

IN THIS ISSUE

Receipt of Earned Income Tax Credit (EITC) Improves Utility Bill Payment.

NOTE TO READERS

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Evidence Documents that Households Receiving EITC Use those Dollars to Pay Past-Due Utility Bills.

Promoting the Earned Income Tax Credit (EITC) is one of the most effective, and cost-effective, ways for a public utility to generate assistance for its hard-to-reach customers. The federal EITC now delivers, on average, more than \$2,000 in benefits to qualifying households. As a refundable tax credit, the EITC not only reduces a household's tax liability, but will deliver cash to the household to the extent that the tax credit exceeds the tax liability. The level of benefits depends on the level of earned income received by a household and whether the household has children.

2015 Maximum EITC Benefits and Maximum Income Eligibility

	Maximum Benefit	Maximum Income	
		Single	Married
Childless	\$503	\$14,820	\$20,330
1-child	\$3,359	\$39,131	\$44,651
2-children	\$5,548	\$44,454	\$49,974
3+ children	\$6,242	\$47,747	\$53,267

EITC benefits increase as earned income increases, before reaching a plateau, and then decreasing back down to zero dollars. The EITC is commonly recognized as the most effective anti-poverty program in the United States.

Entergy's Outstanding EITC Outreach.

Entergy, a multi-state electricity company serving the Middle South, perhaps leads the nation in supporting the promotion of the EITC amongst utility companies. According to Entergy's EITC spokesperson, Elizabeth Brister, Entergy has used utility dollars to promote the EITC to the Company's 2.8 million customers for more than a decade. Entergy spends more than a half million dollars a year on its EITC outreach.

The Company begins with a Comprehensive Media campaign. This plan involves paid media, including print, on-line, and social media. The media campaign not only encourages taxpayers to determine if they qualify for the EITC, but also points people to the Entergy.com EITC website which identifies all free tax preparation sites available to taxpayers in the EITC service territories.

In addition to its paid media, Entergy uses two bill inserts a year (one produced by the Company and the other produced by the Internal Revenue Service (IRS)) to promote the EITC. The IRS EITC mailers, Brister says, are the only non-Entergy literature the Company allows to be included with its bills. The billing inserts are circulated with the December and January bills, the two months in which the Company's customers begin to think about tax filing. A taxpayer must file a tax return to claim the EITC.

Aside from this written literature that Enter-

gy provides to its customer base, Entergy also targets outbound telephone calls to remind customers who the Company has reason to believe are low-income to remind the customers that it is tax season; to encourage customers to determine if they are eligible for the EITC; and to point people toward the Entergy.com web site to find local free tax preparation clinics.

Entergy seeks to help its low-income customers keep the full tax credit for their own use as well. One drain on the tax credit occurs when people use paid tax preparers to file their returns. Not only do such tax preparers charge hundreds of dollars for the relatively simple returns involved with EITC recipients, but many also prey on the financial problems of low-income households by offering "tax anticipation loans" with exorbitant interest rates. The annual interest rates on tax anticipation loans—under which the preparer offers to provide the tax filer with a short-term loan to be repaid when the tax refund is received—often reach as high as 200%.

To try to keep more of the EITC in the low-income household, for the past four years, Entergy has supported 422 Volunteer Income Tax Assistance (VITA) sites providing free income tax preparation for income-qualified households. For the past three years, Entergy has supplemented these sponsored sites with "a couple of hundred" company employees who donate their time as volunteers to help staff the sites.

Given its years of experience with EITC

promotion, the Entergy staff now says that they no longer need to “prove” the value of the effort to Entergy’s management. The value of the tax refunds they help to generate is large and getting larger each year. From 2011 through 2015, for example, Entergy’s efforts helped generate \$125 million in assistance in its four-state service territory. In 2016 alone, the Company reports, Entergy helped its customers receive more than \$35 million in tax credits. In addition to helping customers pay their bills, Brister says, these dollars help generate economic activity throughout the Company’s service territories, thus benefitting not only the customers directly receiving the benefits, but also benefitting all customers, including those whose employment and wages is supported by the additional economic activity. In all these cases, Brister unabashedly “admits” that Entergy, in its capacity as the electricity supplier, also receives direct financial benefits through its EITC outreach efforts.

Other Exemplary Utility EITC Outreach.

While Entergy may be the utility leader in promoting the EITC, it is certainly not the only utility engaging in such promotion. New Jersey’s Public Service Electric and Gas (PSEG) annually promotes the EITC to “New Jersey’s workforce members who are in financial difficulty.” In addition to providing bill messages and press releases, PSEG displays EITC information in many of its local Customer Service Centers.

The Michigan Public Service Commission includes information on the EITC in its “consumer alert” explaining the full range of winter heating protections available in that state. The PSC is joined in EITC promotion by both Citizens Gas and Michigan Gas Utilities on the gas side, and by Excel Energy on the electric side.

EITC Benefits to the Utility.

Entergy’s real-world based belief that the receipt of EITC benefits helps low-income customers pay their home electricity bills is supported by considerable academic research as well. Nearly 90 percent of EITC program expenditures come in the form of tax refunds, with only 10 percent serving to reduce the tax liability.¹ Nearly all EITC payments are made in February and March, with more payments being made in February than in any other month.² One impact of the EITC is that the average recipient household’s income averages about two and half times its usual monthly value in the month in which the EITC is received.³

Taxpayers who anticipate an EITC refund most often plan to use it to pay bills.⁴ One survey of participants in the University of Georgia’s Financial Literacy Training Program found that EITC recipients planned to

¹ Andrew Goodman-Bacon and Leslie McGranahan (2008). How do EITC recipients spend their refunds? Federal Reserve Bank of Chicago.

² Goodman-Bacon, *supra*, at 18.

³ Goodman-Bacon, *supra*, at 19

⁴ Timothy Smeeding et al. (2000). “The EITC: Expectation, knowledge, use and economic and social mobility,” *National Tax Journal*, Vol. 53, No. 4, part 2, December, pp. 1187-2210.

use most of their refund to pay or catch up on bills.⁵ Other research, too, has found that EITC recipients use their refunds to pay outstanding bills.⁶ Mendenhall found that families who used non-profit tax preparation centers were more likely to spend a portion of their refund paying off back debt compared to families who did not.

A July 2015 research paper from the Washington University Center for Social Development reported that: “compared with those who did not receive the EITC, EITC recipients in the 2013 [Household Financial Survey] were more likely to pay down debt and less likely to save the refund. . . recipients used more of their refund to pay down debt than they had planned and used less than planned for spending on consumption. . . Most of the debt payments made by EITC recipients reflect a pattern of ‘catching-up’ on short-term, consumption based liabilities.”⁷ “[R]ecipients allocate their refunds carefully,” the Washington University re-

search found, “meeting essential needs that they may have difficulty addressing with regular income.”

One study examined the allocation of EITC benefits in the Boston metropolitan area. It found that “the largest allocation category is paying off debts and bills—over one third of refund dollars are devoted to this. . . those who allocated any of their refund to paying off debt reduced their outstanding debt burdens by half.”⁸ This Boston-area study concluded that current monthly income for EITC recipients “did not even come close to covering debt obligations for many. For this reason, tax season is often viewed as the time of year for paying off debt.” The Boston research reported that 66.9% of EITC recipients in the study spent some or all of their tax refund on “debts and back bills,” devoting 20.9% of their total refund to such purposes. A 2012 study examined EITC recipients in both Boston and Central Illinois (the Champaign-Urbana metro area).⁹ According to Mendenhall, “paying bills and debts was another important category” for how EITC credits were used. The study found that 72 percent of the study population planned to use, and 84 percent did use, some of their tax refund for these purposes.

Sheila Mammen and Frances Lawrence found that rural working families used their

⁵ Mary Linnenbrink, et al. (2006). “The earned income tax credit: Experiences from and implications of the voluntary income tax assistance program in Georgia,” in 2006 Eastern Family Economics and Resource Management Association Conference Proceedings, section A, pp 11-16.

⁶ See e.g., H.L. Shaefer, et al. (2013). Do single mothers in the United States use the Earned Income Tax Credit to reduce unsecured debt,” *Review of Economics of the Household*, 11(4), 659-680; J. Sykes, et al. (2015). Dignity and dreams: What the Earned Income Tax Credit (EITC) means to low-income families. *American Sociological Review*, 80(2), 243-267.

⁷ Mathieu Despard, et al. (July 2015). Do EITC recipients use their tax refunds to get ahead? Evidence from the Refund to Savings Initiative, (CSD Research Brief No. 15-38). St. Louis, MA: Washington

University in St. Louis, Center for Social Development.

⁸ Laura Tach, et al. (undated). Getting Ahead versus Getting By with the Earned Income Tax Credit.

⁹ Ruby Mendenhall, et al. (2012). The role of Earned Income Tax Credit in the budgets of low-income households. *Social Service Review*, 86(3), 367-400.

EITC benefits to “pay bills.”¹⁰ “As was the case for urban families,” the study found, “the most commonly cited usage of the EITC by these rural families was to pay bills; almost 44% of their sample indicated they used all or part of their tax credit to pay a variety of bills including utilities, cable, and credit card.” Indeed, the study found, some recipients used their EITC to pay ahead on bills. “Paying bills such as electric, water, telephone, or insurance ahead of time may provide families peace of mind and ease their anxieties about not having the necessary funds when their bills are due.”

Research from New York City’s Volunteer Income Tax Assistance (VITA) program found that the majority of EITC refunds were expected to be used to repay debt or meet immediate needs.¹¹

According to a study of EITC recipients in New York, performed by faculty at Colgate University, 40% of the households reporting using their EITC to pay bills used those benefits to pay utility bills, a higher percentage than those using the EITC to pay for rent (31%), credit cards (28%), car payments (22%), and groceries (21%).¹² Moreover, an Edison Electric Institute (EEI)

staffperson reported that a 1994 study of EITC recipients in New Jersey found that one-third of all EITC recipients used their EITC to pay past-due bills, and one-quarter of all recipients used their EITC benefits to pay past-due *utility* bills.¹³

Summary

Utility promotion of the Earned Income Tax Credit (EITC) offers several advantages to water, electricity and natural gas utilities. Most directly, the annual benefit –now averaging more than \$2,000-- is often used by EITC recipients to pay past-due household bills, including, specifically, past-due utility bills. In addition, the EITC benefits generally are received in January/February of a year, the time at which cold weather bills are imposing the highest bills on customers with heating bills. Finally, EITC benefits provide important supplements to local economies. As a result, utility ratepayers see increased incomes as well as more job availability because of the EITC dollars flowing into a utility’s jurisdiction.

¹⁰ Sheila Mammen and Frances Lawrence (2006). How Rural Working Families Use the Earned Income Tax Credit: A Mixed Methods Analysis, *Journal of Financial Counseling and Planning*, Vol. 17, No. 1, 2006.

¹¹ Sherrie Rhine, et al. (2004). Householder response to the Earned Income Tax Credit: Path of Sustenance or Road to Asset Building. Federal Reserve Bank of New York.

¹² Simpson, et al. (October 2006). The Efficacy of the EITC: Evidence from Madison County (New York), Colgate University Department of Economics.

¹³ Since this data is based on generic EITC outreach directed to the population as a whole, should outreach be focused on payment-troubled customers, it would be expected that these percentages would increase.

For more information regarding utility efforts to promote the EITC, and the benefits from doing so, please write:

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Fisher, Sheehan and Colton, Public Finance and General Economics (FSC) provides economic, financial and regulatory consulting. The areas in which *FSC* has worked include energy law and economics, fair housing, affordable housing development, local planning and zoning, energy efficiency planning, community economic development, poverty and telecommunications policy, regulatory economics, and public welfare policy.
