



Budget Model

Direct Aid in the Biden COVID Relief Plan: Budgetary and Distributional Effects

Updated on February 5, 2021 to include [Appendix A](#).

Summary: PWBM estimates that three provisions in the Biden COVID relief plan—direct payments, expanding the Child Tax Credit, and expanding the Earned Income Tax Credit—together would cost \$595 billion in calendar year 2021, with 99 percent of households in the bottom 80 percent of incomes receiving a benefit.

Key Points

- President Biden recently proposed \$1.9 trillion in spending to provide economic relief during the ongoing coronavirus pandemic and recession, including support for vaccinations, direct aid to households, and relief for businesses.
- PWBM estimates that three of the Biden COVID relief plan's provisions—direct payments, expanding the Child Tax Credit, and expanding the Earned Income Tax Credit—together would cost \$595 billion in calendar year 2021.
- 99 percent of households in the bottom 80 percent of incomes would receive direct aid under the Biden plan. The average benefit for households in the bottom 40 percent of incomes would be over \$3,000.

Introduction

On January 14, 2021, the Biden administration [released](#) a \$1.9 trillion emergency plan to provide economic relief during the ongoing coronavirus pandemic and recession. The package includes funding for a national vaccination program, direct aid to households, and relief for businesses.

A [companion brief](#) analyzes the macroeconomic effects of the full \$1.9 trillion plan, while this brief analyzes the budgetary and distributional impacts of three main direct aid provisions of the Biden relief plan:

- **Direct payments:** Biden's proposal includes sending each person (including children and adult dependents) a \$1,400 direct payment, phased out above household income of \$75,000 for single tax

filers and \$150,000 for married filers.

- **Child Tax Credit (CTC) expansion:** This provision would make the CTC fully refundable for 2021 (making the lowest-income households qualify for the full value of the credit), increase the value of the credit to \$3,000 per child, and make 17 year-olds eligible to receive the credit.
- **Earned Income Tax Credit (EITC) expansion for childless adults:** The maximum EITC value for childless adults would be raised from around \$538 to nearly \$1,500, the income limit on who is eligible would be raised from nearly \$16,000 to over \$21,000, and income eligibility would be expanded for older workers by removing the age cap.

The proposal includes other forms of direct aid not included in the below budget modeling, including expanded unemployment insurance (additional \$400 per week), raising the minimum wage to \$15 per hour, improving various worker protections and housing assistance, and expanding nutritional assistance (including extending the SNAP benefit increase).

The Biden plan also includes several other spending provisions, such as aid for state and local governments and support for childcare providers.

Budgetary Effects

Table 1 shows the estimated annual budget impacts of these three provisions over the budget window.

Table 1: Budget Cost of Select Tax Provisions

Billions of Dollars, Change from Current-Law Baseline

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| | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | Total |
|----------------------------|------|------|------|------|------|------|------|------|------|------|-------|
| Economic Impact Payments | -477 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -477 |
| Child Tax Credit Expansion | -110 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -110 |
| EITC Expansion | -8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -8 |

We estimate that for calendar year 2021, the direct payments would cost \$477 billion, the EITC expansion would cost \$8 billion, and the CTC expansion would cost \$110 billion.

Distributional Effects

Table 2 shows the estimated distributional effects of these three provisions—direct payments, CTC expansion, and EITC expansion—by household income.

Table 2. Estimated Distribution Effects by Household Income

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| Individual & Payroll only | | | | | |
|--------------------------------------|------------------------|-----------------------------|--|---|-------------------------|
| Income Group | Average Benefit | Share with a benefit | Average Benefit (Of those with a benefit) | Percent change in after-tax income | Share of Benefit |
| Bottom quintile | \$2,505 | 100.0% | \$2,505 | 52.7% | 20.7% |
| Second quintile | \$3,660 | 100.0% | \$3,660 | 14.4% | 22.5% |
| Middle quintile | \$3,465 | 99.9% | \$3,470 | 7.6% | 20.6% |
| Fourth quintile | \$3,905 | 95.8% | \$4,080 | 4.8% | 20.0% |
| 80-90% | \$4,915 | 86.8% | \$5,670 | 3.9% | 10.3% |
| 90-95% | \$3,705 | 72.8% | \$5,145 | 2.1% | 3.7% |
| 95-99% | \$1,440 | 36.6% | \$4,265 | 0.5% | 1.2% |
| 99-99.9% | \$10 | 0.8% | \$1,095 | 0.0% | 0% |
| Top 0.1% | \$0 | 0.0% | \$0 | 0.0% | 0% |

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability. Note that this definition excludes transfer income and thus understates low-income tax units' income.

Just from these three provisions, 99 percent of households in the bottom 80 percent of the income distribution would receive direct aid, including 100 percent of households in the bottom 40 percent of incomes. The average benefit for households in the bottom 40 percent of incomes would be over \$3,000. For those in the bottom 20 percent of the income distribution, the direct payments combined with the CTC and EITC expansions alone would boost after-tax incomes by over 50 percent.

Appendix A: Distribution Tables for COVID Relief Payments Only

Table A1: Distribution of Federal Tax Change under Biden Administration COVID Relief Payments Only

| Income Group | Average benefit | Share receiving rebate | Average rebate (conditioned on receipt) | Percent change in after-tax income | Share of benefit |
|---------------------|------------------------|-------------------------------|--|---|-------------------------|
| Bottom quintile | \$1,970 | 100% | \$1,970 | 41% | 20% |
| Second quintile | \$2,825 | 100% | \$2,825 | 11% | 22% |
| Middle quintile | \$2,950 | 100% | \$2,950 | 6% | 22% |
| Fourth quintile | \$3,290 | 96% | \$3,435 | 4% | 21% |
| 80-90% | \$3,875 | 87% | \$4,465 | 3% | 10% |
| 90-95% | \$2,545 | 74% | \$3,435 | 1% | 3% |
| 95-99% | \$705 | 23% | \$3,070 | 0% | 1% |
| 99-99.9% | \$10 | 1% | \$1,095 | 0% | 0% |
| Top 0.1% | \$0 | 0% | \$0 | 0% | 0% |

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability. Note that this definition excludes transfer income and thus understates low-income tax units' income.

Table A2: Distribution of Federal Tax Change under GOP COVID Relief Payments Only

| Income group | Average benefit | Share receiving rebate | Percent change in after-tax income | Share of benefit |
|---------------------|------------------------|-------------------------------|---|-------------------------|
| Bottom quintile | 1,300 | 100% | 27% | 28% |
| Second quintile | 1,685 | 100% | 7% | 27% |
| Middle quintile | 1,560 | 84% | 3% | 24% |
| Fourth quintile | 1,195 | 59% | 2% | 16% |
| 80-90% | 415 | 20% | 0% | 2% |
| 90-95% | 215 | 9% | 0% | 1% |
| 95-99% | 25 | 2% | 0% | 0% |
| 99-99.9% | 0 | 0% | 0% | 0% |
| Top 0.1% | 0 | 0% | 0% | 0% |

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability. Note that this definition excludes transfer income and thus understates low-income tax units' income.

Table A3: Distribution of Federal Tax Change under Congressional Democrats' COVID Relief Payments Only

| Income Group | Average benefit | Share receiving rebate | Average rebate (conditioned on receipt) | Percent change in after-tax income | Share of benefit |
|---------------------|------------------------|-------------------------------|--|---|-------------------------|
| Bottom quintile | \$1,970 | 100% | \$1,970 | 41% | 22% |
| Second quintile | \$2,825 | 100% | \$2,825 | 11% | 24% |
| Middle quintile | \$2,880 | 100% | \$2,880 | 6% | 23% |
| Fourth quintile | \$2,975 | 85% | \$3,505 | 4% | 21% |
| 80-90% | \$2,655 | 78% | \$3,400 | 2% | 8% |
| 90-95% | \$1,320 | 47% | \$2,820 | 1% | 2% |
| 95-99% | \$360 | 12% | \$2,975 | 0% | 0% |
| 99-99.9% | \$0 | 0% | \$620 | 0% | 0% |
| Top 0.1% | \$0 | 0% | \$0 | 0% | 0% |

Note: "Income" is defined as AGI plus: above-the-line deductions, nontaxable interest income, nontaxable Social Security benefits, nontaxable pensions and annuities, employer-side payroll taxes, and corporate liability. Note that this definition excludes transfer income and thus understates low-income tax units' income.

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