

Where did the tax cut refund checks go?

Almost half of Americans used their refunds to pay off debt

[Zdravka Todorova](#) Dec . 22 . 2003

Almost half (48%) of households used the money they received earlier this year from President Bush's tax cut package, to pay off bills, according to the Cambridge Consumer Credit Index.

From these bills, credit cards composed 15% and other bills took 33% of the refund checks to households.

One third of Americans (32%) spent refund checks on purchasing consumer goods, according to the Cambridge Consumer Credit Index Survey. 20% of the surveyed consumers used the money on everyday purchases, while 10% spent on "something they always wanted to buy" and 2% used the money for other kinds of purchases.

Of those surveyed, 18% deposited the refund checks into savings accounts. Only 2% invested the money in stocks, bonds or mutual funds.

How does this compare with households' intentions to spend their tax refunds? In February 2003, in anticipation of the tax cuts, the Cambridge Index asked consumers what they would do with the money if they got a refund check.

Here is the comparison of the February 2003 households' intentions and their December answers to the question: "What did you do with your the tax refund check you received?"

	December 2003 (Actions)	February 2003 (Intentions)
Save in a bank account	18%	28%
Pay off bills	33%	23%
Pay off credit card debt	15%	19%
Spend on everyday items	20%	9%
Buy something always wanted	10%	9%
Other spending	2%	6%
Invest in stocks and bonds	2%	6%

In February 2003, 28% of surveyed consumers expected that they would save the money in a bank account, while only 18 % did so when they received their refund checks.

On the other hand, 42% expected to use the money to pay off debt, while in reality 48% directed their refunds to debt payments. With regards to investment in stocks and bonds, 6% intended to put their tax refunds to work for them, while in practice only 2 % did so.

Only 9% of respondents questioned in February expected to spend their refund checks on everyday items, while in December 2003, 20% said that they did so. This increased reliance of

households on tax cut refunds for everyday necessities may be indicative of their worsening financial situation.

Of the total survey respondents, 32% received tax refunds this year, while 68% did not receive any refunds.

Tax cuts were said to fuel more consumer spending and producers' incentives. But with already accumulated consumers' and producers' debt, a good part of tax refunds had to go for debt payments. Some analysts doubt the ability of refund checks to stimulate new consumer spending and production.

"Capital gains tax cuts, cuts of taxes on dividends, or even across-the-board income tax cuts are not the best way to boost domestic demand, for the simple reason that these will not put much money into the hands of most U.S. households," write Levy Institute President Dimitri B. Papadimitriou and Senior Scholar L. Randall Wray in their public policy brief.

Papadimitriou's and Wray's study urges the federal government to consider broader-based tax cuts than those enacted by President Bush, aid to struggling state governments, and new spending programs to bolster domestic demand. The authors suggest a cut, perhaps a temporary one, in payroll taxes for employers and employees, emergency federal support to state governments to limit their budget cuts, and significant federal support for public infrastructure investment.

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