

Leo Gabriel  
DBA – Accounting  
Falls School of Business  
Anderson University

## ABSTRACT

### INDICATORS OF SAVING: A CASE STUDY OF EARNED INCOME TAX CREDIT RECIPIENTS IN THE TWIN CITIES OF MINNESOTA

The primary purpose of this dissertation was to examine factors associated with the decision to save in financial assets for earned income tax credit (EITC) recipients in the Twin Cities of Minnesota, using tax return and survey data. A secondary purpose was to determine if there is a positive association between tax refund amounts and the intention to save tax refunds. The EITC, the largest U.S. antipoverty program, is a tax transfer policy that provides an incentive for low-income households to move from welfare to the workplace. If EITC recipients are able to save, to access credit, and to accumulate assets, then the antipoverty effect of the EITC tax policy will be enhanced.

Economic theory predicts that individuals will act in their best interest and save for income over their life time. Behavioral and institutional theories identify factors in saving decisions that are outside of economic theory. Institutional factors, which include access to financial products, saving incentives, financial education, and facilitation of savings, are increasingly considered in studies of low-income families.

This study utilized empirical analysis of tax return and survey data to examine the determinants of saving. Data came from AccountAbility Minnesota, a nonprofit organization that provides tax assistance to low-income individuals. Savings were determined by indicators of investments in financial assets on 2004 tax returns and EITC recipients' intention to save their tax refunds. Results indicated that income, being banked, race, and marital status were significant factors associated with the decision to save in financial assets. Results also indicated that there was not a significant association between tax refund amounts and the intention to save tax refunds.