Difficult Economic Times, Tax Credit Eligibility, and Financial Hardship

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Lower-income households in the U.S., especially those with children, often experience financial hardship – a condition characterized by difficulty paying for usual household expenses such as food and housing. The economic turmoil engendered by the COVID-19 pandemic further worsened the situation for these households. In the early weeks of the pandemic, lower-income parents were twice more likely to cut back on food expenditure and two-and-a-half times more likely to reduce savings or increase credit card debt than higher-income parents (Karpman et al., 2020). Literature shows that financial hardship is positively associated with health risk behaviors (Sampson et al., 2021), mental health problems (Frankham et al., 2020; Ryu et al., 2023), self-harm behavior (Barnes et al., 2016), and marital instability (Gudmunson et al., 2007) and negatively associated with political participation (Schaub, 2021). Because financial hardship can have far-reaching consequences for societal well-being, it is crucial to understand for how long different cash assistance programs – with different generosity and frequency of payments – provide financial relief to economically-disadvantaged households.

Similar to previous years, in early March 2021, lower-income households started receiving yearly lump-sum cash assistance from Earned Income Tax Credit (EITC) and Child Tax Credit (CTC), two large anti-poverty programs in the U.S. From EITC, households with children received substantially more cash assistance than identical households without children, and only the earlier group received CTC payments. Additionally, in early January and mid-March 2021, both groups received cash assistance through the Economic Impact Payments (EIP) 2 and 3 programs as part of the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 and American Rescue Plan Act (ARPA) of 2021, respectively (U.S. Government Accountability Office, 2022). Furthermore, the ARPA increased the generosity of the CTC program for the 2021 tax year and made households with children eligible for receiving up to 50% of their estimated CTC benefits in advanced monthly periodic payments between July and December 2021 (Crandall-Hollick, 2022). According to the United States Department of the Treasury, in the fiscal year 2021, the federal government spent $569.5 billion in refundable tax credits and EIP payments (Department of the Treasury, 2022). Although there were no EIP payments in 2022, the ARPA made the Child and Dependent Care Tax Credit (CDCTC) fully refundable (for 2021 tax year), through which many households with dependent care expenses became eligible to receive cash assistance in addition to their yearly lump-sum EITC and CTC benefits after filing their taxes (Crandall-Hollick, 2021a). The across-group and across-time variation in cash assistance eligibility from these programs created multiple quasi-experimental contexts which can be utilized to explore for how long different cash assistance programs provide financial relief to resource-constrained households.

This study uses the United States Census Bureau's Household Pulse Survey, which has regularly gathered data on self-reported financial hardship since August 2020, to investigate the longevity of the effect of higher cash assistance eligibility on households' perceived financial hardship. For identification, I employ an event-study design, which utilizes the across-time variation in differential cash assistance eligibility for households with and without children from the EITC, CTC, EIP, and CDCTC programs between 2021 and 2022. In general, findings suggest that the longevity of the effect ranges from a couple of weeks to several months, depending on both the generosity and the frequency of payments. Importantly, results indicate that smaller monthly payments reduce financial hardship over a more extended period than larger yearly lump-sum payments. In addition, the effect of higher cash assistance eligibility appears to be mostly concentrated among single-mother households.

This study makes two contributions to the literature on the role of cash assistance programs in reducing the financial hardship experienced by lower-income households in the U.S. First, by using a unique high-frequency dataset, it elucidates how the financial hardship experienced by these households evolves over time, especially before and after important policy events. Second, it investigates how the design features of cash assistance programs (e.g., generosity and frequency of payments) affect the

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magnitude and the longevity of the effect of higher cash assistance eligibility on households' perceived financial hardship. From a policy perspective, findings suggest that the permanent availability of a program that provides monthly cash assistance (similar to 2021 advance CTC payments) can substantially reduce the financial hardship experienced by lower-income households with children, especially in the latter half of a year.

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