



Subject: Impact of Tax Rebate on Spending Intentions  
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Among all households that received a federal tax rebate, slightly more than one-in-four planned to spend the money sometime in the next year or so, with the vast majority intending to repay debts or add the money to their savings and reserve funds. These intended uses of the tax rebate have remained largely unchanged over the past six months, and are comparable to the responses to the 2001 tax rebate. Importantly, only a minor portion of the spending from the 2008 tax rebate was reported to have already occurred by July, with planned spending reaching a peak in the 3<sup>rd</sup> and 4<sup>th</sup> quarters of 2008. Ten percent of all households did not expect to receive a tax rebate—those households are excluded from the estimates included in this report. The median tax rebate was \$1,000; the mean was \$1,007. The tax rebates were distributed nearly evenly between mail and direct deposit. In addition to the tax rebate, 62% reported receiving a refund on their 2007 taxes. Those that reported refunds on 2007 taxes held similar spending intentions, but were somewhat more likely to report receiving the rebate as a direct deposit. Perhaps the most significant tilt toward using the tax rebate to repay debt was among households who reported that they had experienced problems with obtaining a new loan in the past year, an indication that their financial situation had been overextended; nearly three-in-four of these consumers plan to use the rebate to reduce their indebtedness.

Overall, these results reflect both the pressures on household budgets from rising fuel and food prices as well as more cautious spending plans due to heightened uncertainty about future economic prospects. While the data clearly indicates that the full potential of the tax rebate was not immediately reflected in higher spending, the rebate may have prevented what would have otherwise been additional declines in spending due to the rise in precautionary motives. More importantly, it is likely that during the second half of 2008 the tax rebate will continue to add to spending. If economic uncertainty persists, however, consumers are likely to prefer to delay spending and keep the money in their reserve funds as a precaution against future risks.

Higher income, older consumers, and those who reported recent gains in their finances were slightly more likely to plan to spend the tax rebate, whereas lower income, younger consumers, and those who reported a worsened economic situation were more likely to report using the money to repay debt. While adding to saving balances or repaying debt are equivalent in terms of “savings” and a precaution against unforeseen contingencies, repaying debt has the added advantage of reducing net interest costs. Whether their home’s value had increased or decreased had little impact on their intended use of the tax rebate.

**Impact of 2008 Tax Rebates on Spending and Saving Intentions**  
(Among households that expect rebates; May and June 2008 surveys, cases = 1,009)

	Total Spend	Timing of Spending				Save	Repay Debt	Total	Rebate Amount		How Receive Rebate?			2007 Tax Refund? (% Yes)
		2 <sup>nd</sup> Qrt 2008	3 <sup>rd</sup> Qrt 2008	4 <sup>th</sup> Qrt 2008	In 2009				Median	Mean	Mail	Direct Deposit	Total	
<b>All Households</b>	28	9	8	9	2	23	50	100%	\$1,000	\$1,007	52	48	100%	62%
<b>Income</b>														
Bottom Third	23	9	5	8	1	20	57	100%	\$600	\$678	59	41	100%	50%
Middle Third	28	9	9	8	2	21	51	100%	\$1,200	\$1,083	47	53	100%	75%
Top Third	31	8	11	10	2	27	42	100%	\$1,200	\$1,298	47	53	100%	67%
<b>Age</b>														
Under 35	19	5	6	5	3	15	66	100%	\$1,200	\$1,272	45	55	100%	85%
35 - 54	26	10	9	6	1	22	52	100%	\$1,200	\$1,084	51	49	100%	73%
55 or older	33	9	8	13	3	27	40	100%	\$600	\$810	57	43	100%	43%
<b>Change in Finances</b>														
Better	32	9	10	11	2	24	43	100%	\$1,200	\$1,158	45	55	100%	74%
Same	31	11	5	11	4	35	34	100%	\$600	\$878	55	45	100%	55%
Worse	24	8	8	7	1	18	59	100%	\$900	\$976	55	45	100%	60%
<b>Change House Value (Home owners only)</b>														
Increased	24	8	7	7	2	22	54	100%	\$1,200	\$1,090	49	51	100%	68%
Same	29	9	9	9	2	26	44	100%	\$1,200	\$1,063	50	50	100%	64%
Decreased	29	7	10	9	3	22	49	100%	\$1,200	\$1,057	50	50	100%	63%
<b>How Receive Rebate?</b>														
Mail	29	7	10	10	2	23	48	100%	\$900	\$956	--	--	--	52%
Direct Deposit	26	10	7	7	2	21	53	100%	\$1,200	\$1,074	--	--	--	75%
<b>Got 2007 Tax Refund</b>	26	9	9	7	1	22	52	100%	\$1,200	\$1,086	43	57	100%	--
<b>Trouble Getting Loan</b>	21	12	5	4	0	7	72	100%	\$1,000	\$1,030	44	56	100%	61%