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Resources to Help Low-Income Consumers Pay Winter Energy Bills

At the end of the 2000/2001 winter heating season, at least 4.3 million low-income households were at risk of having their power cutoff because of an inability to pay their winter home energy bills.

According to Mark Wolfe, Executive Director of the National Energy Assistance Directors Association (NEADA), "we knew low-income families were hard hit by the increased energy costs, but we had hoped additional resources could ward off the worst effects. That hasn't materialized."

As a result, according to a report by the National Fuel Funds Network (NFFN) and other national organizations, "utility shutoffs and arrearages are up dramatically from previous years with very few mechanisms in place to protect low-income seniors and children from the health and safety risks of a freezing house this coming winter."

The discussion that follows identifies additional funding for one group of households that is often "missed" by existing fuel assistance programs: the working poor. Often with incomes too high to qualify for public assistance programs, these households nonetheless also have too little income to be able to afford their winter home heating bills.

The discussion below discusses two sources of income for these working poor households:

- The federal Earned Income Tax Credit (EITC); and

- The federal Child Tax Credit.

These two sources of funding are important for low-income utility customers in three respects.

First, coming as part of the federal income tax return process, the money will come at the time when low-income households are most vulnerable to unpaid energy bills. Tax returns filed in January and February would easily put cash in the hands of low-income households during the high bill winter months.

Second, tax credits coming back to customers in April may well also serve as a source of downpayment on a payment plan to prevent the loss of service at the very time state winter shutoff moratoria are ending.

Finally, while a low-income household would need to file a tax return in order to receive either the EITC or the Child Tax Credit, the household need not have a tax liability in order to receive the credit. The credits can place actual cash in the pockets of households.

For these reasons, promotion of the EITC and Child Tax Credit could be an important strategy for helping the working poor address otherwise unaffordable winter home energy bills.

The Earned Income Tax Credit

The first action that utilities should take with respect to their low-income households involves promoting (and facilitating) low-income households claiming the Earned Income Tax Credits (EITC) to which they are entitled.

Under the EITC, workers can receive a refundable tax credit from the federal government. If a household has had taxes withheld, the federal government will return her withheld taxes and pay her an additional amount up to the maximum EITC to which she is entitled. If the household has had no taxes withheld, the federal government will send her a check for the maximum EITC to which she is entitled.

Eligibility

Single or married people who worked full time or part time at some point during the year can qualify for the EITC depending on their income:

- For Tax Year 2000, workers who were raising one child in their home and had family income of less than $27,413 in 2000 could get up to $2,353.

- Workers who were raising more than one child in their home and had family income of less than $31,152 could get up to $3,888.

- Workers who were not raising children in their home but were between ages 25 and 64 on December 31, 2000 and had income below $10,380 could get up to $353.

Benefits to A Utility

It would seem evident on its face that a utility would benefit from any increase in financial resources to be brought to bear on low-income living expenses. More than intuition, however, supports the conclusion that increasing EITC claims will help pay utility bills. An Edison Electric Institute (EEI) staffperson reports, for example, that a 1994 study found that 90 percent of New Jersey EITC recipients used their tax credit to pay household living expenses. One-third of all recipients used their EITC to pay *past-due* bills and one-quarter used part of the refund to pay utility bills.

Average EITC credits vary by state, but generally range between $1,800 and $2,000.

Extent of Unclaimed Benefits

Utility participation in promoting the EITC is helpful in generating additional dollars to help pay utility bills to the extent that households which qualify for the EITC do not already claim their benefits.

According to John Wancheck, Coordinator of the EITC Outreach Campaign for the Center on

Budget and Policy Priorities:

"Research on the total number of eligible workers compared to those who actually claim the EITC is not wonderfully precise. It probably isn't going to be, because the criteria to estimate EITC eligibility using census data can't be as specific as the actual IRS eligibility rules. From the IRS side, it isn't known how many people who don't file tax returns are eligible for the EITC."

The research that *has* been done indicates that about 80% of those eligible claim the credit. Both the IRS and the President's Council of Economic Advisors use this figure.

Participation amongst welfare recipients transitioning to employment (as well as applicants diverted to job searches) is much lower (around 50%). Research has found simply that new workers at very low wages (as well as new parents and new foster parents) are less likely to know about things like tax credits and how to claim them.

Aggregate Dollar Value

The total dollar value of unclaimed EITC benefits can be calculated for specific utility jurisdictions. The IRS maintains a data base of the number of EITC claims made on a zip code basis. Using the 80% figure as an estimate for the proportion of those eligible who actually claim their EITC, it is thus possible to determine the total EITC credits that go unclaimed in any given utility service territory.

In Arkansas, for example, FSC calculated the amount of unclaimed EITC benefits merely for the communities of Little Rock, North Little Rock, Pine Bluff and West Memphis. Given the numbers of unclaimed EITC credits simply for these communities, the total amount of unclaimed EITC credits for Tax Year 1999 (returns filed in 2000) reached nearly $17.5 million (9,958 unclaimed benefits averaging $1,757 per claim).

It seems evident, FSC explained, that it would be unreasonable to expect to approach 100% participation within the EITC-eligible population in those communities. However, it seems equally evident that even a modest increase in the EITC participation rate would bring millions of dollars in additional resources to low-income Arkansas customers.

A 5% increase in EITC participation would result in an addition of $4.4 million in resources to the low-income consumers living in these four Arkansas communities.

The EITC campaign which PSE&G pioneered several years ago, for example, increased participation in New Jersey by 5%.

Why You Need to Quadruple this Aggregate Figure

It is quite possible that the amount of new money flowing into a utility jurisdiction would be substantially higher than this single year figure, FSC continued.

The EITC is not a "use it or lose it" proposition. An income-eligible household may make "back claims" for EITC credits within a three year statutory limit. Claims for Tax Year 1997, in other words, expired if not made by April 15, 2001.

An outreach campaign for the 2001 Tax Year (returns filed in 2002) would, therefore, potentially bring in similar amounts of money (on a one-time basis) not only for credits claimed for the 2001 Tax Year, but for Tax Years 1998, 1999 and 2000 as well. EITC claims for Tax Year 1998 will expire on April 15, 2002.

The Child Tax Credit

A second action that a utility might take with respect to its low-income households involves promoting (and facilitating) low-income households claiming the newly refundable Child Tax Credit to which they are entitled.

The New Child Tax Credit

Beginning in Tax Year 2001 (returns filed in

2002), the federal government has made significant changes in the child tax credit which will positively affect low-income households. In prior years, the child tax credit was a non-refundable tax credit. What this means is that if a low-income household had no income tax liability, the household would receive no child tax credit.

Beginning in Tax Year 2001, however, a substantial part of the child tax credit has been made refundable. Accordingly, even if a low-income household has no tax liability, it may nonetheless still be eligible to receive an income tax credit as a check from the IRS.

The child tax credit will be $600 per child in 2001, with increases in Years 2005 and beyond. Moreover, the refundable portion of the child tax credit significantly expands in tax years after 2001. However, the discussion below addresses only Tax Year 2001.

Starting with Tax Year 2001

Starting with Tax Year 2001, the child credit will work as follows for low-income working families:

- The credit will first be used to eliminate any federal income tax liability. If the family owes $300 in taxes (before taking the EITC and the child tax credit into account), the credit is used to eliminate the $300 tax liability.

- If part of the family child tax credit remains unused after eliminating all of the family's tax liability, the family may receive some or all of the credit as a refund check (just like the EITC). If the family has no income tax liability, the family receives the full amount of the credit for which it qualifies.

When there is no tax liability, the amount of the refund to which the household is entitled is determined by a formula. The amount which the family is entitled is the lesser of its unused child tax credit (after paying any tax liability) and ten percent (10%) of the family's income over $10,000. (Remember, this is the rule for Tax Year 2001; the rules for subsequent years change.)

Examples

1. Assume a two-child family having an income of 15,000 and a $0 tax bill. The child tax credit is $1,200 (2 children x $600/child = $1,200). Ten percent (10%) of the family's income over $10,000 is $500 ($15,000 - $10,000 = $5,000 x .10 = 500). The family receives the lesser amount of the two dollar figures, or $500, as a refund check.

2. Assume a one-child family having an income of $15,000 and a $255 tax liability. The child tax credit is $600 (1 child x $600/child = $600). The first $255 of the credit is used to offset the tax liability, leaving $345 unused ($600 - $255 = $345). Ten percent (10%) of the family's income over $10,000 is $500 ($15,000 - $10,000= $5,000 x .10 = $500). The family receives the lesser amount of the two dollar figures, or $345, as a refund check.

The Child Tax Credit does not affect the amount of the Earned Income Tax Credit (EITC) received by the family. A family will receive a check with the combined amount of the EITC and the Child Tax Credit as a refund.

The Case for Utility Involvement

While the Child Tax Credit can be characterized as a second EITC (it is a refundable tax credit directed toward working households with children), there are some differences in the eligibility rules. It will be important, therefore, for outreach for the new refundable Child Tax Credit to be integrated with the outreach for EITC. There will now be two refundable tax credits largely for the same families. Such a family, however, will have to file two forms.

The Benefits to a Utility

Because it is a new credit, there is no history allowing for a calculation of the amount of money, which the credit will flow into a utility jurisdiction. To try to get some notion of the magnitude of dollars, however, the following assumptions have been made:

1) Ninety percent of all households receiving an EITC credit in the past will receive a Child Tax Credit in the future.

2) The average Child Tax Credit will be 40% of the maximum possible credit.

3) No additional EITC participation arises from utility outreach.

Given these three assumptions, FSC calculated the additional tax credits generated in the service territory of one Arkansas utility. The methodology used was the same as that used for the EITC.

The IRS maintains a data base of the number of EITC claims made on a zip code basis. Because nearly all, but not quite all, EITC participants are expected to qualify for the Child Tax Credit as well, ninety percent of those EITC recipients were assumed to receive a child tax credit.

The same communities were used as before: Little Rock, North Little Rock, Pine Bluff and West Memphis. Given the numbers of EITC recipients simply for these communities, the total amount of Child Tax Credits for the Arkansas jurisdiction for the Tax year 2001 (returns filed in 2002) would be more than $8.6 million.

Clearly, particularly since the Child Tax Credit comes as part of the same check as the EITC, there is no reason to believe that families will treat these new dollars any differently than the EITC. Accordingly, it is reasonable to expect, FSC noted, that 90% of recipients will use their tax credit to pay household expenses. One-third will pay past-due bills and one-quarter will pay utility bills with their credits.

The organization which coordinates the EITC outreach campaign nationwide is the Center on Budget and Policy Priorities, which provided much of the program description contained above.

Persons interested in receiving information about how their agency, organization or company can participate in the EITC campaign in their state, including how to promote the Child Tax Credit, should contact the following person:

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