THE ROLE OF EARNED INCOME TAX CREDIT

IN THE BUDGETS OF LOW-INCOME FAMILIES

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February 2012

Accepted for publication by *Social Service Review* on January 31, 2012

Abstract

The annual receipt of large tax refunds, primarily due to the Earned Income Tax Credit (EITC), provides families with unusual budget opportunities to pay old bills and build assets. In 2007, short surveys were conducted, followed by in-depth interviews six months later with 194 African-American, Latino, and White parents who received EITC refunds of at least $1,000. The majority of families (57 percent) planned to allocate a considerable portion of their refund to savings and 39 percent accomplished their goal. Paying bills and debt was another important category as almost three-quarters (72 percent) of our sample planned to use (and 84 percent did use) some of the refund in this area. Families' planned allocations were often readjusted due to emergencies, debt, and bills. Despite setbacks, many recipients have significant asset accumulation goals, which they say are fueled by the expectation of ongoing annual tax refunds.

Key Words: Earned Income Tax Credit, budgets, asset accumulation

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The authors thank Sarah Halpern-Meekin, Luke Shafer and Sara Sternberg-Green for their helpful comments, and the Ford Foundation and the National Center for Institutional Diversity at the University of Michigan for financial support.

In 1996, welfare ended as we knew it. The Aid to Families with Dependent Children (AFDC) entitlement program was replaced by Temporary Assistance to Needy Families (TANF), which imposed strict time limits and participation requirements on beneficiaries. Over the next fifteen years, the number of families receiving such assistance plummeted from roughly 4.5 million in 1996 to 1.9 million 2011 (U.S. Department of Health and Human Services, 2011). However, it could be argued that welfare's transformation actually began two years earlier. In 1994, Congress roughly tripled the value of the means tested benefit of a little known program for low- and moderate-wage workers with dependent children, the Earned Income Tax Credit (EITC). When EITC began in 1975, the program only served 6.2 million families with dependent children. In 2011, it dwarfed the old welfare system serving around 26.2 million families, who received nearly 58.6 billion dollars (U.S. Department of the Treasury, 2011). From 1995 to 2009, the EITC also transferred more money to individuals than the Supplemental Nutrition Assistance Program (SNAP), the federal food assistance program formerly known as the Food Stamp Program. By fiscal year 2011, SNAP served an average of 44.7 million individuals a month at a total program cost (including administrative expenses) of $75.3 billion (U.S. Department of Agriculture 2012).

Because the credit is sizeable and is received once a year as part of an annual tax refund, it plays a unique role in the budgets of many families. However, there is little direct evidence on how plans to use the refunds evolve. Nor is there much research on the extent to which the tax refunds promote social mobility through asset accumulation and therefore have the potential to significantly enhance families' long term economic well-being (Sherraden, 2001).

The limited literature on families' EITC allocations suggests that while households do sometimes purchase big-ticket items, much of the tax credit may well be devoted to current

consumption and debt repayment, rather than assets or savings (Beverly, Tescher, Romich and Marzahl, 2005). To date, however, few fine-grained analyses of the micro-level decision making processes and contextual factors that underlie these allocations exist. Such information is critical for policymakers who wish to identify promising policies aimed at decreasing the share of the EITC that is allocated to current consumption and to increasing the portion allocated to expenditures that boost family assets, thereby increasing family economic stability. This information could be of enormous use to policy makers and practitioners who seek to encourage asset building among the poor as a long-term anti-poverty strategy. This study contributes to this literature by using surveys and in-depth interviews over a six-month time span to trace planned and actual expenditure patterns, explain the reasons for the observed patterns, and understand how families use the refunds to manage stretched budgets and plan for the future.

EITC Background

The EITC is a refundable tax credit for low-wage workers in the mainstream labor market. The credit is an earnings supplement with a primary goal of supporting families with children (Stegman, Davis, and Quercia, 2003). Policy makers and others refer to it as the "nation's largest federal anti-poverty program" (Holt 2011:1). In 2010, the EITC lifted roughly 5.4 million people out of poverty, including three million children (U.S. Bureau of the Census, 2011). More children now exit poverty through the EITC than through any other form of government assistance (Center on Budget and Policy Priorities, 2011b). The EITC program is also viewed as a vehicle that benefits communities by boosting local economies and decreasing crime rates via higher wages. According to Holt (2011), the EITC program has created an assortment of social, business, and political activity which he refers to as the "EITC Movement,"

that emerged about a decade ago and includes activities around financial services, financial products and related policies.

In addition, EITC outreach and advocacy information highlights that the program provides low-income, working families with opportunities for savings and asset-building. Non-profits, such as Action for Boston Community Development (ABCD) in Boston, explicitly point to the saving and asset building function of the EITC for struggling families by emphasizing that it provides an opportunity to put "more money in the pockets of hard-working people" and helps them to "permanently escape poverty" through asset development (ABCD 2008:1). The Boston Earned Income Tax Credit Coalition (2011) also highlights the potential for asset accumulation in their literature and encourages families to file for free: "Don't spend any of your refund paying for tax preparation - get your taxes prepared for FREE at a neighborhood tax preparation site and keep the money in your pocket! SAVE it or use it to build a better future for you and your family." Additionally, Chicago's Center for Economic Progress (2011) describes the EITC as "a time-honored policy tool for improving tax fairness, one that has bipartisan support and targets direct relief to the families who need it most."

Families with dependent children may receive sizeable benefits from the EITC, while only a modest credit is available to adults who do not reside with children. The EITC offers a subsidy to those whose earnings are under a certain threshold; in 2011 it was $40,964 for a single parent with two children, and $46,044 for a comparable married family (Internal Revenue Service, 2011) Unlike other government anti-poverty programs, the EITC is typically "delivered" in a lump sum each year between February and April, when most Americans file their taxes. Although workers in 2006 had the option of claiming a portion of their expected EITC on a monthly basis, only about three percent did so (United States Government

Accountability Office, 2007).[1] Jones (2010) found that advance claiming was essentially unaffected by interventions that provided information and reduced barriers to participation even for a group that was responsive to similar interventions encouraging 401(k) retirement savings—suggesting that the ability to redirect the lump sum EITC to different purposes (rather than, say, committing to retirement savings) is important. It is also noteworthy that because the annual credit is sizeable (close to $6,000 for a family of three), families can use it to both ease their stretched budgets and accomplish more long-term financial goals.

In 2009, the American Recovery and Reinvestment Act (ARRA) increased EITC benefits for families with three children and increased the amount of money that married couples can make before they enter the phase-out-range. The Tax Relief and Job Creation Act of 2010 extended these program expansions through 2012. In 2011, families with three or more children could claim a credit of up to $5,751, families with two children could receive up to $5,112, and families with one child were eligible for as much as $3,094 (Internal Revenue Service, 2011). Some families are able to augment their tax refunds with the Additional Child Tax Credit of up to $1000 per child when they have more than $3000 in earnings or have three or more children. In addition, the District of Columbia and 23 states, including Massachusetts and Illinois, where our study was conducted, have their own small state EITC (Center for Budget and Policy Priorities, January 2011a).

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[1] This was likely due to strong preferences for the lump sum payment over monthly disbursement, but also because of the additional effort required to establish monthly payments (Barr and Dokko, 2006). For 2011 and future years, the option of advance claiming has been eliminated.

U.S. social policy has witnessed a massive change: the twin forces of welfare reform and refundable tax credit expansion have placed much greater emphasis on a work-based safety net (Holt, 2011). This change left some who are in need without access to benefits. Acs and Loprest (2004) estimate that at any given time in the initial years after welfare reform, one third of former welfare recipients were neither working nor have any visible means of support--that is they did not have another source of income, nor were they living with an employed partner or spouse. During the recent recession, TANF roles hardly increased (U.S. Department of Health and Human Services, 2009), suggesting the size of this group grew. However, those who worked, especially full time and full year, garnered substantially larger benefits than they would have prior to the expansion of the EITC. Instead of taxing their earnings, the government supplemented them. In most cases, the supplement either exceeded or nearly equaled the maximum value of the cash welfare payments for non-workers.

The policy debate concerning the role of the EITC and its redistributive nature continues. On one side of the debate many feel that the EITC represents a social contract that insures that families who work should not have to live in poverty (Holt, 2011). Others push this idea further and argue that the EITC should become a vehicle for low-income households to strengthen formal ties to financial markets so they can save and build assets (Smeeding et al., 1999). Stegman et al. (2003) argue that the EITC can help make housing more affordable. On the other side of the EITC debate are recent proposals to cut means-tested programs such as the EITC by policy-makers who want to emphasize increased self-sufficiency and a decrease in government dependence. Reportedly, Wisconsin Governor Scott Walker proposed EITC cuts due to issues around income redistribution (Hall, 2011).

Embedded in these debates are other subtle, yet critical, differences between this new safety net (EITC) and the old (welfare). First, the EITC is administered through the Internal Revenue Service, a government entity interacting with all American workers, not just a stigmatized few. More concretely, it is not the welfare office but the for-profit tax preparer that nearly 70 percent of EITC claimants approach to obtain benefits (Rhine, Su, Osaki, and Lee, 2005). And while critics point to the fact that the for-profit tax preparation industry makes substantial profits from EITC claimants each year (Kim and Berube, 2002), our data show that clients perceive real advantages as well. At H&R Block and its competitors, one is no longer a "recipient" but a customer. The facilities are pleasant, well lit, and clean. This stands in stark contrast to the often run-down welfare office, the long wait to be seen, and the caseworker who may be more concerned with detecting misuse of funds than with client service (Edin, 1993; Lipsky, 1983).

How similar are caseworkers and tax preparers in influencing both eligibility and benefits? Increasingly, researchers are examining various stages in the refund process where tax preparers can affect the size of tax refunds that families receive. Tax preparers can play a role in the number of children claimed and the amount of self-employment income reported. Saez (2010) looked for behavioral responses to taxation as demonstrated by self-employed filers bunching their income near the phase-in point of the EITC. Saez argued that self-employed filers may learn from tax preparers how to report income so as to maximize their tax refund. Chetty and Saez (2009) found statistically significant increases in earnings after tax professionals provided families with simple, personalized information. We did not interview tax preparers so we do not have direct evidence on these issues. It is worth noting, however, that according to US Treasury Department regulations, a pricing model where the fee is based on a percentage of a tax

refund is illegal (Perez 2010). Thus, it is unlikely that tax preparers have a financial incentive to help clients maximize their refunds. Nevertheless, the ways that tax preparers can influence eligibility and benefits is an important area of future research.

Previous Research

Earlier research on EITC allocations has shown that a sizeable majority of recipients plan to spend at least some of their refund on a car-related purchase or a residential move, savings, and tuition payments. The scarce literature on actual refund allocations by families suggests that this does indeed occur, though perhaps less often than the literature on planned allocation suggests. Most research provides information on how many EITC recipients allocate any of their refund for these purposes, not how much.[2] In addition, there is little evidence on the micro-level decision-making processes or the rich array of contextual factors that shape EITC allocations.

Planned and Actual Refund Allocations

The best direct evidence to date regarding planned uses for the EITC comes from five local-area surveys in Chicago, New York, North Carolina, Detroit, and communities along the Mexican border in the states of California, Arizona, New Mexico and Texas. Timothy Smeeding and his collaborators surveyed over 800 EITC applicants who used a free non-profit tax preparation service in Chicago (Smeeding, 2002; Smeeding, Phillips, and O'Connor, 2000).[3]

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[2] See Johnson, Parker and Souleles (2006) and Parker, Johnson, Souleles and McClelland (2011) for information on tax rebates and families actual expenditures.

[3] Indirect evidence on EITC allocation from the Consumer Expenditure Survey, using seasonal variation in expenditures, found that the EITC recipients spend more on vehicle purchases and transportation in February, the modal EITC refund month, than in other months (Goodman-Bacon and McGranahan, 2008).

This survey asked respondents to list their planned uses for the EITC. The majority planned to spend all or part of the refund on bills or commodities, but nearly half also planned to save all or part of their check, usually for an asset building purpose. In addition, more than half of respondents said they planned to spend all or part of their credit in a way that could enhance their level of assets.[4] Similar studies in New York and North Carolina also found that a significant number of filers have savings goals (Rhine, Su, Osaki, and Lee, 2005; Spader, Ratcliffe, and Stegman, 2005).

Four of the five studies measured actual EITC allocation, and not just planned allocation. First, in the North Carolina study (Spader, Ratcliffe and Stegman, 2005) filers were re-interviewed nine months after their refund receipt to assess whether those who planned to save some of their refund actually did so. Researchers found that plans to save influenced savings behavior, but respondents saved less often than they had planned to. Second, a survey of about 5,000 household heads in Mexican immigrant communities along the border asked whether they had ever used their refund for a variety of items. Fully 62 percent said they had used their refund at least once to pay bills, but purchasing durable goods was also common (Robles, 2007). Third, a survey of low- to moderate-income households in Detroit asked respondents who reported receiving the EITC the same types of questions as the Mexican border study, with similar results (Barr and Dokko, 2006).

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[4] Romich and Weisner (2000) and Beverly et al. (2005) report similar findings from their small ethnographic studies, while the Spader, Ratcliffe, and Stegman (2005) panel study of EITC recipients at a volunteer tax-preparation program in North Carolina found in follow-up interviews that 55 percent of respondents who had planned to save their refund did not actually save any of it.

These surveys, while valuable, have several important limitations. First, neither the Chicago nor New York studies reliably measured actual EITC allocations, only plans. As the North Carolina study showed, plans and behaviors, though related, vary significantly.[5] Second, none of the surveys that attempted to gather information on allocations queried respondents about what proportion of their refund they had spent for various uses, only if they had spent any of their refund in a given category.[6] Third, the North Carolina study had a low response rate at follow up (66 percent) and only 23 households interviewed at follow up had substantial refunds ($1,000 or more). Fourth, all of the surveys were limited to a single site. Fifth, three of the five studies relied on non-profit tax preparers to generate the sample, while only a tiny portion of EITC recipients use such services to file their taxes (Rhine, Su, Osaki and Lee 2005). A final limitation is that surveys cannot illuminate in much detail why respondents allocate their refunds in the way they do. For important exceptions, see Romich (2006) and Romich and Weisner (2000).

Unlike the previous research, Gao, Kaushal, and Waldfogel (2009) do not directly examine families' EITC allocations. Instead, they use 1994-2004 data from the Consumer Expenditure Survey to examine changes in general expenditures since EITC expansions in the early 1990s. Instead of directly measuring allocations of families receiving the EITC, they selected single-mothers as the group likely to be eligible for EITC. The authors found that

[5] Only a quarter of respondents participated in the telephone follow up survey fielded six weeks later that attempted to ascertain actual EITC expenditures to date. Low response rates and the brevity of time from EITC receipt to telephone follow up limit the usefulness of these results.

[6] The North Carolina study asked respondents if they had saved any or all of their refund, and whether they had spent any or all of their refund. The most important savings goal or use was also elicited.

expansions in the EITC resulted in mothers with a high school degree or some college increasing consumption of food, alcohol, tobacco, and clothing. The greater EITC benefits also appeared to be associated with less total family debt in this group. In contrast, women with less than a high school education did not increase their expenditures. Instead, they primarily used their refund to pay off their debt. In addition to not having direct measures of allocations, another limitation of the Gao et al. (2009) study is that they do not have information on families' motivations driving the changes in spending.

Unsecured Debt Reduction

Families' motivations for refund allocations are especially important in the areas of unsecured debt reduction and asset building. Unsecured debt includes items like back bills, credit card debt, medical bills, loans from family and friends, overdraft provisions on checking accounts and unsecured loans from a bank or credit union (Shaefer et al. 2011; Sullivan 2008). Between 1989 and 2006, credit card debt held by families increased 315 percent (Garcia 2007). In the 12 years between 1983 and 1995, the proportion of low-income households with a credit card doubled and the average balance on their cards increased by a factor of 3.8 (Sullivan 2008).

Despite increases in credit, research suggests that families pay down their credit card debt when they expect an increase in income. Two studies of high-income families report that 10-20 percent of an expected increase in income is used to decrease total debt (Sullivan 2008). Researchers also examined paying down credit card in lower-income households receiving the EITC. Smeeding and colleagues (2000) report that just 18 percent of EITC respondents with credit card debt listed paying off this debt as a priority use of their refund. Unfortunately, their research did not report respondents' actual allocations so the amount of debt that families paid off is unclear. Shaefer and colleagues (2011) did look at actual allocations and found that single

low-income mothers receiving the EITC during periods of EITC expansion (early 1990s) used it to pay down total debt, more specifically unsecured debt such as credit cards. Using a standard difference-in-difference statistical approach, they found that single mothers receiving the EITC had $2,796 less in unsecured debt compared to unmarried women without children. These findings are similar to what Gao et al. (2009) found and what we described earlier. Shaefer and colleagues argue that using more of the refund to pay back debt versus asset accumulation may help families maintain financial stability and maximize their utility (or get the most benefits) when managing their stretched budgets.

Asset Building

The behavioral life-cycle hypothesis, argues that saving money is challenging and requires a significant degree of self-control (Shefrin and Thaler 1988; Beverly, McBride, and Schreiner 2003). Therefore, individuals engage in several types of behaviors to increase their chances of asset building. These behaviors include (1) limiting taking out loans, (2) not carrying balances from month to month, and (3) paying off credit card debt. Research shows that low-income families have also developed strategies to enhance self-control so as to foster asset building (Beverly, et al. 2003). In the years where this option was available, one ethnographic study showed that families often explicitly chose to receive the EITC in a lump payment versus smaller amounts during the year as a mechanism for forced savings. This appears to allow for greater flexibility in managing their stretched budgets. Families in this study also said they used the EITC to prepay bills such as rent and child care (Romich and Weisner, 2000). Other possible strategies involve delaying cashing checks or refusing an ATM card to avoid easy access to their money. Other ways to avoid easy access to money designated for saving involves keeping money in a bank that is not close by or having a savings account where you have to pay a fee to

withdraw money. Lastly, families give their money to family or friends to keep so they will not spend it.

In addition, a proposition of the behavioral life-cycle hypothesis is that families use systems of mental accounting to earmark income for spending or asset building. Survey and ethnographic data shows that families usually earmark income for asset building when it is "irregular" and large (Beverly et al., 2003). Beverly and colleagues (2003) used data from 298 low-income participants to argue that the process of asset accumulation is complex and the economic models should also consider psychological and behavioral strategies that families use to live within their means and grow savings.[7] Smeeding and colleagues (2000) found that families who expected an EITC refund had a higher probability of using the refund for economic and social mobility uses such as education, cars, savings, moving and education.

One important motivation associated with growing savings is protection against unexpected shocks. Families often develop a buffer against unexpected shocks by accumulating precautionary savings, which explained a large amount of the wealth of the median household in a study by Cagetti (2003). Another study of wealthy families reported that 30 percent of an expected increase in income was saved (Sullivan 2008). Research shows that accumulating precautionary savings is an important motive for families across the life span. Econometric simulations by Carroll and Samwick (1998:417) "suggest that approximately 45 percent of total net worth, half of nonhousing, nonbusiness wealth, and about one-third of very liquid assets of households younger than age 50 are held as precaution against the systematically greater

[7] See Souleles (1999) and Thaler (1990)for additional research with findings that appear to be inconsistent with the life-cycle model.

uncertainty that some households face as compared with others." In addition to precautionary savings, younger households are also motivated to save for a home and their children's education (Cagetti, 2003).

More research is needed on motives driving EITC families' consumption and asset building behaviors, making this an area for future research (Gao et al., 2009). Our study is one of a few that captures motivations for consumption and asset building, inconsistencies between planned and actual allocations and the processes driving these differences. We employ a unique mixed-methods research design that spans over six months and two geographical regions and that has a sample that varies by race and ethnicity, and marital status. This unique design allows us to interrogate the following research questions: How do families' plans to spend their tax refund match with their actual allocations of the refund? What events, emergencies, motivations, and/or micro-level decision processes create these discrepancies between planned and actual allocations? How much of the refund are these low- and moderate -income families able to devote to asset building? Can they sustain long-term savings?

Research Methods

Beginning in late January 2007, we visited selected non-profit (called Volunteer Tax Assistance Sites or VITA sites) and for-profit tax preparation sites at random sampling intervals, inviting all those who filed an EIC schedule to participate in a short survey focused on planned uses of their refund.[8] To represent some of the range of living costs EITC recipients face across

[8]The survey was similar to the one used by Smeeding and his collaborators (Smeeding et al., 2000) but was designed in collaboration with the Boston Mayor's Office EITC Campaign, which administers an annual survey of this kind in all Boston non-profit tax preparation sites.

the United States, we fielded the study in two locations: Boston and Central Illinois (the Champaign-Urbana metro area). Within each site, we stratified the sample by household type and race/ethnicity. These data are not representative, but do capture EITC claimants in two locations with heterogeneous characteristics.

Study Procedures for Survey

Sites were selected using tract-level census data, and were based on the racial, ethnic, and economic composition of the neighborhoods they served. We also sampled families at area Head Start centers (shortly after April 15th) to insure that we captured some respondents who had prepared their taxes themselves, as roughly 30 percent of all EITC filers do not use either type of tax preparer (National Community Tax Coalition, 2007; Rhine, Su, Osaki, and Lee, 2005). Head Start centers were also selected based on the racial and ethnic composition of their host communities. Table 1 describes our method of data collection for both planned allocations and actual allocations. Table 1 also describes the type of data collected and the sample size for planned and actual allocations. A total of 657 families completed the surveys and 194 families are in the qualitative component of the study.

<<Table 1 about here>>

We first screened for whether tax filers had submitted an EIC schedule. If so, we asked whether they expected a refund of above $1,000 and how they planned to allocate it. The planned allocation survey question stated, “If you get a refund this year, what do you plan to do with it?” Respondents were then asked to rank order their priorities from one to four using a list that included: buy groceries, pay old taxes, buy a home, buy a car, pay back debt, save, etc. We inquired in more detail about savings plans than other types of planned allocations, asking whether they planned to save, what portion of their refund they planned to save, and what

purposes they would save for (home, car, school, rainy day, etc.). Most respondents had just filed their taxes when surveyed, and could refer to their actual forms to see whether they had indeed filed an EIC schedule as well as the estimated amount of their refund. As respondents did not typically know what portion of their refund was from the EITC versus other sources, such as the Child Tax Credit, we asked them to report the total refund amount that they had just claimed on their tax return.

Study Procedures for Interviews

All EITC claimants with dependent children who expected a refund of at least $1,000 were asked to give consent for further contact. About six months after collecting the survey data, we launched an intensive qualitative study of the EITC allocations by selecting a stratified random sub-sample (by city and race/ethnicity) of those expecting a refund of at least $1,000 from the larger sample of 657. Imposing this threshold insured that our sample had some opportunity for meaningful asset building through their tax refund.

In Boston, we selected equal numbers of African American, Latino and White families. In Champaign-Urbana, we selected an even share of African American and White families due to the small number of Latino families in the Champaign-Urbana survey sample. We also stratified the interview sample by family structure. Within each city and racial/ethnic subgroup, we sought two thirds who had filed as single household heads and one third as married, which is roughly the proportion of married households among those with children. In order to recruit an adequate number of married couples, we asked all respondents for referrals to such individuals. In addition, research staff in Champaign-Urbana also recruited White married couples using flyers and online advertisements. Our goal was to generate at least 45 survey respondents in each "cell" (black single-parent households in Boston, for example) for a total of 225 households. Due to

shortfalls in survey respondents who were married and/or White, we ended up with 216 potential households and successfully recruited and interviewed 200 (see Table 1).

Research staff conducted the interviews about six months after families received their refunds. Interviewers conducted in-depth, semi-structured interviews in person with the household head or, in the case of married couples, with the parent in charge of the households' finances were conducted in person. Over 90 percent took place in respondents' homes; the remaining interviews were in public locations such as a café, park, or library. Interviews averaged two and a half hours in length, ranging from 90 minutes to nearly five hours.

In each interview we explored themes of planned and actual refund expenditure patterns, decision processes behind expenditure patterns, and how families used the refunds to manage their budgets and plan for the future. For example, interviewers asked participants to "Tell me family finances. Tell me how you wanted to spend the refund money. Tell me the whole story of how you decided to spend X amount on (ITEM 1). Tell me the whole story of how you decided to spend X amount on (ITEM 2, 3, 4 etc.). How much of your refund is left? Where is it (bank, house, etc.)? Tell me how you plan to spend it. Do you have a savings plan?" Interviewers also probed for motivations to pay off old bills by stating: "Some people that we've talked to have used some of their EITC to pay off debt. How about you? Have you ever thought about using your EITC for something like that?"

To avoid recall error in stated allocations, interviewers brought copies of the families' initial survey and reminded them of their planned uses for the refund such as buying a home, car, or groceries; paying back taxes, school loans, bills, old debt; spending on a home improvement, vacation, shopping; saving; and other items. All interviews were recorded, transcribed, and analyzed using standard qualitative coding techniques.

Study Sample

Overall, 36 percent of our intensive interview sample was drawn from for-profit tax sites, 20 percent from non-profit sites, and 36 percent from Head Start centers (See Table 2). Seven percent of the sample was recruited via referrals and one percent from an online advertisement. Taken together, nearly two thirds (62 percent) of respondents used a for-profit tax preparer to file their taxes, 24 percent relied on a non-profit preparer, and 14 percent filed their own taxes or elicited the help of a family member or friend. Thus, our sample somewhat under-represents national EITC modes of filing rates: for-profit-filers (about 70 percent) and self-filers/other methods (close to 30 percent). Nationally, our sample over-represents national EITC filers who use non-profit sites (1-2 percent) (National Community Tax Coalition, 2007; Rhine et al., 2005).

<<Table 2 about here>>

Response rates for both the survey and the intensive interviews were high.[9] Our rough estimate is that in the survey phase, our response rate exceeded 95 percent. Of those selected to participate in the in-depth interview, all agreed except seven in Champaign/Urbana and nine in

[9] Precise rates are difficult to calculate for the survey because when approached at a tax preparation site, potential respondents who did not participate could have done so either because they did not get the credit or because they did not want to take part in the study. However, our offer of $10 for two to three minutes of respondents' time generated great enthusiasm at all sites. The only potential participants who said they filed an EIC schedule but declined to fill out the short survey were a few who were there to pick up their refund check and said they could not take the time because they were double parked or had a taxi waiting outside. Of those who indicated they had had applied for the credit, nearly all agreed to fill our short survey. Participation among parents of Head Start children was close to 100 percent.

Boston. The reported response rate for the in-depth interview phase does not include the families that we could not contact because they had moved. Six households turned out to be ineligible for the study, due to the fact that the interview revealed they had not, in fact, received the EITC or did not have a large enough refund. This left us with a final sample of 194 families (See Table 3 for sample demographics).

We have a diverse study sample. Black families represent 35 percent of the Boston sample and 58 percent of the Champaign-Urbana sample. White families make up 35 percent of families interviewed in Boston and 42 percent of the families in Champaign-Urbana. Latino families (39 percent of the Boston sample) were only interviewed in Boston due to their small numbers in Champaign-Urbana. Married families represent 39 percent of the Boston sample and 43 percent of the Champaign-Urbana sample. On average, families in both cities have two children. Most families in Boston live in public or subsidized housing (60 percent). Only 10 percent own their homes. Champaign Urbana was more diverse with the largest number of families renting at the fair market value (44 percent), 18 percent in public or subsidized housing, and 20 percent owing their homes. About half of families in both cities worked full-time and 17 percent of families in the Boston sample and 25 percent of Champaign families combine full-time and part-time work. In terms of welfare status, ten percent of Boston families received assistance versus one percent of Champaign-Urbana families. Most of the families (over 80 percent) in both cities used a bank for financial transactions.

<<Table 3 about here>>

Data Analysis

We used these interviews to document how recipients said that they allocated the credit and organized allocations into three categories: asset building, current consumption, and bills and

debt. In the assets category, we include allocations of the following: savings (both initially and approximately six months from refund receipt), college tuition payments, and home purchases or repairs. The second category is current consumption, which includes shopping, groceries, child expenses, car purchases/repair, vacations, family obligations, and the purchase of consumer durables (i.e. refrigerator, washing machines, or home computers). The third category is bills and debts, which includes debt like credit cards, loans and current, pre-paying, and back bills.

Findings

Our analysis examined how families planned to use tax refunds prior to their receipt. We also examined how families actually spent the tax refund (e.g., categories like assets, bills/debt and current consumption) after they received it and the motives driving their financial choices. Asking families about their micro-level decision making processes provided new insight into how they use tax refunds to manage stretched budgets and plan for the future.

Regarding our current consumption category (e.g., groceries or heating bills), we interpret these allocations as indicating that the tax refund expanded the pool of funds for covering such expenditures.[10] Without additional data (on expenditures by these families in other time periods or by similar families not receiving refunds, for example), we cannot make further inference about exactly what types of additional expenditures were made that would not have been made without the refund. However, the refund probably did allow for reallocation of regular income among current consumption, debt payment and other expenditures. For example,

[10] See research by Johnson and colleagues (2006) for additional information on consumption expenditures, particularly food.

families could have substituted regular income for clothing purchases if tax refund dollars were used for grocery purchases.[11]

Based on previous research (Edin and Lein, 1997), we conclude that the families in this study had sufficiently low incomes that without the tax refund their regular income would have been used largely for basic necessities and other purposes that we categorized as current consumption, leaving little room for asset building. Therefore, we interpret families spending tax refunds on assets as being much more likely to represent net changes in that specific category within overall family budgets than the specific stated allocations of tax refunds to current consumption or debt payment. A major finding is that these net changes from EITC refunds in assets present families with a possibility of asset building. Although we do not have sufficient information to calculate the precise share of the stated allocations that represent net changes due to tax refunds in specific categories within overall family budgets, our analysis of different categories of stated allocations is informative to the extent that some categories (specifically, assets and paying off back debt) are more likely to represent net changes than others.

Planned Refund Allocations

Plans for Asset Building

The short survey that families completed during tax time revealed that despite living on the economic edge, a substantial number of EITC recipients had savings plans. When asked how

[11] In principle, families in the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps, could receive SNAP benefits that were sufficiently high such that they could not reduce the amount of their regular income spent on food (say, if that regular income were all SNAP income whose use is limited to particular types of expenditures) if tax refund dollars were also spent on food. About 47 percent (n = 78) of the sample participated in SNAP. We calculated the difference between the monthly food costs and the SNAP benefits for each of the 78 families receiving those benefits. For the 21 families receiving SNAP and purchasing groceries with their refund, the median of those differences was $145. For the 57 remaining families receiving SNAP and not using the refund to buy groceries, the median of the differences between SNAP and their monthly food budget was $60. Thus, we conclude that most of these SNAP recipients had at least some scope to reduce regular income spent on food if they wanted to substitute and spend tax refund dollars on food instead.

much of the refund they planned to save, 57 percent planned to save some portion of their refund (see Table 4). Nearly a quarter (23 percent) intended to save more than a quarter of their refund, and half of these (12 percent of the total) anticipated saving more than 50 percent.

<<Table 4 about here>>

We asked families about other plans for asset accumulation. They reported plans to pay for school (10 percent) and save to enroll in school (around five percent). Of the total sample, 15 percent of households intended to spend a portion of their refund on a down payment for a home or home improvement projects to increase the value of their property. Thus, many of our respondents had substantial plans to accumulate assets. Champaign-Urbana families were statistically significantly more likely to plan to accumulate assets. These survey findings hint at a major theme in our in-depth qualitative interviews that were conducted roughly six months later: respondents who anticipated a large tax refund over multiple years often voiced a strong sense of future-orientation and concrete plans to build assets, especially in the form of home ownership.

Plans to Pay Bills and Debt

The short surveys also revealed that almost three-fourths (72 percent) of households had plans to allocate their refunds to paying bills and reducing their debt. This is the largest category of planned allocations (see Table 4). A majority of these families (68 percent) reported wanting to pay utilities and other bills with their refund. Over a quarter (26 percent) of these families saw tax refund time as an opportunity to pay down or pay off debt like taxes, student loans, etc. They also viewed tax time as a point in the year when they could anticipate catching up on back bills. Families described the ability to use the refund to manage their stretched budgets and catch up as a palpable sense of relief. Just as Champaign-Urbana families were statistically significantly

more likely to plan to accumulate assets, they were also more likely to plan to spend some of the refund on debt reduction.

Plans for Current Consumption

Current consumption represented the second largest category of planned refund allocations. Close to one-quarter (22 percent) of families said that they would spend part of the refund on "shopping," which usually referred to clothing and other small household items (see Table 4). About the same proportion of families said they would spend some of their refund on "child expenses." The survey data showed that nearly a quarter (22 percent) of household indicated that they would devote some of their refund dollars toward buying a car, repairing their car (12 percent for both) or saving to buy a car (10 percent). Almost a fifth (19 percent) of households reported planning to "buy groceries" with the refund, an early indication that many of our families were living on the economic edge and having trouble covering basic necessities month to month.

Actual Refund Allocations

Allocations for Asset Building

Despite the economic precariousness of families in our sample, the majority of them (69 percent planned to invest some of their refund in asset accumulation. The interview data revealed that almost half (47 percent) of the families engaged in asset building.[12] The smallest category of

[12] Means tested income transfer programs have liquid asset tests, for example, SNAP has an asset limit of $2,000 per families without special circumstances (Catalog of Federal Domestic Assistance, ND). While asset limits did not come up during the interviews when discussing factors influencing families' saving and spending, means testing may well be a factor in asset building.

investment was education. At the time of the survey, nine percent of families planned to use some of their refund for educational purposes. However, only three percent (or one-third of those who expected to do so) stated an allocation for this purpose (see Table 4).

What actually happened to families' asset building plans? Lucy, a Puerto Rican mother of two, reported that she decided to use part of her refund to move to an apartment that was not roach and rat infested for the health of her newborn daughter. Lucy's planned educational allocations changed, but Jessica's did not. Jessica, a Cuban mother in Boston, paid down a significant portion ($1,200) of her $4,000 educational debt. This was the third year in a row she had been able to devote this amount to her student loans. Jessica illustrates how families have multi-year social mobility plans based on future EITC receipt.

Home ownership or home improvement was listed as a planned allocation for 15 percent of the sample, yet only one-third of that number (five percent) used their refund for home ownership or to increase the value of their current home. The interview data provide some indication about why only one-third of families achieved their goals. Four families were able to save money and obtain a pre-approved loan from the bank, however, they could not find a home that they could afford in a good neighborhood.

Tina (White) and José (Puerto Rican) lived in a mixed-race housing project in Boston with their three children. After 10 years of marriage, Tina and José finally believed they had reached the point when they could afford to use their refund to purchase a home. They had pared their expenses to the bone, living without cable television or a home telephone line, so they could save their refund and buy a house. José worked two jobs, 40 hours at a large chain electronics store stocking shelves and a job making donuts on the 2 to 7 a.m. shift three days a week at a bakery. Tina worked one day-a-week job as a caterer. The couple saved their entire $4,000 tax

refund and started house hunting. They soon learned that the only homes in their price range were in the solidly African American sections of the city where the crime and violence was similar to levels in their public housing community. After this realization they revised their plan, hoping that Tina could return to work after the youngest child starts school. They believe that with that extra income they would be "rich enough" to qualify for a home purchase in the "right" area. Meanwhile, they spent some of their refund at Target to replenish their children's clothing and saved the rest.

The largest planned category of asset building was savings. Of the fifty-seven percent of families who planned to save some of their refund, 39 percent of them (or 18 percent less than planned) reported actually saving some portion of the refund (see Table 4). The amount saved by these families represented 15 percent of the total refund dollars or $637 on average. It is important to note that the amount of money that families reported as saved initially had decreased by roughly half (to just six percent) six months later, at the time of the in-depth interviews.

Where did the almost 50 percent decline in savings go? How much of it may have been used by families as precautionary savings? Families spent one percent of former savings on asset accumulation (home ownership/improvement and education) and another five percent on regular bills and monthly expenses. Of the nine percent initially saved but spent, close to one-quarter of it was used for unanticipated expenses and emergencies such as an unexpected car repair or when someone gets laid off (See Table 5). We also re-calculated refund allocations based on how families spent the money they initially had saved (see Table 6).

<<Tables 5 and 6 about here>>

This type of spending appears to reflect precautionary savings. Here, it is worth noting that 22 percent reported in the survey that they planned to save for a "rainy day," meaning they would use it for an income shock or unexpected expenditure. It is difficult to tell if precautionary savings are a continual or onetime event with the EITC refund. Most families reported that they can only save when they receive their tax refund. However, data on families' monthly budget showed that 10 percent of the sample reported savings unrelated to their tax refund. The savings of this sub-sample ranged from $107 to $11,201 with a mean of $1,797 (and a median of $575). We should also note that many families viewed the EITC itself as a form of saving, and believed they were engaging in savings behavior merely by being eligible for the program, because of the lump sum nature of the payment.

LeAnn, who lived with her child's father, paid close attention to her withholding so as to maximize her tax refund. This white mother of a four year-old son, who was also raising a 12 year-old stepson, worked as a secretary and elected to over-withhold so that at the end of the tax year her refund would be substantial. She explained, "I just do it because it will be there in the end in bulk instead of every week. What's $20, you know? And at the end of the year, it's like $800." Since most EITC families prefer the lump sum payment, how do they make decisions about paying bills and debt that accumulate over the year? This question is answered in the next section on refund expenditures for bills and debt.

Allocations for Paying off Bills and Debt

Almost three-quarters (72 percent) of our sample had plans to spend a portion of their refund catching up on or pre-paying bills, credit cards and other debt. In actual allocation families exceeded this number as 89 percent (an additional 17 percent) spent in this area. This can be explained in part by respondents' laments that debt was a barrier to asset accumulation,

which caused them to prioritize debt payment over asset building. Over one-third (39 percent) of total refund dollars went toward paying down debts and bills, including medical debt, educational debt, personal loans, and credit card debt (see Table 4). Shaefer and colleagues (2011) argue that when families prioritize in this way, they are getting the most benefit out of their stretched budgets and maintaining financial stability.

During the interview, 124 families (64 percent of the sample) reported having credit cards and 109 families reported having credit card debt. The average known debt on all of the cards was $3,698 (with a median of $1,000) and ranged from $0 to $52,000. In 2004, the average debt for families in the U.S. with credit cards was $5,219 (Garcia 2007). For lower-income families making between $10,000 and $24,999, the average debt was $3,378. This implies that our sample has credit card debt that is similar to low-income families nationally.

Of the EITC families that we asked to tell us the interest rate on their credit cards, about 42 percent cited specific rates that ranged from zero to 30 percent with an average of 14 percent (and a median of 16.5 percent). Our data suggested that families in our sample understood how they are affected by high interest rates and were motivated to reduce credit card debt. For example, twenty two percent of the total sample (or 39 percent of those with credit debt) used their refund to pay down their credit cards (see Table 4).[13] On average, families paid about 22 percent (with a median of 0 percent) of their total credit card debt. This reflected an average of $394 (with a median of $0) from the refund spent paying off debt. The range of money spent on

[13] We did not ask families how much of their refund they planned to allocate to credit card debt.

credit card debt spanned from zero to $4,000. It appears that around 18 families paid off all of their credit card debt with their tax refunds and six of those families closed their accounts.[14]

Families demonstrated their financial literacy about the true cost of high interest rates in their decision-making processes about which credit cards to pay off first with their scarce resources. When Lindon, a White female living in Boston, was asked by the interviewer how she decided which credit cards to pay with the tax refund, she replied "Home Depot and some other stuff, there's no interest for the first year. Bernie and Fields is a high interest rate, so we paid that off first." Lindon and other respondents understood how to cut down the amount of interest paid so they would have more money in their pockets over the long run. They appear to use high-interest credit cards because they live on the economic edge and using credit is one way to smooth their income and buffer against negative random shocks.

Unfortunately, families feel the cost of these credit cards and other debt when they want to build assets. Helen, a 30 year-old African American single mother of three children, tried to buy a house once before, using a prior years' tax refund as a down payment. She states, "When I tried to buy a house last time, my back debts were impacting me like right then and there. Another credit card bill was [a problem] and then probably the older [debts I owe]. Because at the time I thought to use my [refund] money for a down payment on a house. But I had to pay those things off in order to be evaluated [for a loan]." The families' stories illustrate debt reduction as a critical activity as they consider the role of the EITC in their families' budgets and future social mobility.

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[14] We are unable to calculate if families paid off one or more cards and left debt on other cards. We can only calculate if they paid all of their known credit card debt.

Allocations for Current Consumption

The category of current consumption was another major area as 66 percent of families planned to use some of their refund for items in this area. More families (89 percent or 13 percent more) actually spent part of the tax refund on current consumption than had planned to. For example, 19 percent of families planned to purchase groceries with their refund, but 28 percent actually spent part of their refund on basic necessities like food. Again, this may reflect families on the economic edge using the tax refund to manage their stretched budgets.

The difference between planned child expenses and actual expenses are almost three-fold (24 vs. 61 percent). Why such a difference? Many families appeared to believe that once other urgent needs are covered, at least some of the money left over should go to the kids; some even felt that they owe their children these treats because the credit was "their money." Barbara, the white mother of two daughters, spent some of her money with this in mind: "Yeah. You see, my thing is, the Earned Income Credit, that's not my money. I have children. I have to take care of them. I chose to have them. That is their money. I wouldn't get that if I didn't have them."

We observed another three-fold contrast between planned and actual refund allocations in car purchases or repairs. Just 12 percent of the families in our sample planned to spend money in this area. However, 36 percent of families (24 percent more than planned) actually allocated part of their refund for this purpose. Based on the interview data, this reflects families' lives on the economic edge. Many of the cars they own are older and frequently require unexpected repairs. A properly running car is especially important for families who have to drop children off before work, travel some distance to work, and/or attend school. Champaign-Urbana residents spent statistically significantly more of their tax refund on car purchases and repairs. It is important to

note that Champaign-Urbana is a much smaller urban area than Boston and public transportation is less accessible.

Wendy, a 34 year-old mother of two boys who lives in Champaign-Urbana, first paid off $500 in overdue bills and then put $250 in each of her boys' saving accounts when she first received her refund check of about $6,000. She is a factory worker who works the night shift in order to be available to her children in the afternoons and attend their school activities. Wendy used the rest of her refund to purchase a used car outright. Her mother wanted her to save the money, but she held fast to her prior plan.

> My mom was like, "Okay, well save." [I was already] saving money all through the year from my checks—I was putting like twenty-five dollars away—but always "emergencies" coming and I was dipping in…, end up dipping in. I was like, I told my mom, "This is what I'm going to do with my income tax money—if I get this amount of money, this is what I'm going to do… . I have to have a car 'cause I have to take my boys to practice, and I have a lot of events to do. This is what I want and this is my plan." And I did it!

Wendy illustrates how some families manage to put away money here and there but have trouble letting it accumulate for big purchases. This is a significant role played by the tax refund in the budget of EITC families.

We do not have data on how many families planned to pay back family obligations. However, 25 percent of our sample used some of the refund for this purpose. As one might imagine, these families were often nested within kin and friendship networks with a good deal of economic volatility. Families depended on these networks in hard times and tax refund season was typically the best time in their annual budget cycles to reconcile loans (Tach and Sternberg-

Greene, 2010). Larry, a white father of three, worked as a janitor and sometimes drove a delivery truck for extra money. He received a refund of $7,500. Before allocating the credit to anything else, he cleared up a $2,000 debt to his brother. Larry states, "when we're in a pinch and he helps us, loans us money." Larry intentionally prioritized paying off the debt to his brother over paying off other debt. Perhaps Larry's story demonstrates how families preserve their "credit" within their networks and use it to buffer income shocks without having to pay high interest rates on commercial loans of thousands of dollars.

Use of Refund in Stretched Budgets and Future Planning

In our interviews, we asked families why they prioritized spending their tax refund the way they did. We also asked about their future goals and how they imagined their lives would be in five years and ten years. These questions provided critical insight into the role of the tax refund in families' stretched budgets and future plans for social mobility.

The majority of our families discussed having stretched budgets. Receipt of the ETIC allowed them to buy clothing for growing children or purchase large quantities of food on sale and freeze it for when they needed it. Lucy's story (mentioned earlier) demonstrated how families can use the refund to improve their housing situation and protect the health of vulnerable family members. Lucy lived in an inexpensive but barely inhabitable roach and rat infested "hole." She used half of her refund to pay overdue bills and wanted to use the other half to pay off her educational debt, which totaled $5000. Instead, she decided to use the rest of the money to move to a newly renovated two-bedroom unit just down the street. With a newborn and the dangers posed by the pest infestation and lead paint exposure, the couple saw the move as essential. The EITC allowed them the flexibility to choose what was best for their family.

The interviews also revealed striking evidence that the anticipation of receiving the

refund in the future, over multiple years, was associated with a strong sense of future orientation, as reflected by the large number of respondents with multi-year asset building plans.[15] Interestingly, most families assumed that they would rely primarily on the EITC as the savings vehicle through which they would carry out these plans, possibly because few anticipated substantial gains in earnings. The large majority who anticipated multi-year receipt spoke eloquently about their dreams for social mobility. They believed their dreams were possible (at least if pursued over several years) because of the tax credit annual receipt. Most planned on pursuing these goals sequentially, by first paying off debt in order to clean up their credit histories and improve their credit rating, and then saving for a bigger item, like their own home.

Discussion

This paper uses a mixed-methods approach to advance the literature on the EITC by providing new insights in three key areas. First, the limited literature on families' EITC allocations suggests that while households do sometimes purchase big-ticket items, much of the credit may well be devoted to current consumption and debt repayment, rather than asset accumulation (Beverly, Tescher, Romich and Marzahl 2005). To date, however, few fine-grained analyses of the micro-level decision making processes and contextual factors that underlie these allocations exist. Such information is critical for policymakers who wish to identify promising policies aimed at decreasing the share of the EITC that is allocated to current consumption and to increasing the portion allocated to expenditures that boost family assets and savings. This

[15] In terms of the actual experience of multi-year receipt, as opposed to expectations, among people who received the EITC in 2000, more than half were no longer receiving the credit six years later, as some earned too much income to qualify and others dropped out of the labor force (Ackerman, Holtzblatt, and Masken, 2009).

information could be of enormous use to policy makers and practitioners who seek to encourage asset building among the poor as a long-term anti-poverty strategy.

Our mixed-methods approach nicely demonstrates how families with a sizable credit ($1,000 and over) both hope to use their refund and how they actually allocate the money, sometimes in ways that are different from their original intentions. Because there is little direct evidence on how plans to use the refunds evolve, we add to the literature by providing detailed information on categories of allocation, how representative the spending is, the amount spent, and families' decision-making processes concerning prioritizing categories of spending.

We observe two ways that the categories of spending may be shaped by the unique contexts of Boston, MA and Champaign-Urbana, IL. First, Champaign-Urbana families were significantly more likely to say they planned to spend their EITC on asset building and debt repayment. This may reflect the advantages associated with residing in a low-cost of living area. Champaign-Urbana residents were twice as likely to own their homes as Boston residents (20 versus 10 percent respectively). Second, Champaign-Urbana residents were significantly more likely to spend a portion of their refund on car purchases and repairs. This type of spending may reflect the less urban nature of the Champaign-Urbana area.

Second, our study provides new information on the impact of the EITC on families' budgets and is one of a few studies that demonstrate that the EITC is more than a "consumption spreading" transfer. We argue that the EITC is different from other types of income subsidies like child care, food stamps, etc. because it allows credit constrained families to meet goals other than current consumption. We demonstrate that families use the refund as a vehicle for *financial stability* by paying down debt and a vehicle for *economic mobility* by saving and creating multi-year goals. Another important advance is our findings on precautionary savings that suggests

EITC families deliberately set aside savings to buffer against uncertainty. Six months later, 21 percent of families (n = 41) still had six percent (or $48,264) of the total refund amount ($804,400) left to potentially use as a buffer against shocks.

Third, we provide information on the high value that EITC families place on getting the refund in a lump sum during tax time. Families feel that they have worked for the benefit and that they are capable of deciding how best to spend the refund based on their families current needs and future goals. This study is one of only a few to highlight the ways that EITC recipients conceptualize the role of the refunds in budgeting and planning for the future. As such, we offer insight into a question that frequently puzzles policy makers and EITC researchers: Why do families prefer the lump sum when they can get the refund monthly and use it to pay bills and debt when they are due? Based on our interview data, it appears that families prefer getting the refund in a lump sum payment because it allows them to strategize more around their stretched budgets and it provides some opportunity to meet their longer-term goals of social mobility.

Our study, though only one of a handful of EITC studies that examines planned and actual allocations using survey and rich interview data, has some limitations and leaves some questions unanswered. First, our study uses a sample of 194 families in Boston and Urbana. Therefore, this limits the ability of our findings to be generalized nationally. Another limitation regarding generalization of the findings is the unique context of Boston, MA and Champaign-Urbana, IL. Both locations have major universities that influence the type of work and educational pathways available for EITC families. Nevertheless, Boston and Champaign-Urbana are important sites to study because both areas have state EITC programs. Illinois' program is five percent of the federal EITC and Massachusetts is 15 percent. Despite these limitations, our study offers new insight about the role of the EITC in families' ability to stretch tenuous budgets

and plan for the future. The important unanswered policy question is: do families obtain their multi-year asset accumulation goals? Future EITC research should include longitudinal data over several years to further ascertain barriers and pathways to using the EITC for social mobility.

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Table 1. EITC Data Collection

	Planned Allocations	Initial Actual Allocations	Amount Left in Savings after Six Months
Method of Data Collection	Surveys Averaged 10 minutes	In-depth Interviews Averaged 2.5 hours	
Time Period and Site of Data Collection	January 2007 – April 2007 Non-profit and for-profit tax preparation sites April 2007 Head Start Centers	Interviews took place, on average, six months after the survey information was collected from families Families homes (90 percent) and public locations (10 percent)	
Type of Data Collected	Plans to spend the refund, plans to save refund, amount of refund, household status, race/ethnicity, how EITC helps them achieve their expenditure plans	Actual spending of refund, amount saved, financial goals, knowledge, and behavior; income and expenditures (both monthly and after the refund), work life, housing and neighborhood, and family background	Original amount of tax refund saved, amount of saved refund that was spent, what spent savings on, amount still in savings
Sample Size	657 families Urbana n=325 Boston n=332	194 families Urbana n=79 Boston n=115 (We interviewed 200 families but six were ineligible due to a refund of less than $1,000 or they were ineligible for EITC.)	76 families Urbana n=30 Boston n=46 Initially saved some of their tax refund (These families are part of the 194 sample)

Table 2. Recruitment Efforts and Method of Filing Taxes

	For Profit Tax Centers	Nonprofit Tax Centers	Filed Own Taxes	Head Start Centers	Referrals	Online/Public Advertisement
Recruitment	36%	20%	na	36%	7%	1%
Filed Taxes	62%	24%	14%			

Table 3. Demographics of Sample.

	Boston		Champaign//Urbana	
	Proportion	Standard Error	Proportion	Standard Error
Race/Ethnicity				
Black	.35	(.04)	.58	(.06)
White	.35	(.04)	.42	(.06)
Latino	.30	(.04)	na	
Married	.39	(.05)	.43	(.06)
Mean Number of Children	2.46	(.13)	2.46	(.16)
Housing Status				
Own	.10	(.03)	.20.	(.05)
Rent-to-Own	.02	(.01)	.03	(.02)
Rent	.18	(.04)	.44	(.06)
Subsidized/Public Housing	.60	(.05)	.18	(.04)
Other (ex. Live w/Others)	.10	(.03)	.15	(.04)
Work Status				
Full Time	.47	(.05)	.49	(.06)
Part Time	.36	(.05)	.26	(.05)
Combined Full & Part Time	.17	(.04)	.25	(.05)
Education				
Less than High School	.14	(.03)	.04	(.02)
High School/GED	.14	(.03)	.22	(.05)
Some College	.35	(.05)	.30	(.05)
Associate's Degree	.25	(.04)	.35	(.06)
Bachelor's Degree	.11	(.03)	.07	(.03)
Post-Bachelor's Degree	.01	(.01)	.07	(.03)
Welfare Status				
Currently On	.10	(.03)	.01	(.01)
Ever On	.63	(.05)	.29	(.02)
Immigrant	.35	(.04)	.05	(.02)
Banking				
Currently Banked	.86	(.03)	.82	(.04)
Ever Banked	.98	(.01)	1.00	(.01)
Total Back Debt	$7,506	(1,106)	$11,408	(3,279)
Tax Refund	$4,686	(162)	$3,640	(181)
Household Earnings	$24,281	(1,421)	$21,672	(1,671)
Household Earnings & Government Assistance	$27,781	(1,339)	$25,570	(1,551)
Sample Size	115		79	

Table 4. Planned and Actual Allocations of Tax Refund

	PLANNED ALLOCATIONS	ACTUAL ALLOCATIONS	
	% Who Planned to Spend In Category	% Who Spent In Category	% of Total Refund Dollars Spent
Asset Building	68.90	47.42	19.07
Initial Savings	57.00	39.18	15.09
Education	9.18	4.64	1.31
Home Ownership/Improvement	15.31	5.15	2.52
Other	1.02	1.03	0.17
Current Consumption	65.82	88.66	45.59
Shopping	22.45	30.41	3.05
Groceries	19.39	28.35	2.65
Child Expenses	23.47	61.34	9.63
Car Purchase/Repair	12.24	33.51	9.12
Vacation	11.22	12.89	3.07
Other	4.08	63.92	18.07
Furniture/Appliances	-----	28.87	7.58
Family Obligation	-----	24.74	5.32
Bills and Debts	71.94	84.02	35.78
Bills	68.37	78.86	25.53
Credit Cards	-----	22.16	5.55
Other Debts	26.02	11.86	4.69

Notes: Planned allocations were measured at the time the respondents filed their taxes. We asked respondents what they planned to spend their refund on in the future.
Actual allocations were measured at the time of the 6-month follow-up interview. We asked respondents what they actually did with their refund once they received it.
Percentages add up to greater than 100% because respondents may spend in more than one category.

Table 5. How Respondents Used Saved Refund Dollars after Six Months

	% Who Spent In Category	% of Total Refund Dollars Spent in Category
Initial Savings		
Spent on Mobility	3.09	1.19
Spent on Extras & Treats	3.61	0.39
Spent on Regular Bills & Monthly Expenses	15.98	4.94
Spent on Unanticipated Expenses & Emergencies	7.22	2.35
Still in Savings	20.62	6.23
Total Initial Savings	39.18	15.09

Notes: This table describes how the initial savings identified in Table 4 were spent by families. Savings includes money stored in savings and checking accounts and with family members.

Table 6. Planned and Actual Allocations of Tax Refund after Six Months

	PLANNED ALLOCATIONS	ACTUAL ALLOCATIONS	
	% Who Planned to Spend In Category	% Who Spent In Category	% of Total Refund Dollars Spent
Asset Building	68.90	29.90	11.01
Savings	57.00	19.59	6.01
Education	9.18	5.15	1.44
Home Ownership/Improvement	15.31	6.19	3.18
Other	1.02	1.55	0.38
Current Consumption	65.82	91.75	50.11
Shopping	22.45	31.96	3.52
Groceries	19.39	33.51	3.46
Child Expenses	23.47	62.89	10.16
Car Purchase/Repair	12.24	35.05	10.27
Vacation	11.22	12.89	3.06
Other	4.08	65.98	19.63
Furniture/Appliances	-----	29.38	7.62
Family Obligation	-----	25.26	5.94
Bills and Debts	71.94	88.66	38.88
Bills	68.37	84.02	29.06
Credit Cards	-----	22.16	5.55
Debts and Back Bills	26.02	11.86	4.69

Notes: Planned allocations were measured at the time the respondents filed their taxes. We asked respondents what they planned to spend their refund on in the future.
Actual allocations were measured at the time of the 6-month follow-up interview. We asked respondents what they actually did with their refund once they received it.
Percentages add up to greater than 100% because respondents may spend in more than one category.