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INCREASING FAMILY COMPLEXITY AND VOLATILITY: THE DIFFICULTY IN DETERMINING CHILD TAX BENEFITS

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ABSTRACT

The American family is changing. Individuals marry later, divorce more frequently, or live together without being married (cohabit). Non-marital births, complex custody arrangements, and multiple generations of families living together are more common, but the tax system has not kept pace. Although tax benefits are an important pillar of support for children, understanding who in a complex family should claim them can be difficult. We document demographic trends and explain their importance with respect to tax filing and eligibility for child related benefits such as the earned income tax credit, child tax credit, dependent exemption and others.

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INTRODUCTION

The American family has changed dramatically over the past 50 years. The tendency for two young people to marry, have children, and stay together has given way to a tendency of individuals to marry later, divorce more frequently, or live together without being married (cohabit) (Carlson and Meyer 2013). About 40 percent of births each year occur outside of marriage, and a substantial share of parents have children from more than one relationship (Bendheim-Thoman Center for Research on Child Wellbeing 2006). Children live in sometimes complex custody arrangements, shifting between homes regularly or as circumstances dictate (Peters et al. 1993). In a small but growing number of households, children live with relatives other than parents either temporarily or permanently (Vandivere et al. 2012) and with multiple generations of family members (Fry and Passel 2014). Moreover, these changes are concentrated among the most disadvantaged families; children growing up poor are also more likely to live in complex and unstable families (McLanahan 2004).

As families have changed, so has the social safety net, but in incongruous ways. Key benefits for children have moved into the tax system and traditional welfare programs have contracted (Bane 2009; Furman 2014; Moffitt 2015). In part, this has been just another manifestation of a general growth in tax expenditures over the past quarter century. In part, it reflects a heightened emphasis on work-based public assistance programs. Importantly for recipients, it means that eligibility for child benefits has increasingly relied on the concept of a tax unit, which has not evolved with families.

The income tax law is based on annual filing and bases the definition of a filing unit primarily on legal relationships, child residency, and support. Consequently, families that change throughout the year may have difficulty correctly determining their filing status and who can properly claim a child for the purpose of receiving child-related benefits (Perlman 2016). Likewise, Internal Revenue Service (IRS) enforcement may become more complicated in any given year as families evolve. In most cases, tax benefits for any child will be limited to one adult or couple each year, even though several adults or couples may significantly support a child over the course of the year. In contrast, traditional transfer benefits are often household based and can be determined for a time of less than one year.

Child benefits in the tax code affect almost all parents. In 2015, over 90 percent of all families with children benefited from the earned income tax credit (EITC), the child tax credit (CTC), the dependent exemption, head of household filing status, or the child and dependent care tax credit. Average combined benefits from these provisions ranged from just over \$1,500 for households in the highest income quintile to almost \$4,900 for households in the second income quintile (the group with the highest average benefits). For some low-income families, these tax benefits can constitute a substantial amount of total annual income (Maag 2013). By one

estimate, tax benefits account for 40 percent of federal public investments in children (Isaacs et al. 2015).

This report documents the shift from married couples with only biological children toward other family types that occurred between 1996 and 2008. Over this period, child benefits in the tax code rose with the introduction of the CTC in 1997 and its subsequent expansions that started in 2001 and 2009, the latter of which were made permanent in 2015. We find that over this period, the type of family a child lives in from one year to the next became more likely to change, and many children lived in families that changed over the course of a year. Such changes make determining who is entitled to claim children for tax benefits more difficult and can complicate tax filing across years.

THE CHANGING FAMILY

The typical family structure in the 1950s (children living with two biological married parents) is no longer the norm, and half of all children today will spend some of their childhood in some other family structure. These changes are driven by a decline in marriage and high rates of divorce and nonmarital childbearing. Today 40 percent of births are nonmarital compared with only 5 percent in 1960 (Cancian and Reed 2009). Although these changes have occurred across demographic groups, they are much more prevalent among those with lower education and income. Beginning in the 1980s, divorce rates started to decline for those with higher education but remained high for those with less education.ⁱ In addition, analysts project that millennials without a four-year college degree will have a much steeper decrease in marriage rates by age 40 (relative to members of generation X) than those with a college degree (Martin, Astone, and Peters 2014).

Because of these trends away from marriage, more and more children grow up in complex family arrangements. The percentage of women age 35 who were single or cohabiting mothers increased from 9.3 to 20.5 percent between 1970 and 2010 (Cancian and Haskins 2013). Moreover, partners in such nonmarital family arrangements are more likely to bring children from previous relationships with them (Carlson and Furstenberg 2006). Consequently, relationships between children in such families are also more complicated. For instance, Cancian, Meyer, and Cook (2011) report that 60 percent of first-born children of unmarried mothers have at least one half-sibling by age 10. According to Manning, Brown, and Stykes (2014), almost 18 percent of all children in 2009 lived in families with stepparents, half-siblings, or stepsiblings; most of these children had parents without a four-year college degree.

There is a direct effect of family structure on eligibility for tax benefits. Changes in family structure also affect complexity of tax filing indirectly through their effects on family income and therefore on eligibility for income support programs. Single mothers are about five times more

likely than married couples to be poor (Cancian and Reed 2009). Additionally, earnings for all US workers have stagnated or declined, and this trend has been concentrated among men and women in the lowest income percentiles (Greenstone and Looney 2012). These two trends, the shift from married families to other family arrangements and the decline in earnings among low earners, have increased the number of families that are potentially eligible for income support programs such as Temporary Assistance for Families, Supplemental Security Income, unemployment insurance, or the CTC and EITC. The latter two, of course, are delivered through the income tax system.

Economic insecurity also negatively affects family stability. Lindner and Peters (2014) compare family arrangements for children whose parents become unemployed with children whose parents do not. Unemployment is concentrated among families in which the parents are Hispanic or black, do not have college degrees, and are not married. They find a positive relationship between a parent's job loss and destabilizing changes in family arrangements in subsequent months. Among single mothers, these negative consequences are concentrated among those with no high school degree.

These trends are confirmed by our analysis of recent data. As detailed in the Results and Analysis section, data on families with children from the 1996 and 2008 panels of the Survey of Income and Program Participation (SIPP) show that the proportion of children living in families headed by married couples has declined. Among children living with married couples, the proportion living in families in which at least one child is not biologically related to one of the parents has grown. As marriage rates have declined, the share of children living in families headed by single or cohabiting parents has increased. The changes between the 1996 panel and 2008 panel were more pronounced for low- and moderate-income households than for the entire sample.

Because of these changes in family structure, tax filing has become more complex for many and will likely continue to grow more complex. Determining who can claim the child is complicated in cohabiting households, in intergenerational households, or when a child doesn't always live with the same parent. In addition, if a family structure changes across tax years, parents need to consider that when preparing their taxes rather than filing in the same manner they did the previous year. And more than one adult or married couple may contribute significantly in raising a child, so determining which of these adults should claim a child on his or her taxes can be quite difficult. Based on legal agreements and custody arrangements (formal and informal), an adult may be able to claim only part of the tax benefits for a particular child (such benefits are explained in the next section).

TAX BENEFITS FOR CHILDREN

Five provisions (the EITC, the CTC, the personal exemption for dependents [referred to as a dependent exemption], head-of-household filing status, and the child and dependent care tax credit [CDCTC]) provide benefits to families with children. In total, families received about \$170 billion in these child-related tax benefits in 2015 (table 1). Broadly, the EITC provides a subsidy for low- and moderate-income working families; benefits first increase with earnings and then decline after income reaches a defined threshold. The CTC provides a credit of up to \$1,000 for families with at least \$3,000 of earnings and income below a defined threshold. The dependent exemption allows families to reduce their taxable income and head of household filing status allows families at a given income to face lower tax rates. And the CDCTC can be used to offset costs associated with child care while a parent works or attends school.

TABLE 1

Benefits from the EITC, CTC, Dependent Exemption, HoH Filing Status, and Child Care Credit
by expanded cash income percentile, 2015



	Share of pretax income (%)	Share of total benefits (%)	Average benefit, all families with children (\$)	Average benefit, families with children whose benefit is > \$0 (\$)	Benefit as a percentage of after-tax income
Lowest quintile	3.6	24.3	4,108	4,604	20.5
Second quintile	8.1	29.3	4,872	4,971	12.5
Middle quintile	13.7	20.8	3,487	3,511	5.5
Fourth quintile	22.1	17.0	2,967	2,974	2.9
Top quintile	52.7	8.3	1,509	1,895	0.6
All	100	100	3,416	3,663	3.6

Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0515-3).

Notes: EITC = earned income tax credit; CTC = child tax credit; HoH = head-of-household filing status. Table is for calendar year. Baseline is current law. Proposal is current law without the head-of-household filing status, dependent exemption, child tax credit, dependent care credit, and earned income tax credit. For a description of TPC's current law baseline, see <http://www.taxpolicycenter.org/taxtopics/Baseline-Definitions.cfm>. Includes both filing and nonfiling units but excludes those that are dependents of other tax units. Tax units with negative adjusted gross income are excluded from their respective income class but are included in the totals. For a description of expanded cash income, see <http://www.taxpolicycenter.org/TaxModel/income.cfm>. The income percentile classes used in this table are based on the income distribution for the entire population and contain an equal number of people, not tax units. The breaks are (in 2015 dollars): 20 percent \$22,769; 40 percent \$44,590; 60 percent \$78,129; 80 percent \$138,265.

Families in each income quintile receive tax benefits for children, but because most tax benefits phase out as income increases, families in the highest income quintile receive the lowest average benefits. Families in the highest income quintile benefit most from the dependent exemption, the child care credit, and head-of-household filing status (a special filing status that allows most single parents to pay a lower average tax rate than their single peers without children).

In 2015, average benefits for families with children in the lowest two income quintiles exceeded those of families with children in higher income quintiles because of the EITC, the largest tax benefit focused on children and one that provides benefits almost exclusively to

families with children in the lowest two income quintiles. The tax benefits averaged about 20 percent of income for households in the lowest quintile.

The five provisions have similar and often overlapping goals but unique eligibility rules. The basic eligibility tests that parents and caregivers must sort through to determine eligibility are the relationship, age, residency, and support tests (table 2).ⁱⁱ

TABLE 2

Summary of Tests for Qualifying Child



	EITC	CTC	Dependent exemption ¹	Head of household ¹	Child care credit
Relationship	Yes	Yes	Yes	Yes	Yes
Age	Under 19 or 19–23 and in school full time for at least 5 months of the year	Under 17	Under 19 or 19–23 and in school full time for at least 5 months of the year	Under 19 or 19–23 and in school full time for at least 5 months of the year	Under 13 or disabled
Residency	Yes	Yes	Yes	Yes	Yes
Support	No	Yes	Yes	Yes	Yes

Note: EITC = earned income tax credit; CTC = child tax credit. Citizenship and country of residence can also affect whether a child is a qualifying child. Those issues are beyond the scope of this report.

¹ In the case of head-of-household filing status and the dependent exemption, people who do not meet the qualifying child rules may qualify for benefits as a "qualifying relative." Qualifying relatives do not have age tests but must meet tests related to gross income. They must meet either the relationship test or a "member of household" test.

The following tests apply to qualifying children (table 2).

- **Relationship:** The child must be the taxpayer’s child, stepchild (by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of those.
- **Age:** The child must be of a defined age to qualify for the provision. For the dependent exemption and head-of-household filing status, some children who do not meet the age limit will instead meet tests to be a qualifying relative, which apply different rules than those for a qualifying child.
- **Residency:** The child must live with the taxpayer for more than half the tax year. Exceptions may apply for children of divorced or separated parents, kidnapped children, temporary absences, and children who were born or died during the year.
- **Support:** The child must not provide more than half of his or her own support for the year.

EITC

The EITC mainly benefits low-income working families with children. Taxpayers without qualifying children also receive a small benefit (up to \$506 in 2016) if their income is less than \$14,880 (\$20,430 if married).

The maximum benefit for families with children ranges from \$3,373 for families with one child to about \$6,270 for families with at least three children. The benefit is available for low- and moderate-income parents or other relatives that care for a child most of the time (the residency test). Benefits begin to phase out for families with children once income reaches \$18,190 for single parents (\$23,740 for married couples). Unlike with the other child benefits, there is no support test for the EITC.

The EITC is fully refundable, meaning that benefits are not limited to a taxpayer's income tax liability. The income thresholds for the EITC are indexed to changes in the consumer price index.

Determining who may claim a child to determine EITC benefits in nontraditional families is complex. For example if a child lives with more than one parent for more than half of the year (the case, for example, if parents divorce or separate partway through the year, or if parents cohabit), the parent the child lived with the longest is eligible for benefits. A child is considered to be living with whomever the child spent the night. If a child moves between households, determining residency can become complicated. Further, no third-party data can verify with whom the child lived, so residency is often harder for the IRS to monitor than income.ⁱⁱⁱ If a child does not live with his or her married, biological parents, other related adults who wish to claim the child may meet the residency test by having lived with the child for more than half the year. If a child was born or died during the year, the child must have lived with the claimant for more than half the time the child was alive. Finally, if a child lives with cohabiting parents who each file separate tax returns, both parents may satisfy the EITC relationship and residency tests. If those parents do not agree on who will claim the credit, the parent with the higher adjusted gross income (AGI) is the one eligible to claim the credit. If his or her income is too high to receive a benefit, then no one can claim the credit.

If a child lives in a multigenerational household in which both a grandparent and parent might meet the relationship and residency tests, the parent is the one presumed eligible for the EITC. If the parent opts to not claim a child, a grandparent may claim the child for the EITC as long as the grandparent's AGI is greater than the parent's AGI (IRS 2015).

The residency test is the source of many errors because no third-party data exist to verify where and with whom a child lived.^{iv} A recent IRS EITC compliance study showed that errors related to residency were the largest source by dollar amount of overclaims of the EITC (IRS 2014).

Child Tax Credit

The CTC provides a credit of up to \$1,000 per child under age 17. The CTC is partially refundable; eligible claimants receive 15 cents for every dollar of earnings in excess of \$3,000 until they reach their maximum credit. The credit does not begin to phase out until AGI reaches \$75,000 (\$110,000 if married), a considerably higher threshold than for the EITC. Adults attempting to claim the CTC must meet the same relationship and residency tests as for the EITC, but in the case of divorced or legally separated parents, a custodial parent may legally assign the child to the noncustodial parent to claim the CTC. A relative who meets the eligibility tests may claim the CTC under the same conditions he or she may claim an EITC.

Dependent Exemption and Head-of-Household Filing Status

The dependent exemption (which is a personal exemption for dependents) and head-of-household filing status both decrease the amount of income subject to taxation. For each dependent, a parent or other relative may exempt \$4,050 of income from taxation in 2016. The exemption amount is indexed to changes in the consumer price index. The same residency, relationship, and support tests apply to the dependent exemption as the CTC, and as with the CTC, exceptions are made for divorced or legally separated parents. Head-of-household filing status is a special filing status that allows single adults with dependents to use a larger standard deduction and have more income taxed at lower rates than if they were single without a dependent. Personal exemptions and itemized deductions also phase out at higher incomes for heads of household than for single adults without dependents. There is no exception to the residency test for divorced or legally separated parents for head-of-household filing status.

Child and Dependent Care Tax Credit

The CDCTC (commonly referred to as the child care credit) offsets a portion of costs associated with caring for a child while a parent or other relative works or attends school. The credit is not refundable, so it can only offset taxes owed. There is no income cutoff for eligibility, so even high-income parents benefit, but the credit rate declines at higher incomes from 35 to 20 percent of allowable expenses. For parents who are not married, the parent who lives with the child the longest may claim the credit. There is no exception for divorced or legally separated parents.

Interaction among Benefits

Generally speaking, only one person may benefit from all five of the child related tax benefits; people are not allowed to claim the child for some benefits and allow another claimant to claim the other benefits. However, noncustodial divorced or separated parents may be able to benefit from the dependent exemption and child tax credit while the custodial parent benefits from the other tax provisions (Perlman 2016). With divorced parents, for example, the custodial parent may complete a legal release attesting that he or she will not claim the child's dependent

exemption or child tax credit for a defined period (such as one year, every other year, or all future years). Residency rules for the EITC, head-of-household filing status, and the CDCTC dictate that only the person with whom the child lived for more than half the year can claim these benefits.

If multiple people meet the eligibility tests to claim a child, Congress has simplified benefit claiming tremendously in recent years by allowing the parent to claim the child if the parent qualifies to do so. If multiple parents qualify (as might cohabiting couples), they may choose which parent actually claims the benefits. If both parents make a claim, the one with the higher AGI is entitled to claim the child. In a multigenerational household, nonparents (most often a grandparent) may only claim the child if the nonparent has a higher AGI than the parent or parents and no parent opts to not claim the child.

Although many studies indicate that cohabitation and single parenting are growing, whether such family changes affect taxpayers' understanding of tax law and IRS enforcement practices is largely unknown.

RESULTS AND ANALYSIS

We analyzed data from the 1996 and 2008 panels of the SIPP. The SIPP is one of few surveys that allow analysts to observe individuals and families at several times during a year and over several years. Households are interviewed every four months and they report on income, participation in government programs (like SNAP and subsidized housing), marital status, and family structure in each of the past four months. Households may drop out of the survey and reenter in a subsequent period. The 1996 SIPP interviewed households for four years from 1996 to 1999 and the 2008 SIPP interviewed households for five years and four months from 2008 to 2013. Because households' entry into and exit from the panel is staggered, not all households remained in the panel in December 1999 and December 2013, so we did not use data from these years. We chose the 1996 panel over earlier panels because of its inclusion of information on cohabiting partners; this information can only be inferred in pre-1996 panels.

We limit our sample to families with children because the qualifying child rules associated with tax provisions are at the root of much tax system complexity. We further limit the sample to include only households in which all children were under age 18 at the first interview in each of the year-to-year comparisons included in our study. This restriction allows us to exclude children who are going to college or leaving the home for reasons related mostly to their age rather than because of custody arrangements, divorces, marriages, or the other forms of parent absenteeism.^v Household and family relationships are defined monthly.

Households can evolve and members may enter or leave monthly. Consequently, most of our analysis follows children and describes changes from their point of view.

We present three analyses. First, we compare the distribution of different family structures in both 1996 and 2008, describing both the proportion of families and proportion of children in each living situation. Second, we document how many children live in families that change structure from December of one year to December of the next year to determine how likely it is that a child will be on a tax return with the same family type at each point.^{vi} Finally, we document the frequency of children moving or parents moving to different families within a tax year. In the 1996 panel, we can observe children from January 1997 to December 1997 and from January 1998 to December 1998. In the 2008 panel, we observe families from January 2009 to December 2009; January 2010 to December 2010; January 2011 to December 2011; and January 2012 to December 2012.

We classify children as living in four basic family types. The first three types are families with at least one child with a biological or adoptive (hereafter referred to as “biological”) parent present and are headed by (1) married couples, (2) single parents, or (3) cohabiting couples. We then subdivide those three categories according to whether all or only some^{vii} of the children in the family are biological children of both parents (for married or cohabiting couples) or of a single parent. Families in which some children are not related to both parents are commonly referred to as “blended families”. The fourth family type consists of children in families that contain no children with a biological parent present. In these families, all children have a foster parent, a relative or nonrelative guardian, or no designated parent or guardian. They may be headed by single, cohabiting, or married adults. We are unable to classify a small number of children based on the parent’s marital status because the survey does not contain enough information on relationships for some people, the family is headed by a same-sex couple, or the child is the household reference person and has no parent or guardian identified (see appendix tables A.1 and A.2).

After classifying each child into one of these family structure categories, we weight each observation using the SIPP person weight assigned to each child in our sample. This provides an estimate of the share of the whole population of children in households with all children under age 18 that are in each category at the start of the panel.

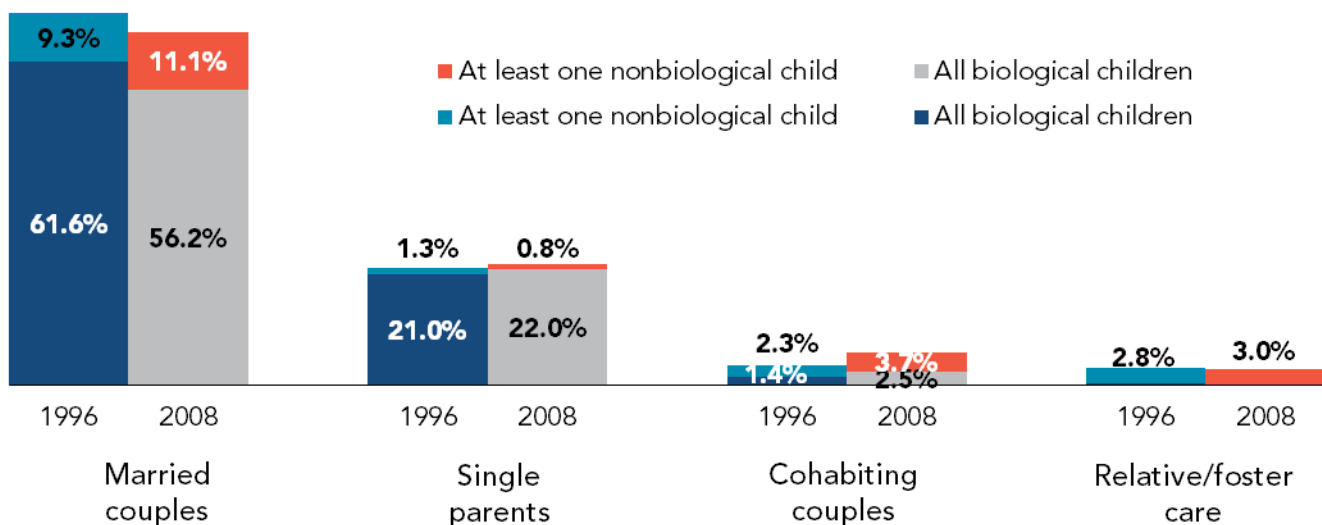
Finally, we analyze the data for the full sample of families with children and for families who have income less than or equal to 200 percent of the federal poverty level in the first December in each panel (1996 or 2008).^{viii} Families with children generally start to owe federal income taxes once their income reaches around 200 percent of the federal poverty level. Below those income thresholds, most families with children receive net refunds as a result of the EITC and CTC. Limiting the sample to low- and moderate-income families allows us to track changes that are most likely to affect EITC recipients: we can see whether changes among low- and moderate-income children parallel those of the entire population, or if children in low-income families face unique or larger changes than the full sample.

Results

We group families by the type of parents we observe in our data: married, single, cohabiting, or relative care; figure 1 shows the share of children living in those family types (for information on how this translates into share of families and family types, see appendix table A.1). The patterns over time are similar whether observing families or children, but for consistency with later analyses of children who experience a change, we also focus on children in our discussion here. Between 1996 and 2008, the proportion of children living with married couples dropped from 70.9 percent to 67.3 percent. Note however that, the proportion of children living in married stepparent families actually increased from 9.3 to 11.1 percent^{ix} while the proportion of children living in the traditional nuclear family with only biological children decreased from 61.6 to 56.2 percent. The proportion of children living with single parents was similar in 1996 (22.3 percent) and 2008 (22.9 percent), but the proportion of children living with cohabiting couples increased substantially across the two years from 3.6 percent to 6.2 percent. For children living in families with cohabiting parents, the proportion in both subtypes (those in which all children are biological children of both parents and those in which at least one child is nonbiological) increased. In both years, the proportion of children living in relative or foster care (or with no legal guardian) is small: 2.8 percent in 1996 compared with 3.0 percent in 2008.

FIGURE 1

Share of Children in the 1996 and 2008 SIPP Panels by family type



Source: Sample of children in the 1996 or 2008 SIPP panel in December 1996 or 2008 in households with all children age 17 or younger.

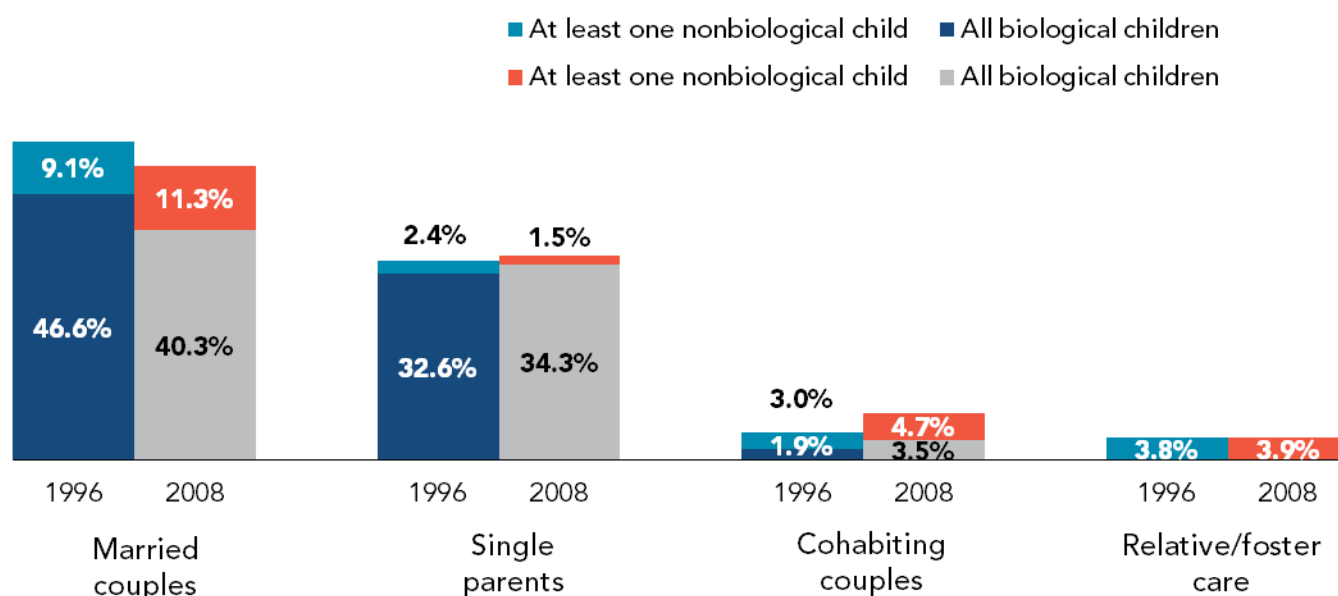
Notes: SIPP= Survey of Income and Program Participation. Biological children include biological or adopted child. "All biological children": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents.

"Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

Low- and moderate-income families are less likely to be headed by married couples than families generally, but the patterns of change in family types over time are similar. By 2008, just over half (51.6 percent) of children living in families with income at or below 200 percent of the federal poverty level were in families headed by married couples (figure 2; for an analysis by family, see appendix table A.2). Although the proportion of children in families with income at or below 200 percent of the federal poverty level that were living in single-parent families stayed quite stable from 1996 to 2008, the proportion of children living with cohabiting couples rose markedly from just under 5 percent in 1996 to 8.2 percent in 2008.

FIGURE 2

Share of Low- and Moderate-Income Children in the 1996 and 2008 SIPP Panels by family type



Source: Sample of children in the 1996 or 2008 Survey of Income and Program Participation (SIPP) panel in December 1996 or 2008 in households with all children age 17 or younger and with income at or below 200 percent of the federal poverty level.

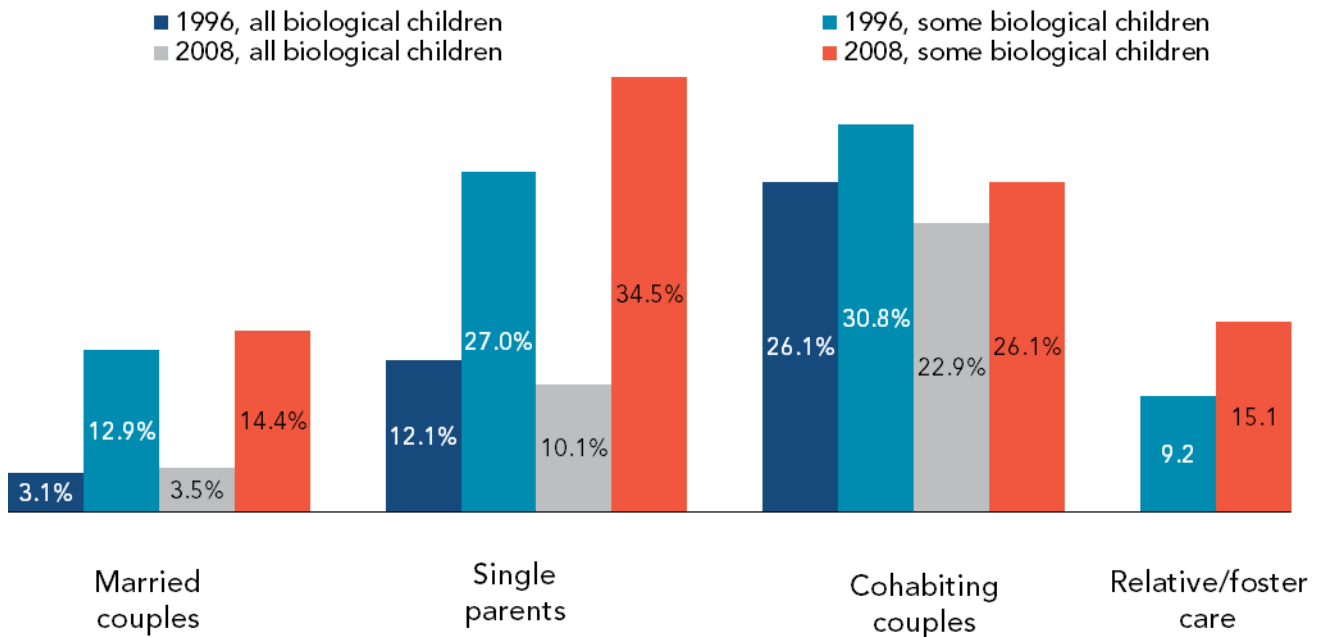
Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All biological children": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

If people file tax returns based on their prior returns, changes in family types can make tax filing more difficult. Changes can also make it more difficult for families to predict what their EITC will be because new rules will apply. Marital status can affect the size of the EITC and CTC (the credits phase out at higher incomes for married couples than for single parents). Marital

status also determines whether a person should file as a married couple, single adult, or head of household (the filing status reserved for most single parents).

FIGURE 3

Change in Family Type One Year Later, Children in the 1996 and 2008 SIPP Panels



Source: Sample of children in the 1996 or 2008 SIPP panel in December 1996, 1997, 2008, 2009, 2010, or 2011 in households with all children age 17 or younger, for whom the child's parents or household reference person appear in the SIPP one year later.

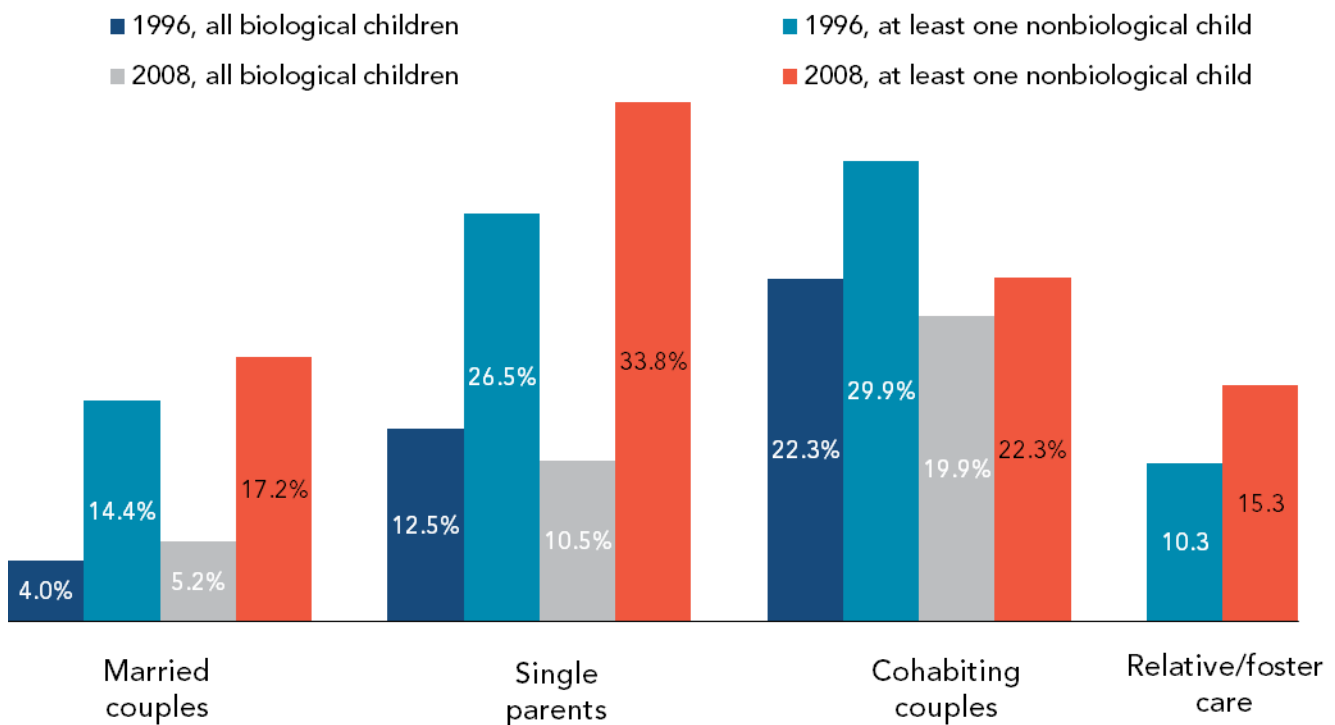
Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All biological children": All children in the family are biological children of both parents. "Some biological children": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": no children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

We find that most children live in the same family type from one tax year to the next in both the complete sample (92.8 percent in the 1996 panel and 92.0 percent in the 2008 panel) and the sample of low- and moderate-income households (90.4 in the 1996 panel and 89.6 percent in the 2008 panel). These statistics include only children who lived in families that were observed in both Decembers of interest.^x Just over 12 percent of children in the 1996 panel and 16 percent of children in the 2008 panel lived in families that we observed in the first December of interest, but neither the family nor child were present one year later; these children are not included in the estimates. Children living in married-couple families in one tax year were almost always living in married-couple families one year later when the couple had only biological children, and were still fairly likely to remain in the same family type when the couple had at least one nonbiological child (figure 3). Only 3.1 percent of children with married parents with only biological children were in different family types from one year to the next in the 1996 sample.

That share was 3.5 percent in the 2008 sample. Children in low-income families who lived with married parents and only biologically related children also were unlikely to be in different family types one year later: 4.0 percent in the 1996 and 5.2 percent in the 2008 sample (figure 4).

FIGURE 4

Change in Family Type One Year Later, Children in the 1996 and 2008 SIPP Panels in Low- and Moderate-Income Families by family type



Source: Children in the 1996 or 2008 SIPP panel in December 1996, 1997, 2008, 2009, 2010, or 2011 in households with all age 17 or younger and with income at or below 200 percent of the federal poverty level, for whom the child's parents or household reference person appear in the SIPP one year later.

Notes: SIPP = Survey of Income and Program Participation. Biological child includes biological or adopted child. "All biological children": All children in the family are biological children of both parents. "at least one non biological child": At least one child in the family is a nonbiological child of one or both parents.

"Relative/foster care": no children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

In all cases, children living in families with only biological children were less likely to change family type than children living in blended families containing nonbiological children. Children living in low- and moderate-income families were more likely to change than children in all families. In addition, children living with married couples were more likely to experience a

change in the 2008 panel than in the 1996 panel. Children in cohabiting families were more likely to remain in cohabiting families across years in the 2008 panel than in the 1996 panel.

Although the majority of children do not experience a change in family type across years, children living with cohabiting couples generally have higher rates of change than most other types of families. For cohabiting couples with all biological children, however, about half of that change represents parents deciding to marry. For children who lived in low- and moderate-income cohabiting families with all biological children, only about one-third of the change reflects parents deciding to marry (not shown in figure).

As mentioned, our sample includes only children who lived in families that were observed in the earlier December and the later December. It is likely that having a family change is correlated with not remaining in the sample. For example, if a married couple divorces and both parents move, presumably SIPP interviewers would have more trouble finding members of that household after the move. To the extent family change and survey attrition are positively correlated, our estimates represent a lower bound for the share of children who live in a changed family type one year after we first observe them. We observe that the families who experience the least change are also the least likely to leave the survey (table 3).

Changes in who the child lives with within a tax year can make it more complicated to figure out who can claim the tax benefit, particularly when more than one change occurs. We address this issue by examining how many times a child and his or her parents are separated or reunited in a household, or how many “parent changes” occur within a tax year (tables 4 and 5). For children living with two biological parents or a biological parent and a stepparent in January, we count the number of times a child lives in a family in which at least one child in the family separates from or reunites with the parents in a subsequent month. For children living with a cohabiting or single biological parent or no biological parents, we count the number of times a child in the family separates or reunites from the parent or guardian. These parent changes may be accompanied by a change in family type (e.g., if one parent of a married couple moves out and the family type changes to single parent), or they may be associated with no family type change (e.g., if a child moves from one single parent’s house to the other single parent’s house).^{xi}

TABLE 3

Annual Attrition, Children in the 1996 and 2008 SIPP Panels by family type



	Full Sample		Low- and Moderate-Income	
	1996 panel	2008 panel	1996 panel	2008 panel
Married couples				
All children are biological	10.5	14.1	12.4	14.5
At least one nonbiological child	11.2	17.1	12.3	17.7
Single parents				
All children are biological	15.1	19.3	16.4	20.2
At least one nonbiological child	17.8	23.4	17.5	24.0
Cohabiting couples				
All children are biological	16.7	18.6	19.8	16.9
At least one nonbiological child	16.1	20.7	17.6	19.5
Relative/foster care	23.8	25.2	24.4	26.9
All children	12.2	16.4	14.6	17.8

Source: Sample of children in the 1996 or 2008 SIPP panel in December 1996, 1997, 2008, 2009, 2010, or 2011 in households with all children age 17 or younger. Low- and moderate-income children are children in households at or below 200 percent of the federal poverty level.

Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All children are biological": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative. Children are counted as having attrited if neither they nor their parents or household reference person from one December are present in the SIPP in the December one year later.

The same types of families who were more likely to change across different tax years are also more likely to change within a tax year (children in cohabiting couple families, single-parent families with at least one nonbiological child, and foster care families; tables 4 and 5). Children living in families with at least one nonbiological child are more likely to experience multiple changes within a year. Our results likely represent a lower bound of changes because if a family dropped out of the survey, which we think they are most likely to do if there is a change, we don't observe them to know whether a change has happened.

TABLE 4

Number of Parent Changes per Year, Children in the 1996 and 2008 SIPP Panels
by family type



	1996 panel			2008 panel		
	0	1	2+	0	1	2+
Married couples						
All children are biological	97.3	2.3	0.4	97.3	2.3	0.5
At least one nonbiological child	84.5	13.8	1.7	84.4	12.6	3.0
Single parents						
All children are biological	95.1	4.2	0.7	95.5	3.8	0.8
At least one nonbiological child	76.2	17.9	5.9	72.0	24.4	3.7
Cohabiting couples						
All children are biological	88.7	10.6	0.8	87.4	9.5	3.1
At least one nonbiological child	88.3	9.6	2.2	87.7	9.4	3.0
Relative/foster care	86.4	11.8	1.8	86.7	11.1	2.2
All children	94.8	4.5	0.7	94.4	4.6	1.0

Source: Sample of children in the 1996 or 2008 SIPP panel in January 1997, 1998, 2009, 2010, 2011, or 2012 in households with all children age 17 or younger, for whom the child's parents or household reference person appear in the SIPP in the subsequent December.

Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All children are biological": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or non-relative. A parent change is defined as any child in the family not living with the same parent or parents as in the next month. If a child was not observed but his or her parent or household reference person from January was observed, it is assumed that the child left the household and this is counted as a change. Changes may be underestimated for children who are not observed for all 12 months (or have lived with other children who are not observed all 12 months) because children may have additional parent changes in the months they are not observed. Changes may be underestimated for up to 15 percent of children in 2008 (13 percent if no parent changes, 54 percent if one change, and 57 percent if two or more changes), and up to 12 percent of children in 1996 (9 percent if no parent changes, 58 percent if one change, and 64 percent if two or more changes). Further, changes are underestimated for children with one biological parent who has a cohabiting partner because we only track whether the child is separated from the biological parent because of difficulty establishing the relationship between children and their parents' cohabiting partners that are not biological parents.

Discussion

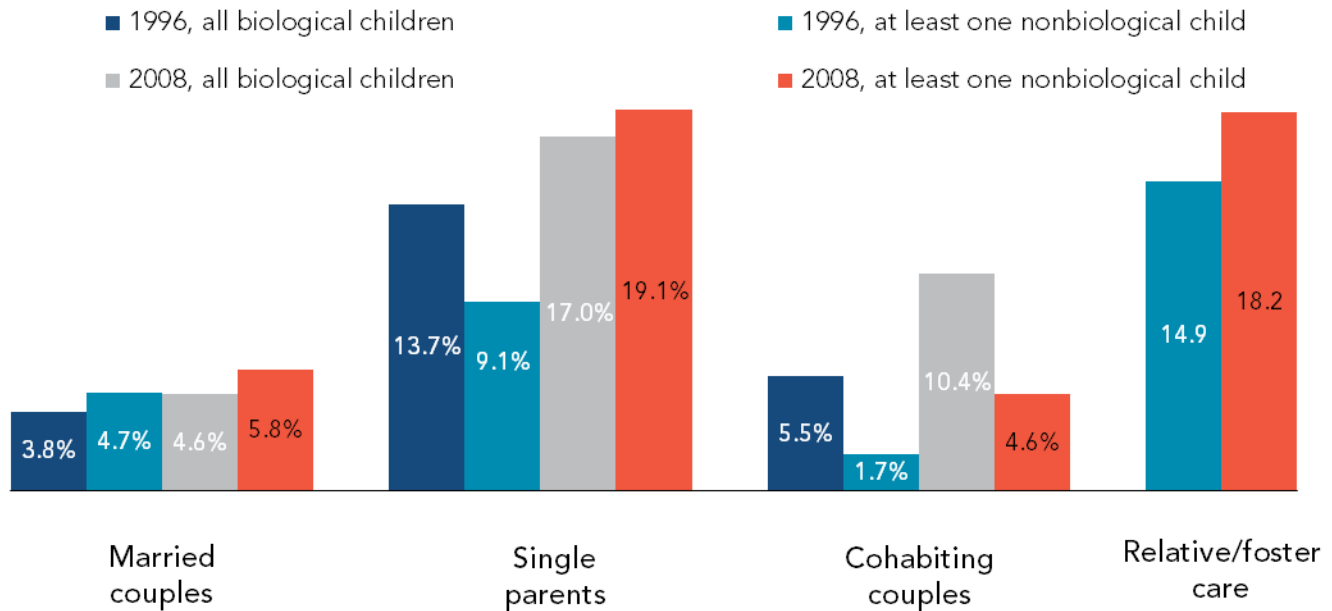
Tax filing for a married couple with only biological children is relatively straightforward (for tax purposes, a couple is considered married if they are married on the last day of the tax year). In most cases, the child will be claimed by that married couple for all child-related benefits, and no other adult would qualify to claim the child. This traditional family, however, is in decline.

In a minority of cases in which a married couple lives only with their biological children, another adult in the household may be eligible to claim the child. The most common example of this is a multigenerational family: a family moves in with a grandparent to provide care for the grandparent or share living expenses. We observed multigenerational families in about 4 to 6 percent of married couple families with only biological children (figure 5). Because of simplifications created with the implementation of a "uniform definition of child" in the Working Families Tax Relief Act of 2004, when more than one person qualifies to include a child in their tax unit, parents have the right to claim their child. If the parents opt to not claim the child, the other relative is considered the proper claimant as long as the other relative's AGI is higher than

the parents' AGI. An example of this might be a grandparent who has the highest household earnings, maintains the household, and provides the majority of support for a child.

FIGURE 5

Proportion of Children in the 1996 and 2008 SIPP Panels in Multigenerational Families by family type



Source: Sample of children in the 1996 or 2008 SIPP panel in December 1996 or 2008 in households with all children age 17 or younger.

Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All biological children": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative.

Figuring out who can benefit from claiming children is much less clear for single parents and cohabiting couples. For single parents, if one parent has sole custody of a child that parent is the only parent who may file as the head of household and receive the EITC and the child care credit. But in some cases, an absent parent may be eligible for the dependent exemption and CTC because of agreements made during a divorce or separation. If a child moves between households (a growing phenomenon among divorced and separated parents who may share custody formally or informally) tax filing becomes much more complex.

Residency rules are often at the heart of determining who ought to include the child in the tax unit. Families who move frequently, have shared custody, or face very unstable lives may be unable to remember with whom a child lived for the majority of the year, making compliance

particularly difficult (Book 2003). Our data are not precise enough to determine how often children are moving between households of divorced or never-married parents. The SIPP asks families to report who lives in the household in each of the four months before the interview month. If a new person shows up in the household, the SIPP will detect in which month they arrived. But in a typical joint-custody case in which a child lives part of the week with one parent and part with the other parent,^{xii} the monthly household roster will likely not capture such a pattern. The IRS definition of “residing with someone” includes each overnight, which constitutes a much more specific definition than being recorded by survey interviewers. In that sense, our analysis in table 6 undercounts the true number of moves between parents, an essential piece of information to determine who meets the residency test.

Figure 5 shows that the prevalence of living in a multigenerational family is much higher for single parents than for married or cohabiting couples. In addition, the likelihood of such living arrangements increased from the 1996 panel to the 2008 panel. By 2008, nearly one-fifth of children living in single-parent households were also in multigenerational households. Just as with married couples, if the custodial single parent opted to claim the child, the child would be considered theirs for tax purposes. However, if another relative in the household, such as a grandparent, also met the eligibility tests, he or she could properly claim the children as long as his or her AGI was higher than the parent’s and the parent did not claim the child.

For cohabiting couples, if both individuals are related to a child, they may optimize who claims that child. This is in stark contrast to the treatment of married couples, who must claim the child on a single return, or of single parents, who do not have the option to both claim the child because of the residency test. To claim the EITC, for example, married couples must file one return with their joint income. If their joint income is too high to be eligible for the EITC, the couple is not allowed to split their income so that the lower earner can receive an EITC.

What We Cannot Learn from Survey Data

Although survey data can provide a lot of information on changing families, some information important to discerning who can qualify for child-related tax benefits cannot be gleaned reliably. For example, not everyone who appears in the initial sample appears each time an interviewer attempts to collect information. This gives us an incomplete picture of what changes are taking place in the household during the missing period.

The SIPP data do not provide enough detail on where a child resides to accurately determine whether a child would meet the residency test. Although the survey asks respondents to indicate who lived in the household each month, questions are not detailed enough to understand whether a child is moving in and out during the month, perhaps in a shared custody arrangement with divorced, separated, or never-married parents. Whether relatives are moving in and out of households may also be undercounted, particularly in cases in which the relative is not present when the survey takes place. To get information that would better allow us to

understand how children's and other household members' movements affect tax filing, we need better records of who was in a household with notes of each change.

In some cases, tax filing may be complicated because rules that simplify who can legally claim a child do not clarify who should optimally claim the child. For example, if cohabiting biological parents of two children live together, it may be beneficial for one parent to claim both children or for each parent to claim one child (depending on each parent's income). So long as the parents agree, they are legally allowed to divide the children as they wish. However, calculating which division of children produces the lowest total tax liability for the couple may be difficult, or cohabiting parents may simply choose not to file in a manner that produces the lowest tax liability.

The SIPP does not contain detailed enough relationship information, particularly in cases in which more than one family live in a household to know how all household members relate to one another. Not all relationships between all household members are enumerated, which may mean some adults who could claim children are missed in analysis of the data. Stepchildren can also be difficult to account for via survey data. For tax purposes, a step relationship does not end with the death or divorce of two adults. For a step relationship to exist, the stepparent must have been married to the biological parent. In some cases, we observed individuals reporting that they were stepparents and reporting that they had never been married.

Children in particular can be difficult to follow if they are switching between households. Unless both households they live in throughout the year are in the survey sampling frame, the child may not be followed in some months. This creates difficulty in understanding which adults may be eligible to claim children.

CONCLUSION

Survey data show that families are moving from more stable types to less stable types, or types that are most likely to change their composition over the course of the year. The proportion of families composed of married parents with only biological children has declined over time while the proportion of single parents and especially cohabiting parents are on the rise. Rising complexity in family types affects both understanding and administering tax law. These changes raise questions as to whether today's tax law for the five main benefits for families with children, the EITC, CTC, dependent exemption, head-of-household filing status, and the child care credit, are becoming less understandable and enforceable.

Complex tax rules likely stem from a desire to limit program costs while ensuring that limited resources are directed at the most needy or most deserving beneficiaries (as determined by prevailing political forces). Third-party verifications work for some purposes (for example,

using Social Security data to determine the age of a child), but what types of third-party systems could be used to verify compliance with the residency test are unclear. It is also unclear whether any existing data source is sufficient to document with whom a child lives for the majority of the year. A recent study that attempted to use administrative data from the Supplemental Nutrition Assistance Program (formerly food stamps), was not promising for improving pre-refund audits (Maag et al. 2015).

The National Taxpayer Advocate (2002, 50; 2007, 100, 103–104), among others, has proposed several reforms to simplify taxes, including separating out work-related and family-related benefits, which would either make it less necessary to document where a child spent the night or combining provisions so that less information would be needed to enforce all of them. Simplifying taxes for all complicated families may be out of reach, but developing regulations or new tax laws to address some growing family types could ultimately ease tax filing for many.

APPENDIX

Our analysis places children at the center of comparisons because of weighting issues in the SIPP. Families and households evolve, making the use of these weights complicated in longitudinal analysis. Tables A.1 and A.2 provide information on both the share of all families and the share of low- and moderate-income families of various types to show the similarities between families and children.

TABLE A1

Families and Children in the 1996 and 2008 SIPP Panels
by family type



	1996 Panel				2008 Panel			
	Families (millions)	Percent	Children (millions)	Percent	Families (millions)	Percent	Children (millions)	Percent
Married couples	24.9	69.4	48.2	70.9	24.1	64.8	46.8	67.3
All children are biological	22.1	61.5	41.9	61.6	20.7	55.6	39.1	56.2
At least one nonbiological child	2.8	7.9	6.3	9.3	3.4	9.2	7.7	11.1
Single parents	8.2	22.9	15.1	22.3	9.0	24.2	15.9	22.9
All children are biological	8.0	22.2	14.3	21.0	8.8	23.7	15.3	22.0
At least one nonbiological child	0.3	0.8	0.9	1.3	0.2	0.5	0.6	0.8
Cohabiting couples	1.4	3.9	2.5	3.6	2.5	6.8	4.3	6.2
All children are biological	0.6	1.7	0.9	1.4	1.2	3.2	1.7	2.5
At least one nonbiological child	0.8	2.3	1.5	2.3	1.3	3.6	2.6	3.7
Relative/foster care	1.2	3.4	1.9	2.8	1.4	3.7	2.1	3.0
Other	0.1	0.3	0.2	0.3	0.2	0.5	0.4	0.6
Total	35.9	100.0	68.0	100.0	37.2	100.0	69.5	100.0

Source: Sample of children in the 1996 or 2008 SIPP panel in December 1996 or 2008 in households with all children age 17 or younger.

Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All children are biological": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative. "Other" includes same sex cohabiting couple families, families in which a child is the SIPP household reference person and no parent or guardian is identified, and families in which it is unknown whether the parent is single or has a cohabiting partner because of limitations in the information the SIPP provides on household relationships.

TABLE A2

Low- and Moderate-Income Families and Children in the 1996 and 2008 SIPP Panels by family type



	1996 Panel				2008 Panel			
	Families (millions)	Percent	Children (millions)	Percent	Families (millions)	Percent	Children (millions)	Percent
Married couples	7.6	53.0	17.1	55.8	6.7	47.9	14.8	51.6
All children are biological	6.6	45.9	14.3	46.6	5.4	39.0	11.6	40.3
At least one nonbiological child	1.0	7.1	2.8	9.1	1.2	8.9	3.3	11.3
Single parents	5.3	36.7	10.7	35.0	5.2	37.7	10.3	35.8
All children are biological	5.0	35.1	10.0	32.6	5.1	36.7	9.8	34.3
At least one nonbiological child	0.2	1.5	0.7	2.4	0.1	1.0	0.4	1.5
Cohabiting couples	0.7	5.2	1.5	4.9	1.2	8.9	2.3	8.2
All children are biological	0.3	2.4	0.6	1.9	0.6	4.6	1.0	3.5
At least one nonbiological child	0.4	2.8	0.9	3.0	0.6	4.3	1.3	4.7
Relative/foster care	0.7	4.6	1.2	3.8	0.7	4.9	1.1	3.9
Other	0.1	0.5	0.2	0.5	0.1	0.6	0.2	0.6
Total	14.3	100.0	30.7	100.0	13.9	100.0	28.7	100.0

Source: Sample of children in the 1996 or 2008 SIPP panel in December 1996 or 2008 in households with all children age 17 or younger and with income at or below 200 percent of the federal poverty level.

Notes: SIPP = Survey of Income and Program Participation. Biological children include biological or adopted children. "All children are biological": All children in the family are biological children of both parents. "At least one nonbiological child": At least one child in the family is a nonbiological child of one or both parents. "Relative/foster care": No children in the family have a biological parent; children may be living with a foster parent, legal guardian, relative, or nonrelative. "Other" includes same sex cohabiting couple families, families in which a child is the SIPP household reference person and no parent or guardian is identified, and families in which it is unknown whether the parent is single or has a cohabiting partner because of limitations in the information the SIPP provides on household relationships.

NOTES

ⁱ Bureau of Labor Statistics, 2013, “Marriage and Divorce: Patterns by Gender, Race, and Educational Attainment”, *Monthly Labor Review*, October, <http://www.bls.gov/opub/mlr/2013/article/marriage-and-divorce-patterns-by-gender-race-and-educational-attainment.htm>.

ⁱⁱ Children or caregivers must also meet certain citizenship tests and live in particular countries. These characteristics are beyond the scope of this report.

ⁱⁱⁱ Most people receive information returns from employers providing their earnings with each employer for the tax year and information returns from financial institutions providing their interest and dividend income. However, self-employed persons often do not receive third party information on their incomes.

^{iv} The usage of administrative data from the Supplemental Nutrition Assistance Program (formerly food stamps) and Temporary Assistance for Needy Families was explored by Maag and colleagues (2015). Although the data do not appear to be of high enough quality to trigger an audit, they may provide some useful information during the exam process.

^v A small number of cases representing approximately 0.25 percent of the 2008 sample and 0.10 percent of the 1996 sample were dropped because of inconsistencies in the data that could not be resolved.

^{vi} We analyze changes at each December between 1996 and 1997, 1997 and 1998, 2008 and 2009, 2009 and 2010, 2010 and 2011, and 2011 and 2012.

^{vii} In contrast to the fourth family type analyzed (families with children in which no child has a biological parent present, these families are living with other children who are biological or adopted children of the parent.

^{viii} Or the first December in each paired comparison for our change analyses.

^{ix} A very small number of the children in this family type could be foster children rather than stepchildren.

^x Families cannot be tracked across months because their composition changes, but a child’s family is considered to be observed in the later December if the earlier December’s household reference person, or at least one parent of the child, is observed in the later December. If the child is not observed in the later December but the family is observed, the child is considered to have changed family type.

^{xi} If a child was not observed but his or her parent or household reference person from January was observed, it is assumed that the child left the household and this is counted as a change. If a child’s household was not interviewed in December, the child is excluded from this analysis. Changes may be underestimated for children who are not observed for all 12 months because those children may have additional parent changes in the months they are not observed. Furthermore, changes are underestimated for children with one biological parent who has a cohabiting partner because we only track whether the child is separated from the biological parent.

^{xii} Alternating weeks between parents is another typical joint-custody pattern.

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