Cashless U.S. State Governments: Electronic Collections and Benefit Disbursements

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Financial Service Working Group
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Acceptance and Use of Electronic Payments for State Taxes and Fees (2007)

• To determine current state government acceptance and use of electronic tax and fee payments.
• Research Subjects
  • ACH, credit & debit cards
  • State taxes and fees collections
• Nationwide survey responded to by 37 states
2007 Project Survey Results

• 95% of states provided credit card as an option while 54% provides debit card payments
• Most common for business-related taxes was ACH
• Most common for individual income taxes was credit cards

2007 Project Survey Results

- Major reasons for accepting e-payments

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percent of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax payer preference</td>
<td>89%</td>
</tr>
<tr>
<td>Expedite payments</td>
<td>77%</td>
</tr>
<tr>
<td>Reduce transaction costs</td>
<td>74%</td>
</tr>
<tr>
<td>Reduce payment delinquencies</td>
<td>60%</td>
</tr>
</tbody>
</table>

2007 Project Survey Results

- Major challenges for accepting e-payments
  - Transaction fees and charges

What has changed since 2007?

• Use of debit & credit cards, and ACH increased while the use of checks decreased

Number of U.S. Market-Wide E-Payments (Billions, 2000-2015)

Source: The Federal Reserve Payments Study 2017
What has changed since 2007?

Tax refunds or benefit disbursements have expanded

- Social Welfare: SNAP, TANF, WIC, Social Security, Unemployment insurance, & Child support
- Other: Tax refunds, Employee payroll, & Veterans’ benefits

SNAP & Child Support
All 50 States

TANF
47 states except DE, WI, WY

Unemployment Insurance
44 states except MT, KY, WA, VT, NH, & HI

The Federal Reserve Payments Study 2017
About 2017 Project

Cashless U.S. State Governments: Electronic Collections and Benefit Disbursements

• Conducted by the Council of State Governments
• To explore trends of both electronic collections of state taxes and fees and state benefit disbursements
Why electronic payments rather than paper-based instruments?

• Convenience for state tax payers and benefit recipients

• Efficiency of collection system
  • Expedite payment process
  • Reduce payment delinquencies
  • Improve fund availability

• Accountability and transparency
  • More trackable fund mobility than cash or check

• Financial inclusion
  • Better accessibility to state benefits for unbanked population and credit delinquents
Challenges of E-Payments

• Transaction Fees & Third Party Contractors
• Privacy and Security
• Digital Literacy
• Technology Accessibility
Cashless U.S. State Governments: Electronic Collections and Benefit Disbursements

1. Introduction and Overview of E-Payment
2. Current Status and Growth in E-payments
3. Benefits and Challenges of E-Collections
4. Benefits and Challenges of E-Disbursements
5. E-payments Survey Findings
6. Policy Directions and Implications
Topic 1: Prevalence of State E-Payments

• What kind of e-payment instruments are state governments using?
  • Both state collections and benefit distributions

10. Please estimate the percentage of the NUMBER of payments by the following categories (each row should total 100%). Use number referenced in question #8.

<table>
<thead>
<tr>
<th>Category</th>
<th>ACH</th>
<th>Credit/debit card</th>
<th>Check</th>
<th>Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business/Corporate Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excise, Sales, or Usage Tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licenses or Permits</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Agency User Fees</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Miscellaneous Other</td>
<td></td>
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</tbody>
</table>
Topic 2: Benefits and Challenges

• What are potential benefits of state governments accepting electronic instruments

12. What are the possible reasons that your state is more likely to move away from check payments for taxes and fees (If not applicable, please move to next question).

☐ To reduce security concerns
☐ To reduce costs of delayed payment process
☐ To reduce costs of bounced or bad checks
☐ To reduce costs of collecting and processing payments (e.g. fee for cashing checks)
☐ To reduce costs of paper-based recordkeeping
☐ Taxpayer preference
16. For the following taxes or fees, does your state currently charge convenience fees or transaction surcharges for payments made by credit/debit card?

<table>
<thead>
<tr>
<th>Tax or Fee</th>
<th>No fee or surcharge</th>
<th>Fee or surcharge through third-party provider</th>
<th>Percentage-based fee or surcharge</th>
<th>Fixed-dollar amount fee or surcharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alcohol or liquor license</td>
<td></td>
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<tr>
<td>Income tax withholding transfers</td>
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<tr>
<td>Sales tax collection remittance</td>
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<tr>
<td>Driver licensing fee</td>
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</tbody>
</table>
Topic 3. Determination of state e-payment systems

2. How are the acceptable forms of e-payments for disbursements determined? (Check all that apply)

☐ Upper-level administrative regulations
☐ Agency or department discretion
☐ Legislation

7. Does your state have an exclusive contract with a single third-party service provider or does your state contract with multiple service providers?

☐ Do not use third-party service provider
☐ Exclusive contract with only one third-party service provider
☐ Non-exclusive contract with multiple service providers
Topic 4. Future E-Payment Policy Directions

17. Does your state have any future plans to change policies or procedures for improving e-payment systems for state taxes and fees?

<table>
<thead>
<tr>
<th></th>
<th>Definitely</th>
<th>Very Probably</th>
<th>Probably</th>
<th>Probably not</th>
<th>Definitely not</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expanding paper-based</td>
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<tr>
<td>payments (e.g. cash or</td>
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<tr>
<td>check)</td>
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<tr>
<td>Expanding ACH payments</td>
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<tr>
<td>Expanding credit/debit</td>
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<tr>
<td>card payments</td>
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</tbody>
</table>
You can help us by encouraging respondents of your state to complete the survey!

If you have any suggestions or comments, please contact Dwight or Saerim

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• Saerim Kim
  • saerim.kim@uky.edu
Questions? Comments?
Reference

• https://www.federalreserve.gov/paymentsystems/fr-payments-study.htm


