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INSIGHT

COVID-19 and Stimulus Payments to Individuals: Potential Impacts of Direct Payments on Family Incomes

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Several Members of Congress and the Trump Administration have proposed direct cash payments as part of a fiscal response to the economic impacts of the COVID-19 pandemic. Direct cash payments have previously been part of the federal government's response to economic downturns, most recently in 2001 and 2008. In general, the purpose of direct payments is twofold: (1) they allow families to spend more, and through a multiplier effect help to stimulate the economy; and (2) they provide resources to help meet basic needs for those whose income has decreased due to COVID-19 infection or potential job loss. This Insight discusses several current direct payment proposals and their impact on family incomes.

What direct payment proposals are currently being discussed?

Members of both parties, as well as the Trump Administration, have proposed some form of direct payments. These proposals vary in terms of who is eligible to receive a payment, the per-person amount to be paid, and whether payments would be one-time or recurring. Selected direct payment proposals include the following:

- a one-time payment of $1,000 per adult proposed by Senator Romney,
- up to two payments of $1,000 per adult and $500 per child proposed by the Trump Administration, and

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- a proposal from Senators Bennet, Brown, Booker, King, Murphy, and Schatz to provide recurring payments of $2,000 per individual (adult and child) that would gradually phase down as economic conditions improve.

When considering direct payment proposals, one question is how payments would be delivered to eligible Americans. In both 2001 and 2008, direct payments were provided as advance refundable tax credits received as a direct deposit or a check in the U.S. mail. Because these payments were made through the tax system, eligible individuals who did not file an income tax return the previous year did not receive a payment. In the past, the federal government has also provided additional direct payments to individuals who receive recurring benefits such as Social Security or pensions through the Department of Veterans Affairs. (Note that while some proposals may provide payments to taxpayers, this analysis is of families, which may include more than one taxpayer.)

How much would family incomes increase due to a direct payment?

Policymakers may wish to consider the extent to which a direct payment could increase family income. To estimate the potential impact of a direct payment, CRS calculated the amount that families would receive under each of the three proposals noted above. CRS then compared the estimated benefit a family would receive to their estimated monthly income. **Table 1** presents families' median estimated monthly income and the median percentage of monthly income that families would receive under the direct payment proposals. These estimates are broken down by the ratio of family income to the poverty threshold in order to show the impacts of direct payment proposals across the income distribution.

Table 1. Median Percentage of Estimated Monthly Income Families Would Receive under Three Proposed Direct Payments

Ratio of Family Income to Poverty	Median Estimated Monthly Income (current law)	Median Percentage of Estimated Monthly Income Families Would Receive if Payment is $1,000 per Adult	Median Percentage of Estimated Monthly Income Families Would Receive if Payment is $1,000 per Adult and $500 per Child	Median Percentage of Estimated Monthly Income Families Would Receive if Payment is $2,000 per Individual
Under 100% (below poverty)	$850	137%	153%	337%
100%-199%	$2,100	69%	80%	177%
200%-299%	$3,570	44%	49%	105%
300%-399%	$4,930	32%	36%	77%
400%-499%	$6,240	26%	29%	60%
500% and above	$10,440	16%	17%	36%
Total	**$3,600**	**42%**	**48%**	**104%**

Source: CRS calculations via the TRIM3 microsimulation model using 2016 data.

Notes: Median estimated monthly income rounded to the nearest ten. Estimated monthly income was calculated by dividing families' annual income by 12. Income reported in this analysis reflects the Supplemental Poverty Measure (SPM) definition of income, and includes a family's after-tax wage income, self-employment income, the value of refundable tax credits, Social Security, Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP), assisted housing benefits, child care subsidies, and more. SPM poverty thresholds were used to calculate the ratios of family income to poverty.

The estimates presented in **Table 1** suggest that all three of the direct payment proposals would provide families with a substantial amount of their prior estimated monthly income. This effect is particularly strong for lower-income families. **Table 1** presents estimates at a high level, and does not convey variations in the impact of direct payments based on factors such as family size, family structure, and age. These estimates should be considered with a number of caveats in mind. This analysis (1) assumes that every eligible family would receive exactly the benefit to which it is entitled, (2) does not phase down payments to higher-income families, (3) estimates monthly income using an annual measure and does not reflect potential month-to-month fluctuations in family income, and (4) does not estimate decreases in income that families may experience as a result of COVID-19.

Other analysis of direct payment proposals returns estimates that are similar to the ones presented in this analysis, but are methodologically different in several important ways. First, this analysis uses a broader definition of family income that includes additional sources of income and benefits. Second, this analysis breaks families into groups based on the ratio of family income to poverty rather than using deciles of taxable income. Finally, this analysis estimates *median* increases rather than average (or mean) increases in income.

What are the alternatives to direct payments?

Some commentators have noted that direct payments are not necessarily targeted at the families most impacted by COVID-19. Social insurance programs such as unemployment compensation, workers' compensation, and disability insurance are well established and may be more effective at targeting benefits to families impacted by the virus or an associated economic downturn. The Temporary Assistance for Needy Families (TANF) program has also been used in previous economic downturns to provide short-term benefits to families with immediate needs.