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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 tax year 2005 is below $19,961, the poverty line for a two-parent family of four.

While a few states significantly reduced their taxation of poor families for 2005, the national picture did not improve compared to 2004, the Center's report found. The number of states that tax poor families of four increased from 17 to 19 in 2005, and the amount of tax imposed on these families changed little.

"The federal government has exempted poor working families from income taxes since the 1980s because both parties agree on the importance of helping families work their way out of poverty," said Jason Levitis, co-author of the report. "But while many states have improved their income-tax treatment of low-income families since the early 1990s, a number of states still tax poor families deeper into poverty."

Among the report's findings:

- **Alabama** has by far the nation's lowest tax threshold: $4,600 for a family of four, or about half the threshold of the next-lowest state. Alabama taxes single-parent families of three earning less than one-third of the poverty line and two-parent families of four earning less than one-quarter of the poverty line.

- Families with poverty-level incomes face several hundred dollars of state income taxes in **Alabama, Arkansas, Hawaii, Indiana, Michigan, Montana, Oregon, Virginia,** and **West Virginia.** For example, a two-parent family of four in Alabama with income of $19,961 owes $538 in income tax, while such a family in Hawaii owes $470 and in Arkansas $406. Such amounts can make a big difference to a family struggling to escape poverty.

- A few states — **Kentucky, Montana, Ohio,** and the **District of Columbia** — significantly reduced low-income families' tax burdens in 2005. Kentucky, which in 2004 levied the nation's highest tax on a family of four at the poverty level, more than tripled its tax threshold for a family of four in 2005 (from $5,600 to $19,400) by implementing a low-income credit that shields nearly all poor families from income tax.

- While the number of states that tax poor two-parent families of four has declined from 24 to 19 since the early 1990s, a few states — **Alabama, Arkansas, Iowa,**

Louisiana, Mississippi, Virginia, and **West Virginia —** have raised income taxes on poor families over the past decade. In each of these states, the tax increase occurred because tax provisions designed to protect low-income families — including standard deductions, personal exemptions, and credits — did not keep pace with inflation.

- Twelve states go further than simply not taxing poor families by offering tax credits that provide refunds to working families with income at the poverty line. By supplementing workers' wages, these credits encourage work and help families lift themselves out of poverty.

- Even states that have a large number of poor families or rely heavily on the income tax have found that they can provide low-income tax relief at a reasonable cost. For example, the 26 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 (**California**, **Colorado**, **Maryland**, **Massachusetts**, **New York**, **Virginia**, and **Wisconsin**).

States have employed an array of mechanisms to reduce or eliminate income taxes on working-poor families. These mechanisms include state Earned Income Tax Credits (EITCs) and other tax credits targeted to low-income families, and personal exemptions and standard deductions that shield poor families' income from taxation. To prevent their effect from eroding over time, these provisions can be designed to adjust automatically for inflation.

"Eliminating state income taxes on working families with poverty-level incomes gives a boost in take-home pay that helps offset higher child care and transportation costs that families incur as they strive to become economically self-sufficient," said Nicholas Johnson, co-author of the report. "In other words, relieving state income taxes on poor families can make a meaningful contribution toward 'making work pay.'"

The full report, with state-by-state fact sheets, is available at: http://www.cbpp.org/2-22-06sfp.htm.

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