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The Role of Earned Income Tax Credit in the Budgets of Low-income Families*

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Abstract

The annual receipt of large tax refunds, primarily due to the Earned Income Tax Credit (EITC), provides families with an unusual opportunity to save and build assets. In 2007, we conducted a short survey, followed by in-depth interviews, with 194 African-American, Latino, and White parents who received the EITC, all with refunds of at least $1,000. The survey reveals that a sizable fraction planned to allocate a considerable portion of their refund to savings and assets. In-depth interviews conducted roughly six months later reveal that a significant minority did allocate a portion of their refund toward these purposes, though not as often as planned. Many other recipients have significant asset building goals, which they say are fueled by the expectation of ongoing annual tax refunds.

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The federal Earned Income Tax Credit (EITC), which subsidizes the earnings of low-wage workers, has dramatically boosted the incomes of low-income households. 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. There is little direct evidence on how plans to use the refunds evolve, or about the extent that the refunds promote social mobility through asset accumulation and savings that have the potential to significantly enhance families' long term economic well-being (Sherraden, 2001). The limited literature on EITC allocations suggests that recipients may be more likely to devote their refund to current consumption than social mobility purposes (Beverly et al., 2005).

In this paper, we address the following questions: How do EITC recipients plan on allocating their refund? How much do they report allocating for different purposes initially, just before receiving the refund, and six months after receipt? What are the micro-level decision processes that underlie these allocation patterns? What other aspects of EITC receipt are related to the goals families have for the future? To address these questions, we conducted a short survey just prior to EITC receipt followed by in-depth semi-structured, qualitative interviews six months later. In-depth interviews were conducted with 194 African-American, Latino, and white household heads who claimed the EITC and received a total refund of at least $1000. The survey, conducted just prior to EITC receipt, captures allocation plans. In-depth interviews conducted roughly six months later indicate how recipients said they allocate their refunds, the processes and mechanisms that may underlie these allocations, and other, more subtle, benefits of the EITC for social mobility. We spilt the stated allocations into various categories to examine whether evidence existed of an expanded pool of resources for typical expenses (although we cannot identify precisely which types of additional consumption were due to the refund). We also examined other uses of funds (for savings and assets, paying off back debt, and atypical expenses) that were less likely to have occurred without the refund (say, because families would have used virtually all available non-refund income for immediate necessities).

Sections I through III of the paper provide background, review previous research, and detail research methods. Section IV presents findings on planned uses, stated allocations, and future goals. Section V discusses the findings.

I. Background

The EITC is a refundable tax credit for low-wage workers who work in the mainstream labor market. Families with dependent children may receive sizeable benefits, 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 2009 it was $40,295 for a single parent with two children, and $45,295 for a comparable married family. 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 can claim a portion of their expected EITC on a monthly basis, only about 3 percent do.[1] This is 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).

Over the past three decades, there has been a shift from providing assistance to unemployed people to targeting those who are working. A sharp change occurred in the 1996 when Temporary Assistance to Needy Families (TANF) replaced the Aid to Families with

[1] Only $1,826 can be paid in the form of an advance credit. The rest is still only available as a lump sum at tax time (United States Government Accountability Office, 2007).

Dependent Children (AFDC) entitlement program. The new program is not an entitlement, and imposes strict time limits and participation requirements on beneficiaries. Many states also began to offer potential applicants financial incentives in exchange for clients' willingness to forgo applying for benefits for a set period of time. Over the next decade, the number of welfare recipients plummeted from roughly 5.1 million in 1994 to a mere 1.7 million in 2005 (United States Department of Health and Human Services, 2007).

The EITC now transfers many more dollars than AFDC ever did. Large expansions from 1993 to 1996 roughly doubled the size of the maximum credit for larger families. In 2008 approximately 24 million households received close to $50 billion in reduced taxes and refunds from the EITC (United States Internal Revenue Service, 2009). In 2009, the EITC lifted roughly 6.6 million people out of poverty, including 3.3 million children (Center on Budget and Policy Priorities, December 2009). More children now exit poverty through the EITC than through any other form of government assistance (Greenstein, 2005; Greenstein and Shapiro, 1998). For 2009, families with three or more children could claim a credit of up to $5,657, families with two children could receive up to $5,028, and families with one child were eligible for as much as $3,043. 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, August 2009).

Thus, 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. Because one has to work to get benefits, some may not receive much, if any, benefit.

Acs and Loprest (2004) estimate that at any given time, one third of former welfare recipients are neither working nor have any visible means of support, i.e., they do not have another source of income, nor are they living with an employed partner or spouse. During the recent the recession, TANF roles have hardly increased, suggesting the size of this group has grown (U.S. Department of Health and Human Services, 2009). However, those who work, especially full time and full year, garner substantial additional benefits. Instead of taxing their earnings, the government supplements them. In most cases, the supplement either exceeds or nearly equals the maximum value of the cash welfare payments for nonworkers.[2]

There are other subtle, yet critical, differences between this new safety net and the old. 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

[2] Under AFDC, those attempting to combine welfare with work lost nearly a dollar in cash benefits for each dollar earned. In response, many welfare recipients worked off the books. In so doing, they did not receive employer-related benefits, and access to disability and social security. They also did not receive the social inclusion that accrues to workers in the U.S., and did not receive the stigma of welfare (Edin and Lein, 1997).

be seen, and the caseworker who may be more concerned with detecting misuse of funds than with client service (Edin, 1993; Lipsky, 1983; Watkins-Hayes, 2009).

II. 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 social mobility purposes, such as a residential move, tuition payments, or a car-related purchase. The scarce literature on allocations, as opposed to plans, suggests that this does indeed occur, though perhaps less often than the literature on plans suggests. However, most past research only provides information on how many EITC recipients allocate any of their refund to such purposes, not how much. In addition, there is very little evidence on the micro-level decision-making processes or the rich array of contextual factors that shape EITC allocations.

The best direct evidence to date regarding planned uses for the EITC comes from five local-area surveys conducted. Timothy Smeeding and his collaborators surveyed over 800 EITC applicants who used a free non-profit tax preparation service in Chicago (Smeeding, 2002; Smeeding, Ross Phillips, and O'Connor, 2000).[3] 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

[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).

part of their credit in a way that could enhance their social mobility.[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).

Three of the five studies measured actual EITC allocation, and not just plans. First, in the North Carolina study (Spader, Ratcliffe and Stegman, 2005), filers were also 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 Mexican immigrant communities along the border asked about 5,000 household heads 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).

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

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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.

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, 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).

III. Research Methods

We launched an intensive qualitative study of the EITC allocations of 194 households with dependent children during the 2006 tax season. To represent some of the range of living costs EITC recipients face across 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

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[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.

sample by household type and race/ethnicity. These data are not representative, but do capture EITC claimants in two locations with heterogeneous characteristics.

We surveyed EITC recipients in three kinds of locations: for-profit tax preparation sites, non-profit sites (called Volunteer Tax Assistance Sites, or VITA sites), and Head Start centers. We first screened for whether tax filers had submitted an EIC schedule. If so, we asked whether they expected a refund of above or below $1,000 and how they planned to allocate it. 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. Most 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. In the second phase, we selected a stratified random sub-sample of those expecting a refund of at least $1,000 for in-depth interviews. Imposing this threshold insured that our sample had some opportunity for meaningful savings and asset building through their tax refund.

Beginning in late January 2007, we visited selected non-profit 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.[7] Sites were selected using

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[7]The survey was similar to the one used by Smeeding and his collaborators (Smeeding, Ross Phillips, and O'Conner, 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.

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 (Rhine, Su, Osaki, and Lee, 2005). Head Start centers were also selected based on the racial and ethnic composition of their host communities. All EITC claimants with dependent children who expected a refund of at least $1,000 were asked to give consent for further contact.

Second, we drew an intensive interview sample from these surveys, stratified by city, by race/ethnicity (equal numbers of African Americans, Latinos and whites in Boston, and an even share of African Americans and whites in Champaign-Urbana) and 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). 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.

Response rates for both the survey and the intensive interviews were high.[8] Our rough estimate is that in the survey phase, our response rate exceeded 95 percent. Of those selected to

[8] 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

participate in the in-depth interview, all agreed except seven in Champaign/Urbana and nine in 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 1).

<<Table 1 about here>>

Overall, 36 percent of our sample was drawn from for-profit tax sites, 20 percent from non-profit sites, and 36 percent from Head Start centers. In order to recruit an adequate number of married couples, we also posted advertisements online and in public places, and asked all respondents for referrals to such individuals. 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 for-profit-filers and especially self-filers, while over-representing those using non-profit sites.

About six months after receipt of the refund, interviewers conducted in-depth, semi-structured interviews with the household head or, in the case of married couples, with the parent

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.

in charge of the family finances. All interviews were conducted in person. Over 90 percent took place in respondents' homes, the remainders 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 financial goals, knowledge, and behavior; income, expenditures (both monthly and after the refund), savings and assets; home and work life; housing and neighborhood; and family background. All interviews were recorded, transcribed, and analyzed using standard qualitative coding techniques.

We used these interviews to document how recipients said that they allocated the credit and organized allocations into four categories. One category of allocation was savings and assets, which included savings (both initially and approximately six months from refund receipt), an automobile purchase or repair, the purchase of consumer durables (i.e. refrigerator, washing machines, or home computers), college tuition payments, and home purchases or repairs. The second category was repayment of back debts. The third category included atypical expenses such as buying non-necessities (which respondents sometimes call "treats"), donations to friends and family, and pre-paying bills. The fourth category was typical expenses, which included catching up on overdue bills (not included in the "back debt" category), meeting regular monthly expenses, purchasing non-regular necessities, paying fees, and other miscellaneous expenses.

IV. Findings

Our analysis examined planned uses of tax refunds prior to their receipt, stated allocations after their receipt (for savings and assets, paying off back debt, atypical expenses, and typical expenses), and the relationship of tax refunds to future goals. Regarding the stated allocations for typical expenditures (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. However, 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 typical expenditures were made that would not have been made without the refund. The refund probably allowed for reallocation of regular income. For example, families could have substituted regular income for clothing purchases if tax refund dollars were used for grocery purchases.

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 typical expenditures, leaving little room for asset building. Therefore, we interpret the specific stated allocations of tax refunds to savings or assets, paying off back debt, or atypical expenses as being much more likely to represent net changes in overall family budgets than the specific stated allocations of tax refunds to typical expenses. The net change is that the EITC refund presents families with a possibility of savings and asset building. Although we do not have sufficient information to calculate the precise share of the stated allocations that represent net changes in overall family budgets due to tax refunds, our analysis of different categories of stated allocations is informative to the extent that some categories are more likely to represent net changes than others.

IV. A. Planned Uses After Filing Returns

The short survey revealed that a considerable portion of households had plans to allocate their refunds to current consumption or debt reduction. Over three quarters (82 percent) hoped to use part of their refund to pay bills or pay off debt, and a quarter (25 percent) said they would spend part of the refund on “shopping,” which usually referred to clothing and other small household items. About the same proportion said they would spend some of their refund on “child expenses”. Almost a quarter (22 percent) said they would “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.

However, a substantial number of EITC recipients had savings plans. Overall, 57 percent planned to save at least some of their refund. 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. We also asked about specific assets that are often associated with mobility. Nearly a quarter (22 percent) indicated they would devote some of their refund dollars toward a car purchase or repair or would save for a car, 15 percent said they planned to pay or save for school, and 15 percent intended to spend a portion of their refund on a down payment for a home or would save for a home.

Thus, many of our respondents had substantial savings goals and/or planned to accumulate assets. The 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.

IV. B. Stated Allocations for Savings and Assets

Consistent with previous studies, a greater percentage of families in our study allocated at least some portion of their refunds towards catching up on bills, covering regular monthly expenses and paying for non-regular necessities than towards savings or assets (see Table 2). Just over 15 percent of the refund was initially reported as having been saved. Roughly 8 percent of the total refund went to the purchase or repair of a car. Only 1 percent was allocated to college tuition, while 2 percent went to home purchase or repair. Another 8 percent was spent on consumer durables. Taken together, these figures indicate 35 percent of the refund was initially saved or spent on assets or other mobility purposes.

<<Table 2 about here>>

Two thirds of respondents spent at least some of their refund in these areas. Yet families saved less and spent less on assets, than they had intended to. During the six months after receiving the refund, allocations to savings declined by about half (see Table 3). Two thirds of the funds initially saved but spent went to unexpected shortfalls in monthly income or unanticipated monthly expenses.[9] The remainder was spent on assets or atypical expenses. Additionally, 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.

<<Table 3 about here>>

When asked, Barbara, a 28 year-old white mother of two daughters who lived with her fiancée and worked as a restaurant hostess, couldn’t name a thing she would change about the Earned Income Tax Credit. She explained,

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[9] Here, it is worth noting that 22 percent reported in the survey that they planned to save for a “rainy day” -- they had no specific purpose for their savings. Many did, in fact, encounter a rainy day—an income shock or unexpected expenditure—in the intervening months between the survey and the in-depth interview.

> At the end of the week, it's depressing looking at a pay stub and realizing how much money they take from you. But at the same time, I like at the end of the year that lump sum….! Because if it was every week and I had to (save) $100 or $200…, something [gonna] come up… and I'll touch it, you know? Or, "Okay, we're $100 behind on this, okay we'll take it from that." And, realistically, when you do it that way, is it all going to be there at the end of the year? No. I don't care who you are, unless you are making $5,000 a week, you know.…

She did admit, though, that this method of "savings" doesn't fully guard against the drain of urgent financial need. "I love the lump sum [but] something always happens though. You always need your tax return . [You'll say] thank God for tax season."

Laura, who lived with her child's father, paid close attention to her withholding so as to maximize her tax refund. This white mother of 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."

We asked Ross, a 40 year-old engaged father of two children under six, "If you could change something about EITC or taxes in general what would you change?" Ross, who worked setting up and dismantling trade shows, believed the following about the government, specifically the IRS, "they beat down the blue collar guy more than they should," but he sees the EITC as an exception. "It's a nice little bank account to me. And I, I, I put in the maximum money so that I have the maximum return versus [getting more] during the year."

As noted above, cars and durable goods consume considerable refund dollars in the "assets and savings" category. These expenditures often reflect carefully laid allocation plans.

For example, 31 year-old LaShuna, a biracial mother of two daughters and a son who attended community college and worked part time, could only make ends meet because her mother and stepfather paid all of the expenses for the housing they all shared. The $6,000 refund she received went first to buy treats for her children ($200 each), and then to “just kind of pay back” her mother for the free room and board ($1,400). With the final $4,000, LaShuna bought a car from a friend, with mixed benefits. “Like every day something was going wrong on it so I had it in a body shop maybe four times, at the place where you get it fixed.”

Similarly, 34 year-old Wendy, the mother of two boys, ages 16 and 6, 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. A factory worker who worked the night shift so she could be available to her children in the afternoons and attend their school activities, Wendy used the rest 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!

Jackie, a married African American mother of three, had carefully laid plans as well; plans for durable goods purchases which she felt were “good improvements” to the home she and her husband had purchased several years before. Prior to receiving her refund she developed a plan:

> I was going to purchase a new screen door, which I did, a deep freezer, which we did, and a new refrigerator for our kitchen.… I just kind of said, [to my husband], "You know, we should [buy the freezer and refrigerator]." Yeah, I mean I thought they were good improvements for the house, generally.

In total, the couple spent $300 on the screen door, $250 on the deep freezer, and $800 on the new refrigerator in the kitchen.

IV .C. Stated Allocations for Paying off Back Debt

Indebtedness was clearly a barrier to savings and asset accumulation for many families; fully 10 percent of total refund dollars went toward paying back debts, including medical and credit card debt, educational debt, and personal loans. Of note, families who used non-profit tax preparation centers were more likely to spend a portion of their refund paying off back debt compared to families who did not, (32 percent vs. 16 percent, respectively). This figure does not represent the total percent paying anything on a debt, as allocations to routine monthly credit payments are included in current monthly expenses, as outlined earlier. Often respondents cited debt as a barrier to asset accumulation, and prioritize debt payment over asset building. Given respondents' stated purposes for their debt repayment, which were often related to asset-building goals, some of the back debt payoff was probably related to social mobility, though we do not categorize it as such.

Larry, a white father of three, worked as a janitor and sometimes drove a delivery truck for extra money. His wife worked as a part-time cashier at a major big-box store. He received a refund of $7,500. Before allocating the credit to anything else, he cleared up a $2,000 debt to his brother, who frequently lent Larry money. “That’s usually what I do, I pay the debt off first and then whatever we’ve got left goes on bills and groceries.… That way I know I’d have that [paid] off. Yeah, that way I could get rid of that, then I could work on the other ones. That would be one less bill!” For Larry, the source of the loan also mattered. “Yeah, it was my brother.… Like I said…, when we’re in a pinch and he helps us, loans us money.” Perhaps in order to preserve the “credit” Larry has with his brother, this debt is prioritized over other, more usurious credit card debts Larry and his wife owe.

IV. D. Stated Allocations for Atypical Expenses

Expenditures for non-necessities, what respondents often referred to as “treats,” were large when one looks at the percentage of households with any expenditures in this category, but fairly small in dollar terms. Fewer than 7 percent of refund dollars were spent in this way, usually as treats for the kids. Families who reported going to non-profit tax preparation centers, compared to families who did not, were less likely to spend refund dollars on treats (32 percent vs. 45 percent, respectively). For whatever reason, many families appeared to believe that once other urgent financial needs are covered, at least some of the money left over ought to 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 introduced above, 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. For my nine year old…, when

> I've gotten a tax return, she's benefited from it because her birthday is in the middle of February. [It] usually falls during school vacation. I know that, that she has a good birthday. Do you know what I'm saying? I know that there is a tax return there and…I always have a little cake at the kitchen table, you know, [so she can have it with her] mother and your father. I didn't have good birthdays. Because of that, I give my girls. And everyone tells me they are extremely spoiled. But they are respectful…. Like I said, I just feel that [the refund] belongs to them.

Marie, a 23 year-old African American mother of a 20 month old son, was making her living at an administrative job at a hospital near where she lived. She spent her refund on getting caught up on bills, but she envisions a more child-focused pattern of allocation in the future: "It's a help – it's helping to me. I don't know of anybody else but it helps me a lot! 'Cause it's like I don't – in the years to come I don't plan to spend it on me, cause it's really like it's his money."

Still more respondents – who may not have explicitly said they define their EITC as "the kids' money" – nonetheless allocated much of the "treat" portion of the refund toward purchases for the children. One white 26 year-old Head Start teacher and mother of two children, 8 and 3 years old, proudly spoke of being able to get "some nice stuff with the Disney characters on them…[such as] the princess bed…. It was just a toddler bed, from her crib."

Families frequently talked about how they long to provide their children not just with their needs, as they do on a monthly basis, but with some of their "wants" as well, items they could not otherwise afford. These "wants" included a rare trip to TGI Fridays or Uno Pizzeria for a meal, a Dora the Explorer or Bob the Builder bedroom ensemble, a computer game or, in rare cases, a pricey toy such as a giant stuffed animal or a Nintendo Wii. Paying for small family vacations (just a day or two away from the normal routine) or hosting a special event like a backyard barbecue for family and friends were also popular. When recounting expenditures for items in this category, many respondents spoke eloquently about how such expenditures made their children feel like "ordinary kids" or made them feel like "real Americans" (see Sykes, Kriz, and Edin, 2010). And these expenditures often helped them to feel competent as parents.

We turn again to the story of Barbara, the 28 year-old white, single mother of two children who lived with her boyfriend and worked as a restaurant hostess, she offered a fascinating story of how she celebrated her daughter's birthday. She offered the girl her culinary favorite, a trip to the "best seafood restaurant in America." Despite the fact that this respondent lived in Boston, a city with hundreds of excellent seafood restaurants, and had an unusually good knowledge of the restaurant trade; she was utterly convinced that only the Red Lobster chain qualified as the "best in America." Unfortunately, the nearest Red Lobster was several hours away by car, in Connecticut, so fulfilling her promise required an overnight trip for the entire extended family.

> For her birthday we went to…Red Lobster. That was about, the hotel was $140, the Red Lobster bill—there was so many of us—but we spent over $500 dollars in Red Lobster…. Only price I know is my nine-year old spent $68 dollars on her meal and ate every bit of it. (*I: You paid for everyone…?)* We split it. We paid half, because it was me, [my boyfriend], the two kids, and you know [four of my family members]. But, I think, um, we put in about $235, $240 dollars. And then gas, you know, all that stuff.

Sheila, a 47 year-old mother of two, told us how tax time allowed her to share experiences with her 13 year-old daughter that would have otherwise been a stretch financially:

> Well me and my daughter we went out to like a little like lunch. We went out to lunch a couple of times like once to Uno and once to Friday's because we want to try it out… We went out and had a little lunch and stuff like that. [Next year, I'll spend it] probably the same way: putting money towards my gas bill if I make more hours..., splurge a little bit you know, take my daughter to lunch or something like that and you know. That's what we did a couple of times—like I said, a couple of times. Go places that you don't go on a regular basis.

Another 5 percent of the refund was donated to friends or relatives with financial needs. As one might imagine, these families were often nested within kin and friendship networks with a good deal of economic volatility. They often depended on these networks in hard times, but must also respond to norms of reciprocity when their own situations improve. Tax refund season was typically by far the best time in these families' annual budget cycles, and an opportune time for needy relatives and friends to make claims on their income (Sternberg-Greene 2010). Given this fact, it is somewhat surprising that allocations to needy kin consume such a small portion of the refund.

Two percent of the refund was used for paying ahead on bills. However, only 3 percent of families identified as filing their taxes at non-profit tax preparation centers used some of the refund to prepay their bills compared to 13 percent of families who went to for-profit centers. Most families who allocated refund dollars in this category paid ahead on routine bills like rent or bills that typically come quarterly or bi-annually, such as car insurance. Families would pay ahead on items they were paying on time that were nearly paid off, such as a car or household furnishings. Karen, a 40 year old, white day care center worker who was raising a 15 year-old son, described using her refund to pay down her normal bills, but also paying ahead on her car.[10] When we asked her, “Which bills did you pay?” She replied, “All of ‘em, I paid off. Actually, I owed a couple hundred more on my car insurance, so I paid that off, and I paid my car off…. I only had like maybe two more [car] payments, so I paid that completely off.”

Lauren, a 26 year-old white Head Start teacher and single mother of two children, ages 8 and 3, paid ahead on her car insurance. We asked, “Did you have in your mind any ideas about how you wanted to spend the [refund] money?”

> Yeah, I already knew it. It was goin’ to my car that isn’t workin’ right now! I insured my car for the year and everything…. I just figured when I got my taxes I would just pay it for the year so I wouldn’t have to worry about...the insurance payment. But then now, you know, now somethin’s wrong with it, so it’s like (laughs) it’s kind of waste of [$1200].

Despite these regrets, Lauren noted that as a Head Start teacher, she had no summer income other than unemployment insurance, so paying ahead made sense at the time.

IV. E. Stated Allocations for Typical Expenses

Respondents said they spent 42 percent of the refund on typical expenses. Catching up on overdue bills for utilities, rent, or the mortgage consumed 13 percent, and for the many families

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[10] Technically, a car note is a long-term debt, though families see it as a monthly bill they have to pay, similar to the way they see a mortgage. We chose to include it under regular necessities if the bill was paid on time, in the back bills category if they were catching up on late payments, and in the paying ahead category if it was paid ahead of time. We used the same logic for respondents paying on a mortgage.

struggling to make ends meet in a typical month, the opportunity to catch up on back bills offered a palpable sense of relief from financial pressure. One 42 year-old African American single mother of two described how she regularly juggled various bills—a strategy which left her frequently in debt at tax time. “You sacrifice one thing to do for another and you sacrifice that one thing for quite some time until it catches up to you and then you gotta concentrate on that and then sacrifice another and when THAT’S cleared, you gotta go and do the other bill!”

Marlene, a 25 year-old African American mother of an infant son, lived with her child’s father and worked part time at a body shop as a receptionist. She described how thrilled she was at the prospect of being able to pay her back bills with her tax refund even though she did not save as much as she wanted to:

> Well what I was excited about, I was like, okay, I calculated everything, I’m like, “I can pay my bill! I can pay!” I was behind on my cell phone. “I can pay my cell phone. I can pay my electricity. I can pay little things. I owe money on my son’s insurance. I can pay that.” Just little things you know. And then I wanted to have [some] left over -- money to save. So we were thinking we could put a thousand in the bank and save it. But everything ended up going towards paying bills. I think out of the money, I spent $300 [on something besides bills] and bought my son some spring clothes.

Getting behind on the bills (as opposed to other kinds of debt) was something that occurred while the respondent’s tax refund was being held by the government, because it was paid out as a lump sum at the end of the year rather than disbursed on a monthly basis. Families who got behind on their monthly bills during the course of the year should have, in theory, had a strong preference for getting the refund on a monthly rather than an annual basis; such families often incurred late fees. However, as our own research and that of others has shown (Barr and Dokko 2006), the preference for annual disbursement, as opposed to monthly, was overwhelmingly strong. For some respondents, the months following tax time were the only period during the year they could be confident about their ability to meet their monthly obligations on time, and anticipation of the credit offered a strong sense of security.

Home heating costs were exceptionally high during the winter of our study, and a substantial minority of our families were in arrears on their payments by the time the refund arrived. Shelia, a 47 year-old African American single mother of two children, ages 25 and 13, who worked seasonally as a tax preparer, complained, “it’s a struggle trying to keep up with those utility bills. It’s really crazy with the gas. In the winter, they can’t really turn your lights off and gas off [but they] start bothering you [in the spring].” Indeed, utility companies across the country are prohibited from shutting off heat between November and March. Thus, the refund is ideally timed to pay the heating bills that accumulate in the meantime.

Funds expended for regular monthly bills pose a challenge to researchers seeking to understand EITC allocation because families who pay for regular expenditures with the refund are probably diverting the portion of their regular income generally reserved for such uses to other kinds of purchases. It is also impossible to separate what portion of these expenses might better be categorized as “treats” (see below).

The “fees” category includes all fees paid in conjunction with tax preparation, along with bank overdraft and check cashing fees. Just over 20 percent of families made allocations of this kind, usually in relation to tax preparation. This percentage is low (and the average dollar amounts are low) because the cost of tax preparation and the rapid refund are invisible to many customers of for-profit tax preparers; they are subtracted from the refund.[11] Families that we identified as customers of non-profit tax preparers, compared to those who went to for-profit tax preparers, were less likely to spend any of their refund on paying fees (8 percent vs. 26 percent, respectively).

Refund dollars in the miscellaneous category are those that the respondent could not account for in enough detail for us to place in a category. Ken, an African American father of two girls offers a story that is quite typical of those who could not fully account for how their refund dollars were spent:

> Okay, so let's see, $1,000, $1,500 on the bills, about $1,500 on the bills, another $800 to pay back your mother-in-law, so that's about $2,300, and the car is about $300, so that's $2,600, and about $600 for the outside cleanup, so $3,200. Okay, so I guess we still have another like $800…. It got spent on whatever bill needed to be paid or whatever, you know? I pinched off of it till it was gone.

IV. F. Future Goals

In our interviews, we found 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

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[11] The average tax preparation fee for a Form 1040 with Schedule A (without itemized deductions) and a state tax return was $115 (National Society of Accountants, 2007). The average cost of a Refund Anticipation Loan (RAL) was $105 (Consumer Federation of America, 2010).

reflected by the large number of respondents with multi-year savings or asset building plans.[12] Interestingly, most assumed 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, and believed they were possible (at least if pursued over several years) because of the annual receipt of the tax credit. 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, especially their own home.

Lucy, a 26-year-old Puerto Rican pediatric medical assistant who lived with her boyfriend, a welder, their two-month old baby and her nine year-old daughter, spent about half of her refund paying overdue bills. Due to concerns over their newborn's health, they used the rest of the refund to move from the apartment they were renting (an inexpensive but barely inhabitable roach and rat infested "hole") to a newly renovated two bedroom unit just down the street. She had initially planned to pay off her educational debt, which totaled $5000, but with the new baby and the dangers posed by the pest infestation and lead paint exposure, the couple saw the move as essential. After watching her parents struggle for years with credit card debt, Lucy steadfastly refused any credit card offers in an effort to safeguard her credit. Thus, the educational debt was the only debt that she had. After cycling through two community colleges without completing a degree, Lucy had recently gained certification at a third community college

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[12] 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 to qualify and others dropped out of the labor force (Ackerman, Holtzblatt, and Masken, 2009).

as a medical assistant and was working full time. The combination of the EITC and the "steady money" from the job in the pediatric ward of the Boston Medical Center motivated her to aspire to homeownership. Over the next two years, she planned to use her EITC to pay off that debt. The year after that, she intended to begin saving for a home.

> I have to fix my credit. [That will] take me a few years. So I have to get that nice and clean and pretty. My whole purpose [i]s to put [my refund] in a bank and… just stack [more] money on top of it [each month]. Let me just [pay off my debt]. If I had good credit, then I would use the money towards a house; like get a loan--put that together--and then get a house.

Jessica, a 26 year-old Cuban American was raising a son, age 9, and an 18 month daughter in a newly renovated apartment she obtained through the Section 8 program after her housing project was demolished. She left high school early but obtained her GED at age 17 and a credential as a phlebotomist soon after that. Her Brazilian boyfriend, who was also the father of her youngest child, traveled back and forth to Florida where, with his father's help, he was in the process of applying for U.S. citizenship. While in town, he worked as a plasterer and paid half of the household bills, but he was home only half the year. When in Florida, he had financial responsibilities to his father and much of his remaining income went to the ongoing expenses associated with his application for citizenship. Jessica got by because she paid only 30 percent of her income for rent under the Section 8 program (her boyfriend was not on the lease) and because she had subsidized child care for both her daughter and son.

When we interviewed her, she worked as a hairdresser, a certification she pursued because she dreamed of being an entrepreneur. But her commissions from work were unpredictable, as were the contributions of her boyfriend. Thus, she was about to return to her old line of work at a neighborhood clinic, where the pay wouldn't be as good as a busy day at the salon, but it would be steady.

Jessica was raised in another densely populated and largely Hispanic section of the city by her grandmother, a Cuban immigrant who was disabled due to a severe case of diabetes. Recently, Jessica's grandmother and her younger sister had pooled their resources and qualified for a rent-to-own unit in a working-class suburb of the city. This event, along with the resources provided by the EITC, had given Jessica big ideas. In that year, she used part of her EITC to compensate for the income instability she was experiencing due to her job and her boyfriend's inability to contribute regularly. She also 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 this obligation. The following year, when her finances were more stable, she planned on paying off the rest of that debt and having enough left over to buy a used minivan because her rusting Toyota was threatening to give out. Then, she claimed, she would be able to save for a home.

> "I'm hoping that eventually I'll be able to do a rent-to-own thing with it…. Yeah, once I'm done with my school loans is when I think I'll try to get into a house. Like, I don't want to get into a house owing $4,000 of student loans!"

Jessica's dreams of upward mobility largely rested on three things; stable income, more regular contributions from her boyfriend, and continued receipt of the EITC. Like Jessica, many respondents anticipated that eventually, with careful use of their EITC, they could accomplish their goals even when, in the current year, nearly all of their refund was dedicated to other purposes.

After 10 years of marriage, Tina and Jose finally believed they had reached the point when they could afford to use their refund to purchase a home. This couple, who lived in a mixed-race housing project in a largely white area of the city, had three children together, ranging in age from 5 to 14. Tina, who had grown up in the project, remembers her childhood days when "whites like me" could walk through the project unharmed. This is hardly surprising, for the development was "whites only" until 1989, the year Tina turned 12. Tina claimed the worst neighborhood in the city was "right here." Lately, she said, she had even begun carrying a knife. Ironically, she blamed the racial turnover for the decline of the neighborhoods, even though her husband, Jose, was Puerto Rican. This family's push factors to move out were considerable: they had two young sons who might feel the projects' pull, where drug dealers were "everywhere" and drug deals had occurred "right outside my front door."

Jose's two jobs, 40 hours at a large chain electronics store stocking shelves, plus a job making donuts on the 2 to 7 a.m. shift 3 days a week at a bakery, and Tina's one day-a-week job as a caterer, had finally generated enough income so they could qualify for a mortgage. Accordingly, they saved the entire $4,000 refund and started house hunting, only to learn that the only city homes in their price range were in the solidly African American sections of the city, in neighborhoods they believed were at least as crime and violence ridden than their own. The suburbs were not an option, since their 14 year-old son had won a place at a coveted exam school that required the couple to live within the city limits. Jose explained:

> We took a class. We filed for a loan through our home bank. We got the loan….and the only thing that we could get for [it] was in that worst area and it was like I couldn't [do it]. It's [going] from worse to worse, you know what I mean? You can't be serious! So, we're gonna try again [when we've saved up more]." It's not that I don't like the houses, it's [the] violence over there. There's

> guns, there's shootings, there's drive-bys. There's…I just wouldn't feel comfortable in a[n] all black area. I just wouldn't. It was too bad.

This couple was clearly determined: they had pared their expenses to the bone, for example they had no cable television or home telephone line, so they could save their refund for their long term goal. Perhaps, they reflected, when their youngest was in school and Tina could return to her prior job, as a hospital dietary aide, the couple would be "rich enough" to qualify for a home purchase in the "right" area. Meanwhile, they would spend some of the refund they had saved on a trip to Target to replenish their children's clothing, and keep saving the rest.

Helen, a 30 year-old African American single mother of three children, ages 10, 9, and 3, was pursuing a college degree at a university an hours' drive from her home. She was scheduled to graduate in a year. She also worked twelve-hour shifts three days a week (Friday, Saturday, and Sunday) as a certified nursing assistant (CNA), which allowed her to attend school and study for classes during the week. Helen anticipated getting a $4,000 to $5,000 refund and planned to pay off some back debt, buy her children new clothes, perhaps take a little vacation, and save roughly 10 percent. But due to her commuting needs, she instead spent the first $1,500 on a more reliable car, a 2001 Chrysler 300M. The car had proved to be a "nightmare" though; it had persistent engine problems and the air-conditioner frequently malfunctioned. Her warranty covered the repairs, but at the moment, the car had been at the dealer for a total of five and a half weeks off and on, which meant she had missed some classes.

Helen had a multi-year sequential asset building plan which began with paying off debt, improving her credit score, and eventually saving for a house. She had tried to buy a house once before, using a prior years' refund as a down payment, but learned the hard way how important it was to take care of her debts first.

> 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].

Layla was a 47 year-old single African American mother working as a secretary at the local university, who had a seventeen year-old son scheduled to start college in a year. Layla's son was an award winning high jumper on the high school track team, and because of this skill, plus his perfect GPA, numerous universities were trying to recruit him. As she spoke, Layla pointed to a stack of letters promising academic scholarships. When we said she must be proud of him, she replied,

> Yeah. Yeah I am because I can take some credit…. I take 25 percent and give him 75 percent because he's done everything he's supposed to do as far as being a good child and being very stringent with his social time to make sure that he achieves high standards academically…. I am very proud of him.

When completing our initial survey, Layla indicated that her first priority was to pay off her credit card bills and then pay on her school loans (totaling $16,000) and other back debt. When asked why she prioritized paying bills, she talked about the dangers of credit card debt and her decision to improve her credit score by keeping current on her credit card payments. Like so many others in our sample, her motivation was driven by a desire to purchase a home in the future.

> I don't like bill collectors. And my mother [told] me the importance of it [paying bills on time]. You know…I got off the track when I was younger and had credit

> card and problems. I [will] straighten all that out you know and then that school loan is my only debt. So I am rebuilding my credit now…. We pay a car note, and I do have one credit card, well two, and they are only $300 limits, but that is to reestablish my credit so that I can become a homeowner, so I can erase the poor credit history, and I am actually doing that. My credit history has risen, and I feel good about it. My points have risen, and it makes you feel good. You know, its one thing to pay all your bills, and have no money, and still owe somebody and be behind. But it’s another thing to pay all your bills and have no money, and don’t owe anybody. You know?

V. Discussion

This paper examines the crucial link between how families plan to spend their tax refunds and how their allocations towards savings evolve over time. We complement this information with rich qualitative data on the decision making processes that underlie allocation behaviors. We also provide new information on the types and amounts of stated allocations. In addition to providing some information about how consumption patterns were affected by receipt of tax refunds, the stated allocations revealed the beliefs of the recipients. To the extent recipients believed and reported that tax refunds supported savings versus payment for typical expenses, for example, their own attitudes about tax policy were affected. The views of other voters and policy-makers may also have been influenced by these beliefs.

Despite the economic precariousness of these families, most planned to invest some of the refund in assets, savings, or other mobility purposes, and many stated that they had made these allocations. Twenty-two percent of families planned to use some of their refund to purchase, repair, or save for a car and 27 percent (or 5 percent more) of families actually allocated part of their refund for this purpose. Fifteen percent of families planned to pay or save for school, but only 3 percent (or one fifth of those who expected to do so) stated an allocation for this purpose. The same proportion planned to use a portion of their refund for a down payment on a home or to save for a home, yet only about half of that number (8 percent) invested in home ownership. Fifty-seven percent of families planned to save some of their refund, with 23 percent of those households hoping to save more than a quarter of it and 12 percent planning to save more than 50 percent of their refund. In the end, 39 percent of families (or 18 percent less than planned) reported saving a portion of their refund. Families often identified debt as the most prevalent barrier to asset accumulation and mobility, which is part of why they spent nearly 10 percent of their refund paying back debt.

It is important to note that the amount of money that families reported as saved initially had decreased by roughly half about six months later, at the time of the in-depth interviews. During the time between refund receipt and the interviews, respondents stated that they had allocated some of these savings as spending on assets (2 percent of the total refund) and some on weathering shortfalls in monthly income (6 percent), usually precipitated by an unexpected financial shock. Other families whittled their savings away on what some referred to as “crackers and cheese”—small expenditures on everyday items (less than 1 percent).

The findings we report here are consistent with work by Beverly et al. (2005) that recipients are more likely to spend their refund on current consumption than on social mobility. However, our findings also confirm work by Smeeding et al. (2000), which shows that a significant majority of recipient households hold the goal of allocating a portion of their refund to mobility purposes. Our data shows that many families follow through towards their goals of allocating money for mobility purposes, at least in part.

As previously noted, 27 percent allocated refund dollars to purchase or repair cars. This is consistent with work by Goodman-Bacon and McGranahan (2008, p. 30), who found that the EITC increased relative average monthly spending on vehicles in February by about 35 percent for families receiving the EITC compared with those who did not. The EITC expenditures on cars appears to reflect the importance of reliable transportation to obtaining and maintaining employment.

Though not all families reported saving with their tax refund, many viewed the EITC itself as a form of savings. Most voiced a strong preference for the lump payment over a monthly disbursement (though this does not tell us what they would do if that option were actually the default, and they had to initiate a process to claim the EITC as a lump sum). Many emphatically stated that they preferred to have the government hold the money until tax time because it allowed them to accumulate a significant amount of money that could be used for large purchases like appliances or cars. Some gave credence to this claim by purposely adding to their refund by claiming no exemptions. The sense of futility families may have felt when looking at their paychecks seems to have been relieved by the thought that some of the money was going toward a nest egg, a pot of money they can actually make decisions about and not merely pay bills with.

The analysis also showed that 42 percent of the refund dollars were allocated to typical expenses, which included catching up on overdue bills, meeting regular monthly expenses, shopping for food and clothing, fees for tax preparation, and so on. This exceeded what families had planned to spend in these categories, though most did plan to spend some portion of their refund in this way. One reading of this discrepancy is that it is an indication of the considerable financial stress that many of the interviewed families were experiencing.

It is also important to note that families who went to non-profit tax preparation centers were less likely to spend their refunds on fees, treats and prepaying bills than families who went to for-profit centers. In addition, families who went to non-profit centers were more likely to use their refund dollars to pay back debt. These patterns may indicate that families who used non-profit tax preparation centers may be more financially vulnerable than families who used for-profit centers. On the other hand, the pattern of spending less on fees and treats could indicate that families who used non-profit tax preparation centers are more frugal.

Another analysis of these data shows that the EITC has other unexpected benefits (Sykes, Kriz and Edin, 2010). As hinted at in the “treats” section of this paper, the refund often allowed parents to do special things for their children that they believed made their children feel like “ordinary kids.” While middle-class children might take for granted their “Dora the Explorer” lamp or “Bob the Builder” bedspread, a computer game, a plush toy, and the like; such items are rare once-a-year luxuries in the lives of many low-income children. Parents would often beam when recalling the pride they felt when some small expenditure made a child “feel like a million bucks.” Living on the economic edge is stressful for both parents and children, as parents work hard just to meet their children’s basic needs of food, shelter, and clothing (Bowman, 2006). The luxury of experiencing freedom from financial worry, even for a few weeks or months, held great value, even if there was hardship in the months ahead. Sykes and her colleagues (2010) show that although the amount of money parents allocated to treats was relatively small (less than 7 percent of refund dollars), the boost to their confidence in their role as providers was nonetheless palpable.

Additionally, unlike welfare, the EITC seems to breed a sense of social inclusion, especially when a parent is able to use the EITC to save or accumulate assets. Social inclusion appeared to be partly derived from the fact that the EITC is delivered as a refundable tax credit and administered through the Internal Revenue System, which serves all workers, not just the poor and near poor. Therefore, families do not have to endure the long wait in often run-down welfare offices to receive the EITC. Also facilitating this sense of social inclusion is the way in which recipients, and perhaps the broader society, perceive the tax refund as "earned" rather than as charity (Sykes, Kriz and Edin, 2010). A sense of social inclusion also seems to increase when the EITC enables small discretionary spending, such as hosting a backyard barbeque for the neighbors or taking a day trip to visit friends on Cape Cod. Sykes, Kriz and Edin (2010) show that by joining in with the consumer culture of the rest of America, even temporarily, the refund engenders a greater sense of being a "real American." This appears to confer added dignity on low-wage work.

In-depth qualitative analysis of respondent narratives also suggests that even among those who do not report devoting much of their refund to savings and asset building in a given year, anticipation of the refund over multiple years often builds a strong sense of future orientation. By recipients' accounts, this anticipation forms the basis of asset accumulation goals, i.e., aspirations that might be the first step toward future mobility. One example of this is that families allocate 10 percent to paying off back debt, often, though not always, for the expressed purpose of improving their credit so they can accumulate future assets. We have no way of knowing whether these respondents would hold similar goals in the absence of EITC receipt. It is worth noting, however, that a four-city study of low-wage workers, conducted just before the

EITC's dramatic expansion in 1994, found far fewer respondents with such aspirations (Edin and Lein, 1997).

Many recipients formed multi-year mobility goals that they believed would be facilitated by the continued EITC receipt. While our evidence is speculative on this point, it is possible that holding such goals is a critical first step toward future savings and asset accumulation. Our study cannot answer the question of the extent to which families who form such objectives succeed in building assets over time. It is noteworthy that these goals are usually predicated on the desire for home ownership. In light of the recent mortgage crisis, many now question the wisdom of this goal for economically precarious households. It is unclear whether this sense of future orientation, as well as actual asset building behavior, would be prompted by encouraging other goals, such as educational investments or retirement savings.

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Table 1. Demographics of Sample.

	Boston Percent	Champaign//Urbana Percent
Race/Ethnicity		
Black	.35	.58
White	.35	.42
Latino	.30	na
Married	.39	.43
Mean Number of Children	2.46	2.51
Housing Status		
Own	.10	.20.
Rent-to-Own	.02	.03
Rent	.18	.44
Subsidized/Public Housing	.60	.18
Other (ex. Live w/Others)	.10	.15
Work Status		
Full Time	.47	.49
Part Time	.36	.26
Combined Full and Part Time	.17	.25
Education		
Less than High School	.14	.04
High School/GED	.14	.22
Some College	.35	.30
Associate's Degree	.25	.35
Bachelor's Degree	.11	.07
Post-Bachelor's Degree	.01	.07
Welfare Status		
Currently On	.10	.01
Ever On	.63	.29
Immigrant	.35	.05
Banking		
Currently Banked	.86	.82
Ever Banked	.98	1.00
Sample Size	115	79

Table 2. Stated Initial Allocations By Category.

	Percent of Recipients with Any in Category	Percent of Refund Dollars in Category
Savings and Assets		
Initial Savings	39.2	15.2
Car Purchase or Repair	27.3	8.2
Consumer Durables	28.9	7.8
Educational Expenditures	3.1	1.1
Home Purchase or Repair	8.2	2.4
Subtotal	66.5	34.7
Back Debt Repayment	29.9	9.5
Atypical Expenses		
Treats	41.2	6.5
Given to Family & Friends	24.7	5.4
Prepaying Bills	7.2	1.5
Subtotal	59.3	13.4
Typical Expenses		
Overdue Bills	44.3	12.7
Current Expenses	56.2	12.9
Non Regular Necessities	54.1	7.6
Fees	20.6	1.5
Misc.	26.8	7.6
Subtotal	88.1	42.3
TOTAL	100	100

Notes: Savings includes money stored in savings and checking accounts and with family members.

Back debt repayment does not include catching up on recent late payments or current monthly payments on loans for cars, education, etc.

Table 3. Stated Allocations of Initial Savings After Six Months

	Percent of Recipients with Any In Category	Percent of Refund Dollars in Category
Spent on Assets	4.6	2.2
Spent on Atypical Expenses	3.6	0.5
Spent on Typical Expenses	18.6	5.7
Savings Remaining	21.1	6.7
Total Initial Savings	39.2	15.2