

Programs Support Individuals through Direct Payments and Tax Cuts

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During this COVID-19 crisis, many countries have provided cash directly to individuals and households through direct payments and tax cuts. Though programs differ across countries, some key considerations for these temporary income support programs include:

1. Channel: What is the channel for providing the benefits?
2. Size: What is the monetary value of the benefits provided?
3. Eligibility: Who is eligible to receive the benefits?
4. Length: What is the timeframe for the benefits?
5. Administration: How does the individual receive the benefits?

Channel

Governments are providing financial support to individuals, whether or not they've lost their job. One channel is via direct payments, where the government sends money to residents. A second channel is via income tax cuts, where the government decreases the amount of money withheld from paychecks or required of contractors and self-employed individuals. Both channels seek to increase the amount of disposable income available to households in need.

The [United States](#) (US) and [Hong Kong](#) are implementing sweeping direct payment programs in response to COVID-19. [Indonesia](#) and [Kenya](#) have made large cuts to their income tax rates. Many countries have implemented one or both of these types of programs; see the [Resource Guide](#) for dozens of examples.

Size

Broadly speaking, the size of a program can be measured by: (1) the amount offered to each eligible individual, and (2) the total size of the program and that total compared to the size of the country's GDP.

The US and Hong Kong appear to have set up the largest and broadest direct payment programs. The US is sending \$1,200 to eligible adults and \$500 per child to eligible parents. The CARES Act, signed into law on March 27, authorizes \$290 billion for this program. This represents 13% of the stimulus in the CARES Act and 1.5% of US GDP. The Hong Kong direct payment program, of similar size, would send HK\$10,000 (\$1,290) to eligible adults. The [announcement indicated](#) that it would reach 7 million people, providing HK\$70 billion of stimulus, which represents 21% of GDP. A number of other countries have announced direct payment programs, including [Canada](#), [Thailand](#), and [Barbados](#).

[Indonesia](#) and [Kenya](#) have passed some of the largest income tax cuts. Indonesia's program decreases the income tax rate by 30% [for workers in most sectors](#). Kenya's program decreases the tax rate to 0%. Both programs have cut the rate to zero, up to certain income levels. The cost to the government is less clear as it represents a loss of future income as opposed to an increase in immediate expenses. Although income tax cuts also increase household disposable income,

the increase is often not as perceptible as direct payments. [Surveys of past tax cuts](#) have shown that they often go unnoticed by the beneficiaries. However, this may be a more viable method for countries with limited resources with which to fund direct payments.

Eligibility

The direct payments programs often, though not always exclusively, target those at lower income levels. A number of countries announced direct payments to lower income groups as follows: “1,500 vulnerable families” in Barbados, “12 million low- and modest-income families” in Canada, and “3 million of the poorest” in both Iran and Thailand.

The US and Canadian direct payment programs target a significant portion of the population. The payments begin to taper as income increases above a set point, eventually reaching zero. The \$1,200 payment for a single adult in the United States begins to taper as income rises above \$75,000 (approximately 120% median income) and reaches zero at \$99,000. In a similar program in [Canada](#), the taper begins at around \$20,000 (approximately 80% median income). [Hong Kong](#) is unique in offering stimulus payments to all adult residents, regardless of income level.

In some countries, including the [US](#) and [Canada](#), parents of dependent children are eligible for additional funds, \$500 and C\$300 per child, respectively. The US program directly pays [almost all adults](#) with Social Security numbers. The Hong Kong program directly pays [all permanent residents](#) over the age of 18.

Income tax cuts are not a substitute for direct payments. It is important to note that income tax cuts only increase disposable income for those who pay income taxes, and thus are generally employed. This excludes a significant portion of the population that is in the most need during a recession. For this reason, governments often choose not to implement income tax cuts. In response to COVID-19, the government of [Indonesia](#) and [Kenya](#) both cut income taxes to zero, up to a certain income (KES24,000 for Kenya, which represents approximately 25% GDP per capita). [Austria's](#) program allows taxpayers directly affected by COVID-19 to reduce their quarterly income tax, in some instances all the way to zero. [Australia's](#) program increased the “low-income threshold” for families and individuals increasing eligibility for tax offsets that reduce the amount of tax [payable](#).

Length

The duration of direct payment programs come in two categories: one-time payments and recurring payments. The majority of direct payment programs, including those of the [US](#) and [Hong Kong](#), are one-offs; however, programs in [Thailand](#) and [Barbados](#) offer monthly payments. The program in Thailand is expected to last 3 months, and the program in Barbados did not announce an end date. Recurring payments do provide some additional flexibility and scalability that one-time payments do not.

The announced duration of the 30% income tax cut in [Indonesia](#) is 6 months.

Administration

The Internal Revenue Service (IRS) of the US will administer the disbursement of funds to eligible individuals and families and expects to send the first payments by April 9. For those who filed taxes previously and included bank account information the IRS will direct-deposit the stimulus funds. The IRS is working on a website portal where eligible individuals will be able to

provide bank account information. If no bank account information is available and where physical address information is available, the IRS will mail checks.

Although the Hong Kong government announced the direct payment program at the end of February, the program will [not be available](#) “until the start of summer.” And because the program will require residents to register it will take even longer to process payments.

Normally, the tax authority simply announces and then administers the tax cuts. A significant advantage to tax cuts is their relative ease of implementing and administering in comparison to direct payments.

In response to the COVID-19 pandemic, many countries are implementing and extending policies to provide support to individuals. For an overview of different types of programs, see [“Government Support for Individuals in Response to COVID-19.”](#)