INCREASING ACCESS TO THE CHILD TAX CREDIT AMONG NON-FILERS

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Voices For Virginia's Children

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Disclaimer

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Honor Pledge

On my honor as a student, I have neither given nor accepted unauthorized aid on this assignment or exam.

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Definitions

Non-filers: The population of people with incomes below a certain threshold that are not required to file taxes. For the 2021 tax year, that threshold is $25,100 for married filers or for qualifying widowers and $18,800 for heads of household (Bird, 2022).

Head of household: A tax filing status for unmarried tax filers with dependents who pay for more than half the costs of the home (Lake, 2022).

Refundable tax credit: A credit that is provided to the taxpayer regardless of how much they owe in taxes (Kagan, 2021). For example, if someone owed $50 in taxes but was eligible to receive a $100 non-refundable tax credit, they would not receive the additional $50. If the credit were refundable, they would receive that remaining $50.

Acronyms

ARPA: American Rescue Plan Act

ACA: Affordable Care Act

CTC: Child Tax Credit

EITC: Earned Income Tax Credit

IRS: Internal Revenue Service

ITIN: Individual Taxpayer Identification Number

SSN: Social Security Number

VDSS: Virginia Department of Social Services

VITA: Volunteer Income Tax Assistance

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Executive Summary

The American Rescue Plan Act (ARPA), passed in March 2021, provided $1.9 trillion in economic relief efforts to aid in the recovery from the COVID-19 pandemic. This legislation included key changes to the Child Tax Credit that increased the target population and increased the amount of the credit (Cox et al., 2021).

These changes have the potential to reduce child poverty by more than 40 percent but access issues among the lowest income people prevent the credit from reaching its full potential (Cox et al., 2021). There are huge economic and social costs associated with this access barrier. Early impacts of the credit show that this money can be valuable in reducing food insecurity and helping families meet their basic economic needs.

To address this access problem, I considered four alternatives:

1. Maintenance of the Status Quo
2. Pre-populated Tax Forms
3. Benefit Navigators
4. Outreach

I evaluated my alternatives utilizing the following five criteria:

1. Effectiveness
2. Cost
3. Cost-effectiveness
4. Feasibility
5. Equity

Since Congress has not made the CTC expansion permanent, there is a short window of time to get non-filers access to this credit. All non-filers will have to file taxes by October 17th to receive the credit (Bird, 2022).

In the short term, to increase access to the CTC among the non-filing population, I recommend that Voices for Virginia's Children pursue Alternative 4: Outreach. Voices should work with the Virginia Department of Social Services (VDSS) to conduct a two-pronged outreach effort consisting of text messages and mailers to let people know about the credit and their eligibility.

If this credit ever resurfaces or if a similar refundable credit is passed, Voices should be prepared to advocate for Alternative 2: Pre-populated Tax Forms because it is the most effective alternative. However, it is not currently feasible given the short timeline to get non-filers this credit and lack of strong political will to prioritize this effort given other legislative priorities.

Problem Definition

In Virginia, there are over 80,000 children who are not automatically eligible to receive the advance payments of the CTC because their parents do not file taxes (Cox et al., 2021). Barriers in the tax filing process prevent these families from gaining access to this necessary aid to recover from the financial impacts of the COVID-19 pandemic (Code for America, 2021).

Client Overview

My client for this analysis is Voices for Virginia's Children, a child advocacy nonprofit based in Henrico, Virginia that advocates for policy change at the state level. Voices has five main pillars of policy that they work in, including family economic security. They believe that family economic security promotes positive child development as families can afford their basic needs, healthcare, and early childhood care (Voices for Virginia's Children, n.d.). Over the last year, Voices has been active in promoting benefits available to families through the various economic recovery plans (Voices for Virginia's Children, 2021).

Increasing access to the CTC is important to them to ensure that all families have access to these benefits to recover from the financial impacts of the pandemic. Voices is a widely respected organization and often a leader in child welfare policies at the state-level. They can leverage this respect to encourage state legislators to act, either in the form of legislative action or additional budgetary expenditures. Voices has also advocated for policy change at the state level to create a partially refundable state EITC, meaning they have a demonstrated interest in this policy area (Griffey, 2022). If this proposal passes, this research could be relevant to ensure access to similar tax credit programs by reducing barriers to take-up.

Background

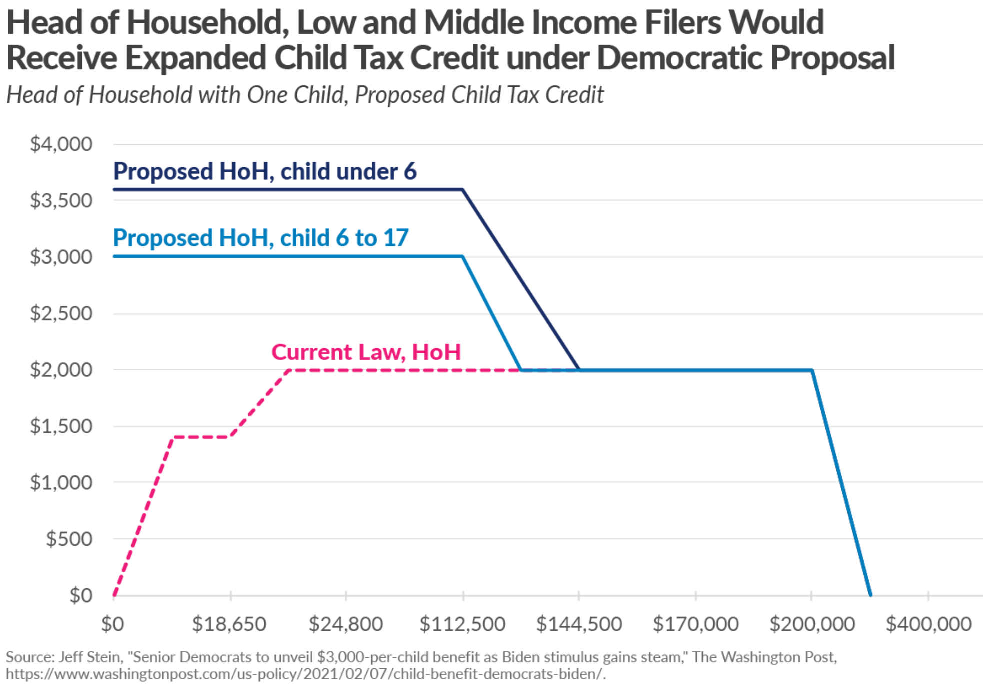
Prior to the expansion, the CTC was $2,000 per child aged 6-16 and was non-refundable, meaning only those with a tax liability would benefit from the credit. The Additional Child Tax Credit, or ACTC, was also available for families who had earned incomes above $2,500 and could not total more than $1,400 per child. It was equal to 15% of the filer's earned income (New Hampshire Fiscal Policy Institute, 2022).

ARPA made several important adjustments to the CTC that include making the credit fully refundable and increasing the credit amount to $3,600 for children under 6 and to $3,000 for children 6-17. Families also had the option to receive advanced monthly payments so that they could receive the first half of the credit in monthly installments between July 2021 – December 2021 (Cox et al., 2021). The remainder of the credit can be claimed upon filing taxes in 2022 (Bird, 2022).

Figure 1 below shows how the expanded CTC compared to the previous version for those filing under the head of household status (Watson & York, 2021). The previous CTC is represented by the pink line and shows how the credit phased in as incomes grew and then phased out at higher incomes. The expanded CTC is represented by the two blue lines which represent the different credits based on the age of the child claimed. Figure 2 shows the same comparison for married filers.

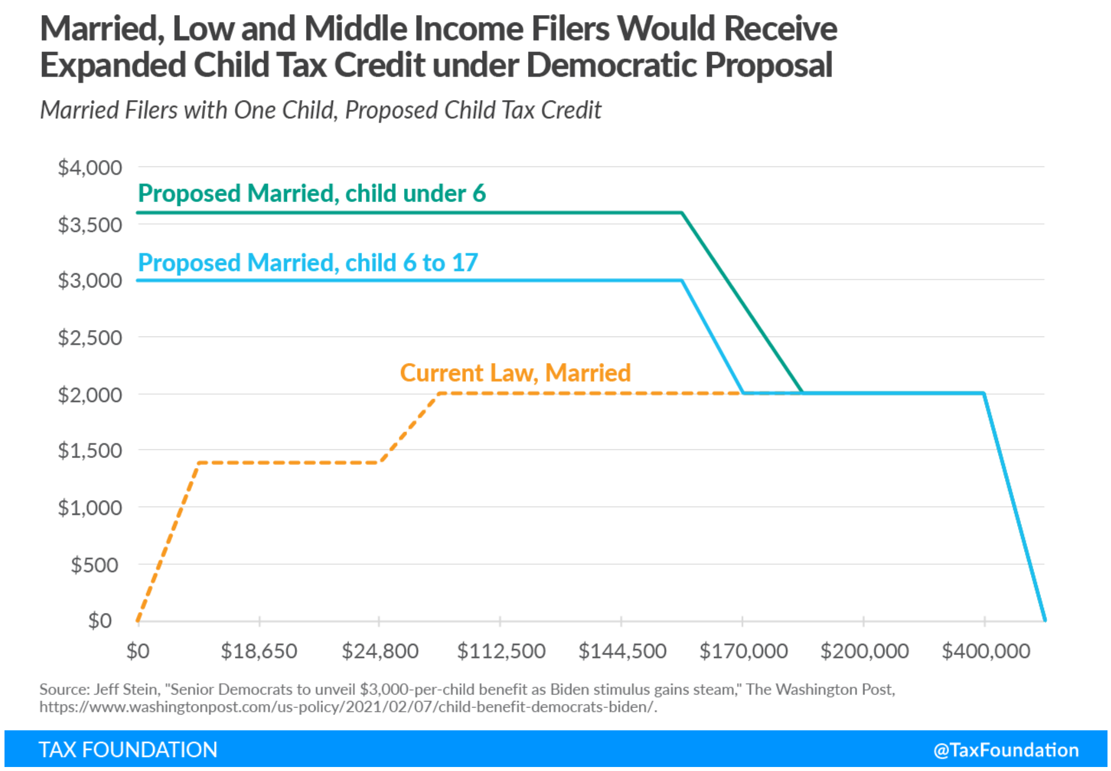
The prior CTC allowed an adjusted credit for low-income families with incomes above $2,500, which is represented by the first kink in the pink line. This credit was equal to 15 percent of their earned income, up to the $1,400 maximum. Those with incomes below $2,500 were not eligible for any credit. The second kink in the pink line represents the population who would receive a partial credit because they do not have incomes high enough to receive the full $2,000 credit. This credit increases as income increases. The line plateaus where everyone is eligible to receive the full $2,000 credit and at $200,000 of earned income, the credit begins to phase out. The credit begins to phase out at $400,000 of earned income for married filers (Crandall-Hollick, 2021). The expanded CTC begins phasing out at $112,500 for head of household filers and at $150,000 for married filers (Josephson, 2022). The most important point these two figures communicate is how the expanded CTC is more accessible to low-income population because those with $0 in earned income are eligible to receive the same credit as those with $100,000 in earned income, which was not possible prior to the expansion.

Figure 1



Source: Tax Foundation

Figure 2



Source: Tax Foundation

Eligibility and Distribution Process

Married filers with incomes below $150,000 and heads of households with incomes below $112,500 are eligible for the full credit (Boak, 2021). The credit begins to phase out with incomes above this threshold at a rate similar to the previous CTC. This phase out rate is represented in the figures above. It is important to note that ITIN filers are eligible for this credit as long as their child has an SSN.

Beginning in July, the Internal Revenue Service automatically distributed the advance monthly payments to qualified people who filed taxes in 2019 and 2020. The monthly payments were $300 per child for children under 6 and $250 per child for children 6-17. Families that have not filed taxes recently are not automatically enrolled in the advanced monthly payments (Cox et al., 2021). They were able to apply through the non-filers portal on the IRS website to access these advance payments, though the portal is no longer available. This portal was launched on June 15th and closed on October 15th, providing just a three month window for non-filers to utilize the system (Teague, 2021a).

In addition to the short window of time to access it, this portal was not accessible via mobile phones and was only available in English, making it inaccessible to certain families (Zeballos-Roig, 2021).To claim the remainder of the credit, all families, regardless of income level, must file taxes and claim the credit in the new year (Cox et al., 2021). This can make it difficult for non-filers to access benefits within a system that they are unfamiliar with.

Who is Affected?

The income floor for filing taxes for the 2021 tax year is $25,100 for married filers and $18,800 for those filing under head of household status (Bird, 2022). This means that anyone making below this amount is not required to file a tax return and therefore may not be in the IRS system to receive these advance monthly payments.

There are currently an estimated 83,566 children in Virginia who are not automatically receiving this credit (Cox et al., 2021). There are two populations of children that are included in these estimates. Part of this estimate comes from children that are not on a 2019 or 2020 tax return but who are represented on Tax Year 2019 Tax Form 1095 which provides information on health insurance coverage. This encompasses about 50,000 of these children (Cox et al., 2021).

This estimate also includes the estimated number of babies born this year who will be eligible under Medicaid (Cox et al., 2021). This represents the other 30,000 children. Since the income level for Medicaid is $29,207 for a family of three, there is likely to be significant overlap between the Medicaid eligible population and the non-filing population (Benefits.gov, n.d.).

It is important to note that this estimate is likely lower than the actual number of children who were not included in the advance monthly payments. There is likely undercounting because some families may not be insured and therefore would not be represented in the estimates.

Barriers in the Tax Filing Process

The literature surrounding the take-up of social benefits recognizes three primary costs that deter take-up: the transaction costs related to applying for the benefit, the costs of learning about eligibility and the application rules, and stigma (Bhargava & Manoli, 2015). Given this credit is widely available, it is unlikely that stigma is one of the factors deterring filing. However, the other two costs could inform potential policy interventions to decrease the transaction cost of claiming the credit or decrease the cost of learning about eligibility and application rules.

Other barriers in the tax filing process are misinformation or misconceptions about the tax benefit or mistrust in the government. Surveys of non-filers revealed that some people believed they could not file and claim the stimulus payments (Zucker & Wagner, 2021). In the same survey, non-filers revealed that they were also skeptical about receiving money from the government, were confused by IRS terminology, or believed that filing would be too costly. Another survey on non-filers found that 66% did not claim a tax credit because they believed they were ineligible. Some also had prior poor experience when attempting to file taxes, believed the claiming process to be too complicated, or were not sure how to claim (Breese et al., 2011). These consistent misconceptions could inform policy alternatives to increase knowledge of eligibility and the claiming process.

An analysis by Code for America outlines the specific barriers that exist within the tax filing system that make it difficult for non-filers to gain access to tax benefits (2021). This analysis was conducted for the 2020 tax year, meaning that many people using their system were likely attempting to gain access to the stimulus checks, in addition to other tax credits they may be eligible for. To identify the barriers that exist for non-filers, they tracked user's progress through the GetYourRefund.org system and identified key drop-off points that could indicate where people struggle. They also identified other systemic barriers that likely affected the ability of users to file a return.

The largest drop-off point when attempting to file a return was the identity verification process. This identity verification process includes taking photos or scans of identity documentation, such as a physical social security card, and uploading it. Clients may also be required to upload a picture of themselves holding the identity documentation. The identity documentation options are limited to physical social security cards and ITIN paperwork. In addition to requiring that clients upload this documentation, the identity verification process can also include phone checks, where clients verify their phone number with a phone call or text message.

This process is difficult for those who do not have access to the necessary technology, such as phones capable of taking pictures or access to a scanner. Those who have low technology literacy also struggle to navigate this aspect of the process. Additionally, if people do not have access to their physical identity documents, they are not able to complete this process and therefore are not able to claim the credits they are eligible for. Internal user research from Code for America has indicated that this lack of access to a physical social security card or ITIN paperwork is the primary reason people cannot complete the identity verification process. The phone checks can also be a restrictive to clients that have phones that cannot receive text messages, that have prepaid phones, or do not have access to a reliable phone at all.

Additional barriers that exist in the tax filing process include lacking access to a computer or to employment documentation, language barriers, disability, or lack of trust in the system. Most IRS forms are only available in English and despite many online tools being available to make the tax filing process simpler, those with low technology literacy or low access to technology will still struggle to access these tools.

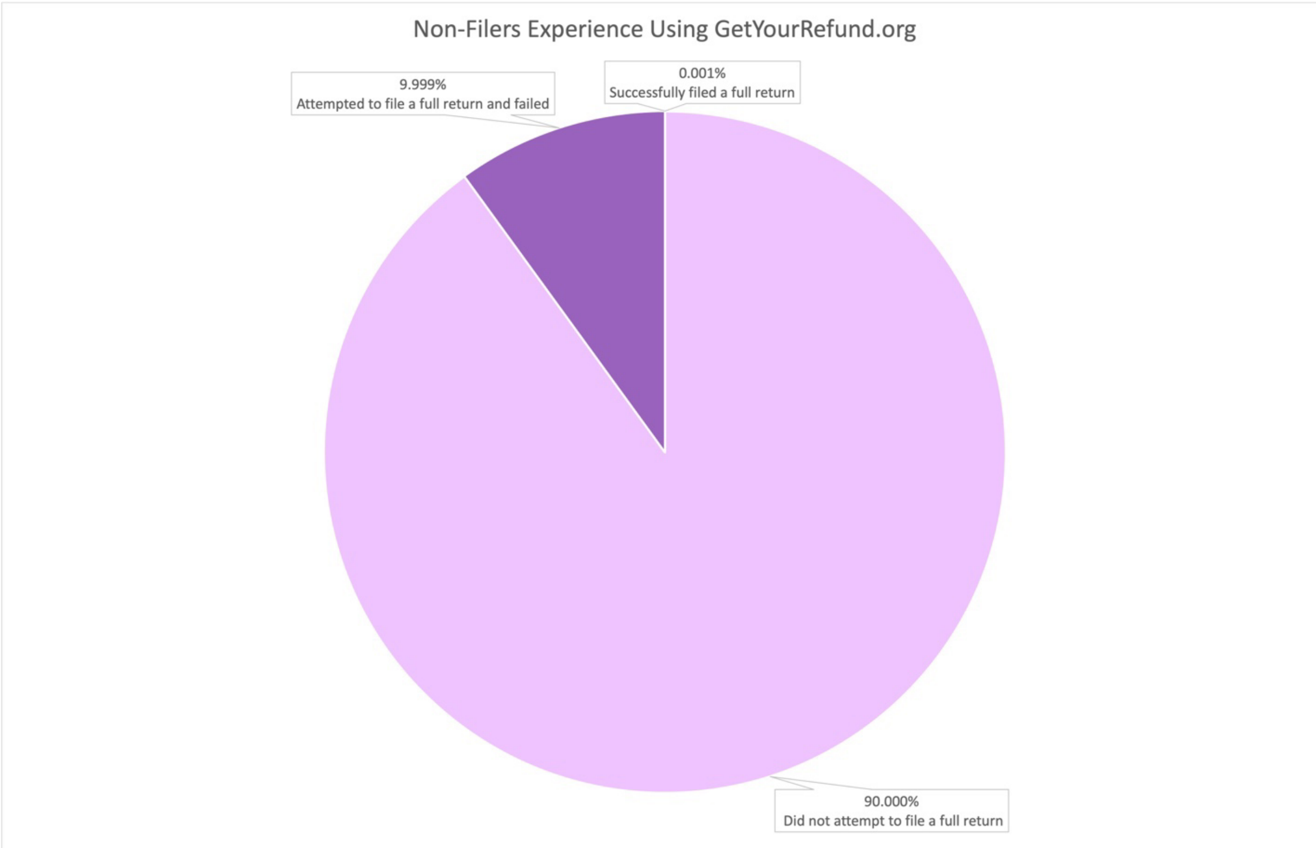
Time can also be a significant barrier if non-filers perceive the process to be incredibly time consuming. The average tax filer spends eight hours filing their taxes, but this time investment can vary significantly if people do not have access to the necessary documents or do not have access to a tax preparer to assist them (Frankel, 2017).

Non-filers also do not have experience with the tax filing system, so it seems likely that filing would take them significantly longer than the average person who files every year. It is difficult to quantify the amount of time that would be spent on filing taxes by non-filers since they do not typically file. However, it is likely that they will spend more than eight hours on the process, which could present a significant barrier if they are unwilling or unable to make that investment of time.

This investment of time needed to navigate the processes through which one receives social benefits is referred to as the "Time Tax" (Lowrey, 2021). This investment of time in the context of the CTC could include the time needed to learn about the credit and eligibility, the time needed to locate all the necessary documentation to file taxes, and then the actual time needed to file. Since non-filers do not receive the same outreach as those who file taxes and since they do not have experience with the system, they will likely suffer a much higher time tax than those who regularly file taxes. It is important to note that this time tax impacts low-income people, non-white people, and those with disabilities at a higher rate because they have more difficulty navigating these processes (Lowrey, 2021).

Figure 3 below represents the experience of non-filers when they attempted to claim their stimulus check in 2021 (Code for America, 2021). On the Code for America website, they had the option of filing a full return or utilizing a streamlined process to get access to just their stimulus checks. Despite messages that encouraged filing a full return to receive additional money, such as the EITC, 90% of users opted for the streamlined process. Only 10% of users opted to attempt to file a full return and only 1% of those were successful (Code for America, 2021). This staggering graphic depicts the difficulty that non-filers encounter when trying to get access to the credits they are entitled to.

Figure 3



Source: Code for America.

Early Impact of the Credit

The advanced monthly payments of the expanded CTC have given us an opportunity to see the early impact of the credit for families that did receive it. This can shed light on what families typically use this money on and can provide us with some context on the importance of ensuring that non-filers have access to this aid.

A survey conducted between July 21st and August 16th asked Virginia families if they had received the CTC and if so, how they were utilizing the funds (Roll et al., 2021). Over this study period, the first two CTC payments would have been deposited into the accounts of eligible families (Teague, 2021b).

They found that the majority of recipients (51%) were spending their CTC payment on food. About one-third spent the money on essential bills and 29% spent it on rent or mortgage payments. About 10% used the money to pay for childcare costs (Roll et al., 2021). About 30 percent of households reported mostly saving the credit, though the rate is lower among Hispanic households (19%).

Additionally, receipt of the CTC in July coincided with a 3-percentage point drop in the number of households with children who were experiencing food insecurity, according to data collected through the Household Pulse Survey administered by the Census Bureau. There is not an observed change in the rate of food insecurity in households without children, meaning we can make a strong connection between the CTC advance payment and the drop in food insecurity (Perez-Lopez, 2021).

There was also a decrease in families reporting financial hardships by 2.5 percentage points (Perez-Lopez, 2021). This shows that the CTC worked quickly to reduce the economic impacts of the COVID-19 pandemic, with some families feeling relief after just one payment of the credit.

Some critics of the expanded CTC claim that the credit will decrease work hours or labor force participation, but early results show that there is no statistically significant effect of the credit on employment (Ananat et al., 2022). This indicates that the CTC while providing substantial aid does not affect people's income enough to change their labor force participation decisions.

It is important to note that the families who received these first two payments were primarily those included in the automatic payments distributed by the IRS. This means they likely have a higher income than non-filers and may spend the money differently. Low-income earners typically spend a much higher share of their income on housing and food than middle- and high-income earners. This means that non-filers would probably be more likely to spend this credit on food and housing costs. This could have large impacts on some of the key outcomes, like rates of food insecurity if these families are able to purchase more food as result of receiving access to this credit. Overall, while the early results of the CTC are incredibly promising, it seems likely that the economic and social benefit would be much more pronounced if the poorest families were able to get access. The cost of this lack of access will be discussed in the next section.

Economic Consequences

If all 83,566 children who are not receiving the automatic payments were to receive this credit, there would be a huge direct economic benefit. This would provide approximately $270,000,000 - $300,000,000 in credits to these families (Cox et al., 2021). This range represents the different credits that one is eligible for based on the age of the child being claimed. This would be a direct economic benefit to the Virginia economy as these families would likely spend this money in Virginia. This economic benefit would be seen through the collection of sales tax on any purchases made with this credit. This would be an economic reinvestment through consumption. The access barrier that prevents many of these families from receiving the credit makes this a large potential loss for the Virginia economy if no action is taken.

Many of the families who were receiving this advanced monthly payment were utilizing the money to pay essential bills and pay down debt (Roll et al., 2021). This means that those who are not able to access this money because of the complexity of the tax system may struggle more with debt. Failing to access this money could cause the debts to accrue interest and increase in size, making their financial situation worse the longer they are unable to access this necessary aid. In addition to the economic consequences of people failing to pay their debts, there are strong social consequences. Those who experience more debt have worse health as a result, both self-reported and observed through measures like blood pressure (Sweet et al., 2013).

As evidenced by the decrease in rates of food insecurity among families who received the first payment of the credit, this credit can have strong implications for a family's ability to purchase food and become food secure. An estimated one-third of households making less than $25,000 are food insecure (Bauer, 2020). This would be nearly 28,000 of the 80,000 children who are left out of the advanced monthly payments of the CTC.

To measure the cost of food insecurity, I will utilize estimates of increased healthcare costs that are incurred because of food insecurity. It is estimated that food insecure people incur an additional $1,834 in healthcare costs annually as compared to food secure people (Berkowitz et al., 2019). This increased healthcare cost is likely due to the increased likelihood of experiencing a medical condition associated with food insecurity. These medical conditions include, but are not limited to, diabetes, chronic kidney disease, heart disease, and hypertension (Berkowitz et al., 2019). Assuming the 28,000 children who live in food insecure households would get increased access to food as a result of receiving this credit, they likely would not experience these increased healthcare costs due to better nutrition. This represents a cost of over $51 million in increased healthcare expenditures due to food insecurity that could be avoided if these families could access the CTC.

Nationwide, the cost of childhood poverty is $1.03 trillion per year (Schoenherr, 2018). It is estimated that the economic and social costs of childhood poverty in Virginia are $24 billion per year (McLaughlin & Eppard, 2021). While this estimate certainly includes some of the costs discussed above, they likely include additional costs that have not been explored here, including the long-term impacts of poverty. This means that in addition to the economic benefit from people getting access to this credit and then collecting sales tax on their purchases, the state would save money as the rate of child poverty decreases.

Criteria for Evaluation

To address this access issue, I am considering four alternatives: maintaining the status quo, utilizing pre-populated tax forms, benefit navigators, or conducting outreach. These alternatives are informed by prior interventions that have been utilized to increase access to various social benefits. These alternatives are being evaluated by five criteria including: cost, effectiveness, cost-effectiveness, feasibility, and equity. I have included a description of each criterion and how they are measured below.

Cost

Cost will provide the estimated cost for each alternative based on prior interventions in similar policy areas. When possible, this cost will be provided as a per-unit cost so that Voices can utilize those figures in future analysis. The costs provided are for the current year only due to the limited timeline of the CTC.

Effectiveness

Effectiveness will measure how many more families have increased access to the CTC and would therefore have higher economic well-being. Effectiveness in this context will be defined as increase in access to the CTC. This will be measured by the likely increase in rates of filing and claiming the CTC. These potential increases will be estimated using outcomes from similar interventions that have already been executed.

In addition to providing the estimated increase in filing as a result of the intervention, I will include the estimated economic benefits that would be received due to increased filing. These estimates will be provided as a range to represent the change in credit based on age of the dependent being claimed. It is important to be aware that these benefits are exclusive to the current tax year, so any measure of effectiveness would only apply in the current tax year.

Cost-effectiveness

Cost-effectiveness will measure the estimated cost for each additional filer for each intervention. This is calculated by dividing the total estimated cost of the intervention by the estimated increase in filers as a result of the intervention.

Feasibility

Feasibility measures the ability of the policy administrator to implement this program with current resources and within the existing timeline when the expanded CTC is no longer accessible. This criterion also reflects the ability to get a program implemented within the current political system since the remaining ARPA dollars are allocated by the state government. This means that any alternative will need to be supported by the state government to receive funding. In order to measure feasibility, I have created a three-point measure with three binary outcomes. An answer of yes to each question receives a score of 1 and an answer of no receives a score of

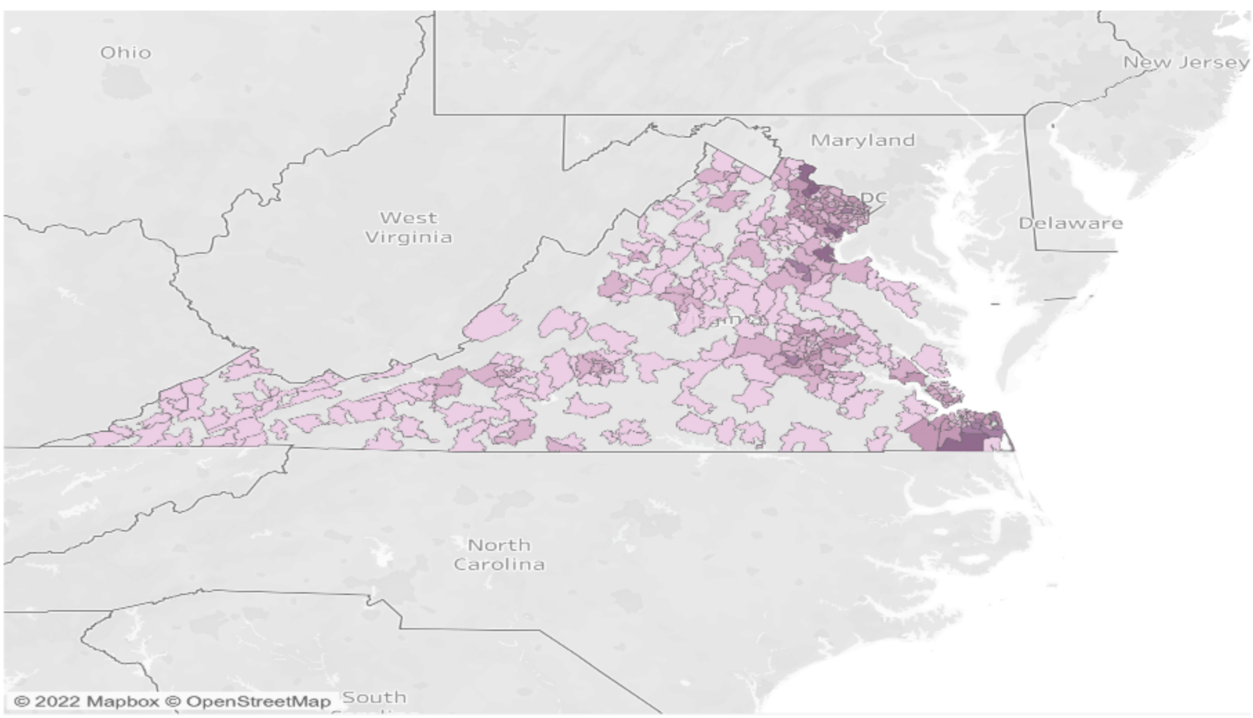
0. The points are then tallied to measure overall feasibility. A score of 3 means there is high feasibility and a score of 0 means there is low feasibility. A score or 1 or 2 would indicate a medium level of feasibility. The questions are listed below.

1. Is this intervention possible with current resources and processes within the enacting agency?
2. Is this alternative likely to get enough support from the government for funding?
3. Is this possible within the given timeline, i.e., by October 17th?

Equity

Equity is measured in terms of geographical equity as non-filers are spread across the state and various interventions may not reach all groups or may provide differential service based on geographic location of non-filers, leading to inequitable outcomes. The location of non-filers is provided by the United States Treasury Department's Office of Tax Analysis (2021). This information is provided at the zip-code level and includes the 50,000 children in Virginia who do not appear on tax forms but do appear on other government forms. This number does not include the 30,000 newborn children that are likely eligible for Medicaid. The geographic distribution of non-filers is represented in Figure 4 below.

Figure 4



Source: United States Treasury Department, Office of Tax Analysis.

Limitations

The primary limitation of my analysis is the tax credits are typically not available to non-filers so interventions that target take-up of tax credits do not typically focus on this population. One of the only recent examples of a fully refundable tax credit like this is the stimulus checks, which non-filers already struggled to access (Zeballos-Roig, 2021). Given this was so recent, there is not much information on successful interventions to increase access to the stimulus checks among this population.

For that reason, many of my interventions are focused on successful interventions in other contexts, such as access to the EITC and the access to insurance coverage. These are good proxies because these programs target a similar population of low-income people and the EITC requires that people interact with the tax filing system to get access to the benefit. However, it is difficult to isolate the impact on the non-filing population alone.

Additionally, I could not access any tax data on the non-filing population in Virginia because this data contains personally identifying information. This made it impossible to see if there were any racial or gender disparities in access to this credit. Therefore, my equity criteria focuses on geographical equity rather than another measure.

Evaluation of Alternatives

Alternative 1: Status Quo

The Status Quo alternative would constitute no changes in current operations, meaning that non-filers would have to file personally with no assistance to receive the credit.

Effectiveness

This alternative would have no direct impact on tax filing.

Cost

Since this alternative would require no action, it would have no direct monetary cost.

Cost-effectiveness

Since this intervention is costless and has no direct impact on tax filing, it is neutral in terms of cost-effectiveness.

Feasibility

This alternative has a feasibility score of 3 because it would not require additional resources from any state agency and it would not require the creation of a new process to enact. It also has no cost, which means that funding provided by the state is not a consideration for this alternative. Lastly, since this alternative requires no action, it can be achieved by October 17th.

Equity

This would have a neutral impact on equity because it is not increasing access for anyone.

Alternative 2: Pre-populated Tax Forms

The next alternative is to mail pre-populated tax forms to non-filers that could be returned and filed to receive this credit. This alternative would require a partnership between the Department of Revenue and the Virginia Department of Social Services (VDSS). This partnership is necessary because the Department of Revenue would not have information on which non-filers have children and are therefore eligible for this credit. VDSS is the ideal agency to partner with because they have access to the CommonHelp database which has information on people who receive social benefits, including Medicaid. This means they have data on newborns who qualify for Medicaid, which represents 30,000 children (Cox et al., 2021). VDSS would also have information on the age of the dependents, which is important given that the credit varies with age of the child being claimed.

VDSS could provide information on their clients who make less than $25,100, the income floor to file taxes at the federal level, and the Department of Revenue could use W-2 information to complete tax forms for these people (Bird, 2022). These forms would then be mailed out to the qualifying non-filer population to be verified and returned. Once returned, these forms can be filed with the Internal Revenue Service (IRS) to get the tax refund. These forms should be mailed out at least two months prior to the October 17th filing deadline to ensure that families have enough time to verify and mail back the forms in time to be filed (Ebeling, 2022).

Effectiveness

The California ReadyReturn program was an initiative to send out pre-populated tax forms to low-income California residents. The pilot program had a participation rate of 21% (Bankman, 2005). With a similar participation rate among the non-filing population in Virginia, there would be 16,800 additional filers. They would receive between $50 and $60 million in returns of the CTC. This range represents the difference in credit received based on age of dependent.

Cost

New York City did a similar tax filing program and provided their costs, which included labor to fill out the forms and the cost of mailing these forms, including return postage. In 2007, they spent $529,000 to send out 140,000 amended tax returns (Frankel & Miller, 2009). With similar mailing and labor costs, we could assume that sending 80,000 tax returns would cost about $302,286.

Cost-effectiveness

If an additional 16,800 non-filers were able to file taxes because of this intervention for $302,286, the cost per additional filer is $17.99.

Feasibility

This alternative has a feasibility score of 0. This would require a significant investment of time for the Department of Taxation and VDSS to identify the sample, complete the forms, and mail the forms out to people. It would also require additional staffing for the Department of Taxation to complete these forms. The Department of Taxation would have create a new process in order to achieve this task. Additionally, this would have a large cost to establish this program and it is unclear whether the state would be willing to invest this portion of the remaining American Rescue Plan dollars in this effort. It is also unlikely that they could complete this with enough time to mail the forms and for people to verify and file them by the October 17th deadline (Ebeling, 2022). There is a possibility that the work could be contracted out to increase feasibility and reduce the strain on the Department of Taxation, but this would lead to higher costs and potential privacy concerns as personally identifying tax information would need to be shared.

Equity

This alternative has high geographical equity because these forms could be mailed out to individuals, meaning they can reach all non-filers.

Alternative 3: Benefit Navigators

Benefit navigators are individuals who help low-income people navigate the benefit application processes and are used with the Affordable Care Act (ACA) (Cloud, 2018). These navigators can serve several functions, including verifying eligibility for benefits, explaining the application process, and validating the program for those who may mistrust the government (Cloud, 2018; Vargas, 2016). A similar model could be utilized to help people overcome some of the barriers in the tax filing process. It is important to note that these navigators would not be tax experts and therefore could not answer specific questions on the tax filing process.

VDSS should host these navigators because they have access to the necessary data to identify the pool of likely non-filers. I conducted an interview with Code for America's Senior Program Manager of Tax Benefits, Courtney O'Reilly, to learn more about benefit navigator programs that they have piloted. She said that benefit navigators hosted within government benefit offices are typically more effective at reaching a wider audience than navigators through community organizations (C. O'Reilly, personal communication, March 2, 2022). These navigators could be funded through ARPA dollars and should be hired and trained quickly to ensure they can provide services prior to the October 17th deadline for filing (Ebeling, 2022). These navigators should be available for in-person, video chat, and phone consultations.

Effectiveness

In the context of the ACA, benefit navigators increased enrollment in healthcare coverage by 8.2 percentage points (Hoppe, 2018). A similar success rate would lead to an additional 6,560 people filing taxes. There would be an increase of $19,680,000 to $23,616,000 in credits received.

Cost

The average health navigator salary in Virginia is $48,792 (Salary.com, 2022). This represents an average hourly wage of $23.46. The average navigator can serve four people in a day, so they can serve about 20 people each week (Hoppe, 2018). If these navigators could start by June, they would have 20 weeks to help people navigate the tax filing process prior to the October 17th filing deadline (Ebeling, 2022). To serve the entire population of non-filers, VDSS would need to hire 200 navigators. These navigators would accrue a wage of $18,768 over the 20 weeks working with clients, which makes the cost of this intervention $3,753,600. This cost could be decreased by hiring less navigators, but this would include a trade-off in terms of effectiveness.

Cost-effectiveness

If this intervention leads to a 6,560 person increase in tax filing and it costs $3,753,600, this is $572.20 per additional filer.

Feasibility

This alternative has a feasibility score of 0.5. According to Courtney O'Reilly at Code for America, navigators only need 1.5 to 2 hours of formal training to fulfill basic navigator duties, but it may take a longer period to go through the hiring process (C. O'Reilly, personal communication, March 2, 2022). VDSS would need these navigators to be hired and trained quickly to serve clients by the October 17th filing deadline (Ebeling, 2022). This would require an investment of 160,000 hours in the actual navigation process, irrespective of training and hiring timelines. This means that this alternative requires a large investment of resources in order to be successful. Benefit navigators are already used in other contexts, meaning the government does have the processes in place to start this program, which provides a score of 0.5 out of 1 on the first question. Additionally, the intervention is quite costly, meaning it has a low likelihood of receiving the funding necessary to implement it. It is also unlikely that VDSS could complete the hiring and training process within the given timeline in order to provide these navigators with sufficient time to complete their role.

Equity

This alternative also has low geographical equity outcomes compared to the other alternatives because not every person would be able to receive the same level of service depending on where they are located. Those located in areas where navigators are based would receive more direct assistance through in-person consultations, which could potentially be higher quality, making it less equitable. Navigators doing in-person consultations would also be able to provide more services, such as providing access to technology that would not be accessible for those interacting with navigators on a video or phone call.

Alternative 4: Outreach

For this alternative, outreach could include text messages, letters, or phone calls targeted at the non-filer population to inform them of the credit and their potential eligibility. One analysis on EITC outreach found that outreach by a government entity was more successful at encouraging engagement with online resources when compared to outreach by a nonprofit organization (Linos et al., 2020). For this reason, I would recommend that this outreach be completed by a government entity rather than Voices.

Given their access to the CommonHelp database which includes information on people's income, Medicaid status, and number of dependents, VDSS is the ideal enacting agency for this intervention. They are also required by law to conduct outreach for other social benefit programs, including the Earned Income Tax Credit (EITC), meaning they have experience implementing this type of intervention (Beecroft, 2012). I would recommend that VDSS utilize mailers and text messages for a two-pronged outreach effort.

Effectiveness

An outreach experiment conducted by VDSS with the Earned Income Tax Credit found that mailers and phone calls led to a 2.4 percentage point increase in tax filing among non-filers (Beecroft, 2012). We can assume that a similar targeted, two-pronged outreach effort would lead to a similar increase in filing as the prior experiment was conducted by VDSS, the enacting agency for this outreach effort. This would likely lead to 1,920 more non-filers filing taxes and getting access to this credit. If 1,920 non-filers were to file and receive this credit, we can assume that they would receive between $5,760,000 and $6,912,000 back in returns.

Cost

The cost of this alternative includes the labor cost to identify the outreach sample, the labor cost to oversee outreach, the mailer cost, and the cost of the mass text messaging. All cost estimates in this section except for the cost of the text messaging service are based on estimates in the EITC outreach study (Beecroft, 2012). These will likely be most accurate given the study was conducted by VDSS and represents their ability to receive bulk mailing prices. The cost estimates for text messaging services are based on the average cost from several providers (Kurko, 2021).

The labor cost to identify the outreach sample is $1,500 and the labor cost to oversee the outreach process is $5,000. The total cost of mailers would be $28,000. The estimated cost of the text message service is $3,494, which includes the cost per text message and the estimated cost of service (Kurko, 2021). If VDSS already has access to a mass text messaging system, this cost could be lower given they would have already paid the subscription cost and bulk pricing could lead to a higher discount. A specific breakdown of cost per unit is provided in the Appendix.

Cost-effectiveness

Given that the outreach only costs $37,994 and there are an expected 1,920 additional filers, there is a cost of $19.79 per filer.

Feasibility
This alternative has a feasibility score of 3. The intervention is low cost and has a high likelihood of being funded by the state government, especially relative to the other alternatives. Additionally, VDSS already conducts this type of outreach for other credits, meaning they already have the processes in place and could easily replicate the process again. It only requires 200 hours of total labor, meaning it will not require a significant resource investment from VDSS. It also could be completed within the timeline provided.

Equity
Since these letters can be sent across the state, this alternative is highly equitable in terms of geographic equity.

Outcomes Matrix

	Status Quo	Pre-populated tax forms	Benefit Navigators	Outreach
Effectiveness	0 additional filers	16,800 additional filers *($50,400,000 – $60,480,000)**	6,560 additional filers *($19,680,000 - $23,616,000)**	1,920 additional filers *($5,760,000 - $6,912,000)**
Cost	$0	$302,286	$3,753,600	$37,994
Cost-effectiveness	Neutral	$17.99 per additional filer	$572.20 per additional filer	$19.79 per additional filer
Feasibility	3 High	0 Low	0.5 Low	3 High
Equity	Neutral	High	Low	High

*Represents the expected economic impact from the increase in tax filing and expected credits received

Recommendation

Based on my evaluation, I would recommend Policy Alternative 4: Outreach. Though it has a lower level of effectiveness compared to the other interventions, it has a high level of cost-effectiveness, feasibility, and equity, making it a much more acceptable solution than the status quo. It also carries a low cost and is the only alternative that could be reasonably completed by the October 17th deadline (Ebeling, 2022).

Additionally, while outreach has a limited level of effectiveness, it would still result in a measurable economic benefit for Virginia for a relatively low overall cost. There would also be nearly 2,000 families who benefit from this intervention, meaning there would be 2,000 families with higher access to food and economic security because of this intervention. I think this benefit cannot be overstated when compared to the alternative of inaction.

With a longer timeline, I believe pre-populated tax forms would be the best alternative. I believe that Voices should advocate for this intervention if this credit ever reemerges, or a similar refundable credit is passed. Pre-populated tax forms are the ideal alternative given they would reach a much larger portion of the non-filing population in Virginia. They are also highly cost-effective and are extremely equitable as they can be mailed to anyone regardless of geographic location. However, under the current political administration, I do not think there is the political will to invest in this alternative and complete it by the October 17th deadline. This alternative requires a significant investment of time and money and I do not think that there is the necessary political support to fully fund this intervention and complete it within the given timeline. Without the time constraints, I would recommend this alternative, but given the current political situation, outreach is the most viable alternative.

Implementation

Short Term: Outreach

Voices should start by advocating directly to VDSS to take on this outreach effort. Once VDSS has agreed to take on this project, VDSS should request a portion of the remaining American Rescue Plan Act dollars to fund this effort. Upon receiving the funding, they should contact the Department of Taxation to start the data sharing effort if they do not already have access to the data. Upon getting the data, they will need to match people to their 2021 W-2 information to ensure they are eligible for this credit and to identify the number of dependents they have and the age of the dependents.

Once they have the number of and age of the dependents, VDSS can calculate the benefit for each non-filer to get a personalized cash benefit. This will incentivize filing because people will be able to see the tangible monetary benefit they will receive from filing. Adding a personalized benefit to outreach efforts increased interaction with online resources by 3 percentage points in an EITC outreach study (Linos et al., 2020).

VDSS should ensure that these mailers are written at a 5th grade reading level or lower and translated in both English and Spanish (Dorn, 2006). There should be no complex tax language on the mailer, as this could confuse the recipients (Zucker & Wagner, 2021). It should also include information on any tax preparation assistance that people may have available to them. Given that most VITA sites do not operate past the regular tax filing deadline, it would be best to direct them to online resources on the IRS website or to Code for America's website.

VDSS should send these mailers by July 31st to ensure that people have time to seek out any assistance upon becoming aware of their eligibility for the tax credit. These clients will then need to file taxes by October 17th to receive their benefit (Ebeling, 2022).

Long Term: Pre-Populated Tax Forms

In the event this credit comes back, or a similar refundable credit is created, Voices should be prepared to implement pre-populated tax forms given it is a more effective alternative and could have an even broader economic impact than outreach. It is important that any estimated economic impact should be recalculated to reflect the potential benefit if the credit is different than the current amount. This could change the effectiveness of this alternative. This is important to be aware of prior to implementation to ensure it is still a viable investment of resources.

To implement this alternative, Voices must ensure that the Department of Taxation will do the necessary work to complete these pre-populated forms. They have two options to gain compliance: they can either lobby the Department of Taxation directly to encourage them to undertake this project or they can advocate for legislation to require the Department of Taxation to complete pre-populated tax forms for populations under a certain income. Voices can choose either path at their discretion depending on their existing relationship with the Department of Taxation or the likelihood of passing legislation with the legislative makeup at the time this credit emerges.

Though I have no knowledge of how the legislature will be divided when this issue resurfaces, I do think that mandating this would be the most sustainable plan to ensure that the Department of Taxation continues this project. I also think this will help with funding, as the Department of Taxation will have to hire additional staff. If the legislature mandates these forms, they will likely also need to provide additional funding for the department to complete them. I would recommend that Voices utilize its relationships within the legislature to advocate for this policy change and to emphasize the expected economic benefit of these pre-populated tax forms. If Voices is unable to convince the legislature to mandate these forms, then they should attempt to advocate directly to the Department of Taxation.

If Voices decides to go through the legislature to mandate this program, they should utilize their existing relationships with strong advocates of similar policy. I would recommend directing initial lobbying efforts at Delegate Price as she is a strong advocate for the state refundable EITC and likely would be supportive of this policy as well because it will target the same low-income population as the state EITC (H.B. 1312, 2022). If possible, Voices should try to convince Delegate Price to be a patron for a bill to mandate pre-populated tax forms for low-income filers.

Upon identifying sponsors for the legislation, Voices should begin lobbying other legislators, particularly those on the "money" committees, such as Senate Finance and Appropriations, House Appropriations, and House Finance.

Once they have agreed to comply, either by mandate or willingly, the Department of Taxation would have to share data with VDSS to identify the population they are wanting to serve and get all the information they need to complete the pre-populated tax forms. Depending on the nature of the credit, that information may include earned income information and the number and age of dependents that the person has.

This alternative may require additional staff, so they should increase staffing as needed to complete this project. It is difficult to estimate the exact number of additional staff needed without knowledge of the target population and its size or the complexity of claiming the credit for each person. However, the Department of Taxation should calculate the number of hours it will take to complete these forms upon gaining information on their target population. Once they have calculated the number of hours, they should hire additional staff to complete these forms utilizing money allocated from the state.

Once they have completed the forms, the Department of Taxation should mail these pre-populated forms to the tax filer to verify the information. They should also include a letter to explain what the form is and highlight what benefit the tax filer would receive if they were to return it. The filer would then verify the information, make any corrections, and return the form to the Department of Taxation to then be filed on their behalf so they can receive the credit. These forms should be mailed out two months prior to the filing deadline.

The specifics of implementation will be different based on the credit they are attempting to help people receive and based on the political context at the time of implementation, but this general framework should be helpful for establishing the project.

Appendix

Appendix A: Cost per unit of outreach

	Cost per unit	***Number of units***	***Total Cost***
Labor: Identifying Sample	$37.50 per hour	40 hours	$1,500
Labor: Overseeing Outreach	$31.25 per hour	160 hours	$5,000
Mailer	$0.35 per mailer	80,000	$28,000
Text message	$0.04 per text	80,000	$3,200
Text message service	$49 per month	6 months	$294
Total Cost			$37,994

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