

# Understanding Low- and Middle- Income Families

## Administrative Issues

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# Why is anyone talking about this?



- Growing income inequality (Congressional Budget Office, 2019)
- Growing income volatility
- Multiple hardships at low end of distribution
  - Food insecurity
  - Missed or delayed health care
  - Inability to meet basic needs
  - Childcare problems
- Can address all of these with additional programs / cash

- Long history of redistributing income
- Growing emphasis on tax cuts versus spending programs
  - e.g. refundable credits
- Largest anti-poverty program for working age families is in the tax system

# Difference between taxes and transfers



- Transfer benefits
  - Based on household or “family”
  - Evolve throughout the year
  - Determine eligibility, begin paying benefits- contemporaneous with need - until eligibility changes
- Taxes
  - Based on tax units
  - Annual determination
  - Paid for the year after the year eligibility is established

# For children, tax programs play a huge role



Billions of 2018 dollars

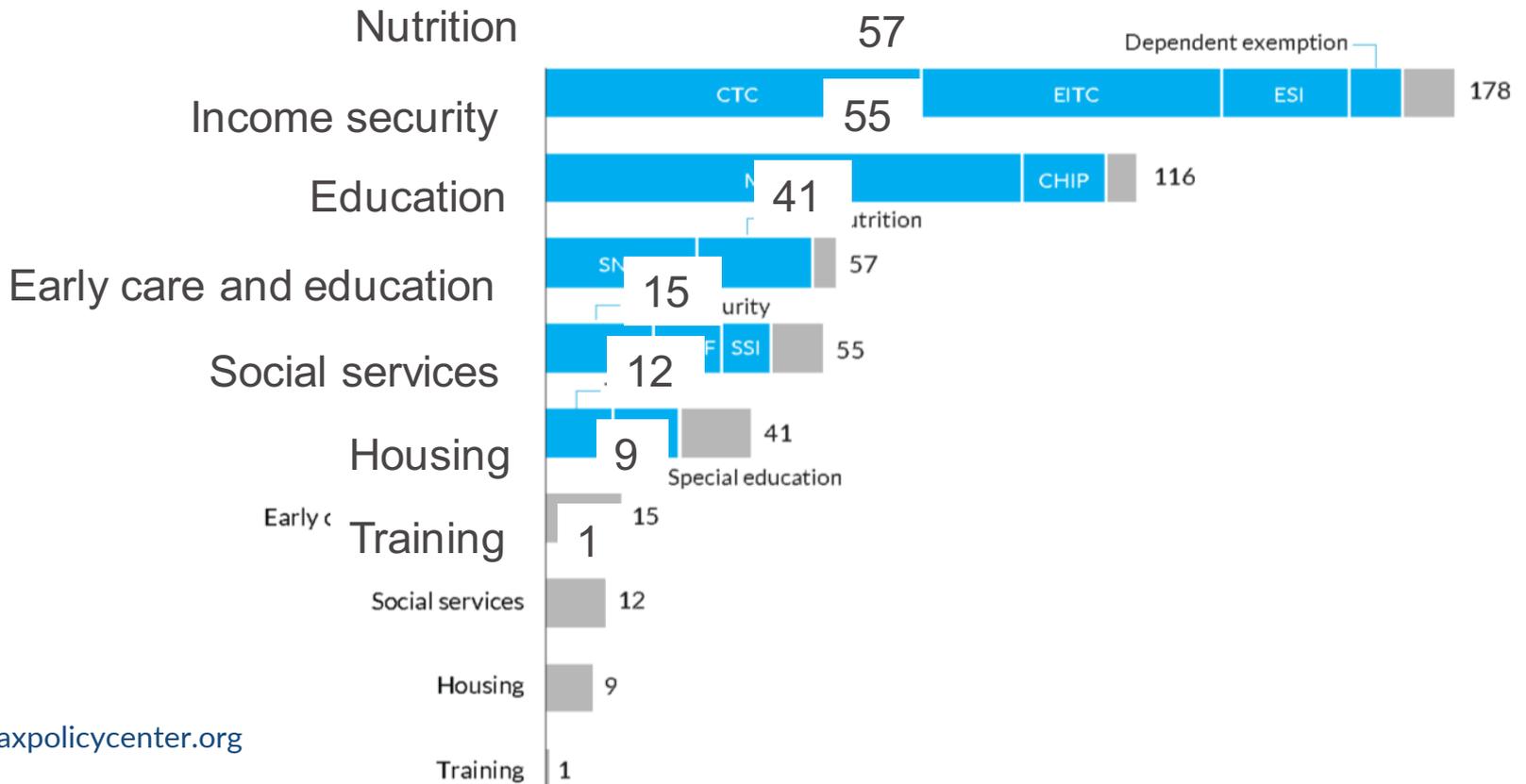
FIGURE 2

Tax provisions on Children by Category and Major Programs, 2018

178

Billions of 2018 dollars

■ Ind Health  
■ Two or more programs



- Administratively convenient
  - IRS has a lot of information needed to calculate benefits
  - Easier to claim benefits
- Reduced (no?) negative stigma
- Political will

- Diverts mission of tax system
- Annual payments – fails to recognize how poor people live their lives
  - Can be ill-timed for people who change, lose, or gain jobs
- Rigid definitions of who benefits / blunt instrument
- Largely excludes non-workers (except spouses) – except for 2021 CTC

# Annual Eligibility? Responsive enough for today's families?

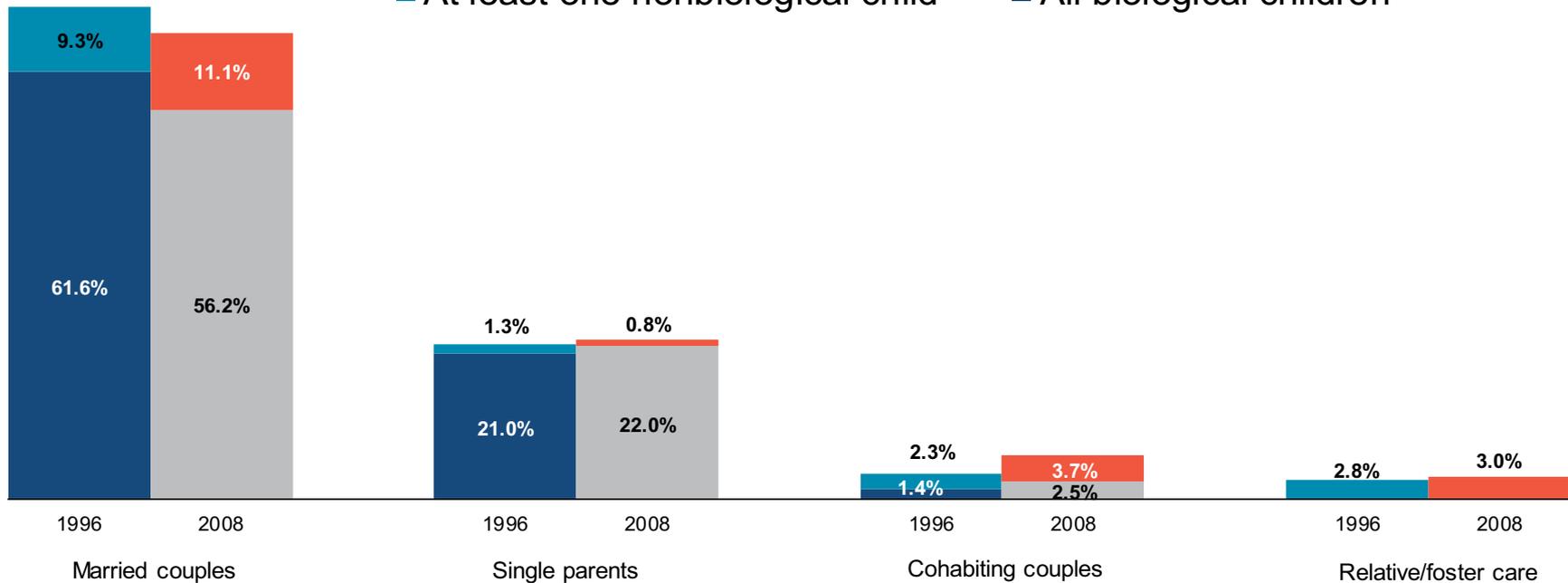


- Childbearing within marriage
- Married parents
- Low divorce rates
- Children born outside marriage
- Cohabitation
- Multigenerational households

# Share of children in 1996 and 2008, family type



■ At least one nonbiological child      ■ All biological children  
■ At least one nonbiological child      ■ All biological children



**Source:** Sample of children in the 1996 or 2008 SIPP panel in December 1996 or 2008 in households with all children age 17 or younger.

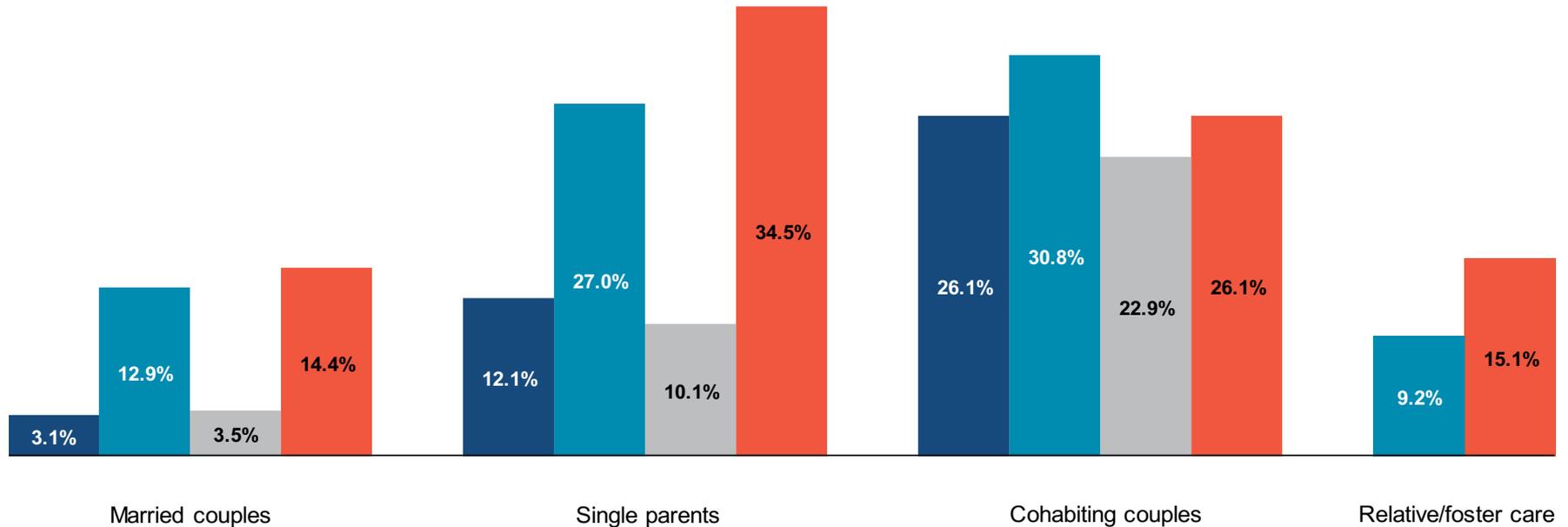
**Notes:** SIPP= Survey of Income and Program Participation. Biological children include biological or adopted children. "All biological children": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

# Families with at least one nonbiological child most likely to change across years



- 1996, all biological children
- 2008, all biological children

- 1996, at least one nonbiological child
- 2008, at least one nonbiological child



**Source:** Sample of children in the 1996 or 2008 SIPP panel in December 1996, 1997, 2008, 2009, 2010, or 2011 in households with all children age 17 or younger, for whom the child's parents or household reference person appear in the SIPP one year later.

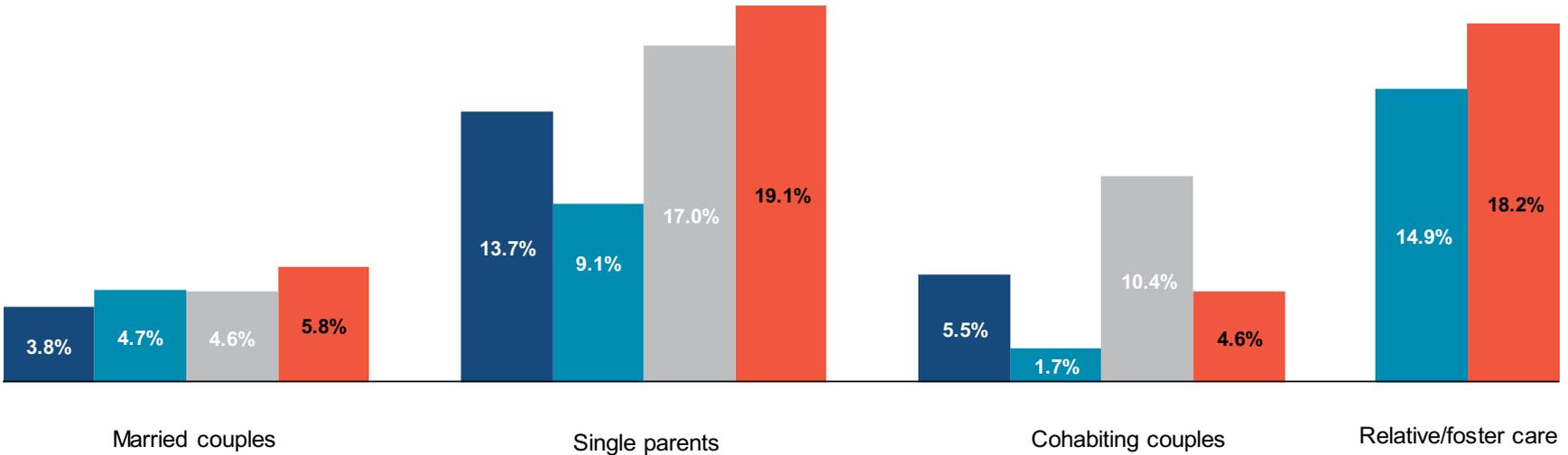
**Notes:** SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All biological children": All children in the family are biological children of both parents. "Some biological children": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": no children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

# Share of children in multigenerational families



■ 1996, all biological children  
 ■ 2008, all biological children

■ 1996, at least one nonbiological child  
 ■ 2008, at least one nonbiological child



**Source:** Sample of children in the 1996 or 2008 SIPP panel in December 1996 or 2008 in households with all children age 17 or younger.

**Notes:** SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All biological children": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

# Annual Payments : Do they meet the needs of EITC recipients?



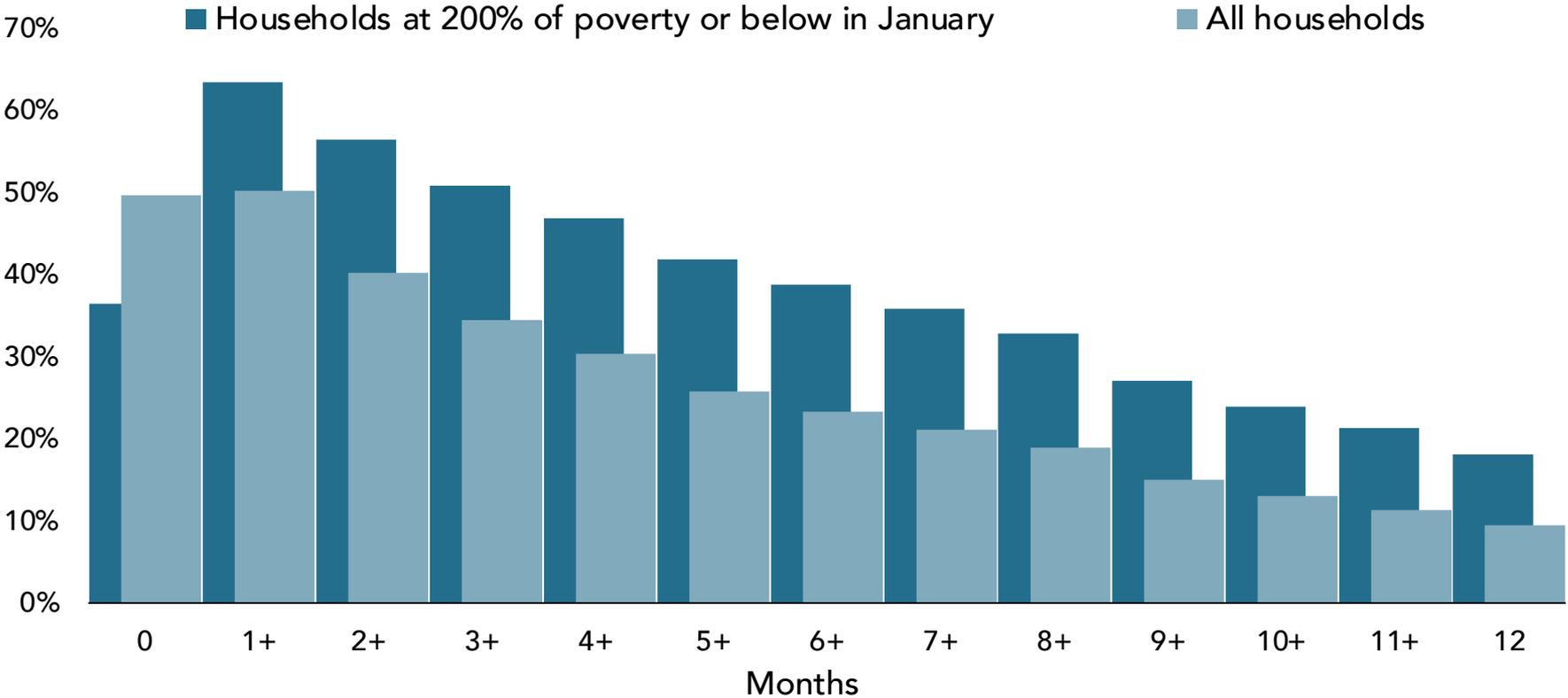
Tax refunds generally come as one payment, after eligibility has been established. Large share of annual income.

- Big purchases
  - Transportation +
  - Durable goods +
- Catch up on bills + / -
- Recurring needs -

# Annual Payments: Income volatility



Number of Months with a Spike or Dip in Adults' Taxable Household Income during the Year, 2009-12



**Source:** Survey of Income and Program Participation 2008 Panel.

**Note:** A household in the "12 months" category had monthly taxable income that was never within 25 percent of the annual average.

- Longstanding concern over erroneous or fraudulent payments
  - PATH Act improved income reporting
- Taxpayer Advocate study that many people initially denied EITC qualified for almost entire EITC claimed
- Errors likely driven by complexity