

Low-income earners need to save tax returns

November 23 2016, by Jared Wadley

People with low incomes need to save at least some of their tax returns for rainy days, no matter how hard it is to set aside money, a new study shows.

Researchers at the University of Michigan and Washington University in St. Louis say this particular segment of the population is at high-risk from financial shocks, unable to have enough cash [savings](#) for more than nine days. Ideally, experts say families should have savings to cover at least three months of expenses.

The new study shows that low-income families who deposited a portion or all of their tax return refund into a savings account fared considerably better six months later than those who did not save.

Since many low-income households receive sizable federal income tax refunds, tax time is an opportunity for these individuals to deposit at least some money into savings.

"The need for emergency savings is great among low-income households, who are vulnerable to material hardships resulting from unexpected expenses or loss of income," said Mathieu Despard, U-M assistant professor of social work.

Researchers used data from a household financial survey of a large-scale tax-time savings initiative to examine how the refund was used among more than 7,500 respondents from 2013. The participants had an average adjusted gross income of \$17,534, and the average [federal](#)

[income tax](#) refund was \$2,100.

Only about 9 percent of the sample deposited some or all of their refund into a [savings account](#) or bought a savings bond, the study indicates.

The findings also show that those who saved were less likely to report they were unable to pay the full amount on at least one rent or mortgage payment, or were late paying a bill compared with those who did not save.

"Because they are more likely to meet their needs for health care, depositors may also be less likely to experience health problems," said Michal Grinstein-Weiss, professor of [social work](#) at Washington University.

Other researchers were Shenyang Guo of Washington University, Blair Russell of the U.S. Department of Housing and Urban Development, Clinton Key of Pew Charitable Trusts and Ramesh Raghavan of Rutgers University.

The findings appear in the *Journal of the Society for Social Work and Research*.

More information: Michal Grinstein-Weiss et al. Do Tax-Time Savings Deposits Reduce Hardship Among Low-Income Filers? A Propensity Score Analysis, *Journal of the Society for Social Work and Research* (2016). [DOI: 10.1086/689357](https://doi.org/10.1086/689357)

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