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Planning for the stimulus rebate: A catalyst for saving

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When rebate checks from the economic stimulus begin arriving this May, American taxpayers will be asking themselves an important question: is it time to save or spend? While the government hopes consumers will spend the money, the Shriver Center recommends another course. The best financial decision is to save, invest or pay off debt, and for the most part, Americans claim they will make the right choice.

According to a recent survey by American Century Investments, almost two of every three Americans do not plan to spend tax rebates included in the proposed government stimulus package. Roughly 36 percent of those receiving a rebate plan to pay off loans or credit card balances, and another 25 percent plan to save or invest it.

By stimulating savings and investment with rebate money, Americans can begin overcoming the consumer overspending habit that has contributed to our current economic crisis. In 2005, the net private savings rate was negative for the first time since the Great Depression, and given the stormy forecasts of a looming recession, it's good advice to save those rebates for a rainy day. This means breaking from the borrow-and-spend mentality that has thrown many Americans into debt, and using rebates to prepare for future emergencies or needs.

Advice to consumers on handling rebates has come from a variety of sources. The [IRS](#) and the [National Community Tax Coalition](#) have issued answers to frequently asked questions, which explain that direct deposit of the rebate will go to the first bank account listed on tax returns. David Wyss, chief economist for Standard & Poor's acknowledges that for individuals, it is best to either save or pay off credit cards. The [National Foundation for Credit Counseling](#) offers several alternative uses, such as opening a retirement account, starting a tax-free college savings plan, or creating a savings account. Thomas Ochsenschlager, vice president of taxation for the American Institute of Certified Public Accountants cosponsors a campaign called "[Feed the Pig](#)" which also consults consumers on savings programs.

Meanwhile, refund anticipation loan providers threaten to strip rebate funds from taxpayers. In response, Senators Charles Schumer (D-N.Y.) and Chuck Grassley (R-Iowa) sent a letter of warning to the loan provider industry to halt "instant rebates" and to abide by state laws capping interest rates. Grassley stated, "The companies that offer these loans need to stand down and not try to exploit an economic downturn for their gain at taxpayer expense." A copy of the letter can be found [here](#).

For more information on tax preparation assistance, the Economic Stimulus Act of 2008 and the upcoming stimulus rebate, and please contact Dory Rand at doryrand@povertylaw.org or Brian Clappier at brianclappier@povertylaw.org.