Would modifying payment of the earned income tax credit help struggling families?

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Receiving the earned income tax credit in installments rather a lump sum as part of their tax refund reduced recipients' feelings of financial stress, unpaid bills and food insecurity, according to a recent study by lead author Karen Kramer, a professor of human development and family studies at the University of Illinois. Credit: L. Brian Stauffer

he federal earned income tax credit mitigates the tax burden of low- to moderate-income families by providing a bigger tax refund. University of Illinois human development and family studies professor Karen Kramer was the lead author of a recent study that explored whether receiving the EITC in four installments rather than a lump sum benefited more than 500 families living in Chicago public housing. Kramer spoke with News Bureau education editor Sharita Forrest.

What were the focal points of your study?

Our group—which included faculty members Flavia Cristina Andrade, Andrew Greenlee and Ruby Mendenhall and two graduate students—used data from the EITC Periodic Payment Pilot program that was conducted in Chicago during 2014-15. In the program, the city contracted with a local community tax program called the Center for Economic Progress to evaluate whether paying the EITC in installments helped families achieve greater economic stability and decreased their financial stress by augmenting their savings and disposable income.

Participants self-selected into two groups: More than 330 participants chose to receive up to half of their expected EITC for the coming year as four advance payments in their paychecks, while the remaining participants received the traditional lump sum at the end of the year as part of their tax refund.

We surveyed the families in the two groups over the course of the year, examining eight indicators of perceived financial stress, such as borrowing money from friends and family, coping with unpaid bills and experiencing food insecurity.

Did receiving the EITC in periodic installments rather than a lump sum benefit struggling families'

finances?

Many families were living paycheck to paycheck and needed an additional, regular source of income. When they didn't have it, they were forced to borrow. It's a snowball effect.

The results showed that people in the quarterly payment group experienced a significant decrease in all of the stressors—they borrowed less money and were less likely to be food insecure and to have unpaid bills.

At any given wave of the study, more than 90% of participants reported having no savings or disposable income, and we found little evidence that the periodic payments positively affected that. On average, people in the quarterly payment group saved only $37.53 more than people in the annual payment group.

Did the two groups' perceptions of financial stress differ?

People who received the EITC in installments perceived higher initial levels of financial stress when the study began. Before they received their first payment, they were more likely to borrow money and to have unpaid bills.

However, as they received the payments, their levels of perceived financial stress consistently declined over time. These households were better able to manage bills as they arose, lowering their overall stress and increasing their well-being.

By contrast, financial stress increased among people in the lump-sum group, and it only declined after they filed their taxes and received their

refund.

Since the participants chose which group they were in rather than being randomly assigned to a group, could there have been differences between them that affected the results?

There may have been differences in their beliefs or reasoning that affected their money management skills.

Is such a program as the one your group studied feasible for scaling up to a national level?

I believe it is, but we did not examine the administrative feasibility of expanding the program nationally. We intend to seek funding to expand this research, but we still need to finish some other studies with qualitative data that we gathered from the participants.

However, we believe that were such a system created, the benefits would outweigh the time and resources required initially and the ongoing maintenance and monitoring costs.

The positive impact on recipients' well-being, and the even greater positive impact on individuals, families and society as a whole, could be achieved with little cost to taxpayers.

Provided by University of Illinois at Urbana-Champaign

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