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Transcript for “Kids, marriage, and work: Behavioral decisions around the EITC”

Featuring Sarah Halpern-Meekin

Hosted by David Chancellor

In this podcast, IRP affiliate Sarah Halpern-Meekin talks about her research on how recipients of the Earned Income Tax Credit understand and respond to the incentives of the EITC, especially regarding decisions about childbearing, marriage, and earnings.

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[Chancellor] Hello, you’re listening to an August 2014 podcast from the Institute for Research on Poverty at the University of Wisconsin–Madison. I’m Dave Chancellor.

I recently had the opportunity to talk with Sarah Halpern-Meekin, a professor in UW-Madison’s school of Human Ecology. In early 2014, Halpern-Meekin and her coauthor Laura Tach of Cornell published a paper in the *Journal of Policy Analysis and Management* on their qualitative study about how recipients of the Earned Income Tax Credit responded to the incentive structure of that program.

To get started, let’s turn to Professor Halpern-Meekin to find out how she got started on this research.

[Halpern-Meekin] The paper is part of a larger research project that we’ve been doing. We started in 2007 working on this project with Kathy Edin and Jeff Kling and Ruby Mendenhall. And we did interviews—we were based in Boston, and that’s what the study we’re talking about today is based on interviews with EITC, Earned Income Tax Credit, recipients in the Boston area. There was a companion study that Professor Mendenhall was doing in Urbana Champaign. So we interviewed Earned Income Tax Recipients about a whole variety of topics and there have been a series of papers that have come out around those and we have a book that will be coming out this fall called *It’s Not Like I’m Poor* that gives a much more detailed portrait of families’ lives and how the Earned Income Tax Credit plays a role in their lives.

[Chancellor] The Earned Income Tax Credit, or EITC as it’s commonly called, is a government benefit targeted at working people with low to moderate incomes. It works through the tax system and is designed to supplement a person’s earnings by reducing the tax they owe—and it’s refundable, so, in many cases, it does lead to a refund. Although there is a small EITC benefit for people without children, the benefit available to those claiming kids as dependents can be significant and it’s more generous based on the number of kids a person has— but only up to three. It’s structured so there is a phase in period in which the credit increases as a person’s income increases. It then plateaus and phases out more slowly.

[Halpern-Meekin] So often, and not just with the Earned Income Tax Credit, but with social welfare policies in general, people are concerned about what sorts of direct or indirect incentive structures may be created by the policy. So, are there more benefits if you don't get married, are there more benefits if you have an additional child? That is, are we incentivizing people to engage in behaviors that we may not think government policy should be incentivizing people to do?

[Chancellor] So, first Halpern-Meekin and Tach began trying to find out what people actually knew about the EITC.

[Halpern-Meekin] Because if people are to respond to incentive structures, they need to know that they exist. Or, in all likelihood, they would be more influenced by them if they know they exist. So we first tried to figure out just what people knew first. And we found that many people knew in general about the EITC. They didn't really understand the structure of the benefit or the specifics. So people would know that they got—we were talking to all people who had received the EITC—and people would know that part of their refund was from the EITC and that they got it because they didn't earn a lot and because they had kids.

[Chancellor] While the people they talked to were aware that the number of kids they have plays into the calculation and generosity of the EITC benefit, Halpern-Meekin and her colleagues didn't find any evidence to suggest that people were having more children to increase the size of their tax return.

[Halpern-Meekin] When we asked 'how would it affect your finances? Would you have more children?' People would say 'people who do that, people who have more children to get more benefits. . . ' one woman said 'that's not smart.' People understand that the cost of children far exceeds the amount of an increase in the benefit you would see at tax time so financially it doesn't even make sense. Yes your benefit would increase, but the costs of having that additional child far exceed the increase in your benefit. People also rejected the morality of that. One woman told us 'my children aren't moneymakers.' So people don't see that as a good reason to have children and not a smart reason to have children either.

[Chancellor] Just as there is concern that people might change their childbearing decisions to maximize the EITC, there's also a concern that EITC recipients might hold off on marriage because of the potential effect it could have on the size of their tax refund. But Halpern-Meekin says they didn't see decisions about marriage or divorce being based on the incentive structure of the EITC.

[Halpern-Meekin] Those who were single often said 'oh, marriage is the furthest thing from my mind right now. A lot of these people were single parents, and they were focused on getting by financially, on taking care of their kids. And they were saying, I'm not thinking about marriage, that's just not on my mind right now. It really didn't seem to be part of the way that people were thinking about those decisions. In this and other work, we did hear people talking about 'well, maybe we wouldn't get married if it would mean that I'm no longer eligible for Medicaid, for example'. That's a huge impact on your day to day life. But we didn't hear a similar story around your tax refund.

[Chancellor] However, they did hear people talking about changing the marital status they *indicated* when they filed their taxes.

[Halpern-Meekin] We did hear stories from people of 'oh, I would just continue filing as head of household if I got married.' That's certainly much easier than actually changing your marital status in

real life. And so we heard from both married and single people that they would potentially do this, file as head of household, have both spouses file as head of household, which is not legal. People did not seem to understand that it was not legal, and when we heard people talk about the way that they manage finances in their household it kind of made sense to us, this logic. Often these single parents aren't marrying the biological parent of their children and so this marriage is happening maybe a little later on in life. And so the single parent is maybe somebody who has been running their own household for quite some time, they have their own children who aren't shared with this prospective spouse, and often people say 'I'm going to keep my finances separate from my spouse anyway.' And so that idea of continuing to file as head of household even though you should be filing as married filing jointly, for example, made sense to people. 'I'm still head of household even though I've gotten married. I still have my dependents, my income, I still have my finances and so why should we be forced to join those together by the tax code?'

[Chancellor] Deciding who claims children as dependents can have big effects on how EITC benefits are dispersed—and Halpern-Meekin reminds us that there are a lot of complicated rules about who can claim a child when it comes to taxes in general and, indeed, different rules for who can claim a child for the Earned Income Credit.

[Halpern-Meekin] You're only able to claim children who are related to you legally, in terms of marriage, or by blood. And so what that would mean is that while a step parent can claim a step child for the purposes of the EITC, a cohabiting partner can't claim the other partner's children. And so the fact that that legal connection is absent means that they can't claim them. And we see a lot of cohabitation, particularly among lower income families and so in that sense, again, the tax code is maybe a little out of sync in terms of the way that people are experiencing their family lives. We also see a lot of resource sharing across households. And so people felt like, 'well, my mom helped support the kids this year; I have three kids, I'll claim two, she'll claim one. That makes sense.' It depends on what the actual arrangement is there, whether or not that meets IRS rules.

[Chancellor] Halpern-Meekin and her colleagues also looked at the extent to which people might limit their work hours, and thus their income, to get a bigger EITC benefit.

[Halpern-Meekin] There doesn't seem to be strong evidence that that is going on quantitatively, and I think we can give some insight in to why when we talk to people qualitatively. And one reason why is that people have relatively little control over how much they work. Often, people are working in service sector jobs where their schedules vary from—even from day to day—and they don't have a lot of power in affecting what their schedules will be.

[Chancellor] As we start to think about the policy implications that we might draw from this research, one of the things that stands out is recipients' lack of knowledge about the structure of the program.

[Halpern-Meekin] Somebody might hear what I'm talking about or read this study and think 'well, people need to be better informed—people need to understand those incentives. And, I think there are barriers to that. It's not just lower-income people who don't understand the tax system. Nobody understands the tax system. There's a classic study that Jeff Liebman and a colleague did about asking economists about marginal tax rates. And economists couldn't accurately report their own marginal tax rates. So this is just really difficult to understand and so I think getting people to accurately perceive

incentives—there's a really high barrier there. Also, in our larger study we see that there are some benefits to recipients of there being some vagaries around the EITC which is that people don't tend to see it as a handout. It's not a welfare program like food stamps or public housing. It's not stigmatized. And if you get people to more accurately understand, 'oh, this is the part of your tax refund that's a handout,' then there may be an increase in stigma, people might not feel so good about that. Maybe some people think that's a good thing, maybe some people think that's a bad thing. But changing the opaqueness of the tax system could have an impact on how people perceive and emotionally experience and financially allocate those benefits.

[Chancellor] Halpern-Meekin says that for her one of the big questions is how the tax code can be made to reflect the ways that people actually live their lives.

[Halpern-Meekin] I think that getting the tax code to actually do that when it comes to a lot of the instability and fluctuation that people have in their lives and when it comes to their family lives, it's very challenging and I think that's probably the next area coming out of this study, that people should be focusing on is how do we get tax policy to make sense to somebody who wants to get married and keep their finances separate but maybe should still be eligible for the EITC. So thinking through some of those issues. If we have two parents who are both financially contributing but not in a romantic relationship with one another, why should only one of them be able to claim a child for EITC purposes. Thinking through some of those questions that our more complex families today raise, I think is really important.

[Chancellor] Many thanks to Sarah Halpern-Meekin for talking about these issues with us. You've been listening to a podcast from the Institute for Research on Poverty.