

Tax-return delay could hurt low-income families, study says

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Credit: Washington University in St. Louis

Millions of low- and moderate-income Americans who claim certain tax credits will have to wait weeks longer than usual this year for their federal income tax refunds because of a new law aimed at reducing

fraud.

The delay could prove costly for countless families "in relatively vulnerable financial circumstances," finds a new study from the Brown School and the Tax Policy Center.

The Protecting Americans from Tax Hikes Act (PATH Act) of 2015 requires the Internal Revenue Service to hold refunds claiming the Earned Income Tax Credit (EITC) and the Additional Child Tax Credit (ACTC) until Feb. 15. Because of weekends and the Presidents Day holiday, the IRS said in a [recent statement](#) that affected taxpayers may not have access to their refunds until the week of Feb. 27.

"Many of these families file their returns early and use refunds quickly to pay down debt or for spending on necessities," said Stephen Roll, research assistant professor at the Brown School's Center for Social Development and co-author on the study.

"Delaying refunds will likely lead to additional financial hardships for some of these families, who in previous years had received and used their refunds before Feb. 15," he said.

The study, "Delaying Tax Refunds for Earned Income Tax Credit and Additional Child Tax Credit Claimants," is co-authored by Elaine Maag, senior research associate at the Tax Policy Center, and Jane Oliphant, program manager at the Center for Social Development.

"For the average American household, the tax refund is a nice yearly bonus that likely does not impact their finances in any major way," Roll said. "However, for EITC or ACTC households affected by this delay in the refund, the tax refund is often the biggest single payment they'll receive in a year.

"Imagine that you didn't have much in savings and your income was entirely taken up by your expenses," he added. "Then imagine that, without much warning, an entire month's worth of your income just didn't come for two or three weeks longer than you expected. That's potentially what these households are facing."

For the 2016 tax year, the Tax Policy Center estimates that on average EITC beneficiaries with children will receive a \$3,314 [tax credit](#). The median EITC or CTC [family](#) with children reported only \$400 in liquid assets, and 69 percent reported credit-card debt at a median rate of \$2,000. Fewer than half of these families reported they could access \$2,000 in an emergency, and barely one-third are homeowners.

What can impacted families do?

"Filing early may help, but only to an extent," Roll said. "Even if you file on Jan. 23, the first day that the IRS begins accepting returns, there will still be a delay until at least the 15th of February. Filing early ensures that families will receive their refund as quickly as possible."

Beyond that, Roll said, there are steps families can take to minimize the impact of this delay.

"For example, families should be aware of this delay and try to avoid taking on extra debt, and high-cost debt in particular, at a point when they may have to wait weeks to pay it off," he said. Additionally, families may be tempted to rely on 'refund anticipation loans' that function as short-term loans to provide the expected value of the refund early.

"While these loans can potentially provide families with quick cash when they need it, they can also come with a number of fees or hidden costs that may cause more harm than good," Roll said.

More information: Delaying Tax Refunds for Earned Income Tax Credit and Additional Child Tax Credit Claimants.

[www.urban.org/sites/default/fi ... edit-claimants_1.pdf](http://www.urban.org/sites/default/files/2017/01/11/136611/136611_edit-claimants_1.pdf)

Provided by Washington University in St. Louis

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