

OCT 2023

## Expanding Tax Credit Access by Reducing Cognitive Tax

In 2021, the American Rescue Plan Act expanded eligibility and increased benefits for the Child Tax Credit, but an estimated 250,000 eligible NYC families risked missing out on these funds. To address this issue, the NYC Behavioral Design Team partnered with the NYC Department of Consumer and Worker Protections Office of Financial Empowerment to design a postcard that encouraged families to access the enhanced benefits. The city mailed the postcard to eligible families in April 2022. This project showed that simple, evidence-informed interventions can, with minimal burdens on staff and clients, help families meet their needs.

### Background

Tax credits, such as the Child Tax Credit, support families with low incomes by providing extra cash. This regularly helps them afford basic necessities. In 2021, during the height of the COVID-19 pandemic, the American Rescue Plan Act expanded eligibility and benefits from the Child Tax Credit. The maximum credit amount increased from \$2,000 to \$3,600 per qualifying child under age 6 and to \$3,000 per qualifying child between ages 6 and 17. Families automatically received these expanded credits if they filed their tax return for the 2021 tax year. However, according to data provided by the U.S. Department of the Treasury, approximately 250,000 eligible New York City families were likely to not submit a return during this period, preventing them from accessing these essential funds.

To encourage these families to apply for these enhanced benefits, the NYC Behavioral Design Team partnered with the NYC Department of Consumer and Work Protections Office of Financial Empowerment to design ways for more families to access these credits. However, these particular tax credits were set to expire by the end of 2021 (which means they could be claimed in tax returns submitted in April 2022), leaving a narrow window to design and implement a cost-effective solution.

### Highlights

- *Thousands of New York City families qualify for federal benefits that they end up not using, in part because tax codes are incredibly complex.*
- *We designed and sent a postcard that made the most important information more accessible, for instance by offering multiple languages and clarifying eligibility.*
- *Simple behavioral designs that don't overburden staff can help more families access resources that they qualify for and afford basic necessities.*

## Solution

To develop a solution, the Behavioral Design Team leveraged behavioral science evidence behind the psychological principle of **scarcity** and the principles that underpin our **communications design best practices**, such as limited attention, salience, and hassle factors, to inform our design efforts. We knew that effective outreach materials would need to overcome common barriers tied to the psychological principle of **limited attention** by grabbing attention and being easy to understand. We hypothesized that some New Yorkers may not intend to access benefits due to lack of salience, or perceived relevance and awareness of the Child Tax Credit and how to apply for it, or reluctance to file taxes due to inaccurate mental models about the costs associated with filing taxes. To encourage eligible families to file their taxes, we decided to design a postcard to make the benefits of applying for the Child Tax Credit more compelling and easier to understand.

This postcard also needed to clarify which families were eligible for expanded COVID-19 benefits and the steps they needed to take to receive them. This was crucial because benefits programs changed frequently during the pandemic, so eligibility was constantly evolving. Furthermore, the city did not have access to a targeted mailing list, meaning that the postcard would be delivered to families who may not be eligible.

In all, we designed the postcard to:

- ▶ **Use accessible language** by changing complex terms into more straightforward, precise words and clarifying action steps.
- ▶ **Grab attention** by using color, text formatting, graphics, and other techniques to make the postcard and its key takeaways stand out.
- ▶ **Leverage loss aversion** by framing the tax credit as money families stand to lose rather than money they can gain, since people's desire to avoid loss can motivate us to act.
- ▶ **Make eligibility easy to understand** by using a simple checklist to draw attention to the eligibility criteria.
- ▶ **Clarify next steps**. Since this postcard would be sent to some families who already submitted their tax returns, we designed a simple flowchart to help families understand what steps—if any—they need to take to receive their credits.
- ▶ **Offer help** to make filing taxes less challenging by promoting the city's Free Tax Prep program and listing where families can have their questions answered.

FRONT OF POSTCARD

**Parents: File your taxes to get up to \$3,000 or \$3,600 per child**

**The Child Tax Credit gives families extra money to improve their lives.**

**Are you eligible?**

Nearly all caregivers who have a child under 18 are eligible for the Child Tax Credit, even those who:

- Don't have a job
- Have a job
- Don't have a Social Security Number†
- Have no taxable income
- Receive benefits\*

**See BACK for details >>**

†Your child needs a Social Security Number. You only need an Individual Taxpayer Identification Number.  
\*The Child Tax Credit does not count as income.

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BACK OF POSTCARD

**How do you get the money?**

Did you file your 2021 tax return?

**Yes**

**You're all set!**  
If you qualify, you will receive the money in your tax refund.

**Not yet**

**Just file a tax return** to receive the payment you qualify for in your refund check.  
Use **NYC FREE Tax Prep**. See below.

**Need help filing your taxes?**

**NYC FREE Tax Prep** provides help from an IRS certified VITA/TCE volunteer preparer who can also answer any tax questions you may have.

Filing options include:

➡ In-Person ➡ Drop-off ➡ Virtual

To learn more:

- Scan QR code
- Visit [nyc.gov/taxprep](https://nyc.gov/taxprep)
- Call 311 and ask about Child Tax Credits

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## Results

The finalized postcards were translated into eight languages and mailed to families who were receiving public benefits but had historically not submitted a tax return—approximately 50,000 in total—in April 2022.

While we were unable to track track the postcard's unique effects, the Child Tax Credit lifted an estimated 3 million children out of poverty in 2021; other refundable tax credits kept nearly 2 million children out of poverty. As a result, child poverty rates fell by 46% in 2021, with Black and Hispanic children benefitting the most. Unfortunately, the Child Tax Credit expansion ended in 2021 and has yet to be reintroduced.

## Takeaway

Behavioral nudges have been a cost-effective tool throughout the pandemic. Despite limited staffing and resources, designing and sending this postcard was quick and inexpensive. This engagement shows how evidence-informed interventions can be simple for staff and yet powerful for connecting families with resources they need to thrive.