



Center for Research on Fathers, Children and Family Well-Being

Potential Impacts of the NCP EITC on the Spending and Saving Habits of Non-Custodial Fathers

The Issue

The federal earned income tax credit (EITC) is now the largest anti-poverty program in the U.S. providing payroll-tax relief and work incentives to thousands of families headed by low-wage workers. In 2009 the EITC lifted 6.6 million people out of poverty (Center on Budget and Policy Priorities, 2009). The dollar amount of the credit is based upon a formula that includes an individual or couple's income for the year as well as the number of dependents in the household. The maximum credit for a childless worker is a fraction of the maximum credit for a single custodial parent.¹ Additionally, the earnings limit for the maximum credit is significantly lower for childless workers. For the purposes of the federal EITC, non-custodial parents (NCPs) are considered childless workers, regardless of the amount of child support, or other financial contributions they provide to their children.

For the 2008 tax year, a single parent with one child who earned between \$8,580 and \$15,740 was eligible for the maximum credit of \$2,917. On the other hand, a childless worker could only earn between \$5,720 and \$7,160 in order to receive the maximum credit of \$438. Thus a single parent fully employed at minimum wage (2008 gross earnings would have been \$12,812), would have received the maximum credit, while a childless worker with the same earnings would only have qualified for a maximum credit of \$48 (Scott, 2008).²

Policymakers are seeking ways to increase the childless worker credit and provide additional support to NCPs who support their children financially; because NCPs with low incomes and childless workers with low incomes are two populations whose incomes dip below the poverty line after taxes. In 2006 New York State (NYS) became the first state to enact an EITC for non-custodial parents (the NYS NCP EITC). Given that it was the first NCP EITC in the nation, policymakers are interested in how it is working.

Our Study

In the credit's first year the take-up rate was low; only 5,280 non-custodial parents (12% of all New York State income-eligible non-custodial parents) received the credit (Sorensen, 2010). In order to explore why so few non-

custodial parents have received the credit, and how to find out how potential recipients think they would spend the credit, CRFCFW undertook a qualitative study of participation and hypothetical allocation of the NYS NCP EITC among non-custodial fathers. Funding was provided by The Ford Foundation and The Open Society Institute.

This brief is the third of four policy briefs from the study. The first brief explains how the credit's eligibility criteria limited the total number of non-custodial parents who could file for it. The second brief provides a profile of the employment backgrounds and conditions of the fathers in the sample. Ineligibility was not the only significant barrier to filing for the credit; most NCPs we spoke with had not heard of the NYS NCP EITC prior to participating in our interviews, which were conducted in 2009.

This brief focuses on how these NCPs might have used the credit if they had been eligible and better informed, and we compare their hypothetical credit expenditures to their typical weekly expenditures.

Methods & Sample

The sample, primarily recruited from responsible fatherhood programs in New York State's *Strengthening Families through Stronger Fathers Initiative*,³ consisted of 43 non-custodial fathers with low-to-moderate incomes. (Four of the 43 participants were recruited from H&R Block locations in New York City.) Thirty-nine interviews were conducted at fatherhood program sites; two in Manhattan and one site in Chautauqua County. The race/ethnicity of the sample was as follows: 19 Black, 14 Hispanic, 1 Other, 9 White. All of the White respondents were recruited at the Chautauqua site.

1. The example provided is based upon the 2008 credit figures for a single (custodial) parent with either one or two children.
2. Annual minimum wage (full time) for 2008 is calculated as 29 forty-hour weeks at \$5.85 per hour and 23 forty-hour weeks at \$6.55 per hour (federal minimum wage increased from \$5.85 to \$6.55 on July 24, 2008).
3. New York's *Strengthening Families through Stronger Fathers Initiative* was funded under the same legislation that established the NYS NCP EITC. The initiative's programming was designed to serve unemployed and underemployed non-custodial fathers.

Participants completed a short multiple choice survey, designed to capture demographic information and assess eligibility for the NCP EITC, before they were engaged in one-on-one semi-structured interviews (approximately one and a half hours in length). The interviews explored fathers' awareness of and eligibility for the NCP EITC, and reviewed their personal finances (annual income reported in 2008, current income, taxes, savings, bills, and debt).

Interview transcripts were subsequently analyzed for responses to open-ended questions, including the following.

- *What are your top three weekly expenditures?* (n=40)
- *If you were to receive an NCP EITC (hypothetical credit amounts were totaled for each participant based upon their 2008 earnings), how would you spend it?* (N=43)
- *Do you save? or Would you save any of this (hypothetical) NCP EITC?* (n=32)

Responses were grouped into seven expenditure categories: debts/bills; family/home; transportation; child/children⁴; child support; self; and savings. For this purpose, "family/home" expenditures include consumables such as food and clothing; whereas "debts/bills" includes monthly rent and utilities.

The majority of participants (78%) mentioned paying bills or debts as a priority among their weekly expenses. There

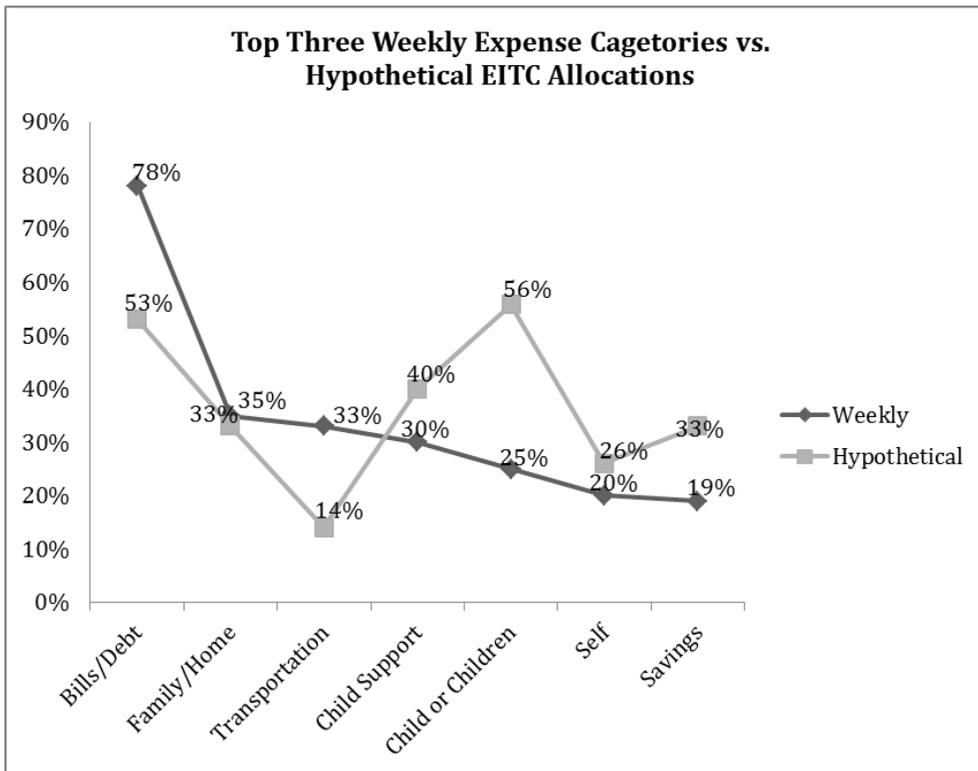
was less commonality among the remaining categories: self (33%); family or household (30%); child support (30%); child or children (25%); and savings (19%).

While paying bills and debt was the most frequently cited weekly expenditure, spending on a child or children was the most frequently cited expenditure category for the hypothetical NCP EITC refund. Fifty-six percent said that they would spend an NCP EITC refund on their child(ren). In contrast to reports of top weekly expenditures, 53% said that they would spend such a credit on bills and debts.

Fathers were also somewhat less likely to spend the credit on themselves (26%); instead, they were slightly more likely to indicate they would allocate some of the credit to a family or household expenditure (33%) or to allocate it to child support payments (40%).

The biggest difference between regular expenditures and hypothetical credit spending emerged around savings. Thirty-three percent of fathers reported that they would plan to save a portion of the NCP-EITC, in contrast to 19% who listed saving as a weekly priority. An even greater percentage of fathers indicated that they would save a portion of the NCP EITC refund in response to the short survey question, "Do you plan to save any of your actual (or hypothetical) refund?" (yes or no). Twenty-four out of 39 fathers (61%) noted that "yes," they planned to save a portion of their EITC credit.

Figure 1



Although many fathers indicated that they hoped to save, the more they discussed the details of their financial situations the less likely they were to express confidence in plans to save. This is a familiar scenario. Although they planned to save a portion of their EITC refund, single mothers also ended up spending more and saving far less than originally intended (Mendenhall, Edin, Crowley, Sykes, Tach, Kriz, & Kling, 2010).

4. Most participants did not differentiate between a child or children that lives with them versus a child or children for whom they have a child support order. Expenditures in this category are separate from formal child support payments.

A Closer Look at Child Support

Seventeen fathers indicated that they would spend a portion of the EITC on child support. Of those 17, eight later elaborated that the NCP EITC would help them alleviate their child support debt. An additional six fathers who had not included child support as a hypothetical EITC expenditure also said that the NCP EITC would help them alleviate their child support debt. Counting both those fathers who replied that they would spend the credit on child support, and those who replied that the credit would help them alleviate their child support debt, a total of 23 fathers (23/43 = 53%) indicated that they would use the credit for child support.

Of the 20 fathers who did not mention using the credit for child support, only six were known to have arrears. The rest were either current on their orders (11), did not have an active child support case (two), or their arrears status was unknown (one). This means that the majority of fathers who were behind on their child support payments would use the EITC for child support.

A Closer Look at Spending on Children

Although only a quarter of participants listed expenditures for children as one of their top three weekly expense, nearly all of the fathers described making regular purchases for their children. The most frequently cited purchases were for necessities such as clothing, food, and diapers. The next most frequently cited category included expenditures that met their children's special needs (money to pay get a daughter's nails done, because this was important to her) or provided opportunities for fathers to build (or sustain) relationships with their children (going out to eat or going to the movies). In addition, a number of fathers mentioned that they give their children, and/or the mothers of their children, cash or pay household bills. Finally, a number of fathers also mentioned that they invest in their children's education, either through purchasing books and school supplies, or by paying for school fees.

A Closer Look at Savings

Of the 32 respondents in our study who were asked the long interview questions about saving, a third stated that they would save for the sake of saving, or because they believe that saving promotes financial security and is an indication of maturity and responsibility.⁵ A third of our respondents listed various asset-like expenses, for which they are saving, or would save: a car, home improvements, or a planned move.

Although nearly all of the participants who were asked about savings had clear ideas about the types of things for which they would *like* to save, the vast majority were not currently saving. Only six out of the 32 participants who were asked about their savings habits indicated that they were currently saving money. All six of these participants

stated that they either saved money for asset-like expenditures similar to those listed above, or that they were saving it for their children.

Prior studies show that many custodial parents intend to save the EITC for asset-like purchases. For example, Smeeding, Phillips, and O'Connor (2000) found that about half of surveyed recipients of the federal EITC, the majority of whom were single parents, planned to use the credit for asset building, or what Smeeding, et al. also described as expenditures that would serve to "improve economic or social mobility" (e.g. moving, home improvements, cars, education, saving, and paying off debt) as opposed to making expenditures "to make ends meet." Those with higher incomes and those who were expecting the maximum credit amount were more likely to report plans to use the funds for economic and social mobility-enhancing purposes. Those with lower incomes were more likely to plan to use the credit to make ends meet.

Summary

Few fathers knew about the NCP EITC. For the most part, fathers would focus spending of the NCP EITC in ways that would benefit their children rather than for some of the weekly expenditures on which they typically spend (e.g. transportation). As with their weekly expenditures, most fathers would spend part of the refund on debt or bills, but they stated that they would be slightly more likely to spend the funds on their children than on debts/bills. They would also be more likely to consider saving a portion of these funds.

Although fathers had clear ideas about what they would like to save for, most felt their current economic situations did not allow them to do so. This closely mirrors aforementioned responses (Mendenhall, et al., 2010) from custodial mothers on how they would use their—much larger—federal EITC; they indicate that they would like to save, but find that they are ultimately unable to do so.

Mendenhall et al. (2010) also found that many non-custodial parents in their study sample intended to allocate some portion of their credits. Ultimately, the majority ended up saving and spending on assets far less than intended; however, the anticipation of receiving the credit in the years to come still functioned to create what Mendenhall, et al. described as a "strong future orientation" consisting of multi-year savings and/or debt reduction plans.

Among the credit allocation projections from the NCPs in our sample, we found fewer reports of hypothetical plans for saving or asset-building. We posit three possible explanations that NCPs were less likely to think that they would

5. Due to time limitations only 32 of 43 respondents were asked long interview questions.

use the credit for saving or asset building. First, because NCPs do not reside with their children, they feel that they cannot share the benefits of expenditures such as home repair, or purchase of durables as easily as custodial parents. Second, low-income NCPs are more likely to be in debt (often due to falling behind on child support obligations), which is typically a barrier to saving (Mendenhall et al., 2010). A third reason that NCPs are less likely to make asset-like purchases with the credit is that the value of the NCP EITC is significantly lower than that of the federal EITC received by custodial parents.

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