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NEWS RELEASE

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STATE INCOME TAXES PUSHING MANY WORKING-POOR FAMILIES DEEPER INTO POVERTY

In nearly half of the states with an income tax, a family of four owes the tax even if its income falls below the poverty line, according to a new report from the Center on Budget and Policy Priorities. In 19 of the 42 states that levy an income tax, the "tax threshold" (the income level at which families begin owing taxes) for a two-parent family of four for tax year 2006 is below $20,615, the poverty line for such a family.

The number of states that tax poor families of four was unchanged from 2005, as improvements in some states were offset by backsliding in others. (Since 1991, the number of states that tax poor families of four has declined from 24 to 19.) But some improvements are expected in the near future, the report notes. Several states with very low tax thresholds have recently enacted changes that should save low-income families hundreds of dollars in taxes over the next three years.

"Families with very limited means are still taxed too much by states," said Jason Levitis, the report's author. "Progress is occurring slowly. States increasingly realize they shouldn't be taxing people deeper into poverty."

Among the report's findings:

- As families file their 2006 income taxes this spring, families with poverty-level incomes face more than $200 in state income taxes in ten states: **Alabama, Arkansas, Hawaii, Indiana, Iowa, Michigan, Montana, New Jersey, Oregon,** and **West Virginia.** In four of these states (**Alabama, Arkansas, Hawaii,** and **West Virginia)**, such families owe more than $400. These amounts can cause significant difficulties for families struggling to escape poverty, especially when combined with other taxes these families pay, such as sales, payroll, and excise taxes.

- Among the states that made significant improvements for 2006 were **Delaware,** which implemented a state earned income tax credit that exempts working-poor families from the income tax; **Virginia,** which also implemented an EITC, raising its tax threshold by nearly $5,000; and **Oregon,** whose EITC is now "refundable" for the first time. (Under a refundable EITC, families whose EITC exceeds their income tax liability can receive a refund for the difference, which helps working families lift themselves out of poverty. Twenty-one states have EITCs, 17 of which are refundable.)

- Among the states where low-income households' tax bills rose significantly since 2005 were **Georgia, Iowa, Mississippi,** and **North Carolina,** all of which raised taxes on poor families by at least 25 percent. In addition, **New Jersey** began taxing

poor families of four for the first time since 1998; a family of four at the poverty line received a refund of $728 in 2005 but *owed* $219 in 2006.

In most states where low-income households' tax bills rose, this happened not because of explicit policy changes but because tax provisions designed to protect low-income families — including standard deductions, personal exemptions, and credits — did not keep pace with inflation.

- Nine states have recently enacted reforms that will reduce taxes on low-income families over the next several years: **Alabama, Arkansas, Hawaii, Michigan, New Mexico, Oklahoma, Oregon, Utah,** and **West Virginia.** A number of these states, however, will continue to impose heavy income taxes on low-income families. **Alabama, Hawaii,** and **Oregon** will continue to impose some of the nation's largest income taxes on the poor even after the expected reforms are implemented.

- Any state should be able to exempt the poor from income taxes, the report states. The loss of revenue from such exemptions poses special challenges for states that have a large number of poor families, and also for states where the income tax is the major state revenue source, but these challenges can be overcome. For example, the 27 states that exempt poor single-parent families of three from income taxes include three of the nation's ten poorest states (**Kentucky, New Mexico,** and **Oklahoma**) and seven of the ten states that receive their largest share of state and local tax revenue from personal income taxes (**Delaware, Kentucky, Maryland, Massachusetts, Minnesota, New York,** and **Virginia**).

"By eliminating state income taxes on working families with incomes at or below the poverty line, states can offset some of the child care and transportation costs that families incur as they strive to become economically self-sufficient," said Levitis. "In other words, by eliminating income taxes on poor working families, states can help make work pay."

The full report, with state-by-state fact sheets, is available at http://www.cbpp.org/3-27-07sfp.htm.

Note to editors: The Center on Budget will host a media conference call briefing to discuss this new report at 1:00 p.m. (ET) on Tuesday, March 27. To participate, please register by e-mailing spillane@cbpp.org, or calling the communications office at (202) 408-1080.

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The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. It is supported primarily by foundation grants.

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