

Tax code details 'not visible' to working poor

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(Phys.org) —Congressional tax-code writers hoped the Earned Income Tax Credit (EITC) would change behavior of the poor by rewarding work. They worried EITC might keep unwed mothers from marrying, or make them have more children to boost tax refunds.

That's just not happening, according to a Cornell-University of Wisconsin study.

But the EITC (and the [tax code](#) as it applies to low-income Americans) had two undeniable effects: "They turned the Internal Revenue Service into a zero-interest savings bank," says Cornell's Laura Tach, assistant professor of policy analysis and management in the College of Human Ecology. "And they created the largest anti-poverty program in the nation."

Tach and her Wisconsin colleague, assistant professor of human development and family studies Sarah Halpern-Meekin, reported on interviews with 115 low-income [tax](#) filers as "Tax code knowledge and behavioral responses among EITC recipients," published online in December by the *Journal of Policy Analysis and Management*.

The researchers asked interview subjects what they knew about EITC. Enacted in 1975, EITC was expanded in 1993 when President Bill Clinton said, "If you work, you should not be poor."

Most interviewees "vaguely understood that they received the EITC because they worked but did not make too much money, or because they

had children; beyond these general understandings, they were unclear about specifics," Tach and Halpern-Meekin reported. "Like most Americans, the details of the tax code were not visible to them."

Follow-up questions sought possible strategies to increase [tax refunds](#):
Marrying? Having more children? Working longer hours?

"I mean, Earned Income Credit is nice, but it's not everything!" said one 25-year-old mother of three. "I'm not going to let it factor into my marriage if I ever want to get married. I'm not marrying the Earned Income Credit. I'm marrying the man I love."

Even more risible was the idea of having more children to boost tax refunds: "Oh, hell no! Because money will be even more tight after," a 23-year-old mother of one exclaimed, laughing. "People who use that as a solution [to money problems] are not smart."

Most low-income workers said their job situations offered no chance to change work hours, even if they wished to. "Workers in unstable jobs with little control over their schedules may find it difficult to control their total annual earnings in line with the incentives of the EIC schedule, and most do not know what those incentives are in the first place," the researchers wrote. "The lack of behavioral response related to work intensity and marriage behaviors ... is due in large part to a lack of perception of the incentive structure, while the lack of behavioral response related to childbearing is ... because the perceived incentives are small relative to the cost of raising a child."

One chance workers saw to gain a little financial control of their lives was the federal government's "W-4 Employee's Withholding Allowance Certificate." By claiming "zero" dependents and exemptions, anyone who wishes can maximize tax withholding from paychecks and, with luck and mindful tax filing, reap a bigger refund when that money is

returned to them at tax time.

Claiming zero is perfectly legal, but it's not always the best way to save because, unlike other savings options, the IRS pays zero interest. Trying to be nonjudgmental, the social scientists acknowledged the reasoning behind claiming zero: Out-of-sight, out-of-mind, those withheld dollars are safe – for months –from impulsive spending. Hefty refunds are something to look forward to in the otherwise-grim tax-filing season, and they protect against the risk of owing money to the IRS at tax time.

Whatever they learned about tax policy, incentives and [behavioral responses](#) of the working poor who opened their books and their hearts to the academics, Tach and Halpern-Meekin said there was one gratifying bonus: "Respondents volunteered their tax filing strategies to us, often unprompted and without embarrassment or evasion, as a way of sharing advice they hoped would be helpful."

More information: Edin, K., Tach, L. and Halpern-Meekin, S. (2013), Tax Code Knowledge and Behavioral Responses Among EITC Recipients: Policy Insights from Qualitative Data. *J. Pol. Anal. Manage.* [DOI: 10.1002/pam.21739](https://doi.org/10.1002/pam.21739)

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