

11-2014

## An Examination of the Tax Incentive For Child Support

Gary M. Fleischman  
*Texas Tech University College of Business*

Paul Hutchison  
*University of North Texas*

Zafar Dad Khan  
*University of Virginia - Wise*

Follow this and additional works at: <http://scholarworks.sjsu.edu/sjsumstjournal>

 Part of the [Taxation-Federal Income Commons](#)

---

### Recommended Citation

Fleischman, Gary M.; Hutchison, Paul; and Khan, Zafar Dad (2014) "An Examination of the Tax Incentive For Child Support," *The Contemporary Tax Journal*: Vol. 4: Iss. 1, Article 5.  
Available at: <http://scholarworks.sjsu.edu/sjsumstjournal/vol4/iss1/5>

This Article is brought to you for free and open access by SJSU ScholarWorks. It has been accepted for inclusion in The Contemporary Tax Journal by an authorized administrator of SJSU ScholarWorks. For more information, please contact [scholarworks@sjsu.edu](mailto:scholarworks@sjsu.edu).

**An Examination Of Tax Incentives  
For Child Support**

**Gary M. Fleischman, Ph.D., CPA**  
Associate Professor of Accounting  
School of Accounting  
Texas Tech University  
College of Business  
P.O. Box 42101  
Lubbock, TX 79409-2101  
(806) 755-2546  
gary.fleischman@ttu.edu

**Paul D. Hutchison, Ph.D. #**  
Associate Professor of Accounting  
Department of Accounting  
University of North Texas  
Union Circle #305219  
Denton, TX 76203-5017  
(940) 565-3083  
paul.hutchison@unt.edu

**Zafar Dad Khan, Ph.D.**  
Assistant Professor of Economics  
Department of Business and Economics  
University of Virginia - Wise  
Wise, VA 24293  
(276) 328-0119  
zdk5s@uvawise.edu

**An Examination Of Tax Incentives  
For Child Support**

**ABSTRACT**

Approximately \$13.2 billion of child support payments due to custodial parents in the United States goes uncollected each year. This failure in collection has a detrimental effect on all parties involved—child, custodial parent, non-custodial parent, and the legal system. The purpose of this study is to provide some insight as to the impact of two child support payment tax benefit alternatives (deduction “for” adjusted gross income and a tax credit) on tax progressivity and income inequality as compared to a baseline that reflects existing tax law. The data for this study is obtained from a sample of 100 child support payers gathered using a web-based survey. The study measures tax progressivity using the Suits and Kakwani indexes and investigates related income distributional effects using the Kiefer index. The results suggest that a tax incentive associated with child support payments would enhance tax progressivity and reduce income inequality while also enhancing non-custodial parent *ability to pay* their child support legal mandates.

**INTRODUCTION**

In the United States, there are 6.8 million custodial parents due \$38 billion in child support annually, yet only \$25 billion was actually collected—a shortfall of approximately \$13.2 billion (approximately 35%) (U.S. Census, 2007). The underlying purpose of this study is to

suggest two possible federal tax incentives that would be beneficial to all parties involved (e.g., father, mother, child(ren), and society as a whole) and increase child support collection.<sup>34</sup> To test their recommended tax incentives, the authors conducted a brief survey to collect data, and the results suggest that a federal tax credit would be more effective at increasing child support payments. While the idea of a national tax incentive to pay child support by non-custodial parents may seem to many without merit, it should be noted at the outset of this study that both the state of New York and District of Columbia implemented in 2006 an earned income tax credit (EITC) for low-income, noncustodial parents who work and fully pay their child support (Wheaton and Sorensen 2009).<sup>35</sup> In New York, this credit is based upon a sliding income scale and phases out at income of approximately \$37,870 (NY OTDA 2013). In 2011, 7,600 noncustodial parents in New York claimed \$3.5 million using this credit and received an average refund of more than \$460 (NY OTDA 2014). Additionally, New York has lauded this credit as one of the most effective tools at increasing labor force participation for low skilled workers, since it essentially supplements their wages (NY OTDA 2013). Both the New York and District of Columbia EITC suggest that a national tax

incentive is both realistic and noteworthy from a public policy standpoint.

This study asserts that federal tax incentives will boost child support payment compliance based upon a public policy argument (supported by enhanced institutional legitimacy, fairness, and justice) and a theoretical economic argument. These two arguments are subsequently supported by illustrative empirical analysis based upon data collected from a web-based survey about taxpayers who pay child support. The empirics compare tax progressivity associated with two tax incentive proposals (i.e., deduction “for” adjusted gross income (AGI) and a tax credit) with a baseline containing no child support payment tax incentive using a sample of 100 child support payers. This research measures tax progressivity using the Suits and Kakwani Indices and associated income distributional effects using the Kiefer Index.

This article is organized as follows: first, a brief literature review that includes institutional theory and child support psychology literature is provided for study context; second, options for a child support payment tax benefit and three indices used to measure tax progressivity and income redistribution effects (i.e., Suits Index, Kakwani Index, and Kiefer Index) are presented; third, the illustrative empirics are discussed including data collection and survey methodology; fourth, empirical results are shown; and finally, a conclusion.

---

<sup>34</sup> Since single parents are 80 to 85 percent of the time mothers according to Tebo (2000) and Lin (2000), the authors use the personal pronoun “she” for the resident (custodial) parent and “he” for the non-custodial parent.

<sup>35</sup> For Washington D.C., the authors performed multiple searches but were not able to find any statistics relative to the impact of the EITC for non-custodial parents.

## BRIEF LITERATURE REVIEW

### Institutional Theory

Simply stated, institutional theory holds that organizations (including the U.S. Congress (Congress) and Treasury Department's Internal Revenue Service (IRS)) must conform to external institutional pressures as this behavior enhances societal perceptions of the organization's credibility and legitimacy, and correspondingly promotes access to resources as well as organizational survival (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; Fogarty, 1992). Since they ultimately are more important to these entities' survival and success than actual organizational functioning, governmental entities must be sensitive to societal opinions and perceptions regarding legal processes and fairness, (Meyer, 1986; Covalleski and Dirsmith, 1991). Thus, Congress should be concerned that the laws they create and reform are consistent with societal norms of equity, so that they positively influence citizen perceptions and attitudes about process fairness (e.g., Lin, 2000; van den Bos, 2002; Fleischman et al., 2007), as well as procedural and retributive justice (Kray and Lind, 2002; Kirchler, 2007). In the context of the child support payment compliance, this is especially important issue. Payers of child support are not inclined to comply with system mandates if they believe that the legal system governing child support payments is not fair and equitable, because their perception is that this governmental public policy lacks societal legitimacy and fairness.

Thus, institutional theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) is the underlying theory for the

current study and helps to explain why the government should be motivated to revise the public policy on child support payments so that payer perceptions of justice and fairness are enhanced. This theory is appropriate for research that involves the United States (U.S.) government because it allows accounting research to assess institutional actions that, by necessity, involve both power and politics (Covalleski and Dirsmith, 1991). Other noteworthy accounting studies in the context of public policy issues have employed institutional theory (e.g., Covalleski and Dirsmith, 1991; Fogarty, 1992; Carruthers, 1995; Carpenter and Feroz, 2001).

### Child Support Psychology Literature

In aggregate, psychology literature involving child support seems to suggest that the government has lost institutional legitimacy among most payers of child support due to low collection rate (approximately 65%). This determination helps to partially explain why child support payment compliance in the United States is still a deeply troubling public policy.

Two areas of justice that are relevant to child support payment compliance public policy issues are procedural justice and retributive justice. *Procedural justice* occurs when persons who are required by law to pay child support believe that the process that generated the payment mandate was fair and equitable, while *retributive justice* involves the perceived appropriateness and application of legal sanctions (Kirchler, 2007). This may evinced itself in the current study by how appropriate non-custodial fathers perceive their support payment mandate to be. Their perception of retributive

justice will be poor if they perceive that it exceeds their ability to pay. Also, if the non-custodial father becomes delinquent on his child support payments, is subsequently jailed or subject to onerous civil or criminal penalties, this too will seriously damage perceptions of retributive justice.

### **OPTIONS FOR CHILD SUPPORT PAYMENT TAX BENEFIT**

There is currently no Federal tax incentive for child support payments. Therefore, any tax benefit proposals that could be suggested are by definition arbitrary. However, based on tax deductions and credits that currently exist in the Internal Revenue Code, the authors wish to propose alternative tax breaks that would be potentially feasible. The suggested tax breaks should also be designed to target middle- and lower-income taxpayer groups, and thus, enhance tax progressivity (Seetharaman, 1994; Seetharaman and Iyer, 1995; Dunbar, 1996; Iyer and Seetharaman, 1997; Young, Nutter, and Wilkie, 1999), so they should probably contain phase-outs provisions to accomplish this purpose.

Based upon the current tax structure, the most logical and feasible child support tax incentives would be: a deduction “from” AGI (itemized deduction), a deduction “for” AGI, and a tax credit. Hutchison et al. (2007, p. 42) determined that a deduction “from” AGI (itemized deduction) was not a feasible alternative because only about 33% (based on 2003 *Statistics of Income data*) itemize, and 80% of itemizers have AGIs of over \$50,000. “Thus, an itemized deduction for child support payments would likely only assist wealthier taxpayers who itemize, and who are more likely to meet their support obligations . . .” (Hutchison et al., 2007, p. 42). This authors

concur with that determination and thus, only two tax incentives were developed for child support payments, a deduction “for” AGI and a tax credit, for the current study.

### **Deduction “for” AGI Option**

To propose a child support deduction “for” AGI, the authors carefully reviewed all of the existing deductions to determine which specific deduction would be most appropriate to use as a model. While alimony payments are completely deductible, it was not thought that this would be an appropriate model for consideration due to progressivity and tax expenditure concerns. Additional review and consideration ultimately lead the authors to select the *tuition and fees deduction* since it purposes to target similar taxpayer income groups. Therefore, it was determined that the proposed deduction “for” AGI should be equal to a maximum of \$4,000, limited by the amount of actual child support payments. Also, as mandated by the *tuition and fees deduction*, an AGI phase-out would be included in the proposal for single and head of household taxpayers with AGIs of \$65,000 to \$80,000 and for married filing joint taxpayers between \$130,000 and \$160,000.

### **Tax Credit Option**

The authors also reviewed current tax credits in an effort to identify an existing tax credit that could be used as a model for a proposed credit yet focused on both low- and middle-income taxpayers. Over time, Congress has consistently focused on low- and middle-income-level groups of taxpayers as those most in need of tax relief (U. S. Congress, Joint Committee, 1981), and likely will do the same

in the future. After reviewing all of the current tax credits, the *child and dependent care credit* was selected to use a model for this study. Further review of the purpose and congressional intent of this credit showed that it was similar in ideology to a proposed child support credit. The child and dependent care credit limits for the 2001 tax year (the year of this study) were used as a guide for the present study. The maximum 2001 credit is 30 percent of up to \$2,400 of qualifying child support costs associated with one child, or \$720. This maximum credit doubles to 30 percent of up to \$4,800 of qualifying costs (credit equals \$1,440) for two or more children. The maximum allowed percentage is reduced from 30 percent as adjusted gross income increases, to a base of 20 percent for adjusted gross incomes of \$28,000 or more.

### **Tax Indices To Measure Tax Progressivity And Income Redistribution**

Because tax policy associated with the federal income tax system generally supports a *progressive* tax system due to equity concerns and the *ability to pay* criterion (e.g., Slemrod, 1994), people in the U.S. with higher taxable incomes not only pay a higher total amount of taxes as compared with persons with lesser incomes, but they also pay tax at a higher rate. Therefore, it is relevant to assess the impact of the two child support payment tax reduction proposals on tax progressivity and income redistribution.

The accounting literature that assesses tax progressivity of existing and proposed tax deductions and credits supports the use of multiple assessment measures (e.g., Seetharaman and Iyer, 1995; Dunbar, 1996). For

purposes of this exploratory study, three measures are used as suggested by Dunbar (1996); two measures to evaluate tax progressivity (Suits, 1977 and Kakwani, 1976); and one measure to assess income redistribution (Kiefer, 1984). Seetharaman and Iyer (1995) provide a reference resource by discussing each of these indices in detail. The following briefly introduces each index that is used in the present study.

### **Suits Index**

Suits (1977) created an index of tax progressivity which he labeled *S*. The index plots the accumulated percent of tax burden vertically against the accumulated percent of income, which is plotted horizontally. Suits (1977, p. 750) used mathematical notation where income is represented by the variable *y* (which ranges from 0 to 100) and the total tax burden is labeled by the variable *x*, so that the “accumulated percent of the total tax burden for a given tax *x*, then becomes  $T_x(y)$ .” Equation (1) summarizes the calculation of the area that is to be calculated is denoted as  $L_x$ , (Suits, 1977, p. 750) where:

$$(1) \quad L_x = \sum_{i=1} (1/2) [T_x(y_i) + T_x(y_{i-1})](y_i - y_{i-1})$$

Furthermore, the progressivity  $S_x$  of a tax *x* is summarized in equation (2), where:

$$(2) \quad S_x = 1 - (L_x/K)$$

The variable  $K$  is always equal to 5,000 because it represents the area of a triangle with both a base and a height of 100 (Suits, 1977, p. 750). If the tax in question is regressive,  $L_x$  is larger than  $K$ , so  $S_x$  will be negative. If the tax is proportional,  $L_x$  equals  $K$ , so  $S_x$  will equal 0. Finally, if the tax in question is progressive,  $L_x$  will be less than  $K$ , so  $S_x$  will be a positive number.

### **Kakwani Index**

The Kakwani (1976) tax progressivity index is defined as twice the area between the Lorenz curve for pre-tax income and the concentration curve for tax liabilities for a given tax schedule  $t = t(x)$ . Here,  $x_i$ 's are the individual income levels for a particular tax system.

$$(1) \quad KK = C_t - G_x$$

where  $G_x$  is Gini index and is defined as

$$G_t = \frac{\left( \frac{1}{n(n-1)} \sum_{i \neq j} |x_i - x_j| \right)}{2\bar{x}}$$

and  $C_t$  is concentration index and is defined as

$$(2) \quad C_t = \frac{\left( \frac{1}{n(n-1)} \sum_{i \neq j} (t(x_i) - t(x_j)) I(x_i > x_j) \right)}{2\bar{y}} \quad \text{where}$$

$$I(x_i > x_j) = \begin{cases} 1 & \text{if } x_i > x_j \\ 0 & \text{if } x_i = x_j \\ -1 & \text{if } x_i < x_j \end{cases}$$

This measure indicates progressivity in a tax system if the value of the index is positive, regressivity if the value is negative. The maximum value of Kakwani index is +1.0 and the minimum is -2.0 (Formby et al. 1984). This index is based on integration with respect to returns.

### **Kiefer Index**

The Kiefer (1984) index is based on the notion of equally distributed equivalent (EDE) level of income that provides the equal level of public welfare if distributed properly. Kiefer's index specifies the amount of increase in the level of EDE income relative to average income after a tax-system or tax law is enacted. The Kiefer index shows that as income inequality (measured before tax) changes, the tax progressivity index also changes. The Kiefer index increases if the proportional income increases. This implies that if the index is positive, the tax decreases income inequality (makes income more equal) and if the result is proportional, the index will be equal to zero. Kiefer's index uses Atkinson's (1970) social welfare function and assigns various weights to the various income transfers;

$$(1) \quad \text{Kiefer's Index: } I_{eb} - I_{ea}$$

where  $I_{eb}$  and  $I_{ea}$  are the measures of income inequality before-tax and after-tax, respectively. The income equality index is computed as follows:

$$(2) \quad I_e = 1 - \left[ \sum_{i=1}^n \left( \frac{u_i}{u} \right)^{1-e} f(u_i) \right]^{1/(1-e)}$$

where  $u_i$  = mean income of the  $i^{th}$  income class ( $i=1,2,\dots,n$ );  $u$  = mean income of all taxpayers;  $f_i$  = probability density of the income distribution at  $u_i$ , or the proportion of taxpayers in the  $i^{th}$  income class; and  $e$  = inequality aversion parameter.  $e$  measures the relative sensitivity to income transfers at different income levels. The value of  $e$  depends on the society's value judgment about society's aversion to income inequality. Different authors have used different values but Kiefer used  $e$  in the range of 0.5 to 2.5. (This study's results are presented for these same two values of  $e$ .) Kiefer compares the EDE levels of before and after tax income and therefore, captures the effect of the tax system on income inequality. So, if the Kiefer index is  $> 0$  ( $< 0$ ), the income inequality has decreased (increased), and the higher the value of the Kiefer index is, the lesser the inequality. The Kiefer index interprets a tax system as progressive when  $KF > 0$ , proportional when  $KF = 0$ , and regressive when  $KF < 0$ .

### ILLUSTRATIVE EMPIRICS

Based on the foregoing, a key barrier that non-custodial fathers face regarding paying child support

obligations in full is their limited *ability to pay* such obligations (e.g., Bartfeld and Meyer, 2003). The thesis of this exploratory public policy study is that a federal tax incentive would increase the after-tax income of non-custodial parents, thus enhancing their ability to pay child support, which should increase compliance and fairness perceptions. Unfortunately, this study is not able to directly measure changes in compliance attitudes and fairness perceptions associated with a proposed tax incentive because the authors' experience with this delicate topic suggests that such questions would seriously damage any chances of obtaining reasonable number of respondents. Ideally, however, it is asserted that a child support payment tax incentive that would increase the ability to pay could also be viewed as a *consensus-based* approach to compliance based on Lin's (2000) arguments, since this may be an effective means to transform the attitudes of the citizenry regarding the overall fairness (van den Bos, 2002; Fleischman et al., 2007) and justice (Kray and Lind, 2002; Kirchler, 2007) of the child support payment process. Institutional Theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983) suggests that strengthened child support payer fairness and justice perceptions associated with the child support payment process should also enhance perceptions of governmental legitimacy, which should theoretically further bolster payment compliance.

### Data Collection

To both illustrate and assess the impact of a tax incentive on actual child support payers, including tax progressivity and income distribution issues, the authors collected detailed micro-level tax-oriented data about *non-*



*custodial* parents who paid child support. There is difficulty in general to collect any adequate data about non-custodial fathers, since most data is instead collected about custodial mothers (Cancian and Meyer, 2004; Hofferth et al., 1997).

Aggregate child support data exists from the U.S. Census Bureau's *Current Population Reports* (2008), but this data is primarily demographic in nature and focuses on *custodial* parents, so it is of little help for the present study. The *Panel Study of Income Dynamics* also focused on female custodial parents (Case et al., 2003). Micro-level child support data is available at county courthouses, but associated demographic and economic data is not available.

The study's micro-level data collection process was extremely difficult due to the exceptionally sensitive nature of the topic, so the authors essentially collected data in two stages. During stage one, a pilot study was created using a survey that was provided to participants in 2000 to collect 1999 tax return data. Participants were asked to agree in writing to allow us to obtain summary tax-related data about them directly from the IRS. Therefore, this study would not have to rely on subject self-reported information (that could result in transcription and/or estimation errors) except for actual child support payment and demographic data.

Unfortunately, the child support payers who were asked to participate in the study were very forthright in communicating that they wanted nothing to do with any legal or governmental entity (e.g., the IRS) because of the horrific and unfair (in their opinion) process that they endured to obtain their final child support payment obligation. The

authors do not think that it is any exaggeration to state that the non-custodial payers interviewed were very angry and bitter about the child support legal process in general and were extremely hesitant and skeptical about making any disclosures about themselves personally or their child support payment obligations. It became obvious from this study that the authors would not be able to ask many opinion and perception questions about child support payments due to this sensitivity and hesitance.

In order to increase our study response rate by encouraging child support payers to fill out the survey, one of the authors made guest appearances at divorce recovery groups, church groups containing divorced singles, fathers' advocacy groups, and a radio show. Further solicitations were made using newspaper articles and news releases, as well as a website. Unfortunately, these strategies were wholly unsuccessful in collecting the needed data. The sensitivity and privacy concerns seemed to restrict people from participating in this survey.

Sorensen (1997) highlights the monumental difficulty of obtaining meaningful and accurate demographic and economic data about non-custodial fathers, who generally are very hesitant to report any demographic and economic information about their situation. Most national surveys do not attempt to ask men if they are non-custodial fathers, and those that do have had extremely low response rates (e.g., Cherlin, Griffith and McCarthy, 1983; Seltzer and Brandreth, 1994; Sorensen, 1997). In fact, this non-custodial father information collection difficulty is so widespread that some well-known researchers in this area have attempted to

*indirectly* estimate non-custodial father income information based on the income characteristics of custodial *mothers* (e.g., Garfinkel and Oellerich, 1989). In summary, there are significant data limitations regarding economic and demographic information about child support payers (Hofferth et al., 1997; Sorensen, 1997; Bartfeld, 2003; Cancian and Meyer, 2004).

Therefore because of the need for a relevant child support payer micro-dataset for the study, in 2002 the authors initiated phase two of the data collection process, using lessons learned from the phase one pilot study as a guide. One of the authors hired a computer expert to design a professional website that contained no mention of any contact with the IRS other than self-reported tax data (from personal tax returns) for the 2001 tax year. Because this study necessitated micro-level tax-related data, respondents were asked to provide key tax data for the 2001 tax year, such as adjusted gross income (AGI), total exemptions, credits, and taxable income. Although such questions required subjects to physically access their tax return, that undoubtedly hurt the response rate, yet provided as accurate data as possible from the subject returns, as opposed to mere estimates which is likely the case with *Current Population Reports* information. (The survey instrument is provided in the Appendix.)

A clearly stated *letter of purpose* was posted and delineated the reason why the study was being initiated, as well as the motivation to conduct the study. Additionally, a list of answers was posted to frequently asked questions (FAQ) on the website. It was emphasized that subject responses were completely anonymous and that the study was for university

academic research, and there was no connection with legal or governmental authorities. Again, even with these noticeable website enhancements, there was still difficulty collecting a reasonable number of usable surveys. In the end, there were 103 usable surveys collected for the 2001 tax year (filed in 2002). Because the data was collected in this manner, it was not possible to calculate response rate or non-response bias estimates<sup>36</sup> (e.g., Armstrong and Overton, 1977).

[Note: over the intervening years, the authors have made additional attempts to obtain both child support and federal tax data from individuals, yet due to the extreme sensitivity of the data, they were not successful. Although the data used in this study may seem somewhat dated, they believe it is valid and a good proxy for testing their tax incentive proposals, since the elements extracted from the federal tax returns have changed very little over the years.]

With the foregoing in mind, the authors carefully screened the data and recalculated the self-reported data for accuracy using the individual income tax formula (e.g., Gross income less deductions “for” AGI = AGI, less deductions “from” AGI and exemptions = taxable income). This process led us to discard three observations. (Two observations were discarded because the subjects only entered the child support they paid but no other tax data. The third observation was discarded because it became clear that the tax data pertained to a year other than 2001 based on the standard deduction- and exemption-related calculations.) After these data integrity tests, the sample was left with 100 usable observations. Of the

---

<sup>36</sup> This was not statistically feasible because of the small relative size of the sub-samples.

100 remaining observations, the authors utilized 2001 Turbo-Tax software to make additional data integrity changes when needed to correct occasional subject typos and other issues, such as failure to properly calculate phase-outs, again using the individual tax formula. The authors concluded that a number of the subject tax returns were most likely prepared by hand.

## RESULTS

Table 1 summarizes the demographic statistics pertaining to the study's 100 web survey respondents. The average age of the sample was just over 37 years old, and the mean adjusted gross income level for the 2001 tax year was just under \$57,000. The sample average taxable income was \$40,334, with an associated average tax burden of \$7,675, which suggests the average sample tax rate was approximately 19 percent. The average child support paid for the sample was \$8,081 per year, or about 14 percent of the subjects' average adjusted gross income. The average number of children that the sample non-custodial parents supported was just under two, so the average support paid per child was just over \$4,600 per year. (This compares favorably with the \$4,700 average child support received in 2005 (U.S. Census, 2007)).

Consistent with the literature (e.g., Lin, 2000 and Tebo, 2000), almost all of the non-custodial parents paying child support were men (95 percent). The majority of the respondents were married (66 percent) and almost half of the sample was from the southwestern United States. A little less

than a third of the sample filed as single on their 2001 tax return, while just less than two-thirds were married filing jointly and 14 percent were head of household filers.

The vast majority of the respondents were Caucasian (86 percent), while 6 percent were black, and 5 percent Hispanic.

Panel A of Table 2 provides comparative descriptive statistics. As intended, both the *for AGI* and credit child support tax benefits reduce associated tax liabilities. The credit example reduces tax liability slightly more than the *for AGI* illustrative example. The table also documents that the mean *for AGI* total deduction was \$3,267, while the mean credit was \$686. Panel B of Table 2 documents that the reduction of tax liability for both tax incentive scenarios is significant based on the paired samples *t* test.

Table 3, Panel A provides the summary results for all taxpayers related to the tax progressivity and income distribution tests. Two different measures of tax progressivity (Suits and Kakwani indices) were utilized, and both corroborate that tax progressivity is enhanced by both tax breaks for child support payments. Consistent with the differences in tax liability noted in Table 2, the tax credit incentive proposal is slightly more progressive than the *for AGI* scenario.

The two measures (i.e.,  $e = 0.5$  and  $e = 2.5$ ) of the Kiefer index also suggest that both tax incentive proposals reduce income inequality as compared to the original (baseline) scenario with no special tax incentive for child support payments. The credit proposal is slightly more effective as compared to the *for AGI* scenario where  $e = 2.5$ .

Table 3, Panel B assesses these results by taxpayer status (married filing jointly versus all other filers).

Table 4 provides data input summaries for both the Suits and Kiefer indexes. Detailed calculations are also provided that support the final calculations contained in Table 3.

Figure 1 shows a Lorenz Curve based on tax liability that compares the three scenarios (original baseline, *for AGI*, tax credit). The *for AGI* and tax credit scenario curves drop below the curve representing the original scenario, which suggests that the two tax scenarios provide tax liabilities that are relatively more progressive. In sum, Figure 1 corroborates the findings presented in Table 3.

## CONCLUSION

There are approximately 645,000 non-custodial parents in the United States who would receive an income increase of \$500 to \$1,900 per year from a federal tax incentive for child support (Wheaton and Sorensen 2009). Results from the present study suggest that Congress should create a tax incentive that would effectively enhance tax progressivity (based on the Suits and Kakwani indices), reduce income inequality (based on the Kiefer index), while also increasing child support payer *ability to pay*. The results imply that the proposed tax credit would be slightly more effective than the proposed deduction *for AGI*, but either option could be adjusted based on Congressional intent. Since both child support payment tax incentive options that are illustrated

would increase payer *ability to pay*, institutional theory advocates that such a tax incentive would also likely enhance payer perceptions of IRS institutional legitimacy, as well as procedural and retributive justice, consistent with Kray and Lind (2002) and Kirchler (2007). Strengthened child support payer fairness and justice perceptions combined with an increased ability to pay should theoretically increase payer compliance, although this study could not corroborate this expectation with empirical analysis. The authors concluded that due to significant sensitivity issues, they could not ask respondents questions about future expected compliance patterns should a tax break be initiated. However all 100 respondents indicated that they favored a tax incentive of some kind to enhance their *ability to pay* child support.

While the child support tax incentive proposals presented in this study generally constitute tax expenditures, it should be noted that this public policy strategy is likely to also provide cost savings, if institutional theory is an accurate predictor and child support payers subsequently increase their compliance behavior. If this holds, then time and pecuniary outlays that society in general and the legal system in particular currently expend to enforce child support payment compliance may be diminished (e.g., costs associated with court deliberations, attorney fees, collection efforts, as well as incarceration costs, etc.) (Hutchison et al., 2007).

Overall, policymakers today may favor the tax credit option since the Obama administration seems to favor credits as part of their tax reform strategy. Further, it may be wise to structure the tax credit as a refundable credit, as opposed to a non-refundable credit, in order to ensure that lower income

child support payers actually receive a tax benefit from the credit.

## REFERENCES

- Armstrong, J. S., and T. S. Overton. 1977. Estimating Nonresponse Bias in Mail Surveys, *Journal of Marketing Research*, 14: 396 – 402.
- Atkinson, A. B. 1970. On the Measurement of Inequality, *Journal of Economic Theory* 2: 244-263.
- Bartfeld, J. 2003. Falling Through the Cracks: Gaps in Child Support Among Welfare Recipients, *Journal of Marriage and the Family*, 65: 72 – 89.
- \_\_\_\_\_, and D. Meyer. 2003. Child Support Compliance Among Discretionary and Nondiscretionary Obligor, *Social Service Review*, (September): 347 – 372.
- Cancian, M. and D. Meyer. 2004. Fathers of Children Receiving Welfare: Can they Provide More Child Support?, *Social Service Review*, (June): 179 – 206.
- Carpenter, V. L. and E. H. Feroz. 2001, Institutional Theory and Accounting Rule Choice: An Analysis of Four US State Governments' Decisions to Adopt Generally Accepted Accounting Principles, *Accounting, Organizations and Society*, 26: 565 – 596.
- Carruthers, B. G. 1995, Accounting, Ambiguity, and the New Institutionalism, *Accounting, Organizations and Society* 20, 313 – 328.
- Case, A. C., I. F. Lin, and S. McLanahan. 2003. Explaining Trends in Child Support: Economic, Demographic, and Policy Effects, *Demography*, 40: 171-189.
- Cherlin, A., J. Griffith, and J. McCarthy. 1983. A Note on Maritally Disrupted Men's Reports of Child Support in the June 1980 Current Population Survey, *Demography*, 20: 385 – 389.
- Covaleski, M. A. and M. W. Dirsmith. 1991, The Management of Legitimacy and Politics in Public Sector Administration, *Journal of Accounting and Public Policy* 10: 135 – 156.
- DiMaggio, P. and W. Powell. 1983, The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields, *American Sociological Review* 48: 147 – 160.
- Dunbar, A. 1996. The Impact of Personal Credits on the Progressivity of the Individual Income Tax, *The Journal of the American Taxation Association*, 18: 1 – 30.
- Fleischman, G. M., S. Valentine and D. W. Finn. 2007. Ethical Reasoning and Equitable Relief, *Behavioral Research in Accounting*, 19: 107 – 132.
- Fogarty, T. J. 1992, Financial Accounting Standard Setting as an Institutionalized Action Field: Constraints, Opportunities and Dilemmas, *Journal of Accounting and Public Policy* 11: 331 – 355.
- Formby, J. P., T. G. Seaks, and W. J. Smith. 1984. Difficulties in the Measurement and Comparison of Tax Progressivity: The Case of North America, \_\_\_\_\_ 39: 297-313.
- Garfinkel, I., and D. T. Oellerich. 1989. Noncustodial Fathers' Ability to Pay Child Support, *Demography*, 26: 219 – 233.
- Hofferth, R., P. Davis-Kean, J. David, and J. Finkelstein. 1997. *Child Development Supplement of the Panel Study of Income Dynamics: 1997 User Guide*. Ann Arbor:

- University of Michigan, Survey Research Center, Institute for Social Research.
- Hutchison, P. D., G. Fleischman, and S. B. Anders. 2007. Promoting Perceptions of Fairness: A Proposed Tax Incentive for Payers of Child Support, *The CPA Journal*, (June): 40 - 43.
- Iyer, G., and A. Seetharaman. 1997. Measuring the Statistical Significance of Differences in Tax Progressivity and Income Inequality, *The Journal of the American Taxation Association*, 19: 55 - 66.
- Kakwani, N. C. 1976. Measurement of Tax Progressivity: An International Comparison, *Economic Journal*, 87: 71 – 80.
- Kiefer, D. 1984. Distributional Tax Progressivity Indexes, *National Tax Journal*, 37: 497 – 513.
- Kirchler, E.: 2007. *The Economic Psychology of Tax Behaviour*, Cambridge, England: Cambridge University Press.
- Kray, L. J. and E. A. Lind. 2002. The Injustices of Others: Social Reports and the Integration of Others' Experiences in Organizational Justice Judgments, *Organizational Behavior & Human Decision Processes* 89: 906 – 925.
- Lin, I. F. 2000. Perceived Fairness and Compliance with Child Support Obligations, *Journal of Marriage and the Family*, 62: 388 – 398.
- Meyer, J. 1986. Institutional and organizational rationalization in the mental health system, in *The Organization of Mental Health Services* (W. R. Scott and B. L. Black, eds.), Beverly Hills, CA: Sage Publications, 15 – 29.
- \_\_\_\_\_ and B. Rowan. 1977. Institutional Organizations: Formal Structure as Myth and Ceremony, *American Journal of Sociology* 83: 340 – 361.
- New York State Office of Temporary and Disability Assistance. 2013. Noncustodial parent New York State Earned Income Tax Credit (EITC), Assessed at: <http://otda.ny.gov/workingfamilies/noncustodial.asp>
- \_\_\_\_\_. 2014. State Agencies Join Hands With Albany Major, IRS and Nonprofits to Raise Awareness of the Earned Income Tax Credit and Provide Free Tax Preparation Assistance in Albany, Assessed at: <https://otda.ny.gov/news/2014/2014-01-30.asp>
- Seetharaman, A. 1994. An Isolation of the Effects of Personal Deductions, Tax Credits, and the Tax Rate Schedule on U.S. Individual Income Tax Progressivity and Income Inequality, *The Journal of the American Taxation Association*, 16: 101 – 121.
- \_\_\_\_\_, and G. Iyer. 1995. A Comparison of Alternate Measures of Tax Progressivity: The Case of the Child and Dependent Care Credit, *The Journal of the American Taxation Association*, 17: 42 – 70.
- Seltzer, J., and Y. Brandreth. 1994. What Fathers Say About Involvement with Children After Separation, *Journal of Family Issues*, 15: 49 – 77.
- Slemrod, J. 1994. *Tax Progressivity and Income Inequality*. New York: Cambridge University Press: 137 – 169.
- Sorensen, E. 1997. A National Profile of Non-Custodial Fathers and their Ability to Pay Child Support, *Journal of Marriage and the Family*, 59: 785 – 797.
- Suits, D. B. 1977. Measurement of Tax Progressivity, *American Economic Review*, (September): 747 – 752.

Tebo, M. 2000. When Dad Won't Pay, *ABA Journal*, 86: 54 – 60.

United States Census Report. 2007. U. S. Census Bureau, Current Population Reports, *Custodial Mothers and Fathers and Their Child Support: 2005* (August 2007).

United States Census Report. 2008. U. S. Census Bureau, Current Population Reports, *Income, Poverty, and Health Insurance Coverage in the United States: 2007* (August 2008).

United States Congress, Joint Committee. 1981. *General Explanation of the Economic Recovery Tax Act of 1981* [H.R. 4242]. 97<sup>th</sup> Congress, 1<sup>st</sup> Session.

Van den Bos, K. 2002. Assimilation and Contrast in Organizational Justice: The Role of Primed Mindsets in

the Psychology of the Fair Process Effect, *Organizational Behavior and Human Decision Processes* 89: 866 – 880.

Wheaton, L., and E Sorensen. 2009. Extending the EITC to Noncustodial Parents: Potential impacts and Design Considerations. Washington, D.C.: Urban Institute Press.

Young, J., S. Nutter and P. Wilkie. 1999. A Re-Examination of the Effects of Personal Deductions, Tax Credits and the Tax Rate Schedule on Income Progressivity and Income Inequality, *The Journal of the American Taxation Association*, 21: 32 – 44.

**Table 1**  
**Sample Characteristics**  
*n* = 100

| <b>Variable</b>                        | <b>Category</b> | <b><i>M</i></b> | <b><i>SD</i></b> | <b>Frequency</b> | <b>Percentage</b> |
|--|-----------------|-----------------|------------------|------------------|-------------------|
| <b>Age (years)</b>                     |                 | 37.5            | 6.92             |                  |                   |
| (max = 56 yrs; min = 23 yrs)           |                 |                 |                  |                  |                   |
| <b>Adjusted Gross Income (2001)</b>    |                 | \$56,851        | \$37,824         |                  |                   |
| (max = \$179,000; min = \$4,000)       |                 |                 |                  |                  |                   |
| <b>Taxable Income (2001)</b>           |                 | \$40,334        | \$33,603         |                  |                   |
| (max = \$151,871; min = \$0)           |                 |                 |                  |                  |                   |
| <b>Tax Liability (2001)</b>            |                 | \$7,675         | \$8,061          |                  |                   |
| (max = \$38,807; min = \$0)            |                 |                 |                  |                  |                   |
| <b>Total Child Support Paid (2001)</b> |                 | \$8,081         | \$4,782          |                  |                   |
| (max = \$22,000; min = \$80)           |                 |                 |                  |                  |                   |
| <b>Number of Children Supported</b>    |                 | 1.74            | 0.97             |                  |                   |
| (max = 7; min = 1)                     |                 |                 |                  |                  |                   |
| <b>Gender</b>                          | Male            |                 |                  | 95               | 95                |
|  | Female          |                 |                  | 5                | 5                 |
| <b>Current Marital Status</b>          | Single          |                 |                  | 34               | 34                |



|                                 | Married                |                 |                  | 66               | 66                |
|---------------------------------|------------------------|-----------------|------------------|------------------|-------------------|
| <b>Variable</b>                 | <b>Category</b>        | <b><i>M</i></b> | <b><i>SD</i></b> | <b>Frequency</b> | <b>Percentage</b> |
| <b>Geographic Region (U.S.)</b> | Northeast              |                 |                  | 8                | 8                 |
|                                 | South                  |                 |                  | 21               | 21                |
|                                 | Midwest                |                 |                  | 16               | 16                |
|                                 | Northwest              |                 |                  | 7                | 7                 |
|                                 | Southwest              |                 |                  | 48               | 48                |
| <b>Tax Filing Status (2001)</b> | Single                 |                 |                  | 28               | 28                |
|                                 | Married Filing Jointly |                 |                  | 58               | 58                |
|                                 | Head of Household      |                 |                  | 14               | 14                |
| <b>Ethnic Background</b>        | Black                  |                 |                  | 6                | 6                 |
|                                 | Native American        |                 |                  | 1                | 1                 |
|                                 | Hispanic               |                 |                  | 5                | 5                 |
|                                 | Oriental/Asian         |                 |                  | 1                | 1                 |
|                                 | Caucasian              |                 |                  | 86               | 86                |
|                                 | Other                  |                 |                  | 1                | 1                 |

**Table 2**  
**Panel A: Comparative Descriptive Statistics**  
*n* = 100

| Variable                   | <i>M</i> | <i>SD</i> |
|----------------------------|----------|-----------|
| Taxable Income (Original)  | \$40,334 | \$33,603  |
| Tax Liability (Original)   | \$7,675  | \$8,061   |
|                            |          |           |
| Taxable Income (“For AGI”) | \$37,066 | \$33,913  |
| Tax Liability (“For AGI”)  | \$7,029  | \$8,036   |
| “For AGI” Total Deduction  | \$3,267  | \$1,342   |
|                            |          |           |
| Taxable Income (Credit)    | \$40,334 | \$33,603  |
| Tax Liability (Credit)     | \$6,988  | \$8,028   |
| Total Credit Amount        | \$686    | \$295     |

**Panel B: Paired Samples *t*-Test**  
*n* = 100

| Pair  | <i>t</i> | <i>p</i> |
|---|----------|----------|
|   |          |          |
| Tax Liability (Original)<br>Tax Liability (“For AGI”) | 18.88    | 0.000    |
|   |          |          |
| Tax Liability (Original)<br>Tax Liability (Credit)    | 23.23    | 0.000    |
|   |          |          |
| Tax Liability (“For AGI”)<br>Tax Liability (Credit)   | 1.25     | 0.213    |

**Table 3**

**Panel A: Progressivity and Income Inequality Summary**

All Data

*n* = 100

| Index                             | Original Baseline | For AGI | Credit |
|-----------------------------------|-------------------|---------|--------|
| <b>Suits<sup>a</sup></b>          | 0.160             | 0.199   | 0.206  |
| <b>Kakwani<sup>b</sup></b>        | 0.164             | 0.199   | 0.209  |
| <b>Kiefer (e=0.5)<sup>a</sup></b> | 0.012             | 0.014   | 0.014  |
| <b>Kiefer (e=2.5)<sup>a</sup></b> | 0.122             | 0.131   | 0.138  |

<sup>a</sup> See detailed input data and calculations on TABLE 4.

<sup>b</sup>  $G_x = 0.3520$ ;  $C_{original} = 0.5155$ ;  $C_{For AGI} = 0.5509$ ;  $C_{Credit} = 0.5606$

**Panel B: Progressivity and Income Inequality Summary**

Married Filing Jointly (MFJ) versus All Other Filers (AO)<sup>a</sup>

*n* = 100

| Index                 | Original |       | For AGI |       | Credit |       |
|-----------------------|----------|-------|---------|-------|--------|-------|
|                       | MFJ      | AO    | MFJ     | AO    | MFJ    | AO    |
| <b>Suits</b>          | 0.175    | 0.137 | 0.207   | 0.188 | 0.207  | 0.205 |
| <b>Kakwani</b>        | 0.059    | 0.028 | 0.069   | 0.036 | 0.070  | 0.040 |
| <b>Kiefer (e=0.5)</b> | 0.010    | 0.015 | 0.010   | 0.018 | 0.011  | 0.018 |
| <b>Kiefer (e=2.5)</b> | 0.136    | 0.093 | 0.139   | 0.110 | 0.145  | 0.119 |

<sup>a</sup> MFJ = 48, AO = 42.

**Table 4**  
**Data Input Summary**  
**Suits and Kiefer Indexes-Detailed Calculations**  
**Panel A: Suits Index Tax Burdens and Calculations**

| Decile       | \$ Tax Original      | Cum. <sup>a</sup> Percent | \$ Tax For AGI       | Cum. <sup>a</sup> Percent | \$Tax After Credit   | Cum. <sup>a</sup> Percent |
|--------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|---------------------------|
| 1            | 654                  | 0.85                      | 445                  | 0.63                      | 373                  | 0.53                      |
| 2            | 1,817                | 3.22                      | 1,289                | 2.47                      | 970                  | 1.92                      |
| 3            | 2,751                | 6.81                      | 2,184                | 5.57                      | 2,135                | 4.98                      |
| 4            | 3,575                | 11.46                     | 2,978                | 9.81                      | 2,829                | 9.02                      |
| 5            | 4,225                | 16.97                     | 3,534                | 14.84                     | 3,457                | 13.97                     |
| 6            | 5,709                | 24.41                     | 5,022                | 21.98                     | 4,974                | 21.09                     |
| 7            | 7,466                | 34.13                     | 6,583                | 31.35                     | 6,782                | 30.79                     |
| 8            | 8,583                | 45.31                     | 7,637                | 42.21                     | 7,863                | 42.04                     |
| 9            | 14,890               | 64.72                     | 14,087               | 62.26                     | 14,146               | 62.28                     |
| 10           | 27,077               | 100.00                    | 26,528               | 100.00                    | 26,357               | 100.00                    |
| <b>Total</b> | <b>76,747</b>        |                           | <b>70,288</b>        |                           | <b>69,885</b>        |                           |
|              | <i>L<sub>x</sub></i> |                           | <i>L<sub>x</sub></i> |                           | <i>L<sub>x</sub></i> |                           |
|              | <b>4,199.92</b>      |                           | <b>4,006.38</b>      |                           | <b>3,970.26</b>      |                           |

<sup>a</sup> Cumulative Percent

**Panel B: Kiefer Index Calculations**

| Decile | Mean Income Before Tax (\$) | MIAT <sup>b</sup> Original (\$) | MIAT <sup>b</sup> "For AGI" (\$) | MIAT <sup>b</sup> Credit (\$) |
|--------|-----------------------------|---------------------------------|----------------------------------|-------------------------------|
| 1      | 14,462                      | 13,808                          | 14,017                           | 14,090                        |
| 2      | 24,759                      | 22,942                          | 23,470                           | 23,789                        |
| 3      | 30,008                      | 27,257                          | 27,824                           | 27,873                        |
| 4      | 34,293                      | 30,718                          | 31,314                           | 31,463                        |
| 5      | 43,472                      | 39,248                          | 39,938                           | 40,016                        |
| 6      | 49,678                      | 43,970                          | 44,656                           | 44,704                        |
| 7      | 60,271                      | 52,806                          | 53,688                           | 53,490                        |
| 8      | 73,617                      | 65,034                          | 65,980                           | 65,754                        |
| 9      | 94,182                      | 79,292                          | 80,095                           | 80,036                        |
| 10     | 143,768                     | 116,691                         | 117,240                          | 117,411                       |

| Mean (all)     | 56,851                | 49,176                | 49,822                | 49,863                |
|----------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                | <i>I<sub>eb</sub></i> | <i>I<sub>ea</sub></i> | <i>I<sub>ea</sub></i> | <i>I<sub>ea</sub></i> |
| <b>e = 0.5</b> | <b>-0.90433</b>       | <b>-0.91662</b>       | <b>-0.91794</b>       | <b>-0.91850</b>       |
| <b>e = 2.5</b> | <b>2.40318</b>        | <b>2.28080</b>        | <b>2.27242</b>        | <b>2.26517</b>        |

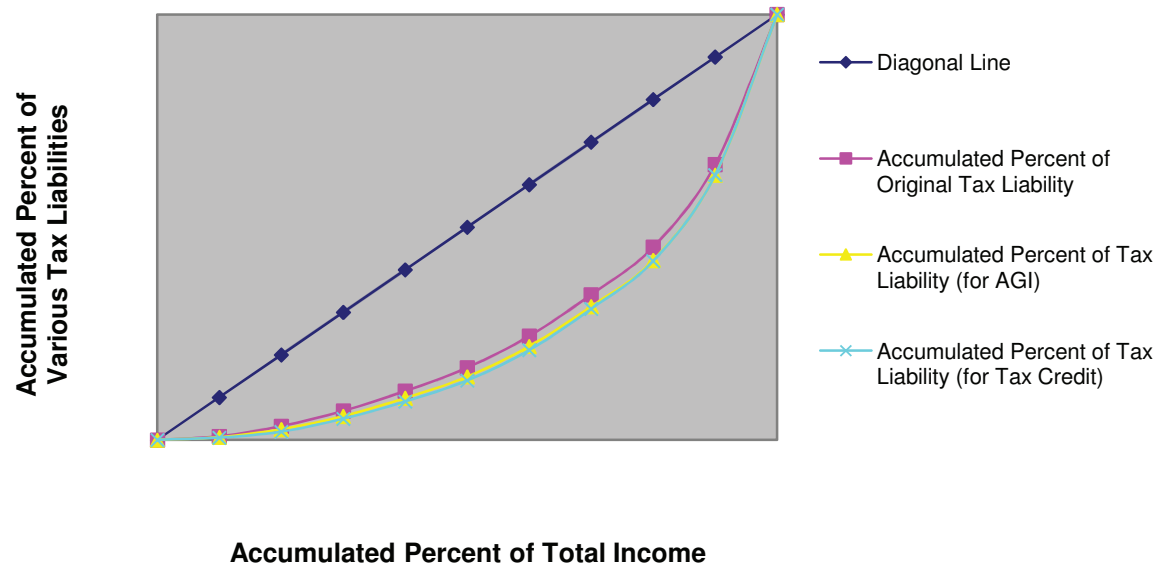
<sup>b</sup>MIAT = Mean Income After Tax

Figure 1

Lorenz Curve: Accumulated Percent of Tax Liability

Comparison of Original Scenario with *for AGI* and Tax Credit Options

Lorenz Curve for Various Tax Situations



**Appendix**  
**2002 Web-Based Child Support Survey**  
**(2001 Tax Year)**

**I. Participant Information**

1. Sex: Male \_\_\_\_\_ Female \_\_\_\_\_

2. Age: \_\_\_\_\_

3. Ethnic Background:

Caucasian \_\_\_\_\_

Black \_\_\_\_\_

Hispanic \_\_\_\_\_

Asian/Pacific Islander \_\_\_\_\_

Native American Indian \_\_\_\_\_

Other \_\_\_\_\_

4. Marital status (current status): Single \_\_\_\_\_ Married \_\_\_\_\_

**II. Child Support Data**

5. In what STATE was your child support order issued?

\_\_\_\_\_

6. How much child support did you pay in the year 2001?

\$ \_\_\_\_\_

7. How many months in year 2001 did you pay child support? \_\_\_\_\_

8. How many children did you support through child support? \_\_\_\_\_

**III. Federal Income Tax Information**

9. Please select the 2001 Tax Form you completed:  
Fill in for only ONE form!!!

Form 1040: Filing status: Single \_\_\_\_\_ Married \_\_\_\_\_

\_\_\_\_\_ Head of household \_\_\_\_\_

\_\_\_\_\_ Total Exemptions (line 6d)

\_\_\_\_\_ Adjusted Gross Income (line 33) \$ \_\_\_\_\_

Total Deductions (line 36)

Standard \_\_\_ Schedule A \_\_\_ \$

\_\_\_\_\_ Taxable Income (line 39)

\$ \_\_\_\_\_

Total Credits (line 51)

\$ \_\_\_\_\_

**Appendix (cont.)**

**Please verify that you entered ALL the information carefully before you submit the survey.**

Form 1040A: Filing status: Single \_\_\_\_\_ Married \_\_\_\_\_  
 \_\_\_\_\_ Head of household \_\_\_\_\_  
 Total Exemptions (line 6d) \_\_\_\_\_  
 Adjusted Gross Income (line 19) \$ \_\_\_\_\_  
 Standard Deductions (line 22) \$ \_\_\_\_\_  
 Taxable Income (line 25) \$ \_\_\_\_\_  
 Total Credits (line 33) \$ \_\_\_\_\_

Form 1040EZ: Filing status: Single \_\_\_\_\_ Married \_\_\_\_\_  
 Adjusted Gross Income (line 4) \$ \_\_\_\_\_  
 Exemptions (line 5) \$ \_\_\_\_\_  
 Taxable Income (line 6) \$ \_\_\_\_\_  
 Total Credits:  
 Rate Reduction Credit (line 7) \$ \_\_\_\_\_  
 Earned Income Credit (line 9a) \$ \_\_\_\_\_

10. Do you think the Federal government should allow a tax deduction or credit for child support payments?  
 Yes \_\_\_\_\_ No \_\_\_\_\_