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## Americans on Owing Money to the IRS: "No Big Deal"



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Owing money to the IRS is not a pleasant experience. Historically, it's been viewed as a major taboo, not to be discussed, but definitely needing to be dealt with.

In recent years, even before the pandemic, Americans have grown almost - almost - indifferent to the "owed tax" experience.

According to a new study from Ohio State University, many American taxpayers have "surprisingly" adjusted their standard of living when they owe money to the IRS versus when they receive tax refunds.

It's a new dichotomy with receiving a tax refund against owing money to the U.S.

This from the study:

"Researchers found that when households received tax refunds, they immediately started spending that new money. But those same households didn't cut their spending in years when they owed taxes to the IRS."

That outcome flies in the face of economic theories that imply Americans spend their tax refunds only because they need the money to buy necessities, according to Itzhak Ben-David, the study's co-author and a finance professor at OSU.

"If that were true, then these households would have had to cut spending in years when they owed taxes," Ben-David notes. "What we found is that owing money to the IRS did not disrupt normal consumption in our sample of American households."

There are some variances in the OSU study that could tweak the reported outcomes.

For example, the survey sample in the study used a personal finance website as a data-gathering source. Consequently, study users found there were likely more financially sophisticated than average consumers. (A quick note: OSU study researchers used anonymized data from a personal finance website that included details of spending habits of 196,565 American households from July 2010 to May 2015.)

Even so, sources in the study who had had the least savings and the most credit-card debt did not reduce their spending when they owed money - just like more affluent households.

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"They found ways to use money from savings accounts or other reserves to keep up their spending in years when they had to pay the IRS," Ben-David added. "For instance, they didn't cancel their vacations."

When households owed money to the IRS, the researchers found that they increased transfers among their accounts in the month before making their payment. For example, some moved money from savings to checking before writing a check to the government.

What they didn't do is spend less on dining out, clothing, recreation, or other items in their budget.

"Americans in our sample viewed tax payments as a necessary cost like a car repair or new appliance that can come out of their savings," one study researcher notes.



On the tax refund side, unsurprisingly, the money was largely spent soon after it hit a tax consumer's bank account.

All households – from the most to the least wealthy – increased their spending immediately after receiving the refund, the study showed, the study reports.

"We found that the spending increases the exact day on which the refund arrives," Ben-David says. "Even though they know the refund is coming, most Americans don't start spending until they have it in their account."

Even the wealthiest people in the sample spent a good portion of their refund, despite the fact that they had the money to spend without the refund, the study notes.

"When they received the refund, people in our sample consumed more or less the same fraction of it regardless of the amount. People who received a big refund spent about the same fraction as those with a smaller refund – just a bigger dollar amount," Ben-David says.

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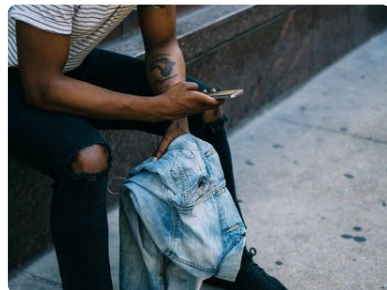


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