The Cost-of-Living Refund
STATE POLICY DETAILS FOR DECISION-MAKERS

The Cost-of-Living Refund is a bold modernization of a state Earned Income Tax Credit. It pushes the credit further up into the middle class, gives recipients a more generous benefit, expands the definition of work to include caregivers and students, and creates an option for a monthly credit.

A state Cost-of-Living Refund provides a credit that is generally between $1,200 and $2,500 to people who earn less than $75,000 and are working, or are family caregivers or students.

Anyone who qualifies for the current federal EITC is eligible as well as middle-class people, younger people, caregivers, and students. The credit amount is larger for most recipients than a simple federal EITC match, including to workers without dependent children, while preserving the principle that low-income people and people with children still receive larger credits. There is also a basic credit that sets a substantial minimum amount for people not on the phase-in/phase-out.

ELIGIBILITY

- Raise the income ceiling to $75,000 for all families. (Currently ranges from $15,270 to $54,884 depending on family type.)
- Add eligibility for family caregivers with qualifying dependents under age 6, over age 70, or who are disabled.
  * This includes dependents who are age 70+ or disabled but who are not EITC-qualifying dependents. Dependents must have a Social Security number.
- Add eligibility for students attending in-state higher education institutions at least half-time.
  * Institution may be public or private, but must be non-profit.
  * Half-time status indicated on 1098-T form.
  * Limit to low-income students, eligible for Pell grants or simplified financial aid form.
- Lower eligibility to age 19. (Currently limited to ages 25-64 for filers with no dependents, except in CA which is currently 18+.)
- Maintain other existing rules for federal EITC eligibility, including:
  * Retain federal limits on investment income.
  * Retain federal requirement that filers have a Social Security number.
  * Filers may not be claimed as a dependent by another filer.
**CREDIT AMOUNT**
- **Begin with 40% of federal EITC credit amount**, and a fully refundable state credit.
- **Set the phase-in at 40% of the federal rate** for recipients with qualifying dependents.
  * Set the phase-in rate for recipients without qualifying dependents equal to the phase-in rate for recipients with one child.
- **Set the basic credit to $1200**, topping up those who get less except on phase-in/out.
  * This is a much more generous credit than the few hundred dollars many recipients get under a typical state EITC.
- **Set caregiver/student credit at $1200** for those with zero or low income:
  * It’s not a flat $1200 on top of their earnings-based credit—rather, we bring them up to $1200 if they are below that, and if they should receive more than $1200 based on their earnings, they get the larger earnings-based credit.
- **Phase-out is the same for all recipients**, at a rate of 4.8%.
  * Phase-out is the same for all recipients, beginning at $50,000 of income and phasing out at $75,000 of income. This is more generous than the federal phase-out rate which ranges from about 16-21%.

**ADDITIONAL POLICY DETAILS**
- **Monthly payments**: Create an option to receive the credit monthly. This is the default for credits of $240 or more ($20/month), but recipients may opt into a lump sum payment.
  * Each payment is 1/12 of the EITC for the previous year, not an advance on next year.
- **Electronic**: Monthly payments use direct deposit/debit card to avoid check fees.
  * EBT cards could be used, but only with sufficient protections against fees.
- **Notification**: A state notifies potential filers in January and recipients before their first payment of the year.
- **Expenses**: No more than 2% of increased revenue can go to administrative expenses.
- **Funding**: The program is financed by taxes on top earners. Depending on state law, the tax could include an income tax surcharge, a mansion tax (a property tax and a transfer tax), an estate tax, or a capital gains tax, all targeting the wealthiest 1-2% of residents.
- **Free tax prep**: Require tax preparers to notify clients eligible for free tax prep
- **Outreach**: Provide funding for groups that increase uptake of the tax credit.
- **Rainy day fund**: Create a reserve account to help fund the credit during recessions.