

**Demographic and Economic Characteristics  
Of the American Family**

*Implications For Outreach*

*Targeted At The Low-income Population*

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By

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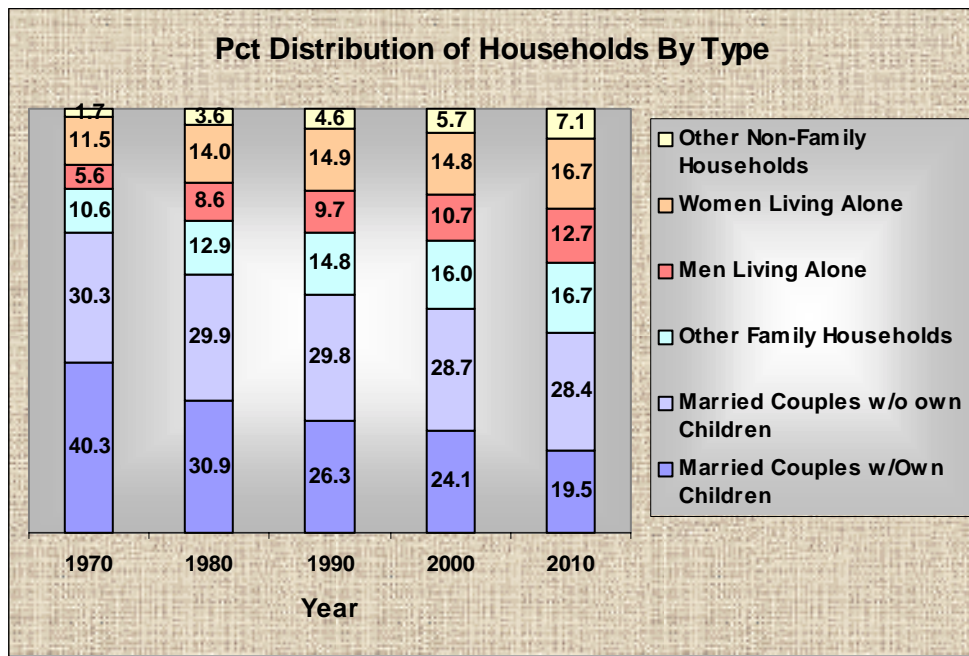
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# Introduction

Contemporary demographic and economic trends in the American family structure have created new challenges for tax administration. These challenges are especially relevant for outreach targeted at the low-income taxpayers.

## Change in Structure of Family and Households



In 1970, family households accounted for 81% of all households. By 2000, this percentage had decreased to 69%. The percentage of married couple households with own children decreased from 40% in 1970 to 24% in 2000. Other family households increased from 10.6% to 16.0% of households from 1970 to 2000. The largest part of the change in family households is attributed to the growth in non-family households, the growth in one-person households and the growth in the percentage of women living alone.<sup>1</sup>

**Key Implications for Tax Administration:** The fastest growing returns will continue to come from head of household and single filing status.

## Households Are Getting Smaller

The average number of persons per household has decreased from 3.1 in 1970 to 2.6 in 2000.<sup>2</sup> The percentage of households with five or more people diminished in recent years, falling from 21% in 1970 to 10% in 2000. Single person households, on the other hand, rose from 17% to 29%. Other household types such as childless couples, cohabitation, and empty nesters are on a rise.

***Key Implications for W&I:* There may be an increase in taxpayers with the single filing status. There will be fewer exemptions reported as the number of single and two person households increase and the number of larger households decreases.**

## The Proportion of Households With Own Children Under 18 Has Been Declining

A decrease in the percentage of households with own children under age 18 has contributed to smaller family sizes over the years. The percentage of households with own children under age 18 has fallen from 45% in 1970 to 33% in 2000. If similar trends continue, the percentage may fall to 29% by 2010.<sup>3</sup>

***Key Implications for W&I:* There could be fewer dependents and associated credits (e.g. child care, decrease in number of EITC qualifying children) claimed on tax returns.**

## Single-parent Families Are Becoming More Prevalent

In 2000, over 37 million family groups included children under 18, up from 29 million in 1970. Single-mother families increased from 3 million in 1970 to 10 million in 2000. Single-father families jumped from 392,000 to over 2 million during the same period of time. The percent of family groups maintained by single mothers increased from 12% in 1970 to 26% in 2000. The percentage of family groups maintained by fathers increased from 1% to 5%.<sup>4</sup>

***Key Implications for W&I:* An increase in single parent families could result in an increase in issues associated with changes in filing status, prior tax liabilities, innocent spouse claims, alimony reporting, dependency determinations, and eligibility requirements for EITC.**

## More Children Living Only With Mothers

Although the majority of children under age 18 live in families with both their mother and father, an increasing percentage are living only with their mothers. This family configuration has risen from 10% in 1970 to 22% in 2000. The percentage of children under age 18 who are living only with their fathers has increased modestly, but figures indicate continued growth.<sup>5</sup>

***Key Implications for W&I:* Dependency issues may result in increasing number of inaccurate returns and fraudulent claims. In cases of divorce, W&I may face an increase in alimony issues, where the payers of alimony overstate the amount paid and the recipient of alimony understates the amount received.**

## Children Living With Never-Married Mothers

Of children less than age 18 living with their mothers only, the percentage of children living with a mother that has never been married increased from 4% in 1960 to 41% in 2000. In contrast, the percentage of children under age 18 living with a mother because of the absence of the father has decreased from 46% in 1960 to 20% in 2000. The percentage of children who live with mothers because of divorce has increased from 24% in 1960 to 35% in 2000, although it was as high as 43% in 1980.<sup>6</sup>

***Key Implications for W&I:* Increasing numbers of never married mothers might result in an increased presence of EITC claims, child support problems, and dependency issues.**

## Women Living In Poverty

29% of recently separated women and 21% of recently divorced women live in poverty. Conversely, 12% of recently separated men live in poverty. Nine percent of divorced men also live in poverty.<sup>7</sup>

***Key Implications for W&I:* Marriage, separation, divorce, and possibly remarriage, might create a revolving door effect, whereby female taxpayers go on EITC, go off EITC, and then go back on again.**

## Mother and Children Living With Grandparents

The number of children living with grandparents has risen substantially over the last 30 years, from 2.2 million in 1970 to 3.8 million in 2000 – a 74% increase. In 1970, 43% of children living with their grandparents were doing so without either of their parents being present. This percentage dropped to 35% in 2000. However, the number of mothers present in the grandparents' household more than doubled between 1970 and 2000, (from 817,000 to 1.7 million).<sup>8</sup>

***Key Implications for W&I: Dependency issues may result if both parent and grandparent attempt to claim grandchildren as dependents.***

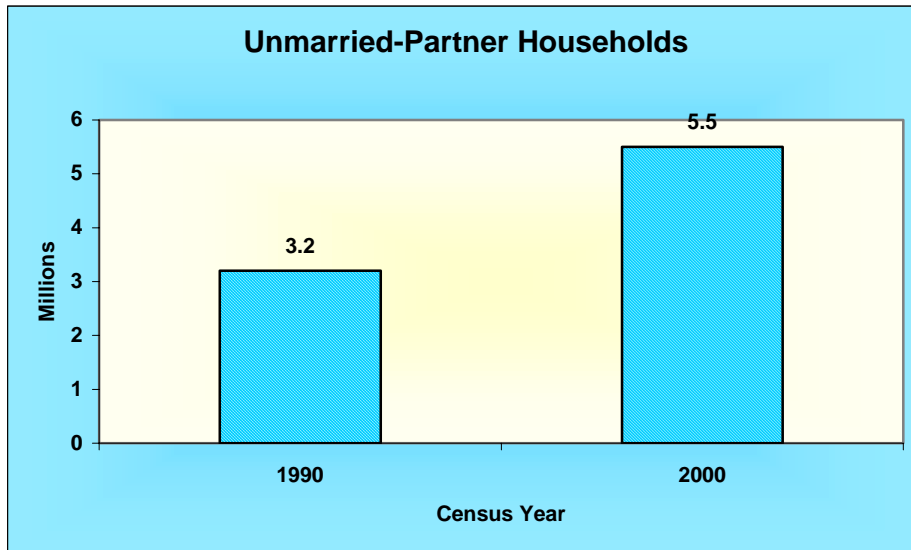
## Divorce Rate Expected to Increase

In 1950, the number of divorced men and women, 15 years of age and older totaled 2.4 million. In 2000, this number increased by a factor of 8 to 19.9 million. The combined divorce percentage was 2.2% in 1950 and 9.3% in 2000. Individual percentages for men and women in the year 2000 were 8.3% (men) and 10.2% (women). Projections suggest the divorce rate in 2010 might reach 8.5% for men and 11.8% for women.<sup>9</sup>

***Key Implications for W&I: As the divorce rate continues to climb, W&I might find itself increasingly faced with the following issues and concerns: changes in filing status, prior tax liability problems, innocent spouse claims, accuracy of alimony reported, dependency determination, the sale, purchase, and refinancing of residences, and questions related to multi-generational households, and EITC eligibility.***

# Cohabitation On the Rise

The number of unmarried-partner households increased from 3.2 Million in 1990 to 5.5 million in 2000. This configuration represented 3.5% of all households in 1990 and 5.2% in 2000.



The Census Bureau predicts that the figures may actually under represent the number of unmarried couples who live together because only “householders” and their partners are tabulated and some may be reluctant to classify themselves as cohabitating.<sup>10</sup>

## Cohabitation Affects Family/Household Economics

- Purchasing power of the family, parent and children.
  - Health care
  - Education
  - Vacation
- Savings and wealth accumulation
- Potential tax liability (assuming income sharing)

***Key Implications for W&I: As unmarried cohabitating households increase, questions of eligibility and the tax filing status on returns might be more frequent. Another associated issue, is whether income sharing among cohabitating partners should affect income eligibility for the EITC?***

# Growth in Foreign Born/Immigrant Population

Between 2000 and 2010, the US foreign born/immigrant population is expected to increase from 10.4% to 11.3% of the US population, i.e. from 28.4 million to approximately 34 million.<sup>11</sup> Immigrant households are generally larger than other household types, especially new immigrant households. The living arrangements of low-income immigrant households reflect the inclusion of the extended family.

Children under age 18 with a foreign-born parent are more likely to live in a *two-parent household*, than those with a native born parent.<sup>12</sup>

***Key Implications for W&I: The living arrangements of foreign-born/ immigrants households may impact upon EITC eligibility, especially for persons with the same qualifying child. More attention will have to be paid to the English language proficiency of the foreign born/immigrant population.***

## Immigrants and EITC Eligibility

Eligibility for the EITC among immigrants is almost double the rate of natives.<sup>13</sup>

## Conclusions

What is the relevance for tax administration of the changing demographic characteristics of the American family?

Given the demographic and economic changes in the living arrangements of the American family, tax administration may have to reconsider its response to the following questions in its outreach and education programs:

- Should the tax credits eligibility criteria for families/households in non-traditional living arrangements be reconsidered or revisited?
- How is the tax credit eligibility status affected by the increased transfer of qualifying children between parents and grandparents?
- How does the EITC impact the choice between cohabitation and marriage?
- How does the existence of an income-sharing cohabitating relationship affect the decision-making behavior of low-income taxpayers to claim the EITC?
- Which parent of the child (tax treatment of children) should claim the child, when the parents are divorced, separated or have never been or will be married?

# Endnotes

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1 Fields, Jason. "America's Families and Living Arrangements: March 2000, and earlier reports. Current Population Reports. P20-537. U. S. Census Bureau.

2 *ibid*

3 U. S. Census Bureau. Table HH-1. Households, by Type: 1940 – present. Current Population Reports, Series P20-537, America's Families and Living Arrangements: March 2000," and earlier reports.

[Http://www.census.gov/population/socdemo/hh-fam/tabHH-1.xls](http://www.census.gov/population/socdemo/hh-fam/tabHH-1.xls).

4 U. S. Census Bureau. Table FM2. All Parent/Child Situations, by Type, Race, and Hispanic Origin of Householder or Reference Person: 1970 to Present.

[Http://www.census.gov/population/socdemo/hh-fam/tabFM-2.xls](http://www.census.gov/population/socdemo/hh-fam/tabFM-2.xls).

5 Table FM-1. Families by Presence of Own Children Under 18: 1950 to present.

[Http://www.census.gov/population/socdemo/hh-fam/tabfam.xls](http://www.census.gov/population/socdemo/hh-fam/tabfam.xls).

6 U. S. Census Bureau. Table CH-5. Children Under 18 Years Living with Mother Only, By Marital Status Of Mother: 1960 to Present. Current Population Reports, Series P20-537. "America's Living Arrangements March 2000," and earlier reports.

7 U. S. Census Bureau. Survey of Income and Program Participation (SIPP), "Number, Timing, and Duration of Marriages and Divorces: 1996." Current Population Reports, P70-80. February 2002.

8 U. S. Bureau of Census. Table CH-7 Grandchildren Living in the Home of their Grandparents: 1970 to Present. Current Population Reports, Series P20-537, American Families and Living Arrangements: March 2000," and earlier reports.

9 U. S. Census Bureau. Survey of Income and Program Participation (SIPP), Current Population Reports, P20-537. February 2002. [Http://www.census.gov/population/socdemo/hh-fam/p20-537/2000/tabal.xls](http://www.census.gov/population/socdemo/hh-fam/p20-537/2000/tabal.xls).

10 Simmons, Tavia and Grace O'Neil. "Households and Families: 2000." Census 2000 Brief.

U. S. Census Bureau. Also, Table 1. Number of Cohabiting Couples, Based on Two Indirect Measures: 1977-1997. Current Population Survey. U. S. Census Bureau. Release date: July 16, 1999.

11 US Census Bureau Projections

12 Population and Family Characteristics - America's Children: Key National Indicators of Well-being, 2002, <http://www.childstats.gov/americaschildren>

13 Center for Immigration Studies: Analyses of the March 2002 CPS. The Survey does not include persons living in "group quarters" such as prisons and nursing homes.



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Previous Research on Changes in Family Structure and Living Arrangements, especially Cohabitation:

Why Cohabitate?

Bumpass, Larry L., James A. Sweet, and Andrew Cherlin. "The Role of Cohabitation in Declining Rates of Marriage." *Journal of Marriage and the Family*. 53, (November 1991): 913-927.

What is the likelihood of marriage following cohabitation?

Smock, Pamela J., and Wendy D. Manning. "Cohabiting Partners' Economic Circumstances and Marriage." *Demography*. 34 No.3 (August 1997): 331-341.

Discussion of cohabitation as a 'trial marriage' and the marital search process

Brien, Michael J., Lee A. Lillard, and Linda J. Waite. "Interrelated Family-Building Behaviors: Cohabitation, Marriage, and Non-marital Conception." *Demography*, 36 No.4 (November 1999): 535-551.

Cohabitation may reduce the 'uncertainty' about the marriage 'match quality'.

Brien, Michael J., Lee A. Lillard, and Steven Stern. "Cohabitation, Marriage, and Divorce in a Model of Match Quality." University of Virginia, Mimeo, 2000.

What are the effects of variance in male wages on the marital search process?

Loughran, David S. "Does Variance Matter? The Effect of Rising Male Wage Inequality on Female Age at First Marriage." Labor and Population Working Paper Series No. 00-12. Santa Monica, CA: RAND, July 2000.

Less educated women and the shortage of marriageable men, due to imprisonment, reduced labor market opportunities, poor human capital.

Wilson, William Julius, and Kathryn M. Neckerman. "Poverty and Family Structure: The Widening Gap between Evidence and Public Policy Issues." In *Fighting Poverty: What Works and What Doesn't*, edited by Sheldon H. Danziger and Daniel H. Weinberg, 232-259. Cambridge, MA: Harvard University Press, 1986.

Contrast the above literature with the benefits of marriage associated with the division of labor and specialization as presented in

Becker, Gary. *Treatise on the Family*. Cambridge, MA: Harvard University Press, 1991

Also see,

Weiss, Yoram. "The Formation and Dissolution of Families: Why Marry? Who Marries Whom? And What Happens Upon Divorce?" in *Handbook of Population and Family Economics*, edited by Mark R. Rosenzweig and Oded Stark, 81-123. Amsterdam: Elsevier Science, 1997.

Key Question:

How should cohabitating living arrangements be treated for public policy-making?