Selected areas were:

1. Northern Minnesota counties around Beltrami County (with meetings held in Bemidji).

2. Central Minnesota counties around Crow Wing County (with meetings in Brainerd).

3. A metro selection from Dakota County (with meetings in Eagan and Burnsville).

Attendance at meetings

We talked to 73 invited guests at each of 12 town meetings:

13	should have filed EIC (Dakota)
7	filed EIC (Dakota)
5	EIC plus AFDC (Dakota)
0	service providers (Dakota)
11	should have filed EIC (Brainerd)
7	filed EIC (Brainerd)
10	EIC plus AFDC (Brainerd)
3	service providers (Brainerd)
4	should have filed EIC (Bemidji)
4	filed EIC (Bemidji)
8	EIC plus AFDC (Bemidji)
1	service providers (Bemidji)

Besides the town meeting participants, here's who came:

Cindy Jackson (DOR), who planned the meetings and was the lead facilitator of them.

Mamie Wertz (DES), assisted Cindy in facilitating the meetings.

John Wise and GeorgAnn Burns (IRS), observers, who sometimes provided answers to people's federal questions.

Randy Rennich and Bonnie Becker (DHS), observers who sometimes provided answers to people's welfare questions.

Carole Wald, Steve Conroy, Scott Rood, Steve Graham (DOR), observers who provided answers to people's technical questions on state taxes.

Sherry Lampman, Minnesota Alliance for Children, observer.

We asked for feedback about hypothetical family scenarios.

By working with the Research staff at Revenue, and obtaining data from the Minnesota Department of Economic Security on housing costs and average wages for specific occupations in different parts of the state, Cindy developed four hypothetical family scenarios. (See meeting packet.)

Two scenarios were presented at each town meeting. The scenarios showed how a hypothetical family could take home the same amount of tax refund dollars, with different timing, depending on whether the family was using traditional filing methods, the Advance Earned Income Credit or Tax Credit Express.

Distinctions between advanced refund options were explored, such as involvement of the employer, the government, information sharing between agencies and privacy. Tax forms and promotional options were discussed. Cindy also discussed with town meeting participants *how* (as opposed to *when*) tax refund dollars could arrive to hypothetical families, such as by direct deposit, paper check, through an ATM card or in an envelope with another government check.

Town meeting participants were at ease with the town meeting format, and good discussion occurred -- the best being with families who are both on AFDC and working, and with people who live in the Twin Cities area.

What we learned--
Town meeting participants answer common questions

Why don't people use the currently available Advance EIC?

✔ <u>They don't know about it.</u>
✔ It's risky to get money in advance and maybe have to pay it back.
✔ Maybe people are ignorant.
✔ Maybe they don't want to take a risk on getting the advance and then not qualifying and having to pay it back; would need to really know drawbacks.
✔ A lot of people don't want to let their employer know their situation.
✔ Concerned that I'd dwindle it away every month.
✔ Not good for seasonal or commission jobs because it's hard to estimate.
✔ People gossip about others financial situation.
✔ Human Resource person says they don't have the computer to do it; employers not happy to do paperwork.
✔ My employer would use it as an excuse for not giving me a raise.
✔ Isn't in the 1040 booklet; how would we know about it?
✔ It's confusing to me, so I'd shy away from it.

Why would people use the advance EIC?

✔ <u>It would help people get through the month.</u>
✔ Good on a short term basis.
✔ We love it! It pays for the electric bill and piano lessons.
✔ Safer than Tax Credit Express because not so much is advanced— more control.
✔ It allowed one person in our office to get off of AFDC.
✔ We really like the 40% cushion.
✔ Especially easy to apply for at the beginning of a job.
✔ People will do what they need to do to get income for their families.
✔ An answer to those who don't get a job because it's not worth it at starting wage.
✔ Employer would be best avenue of communication.

What do you like about Tax Credit Express?

✔ <u>It gives people options to control their money.</u>
✔ A good OPTION.
✔ A person that poor would be foolish not to use it.
✔ If you knew in advance what your life was going to be like, it would be a good thing.
✔ I like the employer **not** being involved, especially in small companies and gossipy communities. I like to take care of my own business.
✔ Still get some lump-sum payment in the next year.
✔ Makes sense for people to get their money month to month.
✔ Will show people that a job is worth having.

What concerns you about Tax Credit Express?

✔ It will be difficult to estimate the correct refund and more paperwork.
✔ It will mean more red tape from the government.
✔ A nightmare of paperwork for recipient.
✔ Are they saying we're not capable of saving?
✔ Very nervous about getting advance that government will later deny. Easy to misinterpret or worry about changing status later and owe lots of money. Spooky!
✔ Stuff changes too fast; don't trust that we won't get too much.
✔ Don't want to spend more money on a new program when the Advance EIC is already available; cheaper to get the old lump sum.
✔ Creates a mind set that they can't save money.
✔ Our information could get lost in the shuffle at the DOR.
✔ This program needs a really big watchdog.
✔ Not as much cushion as the Advance EIC.
✔ Are forms going to be simple? Can they go to the worker?
✔ It will be very hard to estimate what our circumstances will be for the whole year.
✔ Other judgments go against their checking accounts and if people know they are getting a regular deposit they will submit the judgment and use up the money.

- ✔ Will they get help from social services? Train social services and VITA workers to help with application.
- ✔ Does it affect VA disability?

How should people get their credits?

- ✔ **Give us a choice.**
- ✔ GIVE PEOPLE A CHOICE! Must not be mandatory! Consensus on this point, except service providers were more inclined to live with the rules imposed by government. It is human nature to reject anything that says "mandatory."
- ✔ If government is giving out the money, they set the rules.
- ✔ Many would rather get their money in the lump sum at the end of the tax year to use for down-payment on a car or to pay back-to-school bills or property taxes. They like the idea of tax refunds as a savings account, especially if they are not good at managing their money.
- ✔ It's an improper assumption that low-income people do not budget appropriately; some would be irresponsible no matter how they got the money and some would be responsible.
- ✔ Wouldn't it be a better idea to have a more diverse pilot, to include more than AFDC people? And have everybody volunteer?
- ✔ Make an educational meeting about the Tax Credit Express mandatory for people who are working and on AFDC but then let them make a choice.
- ✔ Wouldn't like being told I'm going to be their guinea pig. Ask for volunteers.

If people choose the Tax Credit Express, how should they receive their money?

- ✔ **Give people choices.**
- ✔ Should have OPTIONS because each recipient has different money habits.
- ✔ Do what is most economical for the state if you can't give personal choices.
- ✔ Directly into checking/savings account might prevent their going to casino with check.
- ✔ Direct deposit is the favorite option IF the recipient has a checking account. Estimate 50-60% of welfare recipients do not have checking accounts.
- ✔ There is discrimination by the banks towards people who keep a checking account only to cash welfare checks. Shouldn't be forced to have a checking account.
- ✔ Check or deposit in the middle of the month (or around the 23rd) to help over the final week. People could have the option of saying when payment comes.
- ✔ Don't include tax refunds with AFDC check because we want to emphasize that it is NOT welfare. There is a large stigma attached to the welfare check. People never get used to/OK with cashing welfare checks.
- ✔ Like the physical presence of a check; makes them feel good. This is how "everybody else" gets their refund checks.
- ✔ Don't need receipt for automatic deposit if we send them notifications when the amount will change.
- ✔ Tax refunds in the form of savings bonds would encourage people to save.

What can we do to make it easier for people to use an advance credit system?

- ✔ **Keep trying to contact people with letters and community education campaigns. Emphasize face-to-face.**
- ✔ Make people aware of free help in area; these folks don't have much education.
- ✔ Would like to sit down and talk to someone about the options and then decide.
- ✔ If they could learn about it in the community from local CPA's, they would feel safe. Free community education.
- ✔ Have employers send something home periodically. Include notice with W-2.
- ✔ Distribute a computer program that can be used by the social workers and low-income service providers to estimate what the advance credits would be, so that the clients can decide whether it's worth the risk and paperwork.
- ✔ Get foodshelf workers to talk about it.

At what point is the payment too little?

✔ **$200 to $250 per month would make a difference.**

✔ Most agreed on $200 per month (enough to move to a better neighborhood and to mean a better incentive).

✔ Some said the very minimum should be $50.

✔ Others said that people should also be able to choose their own minimum.

✔ Why not pay every quarter instead of every month if the monthly amount is too low?

What do you think of the "keep your expenses in check" poster as a marketing tool?

✔ Put more emphasis on money and less on food; use more color.

✔ Offers what you can't provide; their expenses will be what they are with or without Tax Credit Express.

✔ Don't want someone to tell them how to spend the money (on food); need a better representation of other expenses too.

✔ Should emphasize the credit ($$$) in advance.

✔ Show lots of people in silhouettes, not just the stereotypical woman and child.

✔ Almost all liked the piggybank poster for the advance EIC better.

✔ Looks like a WIC poster.

✔ Change the color to green for money or add more colors, too blah.

✔ Should be more connected to work, money, dollar bills and less emphasis on food and family.

✔ Should say something about the income level (like the EIC poster).

✔ Mother feeding child emphasizes helping family.

✔ Too much stuff in the poster; the fewer words the better.

✔ Might get them to ask about it; give them someone local to go to.

So What?

If we have listened to these groups of people, there are some common themes to follow when we set up the Tax Credit Express process, if indeed we set it up.

1. We should be careful that the final decision about using the Tax Credit Express is an **option** for the customer.

2. We should decide if it wouldn't be a better investment of our time and money to launch a statewide marketing and education program for the **Advance EIC** instead.

3. We have to juggle the need to save on **costs** of the pilot with the customer's need to have **choices** that fit their life-style.

   How can we make the estimation/application part of the process more exact to take away the **fear of overpayment**?

   Training/education, with a preference for face-to-face contact, is a big part of this project or any alternative project to market the Advance EIC.

   If only **payments over $200** are worthwhile, does that make our project even more dependent on the ability of the state to advance the EIC?

Appendix C: Possible Federal Legislative Proposal

Sec. 100. ADVANCE PAYMENT OF EARNED INCOME TAX CREDIT THROUGH STATE PROGRAMS.

(a) In General. -- Section 3507 (relating to the advance payment of the earned income tax credit) of the Internal Revenue Code of 1986 is amended by adding at the end of the following subsection (g);

"(g) State Advance Payment Program. --

"(1) In General. -- In lieu of receiving earned income advance amounts from an employer under subsection (a), a participating resident shall receive advance earned income payments from a responsible State agency pursuant to a State Advance Payment Program that is designated pursuant to paragraph (2).

"(2) Designations. --

"(A) In General. -- The Secretary (in consultation with the Secretary of Health and Human Services) shall designate State Advance Payment Programs for States submitting plans that satisfy the requirements of subsection (g) (3). The Secretary is required to approve a State plan 90 days after submission to the Secretary by the State, or submit to the State the reasons for not approving the State plan. Administrative costs of a State in conducting a State Advance Payment Program under this section may be included for matching under section 403(a) of the Social Security Act and section 16(a) of the Food Stamp Act of 1977.

"(B) Period for Which Designation Is In Effect. --

"(i) In General. -- Designations made under this paragraph shall be effective for advance earned income payments made after December 31, 1995.

"(ii) Special Rules. --

"(I) Revocation of Designations. -- The Secretary may revoke the designation under this paragraph if the Secretary determines that the State is not complying substantially with the plan described in paragraph (3) submitted by the State.

"(II) Automatic Termination of Designations. -- Any failure by a State to comply with the reporting requirements described in paragraphs (3) (F) and (3) (G) has the effect of immediately terminating the designation under this paragraph (2) and rendering paragraph (5) (A) (ii) inapplicable to subsequent payments.

"(3) State plans. -- No State may be designated under subsection (g) (2) unless the State's plan for such designation --

"(A) identifies the responsible State agency, "(B) describes how and when the advance earned income payments will be made by that agency, including a description of any other State or federal benefits with which such payments will be coordinated.

"(C) describes how the State will obtain the information on which the amount of advance earned income payments made to each participating resident will be determined in accordance with paragraph (4),

"(D) describes how State residents who will be eligible to receive advance earned income payments will be selected, notified of the opportunity to receive advance earned income payments from the responsible State agency, and given the opportunity to elect to participate in the program,

"(E) describes how the State will verify, in addition to receiving the certifications and statement described in paragraph (7)(D)(iv), the eligibility of participating residents for the earned tax credit,

"(F) commits the State to furnishing to each participating resident and to the Secretary by January 31 of each year a written statement showing --

"(i) the name and taxpayer identification number of the participating resident, and

"(ii) the total amount of advance earned income payments made to the participating resident during the prior calendar year,

"(G) commits the State to furnishing to the Secretary by December 1 of each year a written statement showing the name and taxpayer identification number of each participating resident,

"(H) commits the State to treat the advanced earned income payments as described in subsection (g) (5), and

"(I) commits the State to assess the development and implementation of its State Advance Payment Program, including an agreement to share its findings and lessons with other interested States in a manner to be described by the Secretary.

"(4) Amount and Timing of Advance Earned Income Payments. --

"(A) Amount. --

"(i) In General. -- The method for determining the amount of advance earned income payments made to each participating resident is to conform to the full extent possible with the provisions of subsection (c).

"(ii) Special Rule. -- A State may, at its election, apply the rules of subsection (c)(2)(B) by substituting 'between 60 percent and 75 percent of the credit percentage in effect under section 32(b)(1) for an individual with the corresponding number of qualifying children' for '60 percent of the credit percentage in effect under section 32(b)(1) for such an eligible individual with 1 qualifying child' in clause (i) and 'the same percentage (as applied in clause (i))' for '60 percent' in clause (ii).

"(B) Timing. -- The frequency of advance earned income payments may be made on the basis of the payroll periods of participating residents, on a single State-wide schedule, or on any other reasonable basis prescribed by the State in its plan; however, in no event may advanced income payments be made to any participating resident less frequently than on a calendar-quarter basis.

"(5) Payments To Be Treated As Payments Of Withholding and FICA Taxes. --

"(A) In General. -- For purposes of this title, advanced earned income payments during any calendar quarter --

"(i) shall neither be treated as a payment of compensation nor be included in gross income, and

"(ii) shall be treated as made out of --

"(I) amounts required to be deducted by the State and withheld for the calendar quarter by the State under section 3401 (relating to wage withholding), and

"(II) amounts required to be deducted for the calendar quarter under section 3102 (relating to FICA employee taxes), and

"(III) amounts of the taxes imposed on the State for the calendar quarter under section 3111 (relating to FICA employer taxes), as if the State had paid to the Secretary, on the day on which payments are made to participating residents, an amount equal to such payments.

"(B) Advance Payments Exceed Taxes Due. -- If for any calendar quarter the aggregate amount of advance earned income payments made by the responsible State agency under a State Advance Payment Program exceeds the sum of the amounts referred to in subparagraph (A)(ii), each such advance earned income payment shall be reduced by an amount which bears the same ratio to such excess as such advance earned income payment bears to the aggregate amount of all such advance earned income payments.

"(6) Definitions. -- For purposes of this section --

"(A) State Advance Payment Program. -- The term 'State Advance Payment Program' means the program described in a proposal submitted for designation under paragraph (1) and designated by the Secretary under paragraph (2).

"(B) Responsible State Agency. -- The term 'responsible State agency' means the single State agency that will be making the advance earned income payments to residents of the State who elect to participate in the State Advance Payment Program.

"(C) Advance Earned Income Payments. -- The term 'advance earned income payments' means an amount paid by a responsible State agency to residents of the State pursuant to a State Advance Payment Program.

"(D) Participating Resident. -- The term 'participating resident' means an individual who --

"(i) is a resident of a State that has in effect a designated State Advance Payment Program,

"(ii) makes the election described in paragraph (3)(C) pursuant to guidelines prescribed by the State,

"(iii) certifies to the State the number of qualifying children the individual has, and

"(iv) provides to the State the certifications and statement set forth in subsections (b)(1), (b) (2), (b)(3), and (b)(4) (except that for purposes of this clause (iv), the term 'any employer' shall be substituted for 'another employer' in subsection (b)(3)), along with any other information required by the State."

(b) Technical Assistance. -- The Secretaries of Treasury and Health and Human Services shall jointly ensure that technical assistance is provided to State Advance Payment Program.

(c) Annual Reports. -- The secretary shall issue annual reports detailing the extent to which --

(1) residents participate in the State Advance Payment Programs,

(2) participating residents file federal and State tax returns,

(3) participating residents report accurately the amount of the advance earned income payments made to them by the responsible State agency during the year, and

(4) recipients of excessive advance earned income payments repaid those amounts.

The report shall also contain an estimate of the amount of advance earned income payments made by each responsible State agency but not reported on the tax returns of a participating resident and the amount of excessive advance earned income payments.

(d) Authorization of Appropriations. -- For purposes of providing technical assistance described in subsection (b), preparing the reports described in subsection (c), and providing grants to States in support of designated State Advance Payments Programs, there are authorized to be appropriated in advance to the Secretary of the Treasury and the Secretary of Health and Human Services a total of $1,400,000 for fiscal years 1996 through 1999.

Appendix D: Proposed MN Law Change for 1996 Session:

Section _______: Pilot Program: Early Refund of Refundable Tax Credits

In the event federal waivers requested pursuant to section 2, article 3, chapter 178 Laws 1995 are granted, the commissioner of revenue may implement a pilot program to run for one calendar year beginning in the first quarter of the calendar year following the granting of the federal waivers. The pilot program will refund on a monthly basis to up to 1,500 persons who qualify for the federal earned income credit and ask the commissioner of revenue to be included in the program an amount based on 50 percent of an estimate of how much the refundable credits of Minnesota Statutes, section 290.067, 290.0671, and 210A.04 generated in a month exceed the estimated income taxes imposed by Minnesota Statute 290 for the income earned in a month. The pilot program will also refund an amount based on up to 60 percent of an estimate of how much the federal earned income credit of section 32 of the Internal Revenue Code generated in a month exceeds the estimated federal income tax imposed by Internal Revenue Code for the income earned in a month. The commissioner of revenue shall use information provided by the commissioner of human services and department of revenue data to estimate the credits and tax for participating taxpayers. Taxpayers eligible for the pilot program must complete a form prepared and distributed by the commissioner of revenue to participate. The form must request information necessary for administering the program, and must include a statement that the commissioners of human services and revenue will share data relating to program participants as necessary for program administration. Refunds issued under this program will be considered a tax on the taxpayer for the year in which the credits are generated for the purposes of assessing and collecting overpayments of the credits, except that the commissioner of revenue must abate any interest and penalties generated by the failure to timely repay any overpaid credits. By March 1 of the year following the pilot program the commissioners of revenue and human services shall report on implementation of the pilot program, with recommendations to the chairs of the house and senate human services policy and funding committees and to the chairs of the tax committees in both houses.

Section ______, [Appropriation; Tax Credits.]

$100,000 is appropriated from the general fund to the commissioner of revenue for the fiscal year ending June 30, 1997, for purposes of implementing the above section.