Using Theory of Planned Behavior to Determine Reduced Usage of the Earned Income Tax Credit

Anthony Canale, Kansas State University[1]
Lloyd Zimmerman, Kansas State University[2]
Martin C. Seay, Kansas State University[3]
Sonya L. Britt, Kansas State University[4]

Abstract

The purpose of this study was to determine if attitudes, as measured by time preference and self esteem; subjective norms as measured by education, parents' poverty level, and religiosity; and perceived behavioral control as measured by locus of control, were significant factors in an individual transitioning off of the Earned Income Tax Credit (EITC). The EITC began as part of the Tax Reduction Act of 1975 and has been the largest federal anti-poverty campaign designed to support families with children. The EITC was established with a dual intent to reward work and reduce poverty, but while it has been critical in helping many low- and moderate income (LMI) families make ends meet, it has not typically created economic mobility (Simpson, Tiefenthaler, & Hyde, 2010). Despite the sizable tax credit relative to the income qualifications, the typical recipient plans on using the refund to meet basic needs and carries debt loads that prohibit saving (Simpson et al.).

The National Longitudinal Survey of Youth (NLSY) 1979 was the data used for the analysis. The year 2003 was selected as the starting point because of significant changes in qualification standards that occurred that year. EITC qualification in a subsequent year 2007 was verified by the tax return filed by the recipient. Due to the timing constraints inherent in the biennial collection of the NLSY data and the conditions necessary for the analysis, the sample was significantly reduced (N=178). The Theory of Planned Behavior (TPB) (Ajzen, 1991) which incorporates attitudes, subjective norms, and perceived behavioral control elements as influencers of intentions and subsequent behavior was the theoretical framework used to guide the analysis. Because of the strong relationship between time preference and self esteem with attitudes toward positive financial behavior, they served as proxy measurements for attitude. Subjective norms were measured by the respondent's education level, their parents' highest attained education level, and their families' poverty status growing up. Perceived behavioral control was measured using the Pearlin Mastery scale. The analysis controlled for changes in marital status, number of children, and gender because of the filing status and number of children qualification requirements for EITC qualification.

The descriptives indicated that 62% of the sample remained on the EITC, while 38% were able to transition off. Sixty-four percent of respondents were female and 47% were married throughout the years of analysis. Forty-four percent were single throughout. Regression results indicated that external locus of control was marginally significant at the $p < .10$ level (b = -0.10, β = 0.90) indicating that the more externally motivated the individual the less likely they were to transition off of the EITC. Attitudes and subjective norms were not statistically significant in predicting eliminated use of the EITC. Males were found to be more likely to reduce their use of the tax credit (b = 0.82, $p < .05$, β = 2.27) than females. Respondents who were married throughout the time frame were more likely to reduce their usage of the

[1]Doctoral Student, Family Studies and Human Services, Personal Financial Planning, 312 Justin Hall, Manhattan, KS 66506 (785) 532-1480 email: antcan@ksu.edu
[2]Doctoral Student, Family Studies and Human Services, Personal Financial Planning, 312 Justin Hall, Manhattan, KS 66506 (785) 532-1480 email: lgz@ksu.edu
[3] Ph.D., Family Studies and Human Services, Personal Financial Planning, 312 Justin Hall, Manhattan, KS 66506 (785) 532-1486 email: mseay@ksu.edu
[4] Ph.D., Family Studies and Human Services, Personal Financial Planning, 312 Justin Hall, Manhattan, KS 66506 (785) 532-3541 email: sbritt@ksu.edu

EITC ($b = 1.17$, $p < .01$, $\beta = 3.23$). Respondents who were single and then married were also found to be more likely to transition off of the EITC ($b = 2.05$, $p < .05$, $\beta = 7.74$).

While the sample size was a limitation for this study, the significance of marital status in the improvement of the EITC recipients' financial situation can be used by policy makers to promote additional tax qualified saving behaviors for those who are married as well as single. Further study that explores ways to improve the odds of those receiving EITC to eliminate the need is warranted.

References

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes, 50,* 179-211.

Simpson, N. B., Tiefenthaler, J., & Hyde, J. (2010). The impact of the earned income tax credit on economic well-being: A comparison across household types. *Population Research and Policy Review, 29*(6), 843-864.