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It's Not Like I'm Poor

Perceptions of the Earned Income Tax Credit

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Government assistance through tax-refund checks offers financial and psychological benefits to lower-income working families without the stigma of many other means-tested programs

“It’s not like I’m poor,” one father told us during a kitchen table conversation in the Boston metropolitan area. This man’s identity as a worker, not a dependent on government assistance, is key to his sense of self and his dignity, as it was for so many of the 115 Boston-area families whom we met for our study *It’s Not Like I’m Poor: How Working Families Make Ends Meet in a Post-Welfare World*.¹

A Special Kind of Assistance

In America, “poor” is not just a descriptor of one’s bank account balance. It can be seen as a statement of a person’s worth and role in society. An individualistic culture and the historical legacy of the Protestant work ethic mean government support can be stigmatizing. And yet many families depend on help to get by, with more than a quarter of households receiving means-tested benefits in any given month.²

Unlike the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or

subsidized housing, tax-refund checks spare families the feeling of compromising their positive identities by claiming a benefit. For lower-income families with children, that check at tax time is often far more than just a refund of what they’ve overpaid in taxes. It’s a set of government assistance programs—the Earned Income Tax Credit (EITC) and Child Tax Credit (CTC)—that lifts some 9.4 million families over the poverty line.³ Available only to workers—those with earned income—the program features benefits that phase in as earnings rise and then phase out gradually. There are higher income limits for married parents and higher benefits for workers with more children.

Parents in our study described tax time as “better than Christmas” and their refund check as a “bonus.” All year long they struggled to make ends meet, but tax time meant the arrival of a big refund check, ending the year’s financial drought. The money quenches a thirst both financial and psychological, without exacting the costs associated with other forms of government assistance.

The Financial Side

Living paycheck to paycheck was common among the families in our study, many of whom faced volatility in income and expenses. Debt was common, with only five of the 115 families holding no debt. Each month often meant a juggling act as parents figured out how to spread too few resources over too many expenses. Earned income alone covered only some 68 percent of monthly expenses. Tax time offered a chance to catch up.

One quarter of refund dollars went to regular monthly expenses, like groceries or rent. Another quarter went to back bills and debts, such as past-due utilities and credit card bills. The average household that allocated tax-time funds to debt payment reduced its debt load by nearly half. One-fifth of refund dollars were spent on assets, like a used car or furniture. One-sixth went into savings accounts (although much of that was spent within six months). Finally, one-tenth of the tax check went to treats like gifts or eating out.⁴

For some families, the money meant an end to harassing phone calls from creditors. For others, it meant the chance to repair credit scores, secure essential items (say, beds for kids who had been bunking with their mother), or stockpile food to help weather tough times. Occasionally, the needs were even more pressing. Upon learning the size of her refund check, one mother said, “I knew that that was going to keep us out of eviction court.”

The Psychological and Physiological Side

The hardships involve more than dollars and cents. There is stress for parents in trying to ensure their kids have essentials. And it can be hard to keep believing in a more comfortable, financially mobile future. The lump sum at tax time can feel like an answer to a prayer. The bills are paid on time, children’s desires for a Dora the Explorer kiddie table or a video game can be indulged, and the possibility of one day using an EITC check as a house down payment beckons, offering the hope of home ownership and a safer neighborhood.

Relief on the physiological side also matters. Other studies of EITC recipients have found that mothers who received higher benefits were in better health on measures of self-reported well-being, mental health, and risk biomarkers.⁵ And higher EITC benefits have been found to translate into a lower likelihood of stress-related behaviors like smoking and drinking during pregnancy. Hence higher EITC benefits are associated with a lower frequency of pre-term and low-birth-weight babies.⁶

Avoiding Stigma

Although, like most of us, parents on our study had a fuzzy understanding of tax law, they saw their refund check as something that they earned for being a working parent. It made for a positive identity and a sense of “deservingness.” The check was seen as a reward for doing the right thing—working hard to provide for one’s children.

Further, the complexity of the tax code often obscures which monies in the refund check are coming from where. Many families engaged in purposeful over-withholding to guard against owing money at tax time and as a forced-savings mechanism. The refund check, therefore, really did include money parents had earned, on top of whatever EITC and CTC provided. Parents often didn’t know what portion of the refund came from which source. That lack of transparency seemed to provide a further guard against the government assistance being stigmatized.

In addition, unlike welfare, SNAP, or housing assistance, which can require a trip to an office designated only to help those perceived to be asking for a handout, most EITC recipients visit a for-profit preparer at tax season, getting treated like a customer, not a case

number. At such companies, EITC claimants are like other Americans, filing their taxes and hoping not to get hit with a big tax bill.

Higher-income families might be filling out Schedule D to claim their capital gains and losses while lower income families are filing the EIC schedule, but they share in common the experience of filing their taxes. The delivery mechanism is the same for tax payments and refunds. So on the surface, at least, the tax process creates more similarities than differences across socioeconomic strata, meaning it incorporates, rather than ostracizes, those claiming government assistance through the tax system.

This tax-time method of supporting families certainly leaves many behind, particularly those who cannot work or find a job and those without dependent children. But for those who benefit from government support in the form of a tax-refund check, the funds have deep financial and psychological importance and reaffirm positive identities of recipients, who feel they are getting a bonus they earned and not a handout.

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Endnotes

- ¹ Sarah Halpern-Meekin, Kathryn Edin, Laura Tach, and Jennifer Sykes, *It’s Not Like I’m Poor: How Working Families Make Ends Meet in a Post-Welfare World* (Berkeley: University of California Press, 2015). The researchers studied EITC recipient families from the Boston metropolitan area recruited through H&R Block and volunteer income-tax preparers in East Boston and Dorchester and through Head Start centers in Somerville, Charlestown, South Boston, Jamaica Plain, and Roslindale. Approximately 330 completed an initial survey on site. We then drew a stratified random sample of 120 families for in-depth interviews; 115 ultimately took part in the study’s qualitative portion.
- ² See <http://www.census.gov/programs-surveys/sipp/publications/tables/hsehld-char.html>. In our sample of EITC recipients, 86 percent benefited from at least one other government assistance program.
- ³ Chuck Marr et al., “EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children’s Development, Research Finds” (report, Center on Budget and Policy Priorities, Washington, DC, 2015), <http://www.cbpp.org/cms/?fa=view&id=3793>. In addition to the federal EITC, 25 states and the District of Columbia also offer their own EITCs, typically set at a percentage of the family’s federal EITC.
- ⁴ For more information, see Ruby Mendenhall et al., “The Role of the Earned Income Tax Credit in the Budgets of Low-Income Families,” *Social Service Review* 86 (2012): 367–400. In addition to the refund check’s financial benefits to individuals, EITC and CTC effects can be examined at a community level, as the influx of cash into families’ pockets is quickly spent. See Alan Berube, “Using EITC to Stimulate Local Economies” (report, Brookings Institution, Washington, DC, 2006), <http://www.brookings.edu/research/reports/2006/11/childrenfamilies-berube>.
- ⁵ William N. Evans and Craig L. Garthwaite, “Giving Mom a Break: The Impact of Higher EITC Payments on Maternal Health,” *American Economic Journal: Economic Policy* 6 (2014): 258–290.
- ⁶ Hilary W. Hoynes, Douglas L. Miller, and David Simon, “Income, the Earned Income Tax Credit, and Infant Health” (working paper no. 18206, National Bureau of Economic Research, 2012), <http://www.nber.org/papers/w18206>; Hilary W. Hoynes, Douglas L. Miller, and David Simon, “The EITC: Linking Income to Real Health Outcomes” (policy brief, University of California Davis Center for Poverty Research, 2013), <http://poverty.ucdavis.edu/research-paper/policy-brief-linking-etc-income-real-health-outcomes>; and Kate W. Strully, David H. Rehkopf, and Ziming Xuan, “Effects of Prenatal Poverty on Infant Health: State Earned Income Tax Credits and Birth Weight,” *American Sociological Review* 75 (2010): 534–562.