Use of Free Tax Services and the Impact of the Earned Income Tax Credit on Saving and Spending Patterns in Vermont: Vermonter Poll 2007

Michele C. Schmidt, MPA
The Center for Rural Studies, University of Vermont
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Introduction

The Vermonter Poll is an annual public opinion survey of Vermont residents who are 18 years of age and older, conducted by the Center for Rural Studies at the University of Vermont, to gauge Vermonter's opinions on current issues of interest to non-profit agencies, government officials, and researchers. On the 2007 Vermonter Poll, seven questions were asked of residents to understand their tax preparation practices, use of refunds and credits, and employment status. More specifically, the Community Action Agencies of Vermont were interested in learning if respondents used free tax preparation services and if not, why not. Questions were also asked on other sources of tax preparation services, approximate cost of these services, receipt of the earned income tax credit (EITC), use of refund or credit, and employment status. These variables were analyzed with the demographic variables collected by the survey, to understand not only what percentage of Vermonters carry out specific practices, but which type of people are more likely to engage in certain tax preparation practices.

Literature Review: Tax Preparation and Use of Refunds

Tax preparation can cause many challenges for working families, depending on educational level, income level, or simply available time. Although technology has greatly expanded the methods by which families may complete their tax documents, families may still not file. Making ends meet is a difficult and time-consuming task for low-income families (Romich & Weisner, 2000), which increases the burden of tax preparation. One benefit of filing taxes for low income families is the existence of the earned income tax credit (EITC). The EITC is the nation's single most effective poverty reduction program for people less than 65 years old, and was created in 1975 during the Ford administration to offset the social security payroll taxes paid by low-income employed parents and to encourage parents to work in the labor force (Brooks, Russell, & Fisher, 2006).

Tax Preparation and Filing

The perceived barrier of tax complexity might be one reason families do not file their taxes. This barrier is a disadvantage particularly to low-income families who are eligible for the EITC, as they may have a relatively significant refund due to them. As other barriers to filing taxes, low-income persons are more likely to have limited education or to have experienced school failure; and they may be less likely to benefit from community based financial management training programs being offered more frequently (Anderson, Zhan, & Scott, 2004). In order to increase the tax filings of those who are eligible to receive this tax credit, many communities offer free tax preparation service to low-income families. Brooks, Russell and Fisher (2006) found that canvassing and word of mouth were the most productive marketing tools for free tax preparation sites (2006).

Still, many others prefer to have their taxes processed by other tax professionals. Long and Caudill (1987) found that upper-income taxpayers, the elderly, and self-employed workers are more likely to use a paid preparer than other taxpayers. The reasons for this relate to the speed of refund and possible liability during an audit. For low-income families, the cost of a tax professional may be a barrier to filing, whereas a higher-income family may view the services of a tax professional as worthwhile since this cost may be relatively insignificant in comparison to their overall income. Still, many families are now opting to file their own taxes, which will maximize their net refund. Zarowin (2006) refers to this trend as the "growing sophistication of taxpayers."

Use of Refund

For those low-income families that have filed, the majority will have a refund due, which leads to the decision of what to do with this refund. A 2007 tax-refund survey by Money Management International found that 32% of consumers planned to save their expected refund, 46% planned to use it to pay obligations such as debts or car repairs, and 3% planned to use the money on non-necessities (McGrigg, 2007). Shapiro and Slemrod (2003) also found the three most common uses of the refund were to spend, save, or pay off debt with the money. In a survey of U.S households conducted in 2001, Shapiro and Slemrod found that 22% of tax refund recipients would spend this money, 32% would save this money, and 46% would mostly pay down debt. In a subsequent survey by the same authors, conducted in 2002, similar results were found in that 25% spent their refund, 27% saved their refund, and 48% paid off debt. Both surveys showed a positive relationship between income and spending rates, with those of higher income being more likely to spend their tax refunds, however the results were not significant. Furthermore, data collected by Romich and Weisner (2000) found that as much as two-thirds of parents cite expenditure of tax refunds and credits, especially on children as a priority use of the money.

Asset building through tax refunds

Many of the free tax preparation services stipulate that the refund be deposited into a bank account, which might encourage savings among low-income families. Anderson, Zhan and Scott (2004) found that low-income persons are less likely to have bank accounts than those with higher incomes, and thus may lack knowledge about basic banking practices, and therefore this stipulation serves to maximize the use of limited financial resources. Duflo, Gale, Liebman, Orszag and Saez (2003) conducted a study with H&R Block to determine the inclination of low- and middle-income families to apply the combination of a refund and matching percentage to an individual retirement account. The researchers found more persons took advantage of this opportunity as the percentage of matched dollars increased. In addition to savings, Geisler (2006) suggests that paying down high-interest-rate debts, particularly credit cards, is another good use of a refund.

Impact of EITC on refund use and asset building

Research suggests, however, that there is a difference in the spending of tax refunds among Earned Income Tax Credit (EITC) recipients compared to those who don't receive the EITC. One study found that EITC recipients are more likely to spend the money than save, and found markedly different seasonal consumption patterns between low-income families and EITC recipient families (Edwards, 2004). The researchers speculated that this spending pattern might have to do with the timing of EITC disbursements, which occur as an expected lump sum at tax time.

Edwards's findings differ slightly from those of a 2001 study, which surveyed low-income Chicago area tax payers (with children) who used a free tax preparation service (O'Connor, Phillips & Smeeding). Of 1,226 respondents, O'Connor, Phillips and Smeeding found that 846 or 69% of respondents expected to benefit from receiving the EITC. The study determined two important uses of the EITC: 1) to make ends meet and 2) to improve economic social mobility through asset building. In the survey the researchers asked respondents to prioritize three uses of the EITC. Across all three priorities, 83% of respondents had a priority to pay bills and 74% prioritized making a purchase of some commodity. Indicating the importance of the EITC as a source of income, only 7% said they would be able to achieve their first priority without the EITC. The study also found that the EITC plays a role in improving economic and social mobility, often through paying tuition, purchasing or repairing a car, or contributing to a move or relocation. In looking at the relationship between EITC and financial institutions, the study also found that recipients with greater access to financial institutions were more likely to save part of their EITC compared to those with less access to financial institutions (O'Connor, Phillips & Smeeding 2001).

Though the EITC is only available to families in the labor force, a Wisconsin study found no evidence that the EITC increased employment (either participation or hours worked). This may be due to the complexity of the program, the gap in time between performing the labor and receiving the EITC, a lack of awareness about the program, and jobs with inflexible hours (Cancian & Levinson 2006). Though the EITC may not directly impact labor supply, Cancian and Levinson note that it does support low-income working families without deterring labor supply, and so it has positive results.

Strategies to increase filing for the EITC

There are many reasons eligible families and individuals do not always file for the EITC, but there may be ways to increase the number. Kopczuk and Pop-Eleches (2006) found that the availability of state electronic tax filing in the 1990's significantly increased the amount of tax returns. Furthermore, low-income people were more likely to file electronically, and EITC recipients even more likely to file electronically and use the help of a tax preparer than a typical low-income person (Kopczuk & Pop-Eleches, 2006). This suggests that increased awareness, use of technology, and partnership between the IRS and tax preparation services may increase the number of EITC claims among eligible families.

Methodology

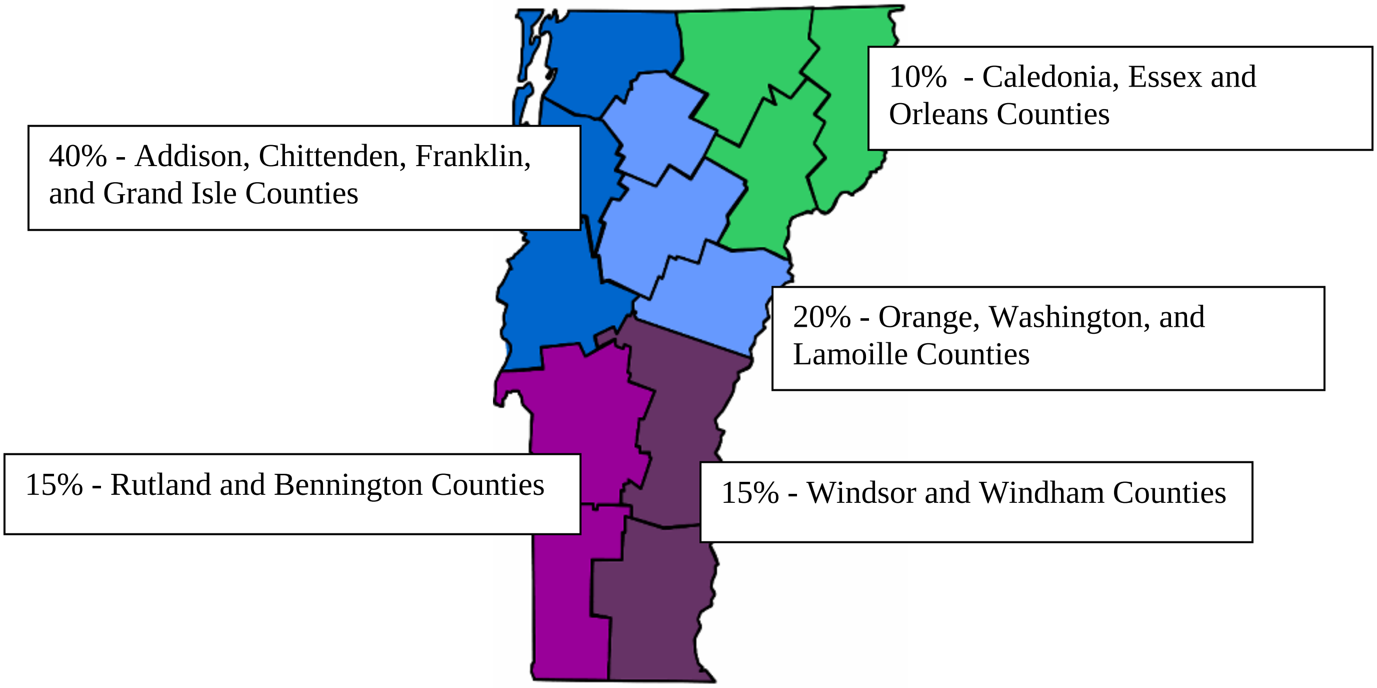
The data used in this report were collected by the Center for Rural Studies at the University of Vermont as part of the annual Vermonter Poll. The survey was conducted between the hours of 4:00 p.m. and 9:00 p.m. beginning on February 20, 2007 and ending on February 28, 2007. The telephone polling was conducted from the University of Vermont using computer-aided telephone interviewing (CATI). The sample for the poll was drawn through random digit dialing and used all of the telephone exchanges in the state of Vermont as the sampling frame. Only Vermont residents over the age of eighteen were interviewed. The poll included questions on a variety of issues related to public policy in the state of Vermont. There were 599 respondents to the 2007 Vermonter Poll (Version I). The results based on a group of this size have a margin of error of plus or minus 4 percent at a confidence interval of 95 percent.

The following report presents a descriptive (univariate) analysis of all tax related questions and demographic variables as well as a prescriptive (bivariate) analysis of the tax questions and demographic variables. Data analysis was carried out using the Statistical Package for the Social Sciences (SPSS) 14.0. Statistical tests conducted included the chi square test (x^2), independent sample t-test (t), and a one-way analysis of variance (f). Statistical precision values (p) were determined to be significant if they ranged from .00 to .10, with three levels of significance being represented in this report, including $\leq$.01 (highest significance), $\leq$.05 (moderate significance), and $\leq$.10 (low significance).

Respondent demographic profile

The gender of respondents was evenly split, with 50% (295) of respondents being female and 50% (292) male. The age of respondents ranged from 19 to 89 years with an average of 54 years (Std. 14.4) and median of 55 years. Respondents had between one and nine members in their household, with a median of two members. Thirty-one percent (178) of respondents had children in their household, while 69% (399) did not. Of those households with children, the number of children present ranged from one to five with a median of two children and mode of one child. The number of years that respondents lived in Vermont ranged from 1 to 86 years with an average of 35 years (Std. 19.9). The majority of Vermonters surveyed (52%, 304) had achieved an associate's degree or more education and 48% (277) had taken some college courses or less education, including the completion of their high school education. Fifty-four percent (270) of those surveyed reported earning at or above the median income in Vermont ($50,000 or more), while 46% (230) earned less than the median income. Based on county groupings, Figure 1 shows that 40% (226) of respondents live in the Champlain valley area, 20% (118) live in central Vermont, approximately 15% (84) live in the Southeastern part of Vermont and 15% (82) in the southwestern area, and 10% (57) live in the northeast kingdom (NEK).

Figure 1. Geographic location of respondents



Findings

Use of free tax preparation services

Vermonter Poll respondents were asked if they have used or will use a free tax preparation service provided by a community agency to prepare their personal or household taxes for the year 2006. Table 1 shows that ten percent of respondents had or were planning on using a free tax preparation service, while 90% of respondents were not planning on using this service. Of those respondents who use a free tax preparation service, 26% (15) reported that they use only a free tax preparation service.

Table 1. Use of free tax preparation service for 2006 taxes (n=577)

	Frequency	Percent
Yes	57	10
No	520	90

Lower education and income levels were found to be significant predictors of having used or planning to use a free tax preparation service. Clients who had less than a college degree (12%, 33) were more likely to have used a free tax service compared to those who had earned an Associate's degree or more education (7%, 21) (x^2=4.58 p$\leq$.05). Furthermore, respondents who earn less than the median income in Vermont (16%, 37) were more likely to have used a free tax preparation service compared to 4% (10) of those who are at or above the median income in Vermont (x^2=22.88 p$\leq$.01). Clients who used a free tax service were also more likely to receive the EITC (38%, 14) compared to 21% (83) of those who did not use a free tax service but received the EITC (x^2=5.50 p$\leq$.05). Use of free tax preparation services was not related to other demographic variables of gender, geographic location, number of household members, having children in the household or not, age, and the number of years lived in Vermont.

Reasons why respondents do not use free tax services
Table 2 summarizes the main reasons why respondents did not use a free tax preparation service. Respondents were allowed to select all the responses that applied to them, thus the combined percentages equal more than 100%. The most commonly given response was that respondents preferred to pay for their tax preparation or preferred to use a paid accountant (38%). Many respondents also indicated that they prepared their own taxes, with several noting that they used turbo tax, an online tax program, or another tax software program. Within this category of respondents, some indicated that because their taxes were so simple, they did not need to take advantage of a free tax service. Also related, 6% commented that a family member or friend prepared their taxes for them at no cost, thus they did not need a free tax service.

Fourteen percent of respondents were not aware that free tax services existed. Similarly, 6% felt they were not eligible for this service, indicating that this service was for the elderly or low-income people. Furthermore, 6% felt that their taxes were too complicated for a free tax service and 2% did not trust using a free service or preferred to remain loyal to a service they have used for years. Two percent simply indicated that they were "self-employed" so they did not use a free tax service, possibly because they felt their business taxes were complicated. Finally, three people did not use a free tax service because this service does not offer a rapid refund loan.

Table 2. Reasons why respondents did not use a free tax preparation service

	% (n)
Prefer to pay for my tax preparation/use accountant that is paid	38% (199)
Self-prepare taxes	19% (97)
Not aware of free tax services	14% (75)
Not eligible to receive free tax services	6% (31)
Taxes are too complicated/complex	6% (31)
Family member or friend prepares for no cost	6% (30)
Prefer to work with someone they trust/loyalty to accountant	2% (12)
Self-employed	2% (9)
They don't offer a rapid refund loan	.6% (3)

(n=521)

Tax services used
Table 3 displays the tax preparation services/resources that respondents used, compared by a respondent's use of a free tax service or not. Of those who did not use a free service, 44% used a paid accountant or lawyer, 36% self-prepared their taxes, 13% had them prepared by a family member or friend, and 4% used a national chain such as H&R Block. In comparison, many of those who used a free tax service also used additional tax services/resources. Twenty-three percent had their taxes completed by a paid accountant

or lawyer and 21% did them themselves. Further, 12% filed their taxes with a national chain and 8% had a friend or family member work on their taxes.

Table 3. Tax preparation resources used compared by whether or not a respondent used a free tax service

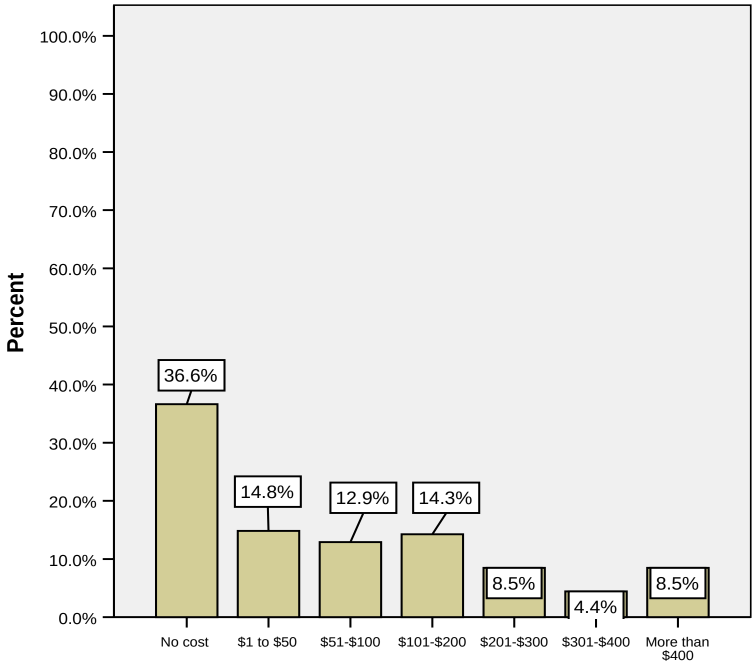
	Used Resource and *did not use* free tax service, %(n)	Used Resource and *did use* free tax service, %(n)
A paid accountant/Lawyer	44% (239)	23% (12)
Self-prepared, including the use of a software program like Turbo Tax	36% (193)	21% (11)
A friend or family member	13% (71)	8% (4)
A national tax preparation chain such as H & R Block	4% (19)	12% (6)

Cost of service

Respondents who indicated that they used resources other than a free tax service were asked to disclose the approximate cost of this tax preparation service. Respondents were provided with seven categories, ranging from no cost to more than $400. The majority of respondents paid between $0 and $200 for their tax preparation services. Figure 2 shows the categorized results. Approximately 37% (190) of respondents indicated that they did not pay for this tax preparation service. The next commonly given responses were $1 to $50 dollars (15%, 77), followed by $101-$200 (14%, 74), and $51-$100 (13%, 67). Twenty one percent of respondents paid between $201 and more than $400 for their tax preparation service.

A cross tabulation and chi square test was used to compare the approximate amount that respondents paid for their tax preparation service by the type of service they used. Those who indicated using a free service (72%, 122) were more likely to have completed their taxes themselves compared to others who paid for this service, including 33% (67) who paid between $1 and $200 and 2% (2) who paid $201 or more dollars ($x^2$=144.43 p$\leq$.01). Likewise, 24% (41) of those who did not pay for their taxes to be completed relied on a friend or family member to do their taxes, compared to 11% (23) of those who paid $1-$200 and 4% (4) of those who paid more than $200 for this service ($x^2$=25.62 p$\leq$.01). On the contrary, 87% (93) of respondents who paid $201 or more were more likely to have hired a paid accountant to do their taxes (x^2=203.40 p$\leq$.01).

Figure 2. Categorized dollar amounts that respondents paid for tax services



Types of Income Earned

Table 4 depicts the types of income that clients reported having earned in the 2006 tax year. Respondents were allowed to select all the options that applied to them, thus the total percentage is greater than 100%. Slightly more than half (54%) of clients reported working for wages, followed by 21% who indicated they are self-employed.

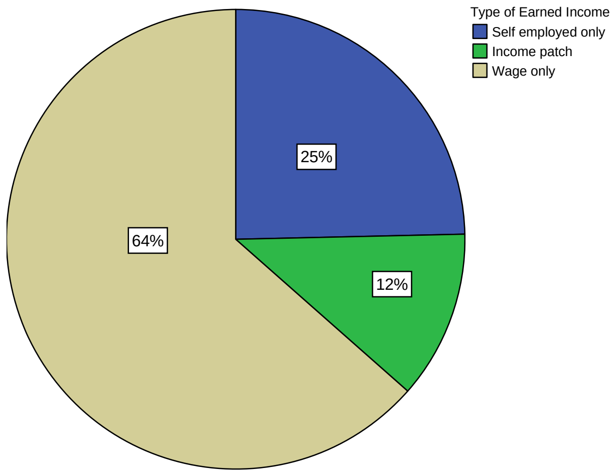
Table 4. Types of Income Earned in the 2006 Tax Year (n=591)

	% (n)
Worked for wages	54% (318)
Self employment or business income subject to self-employment tax	21% (126)
Social security payments	8% (50)
Retirement savings	7% (41)
Subcontracted work (1099)	5% (30)
Pension payments	4% (22)
Stocks, dividends and interest income	2% (14)
Farm income subject to self employment tax	2% (11)
Disability income	1% (7)

Looking at the data specifically focusing on the sources of earned income from current work in the labor force (n=422), Figure 3 shows that 64% (268) of respondents earned their income in 2006 from wages only, 25% (104) were self-employed only (including farmers and contracted workers), and 12% (50) patched their income through both wage and self-employment. Self employed persons in the sample are more likely to be male

(59%, 91) than female (41%, 63) compared to wage earners and income patchers combined, where males and females are equally represented (50% each) (x^2=3.11 p<.10). An independent sample t-test showed that self employed persons are more likely to be older (average age of 53; p<.01), have lived in Vermont for a longer period of time (average number years of years is 34; p<.10) and have fewer members in their household (average number is 2.6; p<.10).

Figure 3. Types of earned income, categorized



Tax practices compared by types of earned income

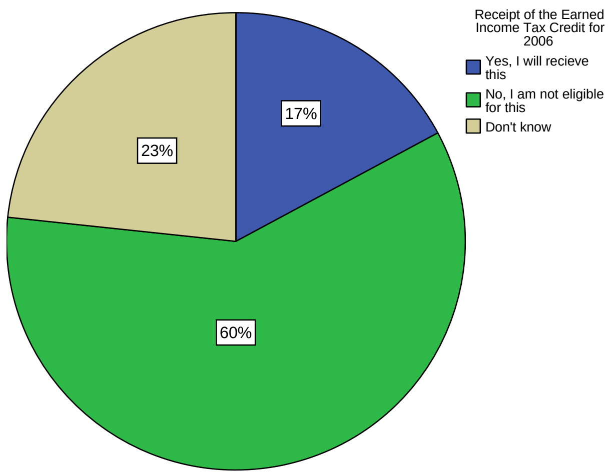
The chi square test showed that wage earners (41%, 109) were significantly more likely to have completed their taxes themselves, compared to 29% of the self-employed (30) and 28% (14) of income patchers (x^2=6.20 p<.05). Wage earners (14%, 37) were also more likely to rely on a friend or family member to help with their taxes compared to 7% (10) of the self-employed only (x^2=5.28 p<.05). On the contrary, those who were self-employed (60%, 62) and income patchers (58% (29) were more likely to have hired a paid accountant to complete their taxes, compared to 34% (92) of wage earners (x^2=24.45 p<.01). Consequently, those who were self-employed (83%, 52) were also more likely to have paid $101 or more money to have their taxes completed, compared to income patchers (72%, 23) and wage earners (46%, 73) (x^2=27.682 p<.01). Perhaps self-employed persons are the respondents who felt that their taxes were too complicated to be handled by anyone other than a paid accountant. No significant difference was found for one's use of a free tax service and their source of earned income.

Receipt of the Earned Income Tax Credit

Figure 4 shows that 60% (337) of Vermonter Poll respondents were not eligible to receive the earned income tax credit (EITC) for the 2006 tax year, while 17% (97) planned on or had already on received this credit. Almost a quarter of respondents (23%, 132) did not know if they would receive this credit. A chi square test revealed that receipt of the EITC was significantly related to households that have children (25%, 43) compared to those without children (13% (51) (x^2=12.53 p<.01). Receiving the EITC was also significantly related to households that earn less than the median income of

Vermont (<$50,000) (22%, 50) compared to 13% (34) of household that earn at or above the median income in Vermont (x^2=7.42 p≤.05). An independent sample t-test showed that receipt of the EITC was also related to being younger (average age of 51; p<.01) and having more household members (average number is 2.7; p<.05). Receipt of the EITC was not related to the demographic variables of education level achieved, gender, geographic location, number of years lived in Vermont, and type of earned income reported.

Figure 4. Whether or not respondent received the EITC for the 2006 tax year



Use of Tax Refunds and Credits
Respondents were asked what they did with their tax refund or credits that they received in their previous or current tax years. In total, 25% (147) indicated that they used their tax refunds or credits to save money in some form, through a savings account, retirement account, or an Individual Development Account (IDA). Thirty four percent (202) of respondents used their tax refunds and credits to pay of debt and bills, while 7% (42) spent this money on a non-necessity item for themselves or family members or donated the money to charity.

Looking at the categorized options, Table 4 shows the percentage of respondents who indicated that they used their refund or credits for the specific purpose given in the far left column. The most commonly given response was to pay off debt (27%, 158), including a loan, house or car payment, home improvement, education, or reinvest into a business. This category was followed by 25% (145) of people who put the funds into savings account, with three people specifying saving the money in an Individual Development Account or an IDA. Nine percent (55) paid off household bills or the cost of fuel and 7% (43) spent the money on a non-necessity item or "luxury" type item such as a vacation or a television. Twenty-one percent (123) reported that they did not receive a tax refund this past tax year.

Table 4. Use of tax refund or credits (n-591)

	% (n)
Paid off debt such as loans, house or car payment, home improvement or education, or reinvest in business	27% (158)
Put it in my savings account	25% (145)
Paid household bills or fuel costs	9% (55)
Spent on a non-necessity item for oneself or family such as a vacation or television	7% (43)
Spent on necessary items such as food and rent	5% (27)
Paid property taxes	4% (24)
Applied to 2007 taxes	2% (10)
Invested into retirement account	1% (6)
Donated it to charity	.7% (4)
Put it into my Individual Development Account	.5% (3)

Predictors of Spending and Saving Tax Refunds and Credits

Statistical tests were performed to determine the relationship between demographic variables and those who saved and spent money in various ways. A significant relationship was found between saving money in any format and not having children. Respondents without children (28%, 109) were more likely to have saved their tax return and credits compared to those with children (21%, 36) (x^2=3.16 p$\leq$.10). Having saved money from a tax return or credit was not related to use of a free tax service or not, cost paid for taxes, receipt of the EITC, gender, education level, being at or above and below the median income in Vermont, geographic location, age, and number of household members, children, and the number of years lived in Vermont.

Spending one's tax return in any fashion was significantly related to the use of a free tax service, receiving the EITC, having children and being female. Respondents who used a free tax service (58%, 30) were more likely to have spent their tax return in any manner, whether it was spent on bills, necessary or discretionary expenses than those who did not use a free tax preparation service (38%, 200) (x^2=7.58 p$\leq$.01). In addition, 64% (62) of respondents who received the EITC spent their tax return in any fashion, compared to 35% (117) of those who did not receive this credit (x^2=26.50 p$\leq$.01). Looking at respondent demographic profiles, those with children (56%, 99) were significantly more likely to spend their tax return compared to 32% (127) of those who do not have children (x^2=30.04 p$\leq$.01). In addition, females (43%, 126) were more likely than males (36%, 105) to have spent their tax return (x^2=3.28 p$\leq$.10). No other demographic variables were found to be significant.

Impact of type of earned income on spending and saving patterns of tax refunds

Looking at the saving and spending of tax refunds by type of income earned, 30% (81) of wage earners reported saving their refund or credit, compared to 23% (24) of the self-employed and 12% (6) of income patchers (x2=7.96 p<.05). Interestingly, wage earners (50%, 134) were also more likely to have spent their refund in any fashion (on necessity items or discretionary items) compared to 42% (21) of income patchers and 28% (29) of the self-employed (x2=14.96 p<.01). Wage earners were also more likely to spend their refund or credit on bills and debt along and non-necessity items alone, compared to income patchers and the self-employed (significance was at the .01 level).

Impact of the EITC on spending and saving patterns of tax refunds
Chi square tests were conducted to determine if receipt of the EITC impacted respondent's spending and saving patterns of tax refunds and credits. Respondents who earned the EITC (58%, 56) were more likely to pay off debt and bills with their tax refund compared to 30% (101) of those who did no receive the EITC (x^2=25.14 $p \leq .01$). In addition, those who received the EITC (64%, 62) were also significantly more likely to have spent their tax refund in any manner (including bills, debt, necessary and luxury items) compared to 35% (117) of those who did not receive the EITC (x^2=26.50 $p \leq .01$). Receipt of the EITC or not had no impact on spending money on non-necessity items only. In addition to spending money, a higher percentage of persons who received the EITC (31%, 30) reported saving their tax return, compared to 23% (79) of those who did not receive the EITC. However this finding was only approaching significance with a p value or .134.

Conclusions

The majority of Vermonters surveyed did not use a free tax preparation service for their 2006 taxes, as only 10% reported having used or were planning on using a free tax preparation service, while 90% of respondents did not or were not planning on using this type of tax preparation service. Use of a free tax service was found to be significantly related to having lower education and income levels and being more likely to have received the EITC. This finding is important as Anderson, Zhan and Scott (2004) found that being low income and having limited education were major barriers to persons who do not file their tax refund and therefore may miss out on credits or refunds due to them. Brooks, Russell and Fisher (2006) also commented that offering free tax services is a good way for communities to increase the tax filings of persons who are eligible to receive various credits. Data analysis of tax filing practices by types of income earned revealed that wage earners (64% of the sample) were more likely to have completed their taxes themselves or rely on friend or family members, compared to those who were self-employed (25%) or who patched their income with wages and self-employment (12%). Self-employed persons were more likely to have hired someone to file their taxes and, consequently, were more likely to have paid more money to have their taxes prepared that wage earners.

Cost of tax preparation
Of the respondents who did not use a free service, 44% used a paid accountant or lawyer, 36% self-prepared their taxes, 13% had them prepared by a family member or friend, and 4% used a national chain such as H&R Block. The majority of respondents paid between $0 and $200 for their tax preparation services. Respondents who did not pay for their tax services were more likely to have self-prepared their taxes or relied on a friend or family member to complete their taxes. However, those who paid over $200 were more likely to

have hired a paid accountant to do their taxes. Specifically, the self-employed were more likely than those who patched their income or had a wage job only to have paid $101 or more to have their taxes filed by a professional.

Reasons for not using a free tax preparation service

Three central themes surrounded why respondents did not use a free tax preparation service: 1) respondents preferred to pay an accountant, had a friend or family member prepare them, or self-prepared their taxes; 2) were not aware of this service or did not feel eligible; and 3) did not trust a free tax service or felt their taxes were too complicated for a free service. These themes are consistent with the findings of other researchers on why people do not use free tax services (Long & Caudill,1987; Zarowin, 2006).

More specifically, the most commonly given response for not using a free tax preparation service was that respondents preferred to pay for their tax preparation or preferred to use a paid accountant (38%), which is consistent with the findings of Long and Caudill (1987). Many respondents also indicated that they prepared their own taxes, with several noting that they used turbo tax, an online tax program, or another tax software program. Within this category of respondents, some indicated that because their taxes were so simple, they did not need to take advantage of a free tax service. This finding echoes Zarowin's (2006) notion of the "growing sophistication of taxpayers" due to the advancement of technology. Also related, several respondents had a family member or friend prepare their taxes for them at no cost. Aside from having other types of paid or free tax preparation assistance, many respondents were not aware that this service existed or felt that they were not eligible for this service. Another theme was that respondents felt that their taxes were too complicated for a free tax service or they did not trust using a free service or preferred to remain loyal to a service they have used for years. This finding is also consistent with the work of Long and Caudill (1987). A few people did not use a free tax service because it did not offer a rapid refund loan.

Receipt of the EITC

Seventeen percent of Vermonter poll respondents were eligible and planned on receiving or had received the EITC for the 2006 tax year. Receipt of the EITC was significantly related to having children, having a lower income, and having used a free tax service. The findings suggest that being lower income renders one more likely to use a free tax service and thus receive the EITC, perhaps because of the assistance provided by the tax service.

Use of refunds and credits

The use of one's 2006 tax refunds and credits was examined through this study. A quarter of respondents indicated that they used their tax refunds or credits to save money in some form, through a savings account, retirement account, or an Individual Development Account (IDA). Thirty four percent used their refunds and credits to pay of debt and bills, while 7% spent this money on a non-necessity item for themselves or family members or donated the money to charity. This finding parallels the research of Geisler (2006), McGrigg (2007) and Shapiro and Slemrod, 2003).

Predictors of spending and saving tax refunds and credits

A significant relationship was found between saving one's tax return and not having children. On the contrary, spending one's tax return in any fashion, whether it was spent on bills, necessary or discretionary items, was significantly related to having children and being female and using a free tax service. Romich and Weisner (2000) also found that as much as two-thirds of parents cited expenditure of tax refunds and credits on children as a priority use of the money. Thus, the findings suggest that having children and being female (perhaps a mother) lends to the spending of one's tax return rather than saving.

Results from this study also suggest that receiving the EITC impacts one's spending and saving patterns of tax refunds and credits. Brooks, Russell and Fisher (2006) noted that the EITC is the nation's single most effective poverty reduction program. Respondents who obtained the EITC were significantly more likely to pay off debt and bills or spend their tax refund compared to those who did not receive the EITC. However, no difference was found in the spending of refunds on non-necessity items only. Regarding saving tax refunds, though the findings were only approaching significance, a higher percentage of persons who received the EITC reported saving their tax return, compared to those who did not receive the EITC. These findings suggest that receipt of the EITC allows lower income families to pay off debt and necessary items such as bills, food and rent, but they are not likely to spend this money on a luxury item. Edwards (2004) and O'Connor, Phillips and Smeeding (2001) also found that EITC recipients were more likely to spend their refund money to pay off debt and bills then to save it. The findings suggests that receiving the EITC may also encourage recipients to save this money. Parallel to the findings of Duflo et al (2003) and Anderson, Zhan and Scott (2004), free tax programs should encourage low-income clients to save part or all of this money in a bank account or matched savings account such as an IDA program. Duflo et al (2003) found that more persons took advantage of asset building opportunities as the percentage of matched dollars increased.

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