



Budget Model

Options for Emergency Lump-Sum Cash Payments in Response to Coronavirus Budgetary and Distributional Analysis

Summary: We present budgetary and distributional estimates for three potential versions of the lump-sum payment that President Trump announced earlier today. All three options increase the after-tax income of low income households the most. However, higher-income households have more children on average and would receive larger cash payments unless additional adjustments are made.

Introduction

As coronavirus (COVID-19) quarantine measures reduce economic activity, federal policymakers are proposing a number of fiscal stimulus measures. Last week, [PWBM analyzed](#) a proposal to suspend payroll taxes for the remainder of 2020.

Today, [the White House proposed](#) providing \$1,000 for each adult and \$500 for each child and repeating this payment in six weeks if conditions don't improve. Support for this kind of universal cash payment has been growing among policymakers, with other, similar proposals coming from [Senator Mitt Romney](#) and from Senators [Michael Bennet](#), [Cory Booker](#), and [Sherrod Brown](#). Dr. Jason Furman [previously recommended](#) a similar approach on March 6, 2020.

These cash payments might take several forms. Lump-sum, universal payments are a simple option that might be relatively easier to administer but would not be targeted to those households most impacted by reduced economic activity due to COVID-19. For example, a low-income restaurant worker who loses their job would receive the same amount as a high-income person whose earnings are unaffected by the virus.¹ In response to these distributional concerns, some commentators have proposed versions of the policy that would make it more targeted, including [making the payments taxable](#) through the individual income tax and [imposing certain clawbacks](#).

In this post, we analyze the budgetary and distributional impact of three possible versions of the White House's proposed first-round payment. Payments under each option could be distributed at roughly the same speed, although they would differ in complexity for tax payments owed in 2021.

Budgetary and Distributional Impact of Three Options

Under each option, each nondependent adult would receive \$1000 and each tax dependent would receive \$500 in April 2020. The three options differ as follows:

1. Option 1 would distribute the payments to families but not make it taxable. **PWBM estimates this option would cost \$276 billion.**
2. Option 2 would include the payment in families' Adjusted Gross Income (AGI), therefore making it taxable. In this version, families would owe individual income on the payment in April 2021. An individual in the top income tax bracket would pay a tax rate of 37 percent on the payment, lowering their net benefit to \$630. A low-income person whose marginal tax rate is 0% due to the standard deduction would receive the full \$1000 on net. **PWBM estimates this option would cost \$235 billion.**
3. Option 3 would structure the payment as a fully-refundable advance tax credit that phases out at a rate of 5 percent above an AGI of \$150,000 for families (\$75,000 for single filers). Families who are fully phased out of the credit would still receive the payment but would pay it back in full in April 2021, in effect mimicking a zero-interest loan from the Treasury. **PWBM estimates this option would cost \$233 billion.**

Table 1. Distribution of Net Benefits

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- Option 1: Non-taxable payments
- Option 2: Taxable payments
- Option 3: Non-taxable payments with phaseout

Option 1: Non-taxable payments

Income group	Average benefit	Percent change in after tax income	Share of benefit	Share of federal taxes paid	
				Under current law	Under the proposal
Bottom quintile	\$1,180	39.2%	20.0%	0.0%	-2.1%
Second quintile	\$1,505	6.6%	19.6%	2.3%	0.5%
Middle quintile	\$1,595	3.7%	20.0%	10.2%	9.2%
Fourth quintile	\$1,895	2.5%	20.6%	19.1%	19.0%
80-90%	\$2,250	1.9%	10.0%	15.0%	15.5%
90-95%	\$2,355	1.4%	4.9%	10.9%	11.6%
95-99%	\$2,345	0.8%	3.9%	16.4%	17.7%
99-99.9%	\$2,375	0.3%	0.9%	12.7%	14.0%
Top 0.1%	\$2,310	0.0%	0.1%	13.0%	14.4%

Option 2: Taxable payments

Income group	Average benefit	Percent change in after tax income	Share of benefit	Share of federal taxes paid	
				Under current law	Under the proposal
Bottom quintile	\$1,175	39.1%	23.2%	0.1%	-2.0%
Second quintile	\$1,355	5.9%	20.2%	2.3%	0.7%
Middle quintile	\$1,350	3.2%	19.2%	10.2%	9.4%
Fourth quintile	\$1,585	2.1%	20.2%	19.1%	19.1%
80-90%	\$1,740	1.4%	9.1%	14.9%	15.5%
90-95%	\$1,795	1.1%	4.0%	11.0%	11.6%
95-99%	\$1,680	0.6%	3.0%	16.3%	17.5%
99-99.9%	\$1,520	0.2%	1.0%	12.7%	13.8%
Top 0.1%	\$1,495	0.0%	0.0%	13.0%	14.2%

Option 3: Non-taxable payments with phaseout

Income group	Average benefit	Percent change in after tax income	Share of benefit	Share of federal taxes paid	
				Under current law	Under the proposal
Bottom quintile	\$1,180	39.2%	23.2%	0.1%	-2.0%
Second quintile	\$1,505	6.6%	22.7%	2.3%	0.5%
Middle quintile	\$1,595	3.7%	23.2%	10.3%	9.1%
Fourth quintile	\$1,690	2.2%	21.2%	19.1%	18.9%
80-90%	\$1,760	1.5%	9.1%	15.0%	15.5%
90-95%	\$235	0.1%	0.6%	11.0%	11.9%
95-99%	\$5	0.0%	0.0%	16.3%	17.8%
99-99.9%	\$0	0.0%	0.0%	12.7%	13.9%
Top 0.1%	\$0	0.0%	0.0%	13.0%	14.2%

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. For this short-run analysis, the corporate income tax is assumed to be borne entirely by the owners of corporate equity. Federal taxes included are individual income, payroll, and corporate income taxes.

Option 1: Notice that higher income households get a larger dollar transfer because they are more likely to be married and to have children. However, the poorest 20 percent of households (“Bottom quintile”) see the largest percent change in their after-tax income.

Option 2: Is the least generous to the second quintile and middle quintile, with both groups seeing their after-tax income rise by about half a percent less than under options 1 and 3. This reduction amounts to an average benefit that is about \$150 less for the second quintile and \$200 less for the middle quintile. Relative to Option 1, Option 2 reduces the average net benefit for the top 0.1 percent of the income distribution by about \$800, from \$2310 to \$1495.

Option 3: Options 1 and 3 are identical up to the beginning of the AGI phase-out, and so have identical effects on after-tax income for households up to and including the middle quintile. However, Option 3 gives essentially no benefit to the top five percent of the income distribution and an average benefit of \$235 to the 90th to 95th percentiles of the income distribution.

Comparing across options: As a share of household income, all three options would provide a larger benefit to lower-income families than to higher-income families. Under each option, the bottom quintile’s average after-tax incomes would rise by nearly 40 percent--this group has very little tax liability net of the standard deduction, so making the transfer taxable does not significantly change their net benefit. Moreover, due to the proportional nature of the policy, the share of the benefit accruing to each group in Option 1 is almost exactly identical to the size of the group (i.e. quintiles receive 20 percent of the benefit). Taxing the payments under Option 2 does not meaningfully change this measure. Option 3 reduces the top 10 percent’s share of the benefit from 10 percent to roughly zero.

John Ricco and Victoria Osorio produced this analysis under the direction of Richard Prisinzano. Kody Carmody contributed to the report, and Mariko Paulson prepared it for the PWBM website. Calculations are based on PWBM’s model that is developed and maintained by PWBM staff.

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1. Moreover, as we discussed in our previous analysis of the payroll tax suspension, lower-income households are also more likely to spend rather than save their cash payments, leading to more economic stimulus. For speed of delivery, this analysis does not include macroeconomic effects. ↩