

Effects of advance CTC on tax outcomes and household spending response.

Even though advance CTC payments significantly reduced the following year’s tax refunds, CTC recipients did not change their tax season spending in response to the smaller refunds.

Tax refunds are substantial cash flow events that lead to significant increases in spending for many families, particularly families with low liquidity. Using transaction-level data, we studied the effect of reduced refund amounts to answer: Do smaller refunds result in families foregoing tax-time spending that would otherwise enable pent-up consumption demand?

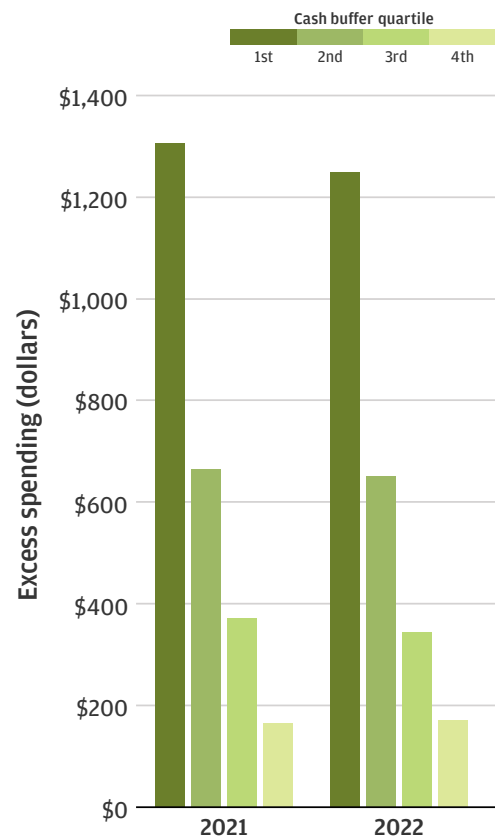
Despite reduced tax refund amounts, families continued to spend roughly the same amount as in prior years when they received a tax refund, even families with low liquidity. This suggests that policymakers have some leeway to steer household finances, either further increasing monthly liquidity by shifting a larger share of annual payments to monthly payments, or further increasing saving by doing the opposite.

Main Findings

- 1 Following advance CTC payments, net tax refunds for the typical CTC recipient decreased by 15 percent in 2022 compared to 2021, rarely enough to push families from receiving a refund to making a payment.
- 2 Smaller refund amounts following the advance CTC payments did not affect spending at tax time.
- 3 Year-over-year, CTC recipients were consistent in their allocation of tax refund dollars across expense categories.
- 4 Decreases in federal tax refund amounts did not differentially impact spending by households with low liquidity—across the liquidity spectrum, the spending response to tax refunds was consistent year-over-year.

Figure Note: CTC recipient households received all six rounds of advanced CTC payments via ACH deposits into their accounts between July and December 2021; CTC non-recipients received no advanced CTC payments. Weekly spending includes the total of all purchases made from each household’s Chase accounts via credit card, debit card, paper checks, cash withdrawals, and electronic payments. Cash buffer represents the amount of cash a household had on hand in the four weeks preceding tax activity, divided by its typical spending. Households in quartile 1 had cash to cover less than 2 weeks of spending; quartile 4 households had more than 22 weeks of spending available. The height of the bars represents spending response to federal tax refunds. We measure the spending response for each federal tax refund by comparing excess spending in the week the refund was received to the excess spending in the prior week.

Figure: For CTC recipients of all liquidity levels, the dollar spending response to receiving a federal tax refund was consistent before (2021) and after (2022) the disbursement of advance CTC payments.



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Data Explanation

Spending behavior of households receiving a federal tax refund, by year and cash buffer quartile.

A bar chart showing the estimated spending response within the week of receiving a tax refund by year, cash buffer quartile, and CTC reciprocity.

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