NEWS RELEASE

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Despite Progress, Many States Still Tax Earnings of Poor Families

Families of four with incomes at the poverty level were exempt from state income taxes last year in 23 of the 42 states that levy them. But 19 other states still collect income taxes on annual earnings at or below the poverty line of $17,601 for a two-parent, two-child family, while 31 states tax such families with earnings just 25 percent higher, according to a new report by the Center on Budget and Policy Priorities.

"The good news for 2000 is that many states provided additional income tax relief to poor and near-poor families. Last year, for example, New Jersey, Virginia, Illinois and Delaware all enacted increases in the threshold income at which income taxes are due," said Bob Zahradnik, a policy analyst with the Washington-based research group and co-author of the study.

"However, despite considerable progress, in many states taxes on the poor remain quite high. If you're a single mother of two in Alabama who earned just $4,600 last year, well below half the poverty line, the state government in Montgomery still wants part of your paycheck. In Kentucky, a family of four owes income taxes on earnings of just $5,400," Zahradnik said.

The annual report assesses the impact of each state's income tax on low-income families with children for tax year 2000, the tax returns families are currently filing. It focuses on income tax thresholds, the income level at which a family would begin to owe state income tax. The report also evaluates trends in state income tax policies since 1991.

The report notes that the federal government "has long recognized that taxing poor families is counterproductive and unfair. As part of federal tax reform in 1986, virtually all families below the poverty line were relieved of federal income tax liability. It has taken a dozen years for a majority of the states to implement this same policy."

States have made more progress toward relieving the income tax burden on poor families in the last four years than they made in the six previous years, the report notes. From 1991 to 1996, the number of states that taxed the incomes of

— more —

poor families of four did not change, and only seven states that taxed the poor in 1991 increased their thresholds by amounts greater than the increase in the poverty line during that time. Between 1996 and 2000, however, the number of states taxing the poor declined by five, and another 11 states brought their thresholds closer to the poverty line than they were in 1991. (See the full report for state-by-state comparisons and state-specific breakdowns.)

Economic Slowdown Could Impede Progress

Nicholas Johnson, a senior policy analyst with the center and a co-author of the study, said recent signs of an economic slowdown could impede further progress in tax relief for low-income families, even as states are urging more families to make the transition from welfare to work.

"If state finances tighten even further, it is likely that some states will consider raising tax liabilities on poor families. Such tax actions could add to the difficulties for families in an economic slowdown who may also be facing layoffs or stagnating wages. States should not exacerbate the difficulties faced by poor and near-poor families by raising their tax burdens," Johnson said.

Taxing Families Into Poverty

The report notes that "Levying an income tax on the poor pushes families deeper into poverty, lowering the disposable income they have available to meet basic needs . . . In the states with below-poverty tax thresholds, the tax bill for poor families varies greatly, from as little as a few dollars to more than $500. By contrast, poor families who live in states with tax thresholds above the poverty line do not owe any income tax and, in several of these states, such families actually qualify for a state tax refund."

The impact of state income tax systems on poor families has been increasing in importance in recent years, the reports says, because the number of working poor families has been growing across the United States. Roughly nine million poor children — about two out of every three poor children — live in a family with a working parent.

"It is critical that more states address the problem of taxation of poor families, both in the interest of fairness and in order to further the objective of allowing parents who work to support their families adequately," Zahradnik said. "The first step is understanding the extent of the burden families bear and the features of the tax system that affect those burdens."

Taxes on Poor Families

Taxes paid by low-income families in the 19 states with below-poverty thresholds push them deeper into poverty and lower the disposable income they have available to meet basic needs.

- The average 2000 income tax bill for a family with income at the poverty line in the states with below-poverty thresholds is $227 for a two-parent family of four and $147 for a single parent with two children. The 2000 tax bill is as high as $575 on a family of four (in **Kentucky**) and $368 on a family of three (in **Alabama**).

- Five states **— Alabama, Hawaii, Indiana, Kentucky, and West Virginia —** levy a tax of $200 or more on poor families of three.

- In eleven states **— Alabama, Arkansas, Hawaii, Indiana, Kentucky, Michigan, Montana, Oklahoma, Oregon, Virginia and West Virginia —** the income tax bill for a poor family of four exceeds $200.

- By contrast, a number of states levied no income tax until a family's income was well above the poverty line.

- Eleven states with tax thresholds above the poverty line go even further. These states **— Colorado, the District of Columbia, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Vermont, and Wisconsin —** have state tax credits that provide refunds to low-income families with no tax liability; the refunds act as an offset to the other state and local taxes. Ten of these states (all but New Mexico) offer state Earned Income Tax Credits.

Taxes on Near-Poor Families

Many families with earnings just above the poverty line continue to find it difficult to make ends meet. Nevertheless, some 31 states levy income taxes on near-poor families of three or four **—** that is, for families with incomes of $17,171 for a family of three and $22,001 for a family of four in 2000.

- The average 2000 income tax bill for a family with income at 125 percent of the poverty line in the states that levy such taxes is $335 for a two-parent family of four and $261 for a single parent with two children.

- Three states **— Alabama, Hawaii, and Kentucky —** levy tax of more than $500 on near-poor families of three. Those states plus five others **— Arkansas, the District of Columbia, Indiana, Oregon, and Virginia —** levy income tax of $500 or more on near-poor families of four. The 2000 tax bill is as high as $894 on a family of four (in **Kentucky**) and $574 on a family of three (in **Hawaii**).

- By contrast, in ten states — **Colorado, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Vermont, and Wisconsin** — a one-parent family of three with income at 125 percent of poverty receives an income tax refund.

Recent Changes in Taxation of Poor Families

Several states have made significant progress in relieving state income tax burdens on low-income families in recent years. From 1999 to 2000, the number of states with below-poverty thresholds for a family of four declined from 20 to 19, as New Jersey's and Delaware's thresholds increased above poverty while Iowa's threshold fell slightly below poverty. The number of states with below-poverty thresholds for a family of three declined from 18 to 16, as a result of New Jersey's EITC and Virginia's low-income credit.

- Major threshold increases in 2000 occurred in several states with income tax thresholds below the poverty line. The largest increases were in **New Jersey, Virginia, Illinois, and Delaware**. Despite these increases, Virginia continues to tax low-income families of four and Illinois continues to tax poor families of three and four.

- The 2000 improvements continued the progress states have made in recent years. Tax year 1999 was the first year in which state income tax thresholds were, on average, above the poverty line. Average thresholds moved further above the poverty line in 2000. The average of the states' tax thresholds for a family of four has risen from $11,736 in 1991, about 15 percent below the poverty line, to $18,474 in 2000, some 5 percent above the poverty line.

- However, the trend towards lower taxes on poor families was by no means universal. In 12 states **— Alabama, Arkansas, Hawaii, Iowa, Kentucky, Louisiana, Montana, Ohio, Oklahoma, Utah, Virginia and West Virginia —** the amount of tax owed by a family of four at the poverty line actually increased between 1994 and 2000.

Tax Relief Strategies

States use a variety of methods to relieve income tax burdens on the poor. Most of the 23 states that do not tax the working poor for tax year 2000 allow relatively large deductions from income through personal and dependent exemptions and standard deductions. In addition, 29 states have adopted measures that specifically target tax relief on low-income families. Of particular note, 14 states **— Colorado, the District of Columbia, Georgia, Hawaii, Indiana, Kansas, Maryland, Massachusetts, Minnesota, New Jersey, New Mexico, New York, Vermont, and Wisconsin —** offer credits that relieve taxes and provide tax refunds to some or all families with income below the poverty line. In states where credits exceed the tax liability of poor families, the refunds from these credits are intended to boost the incomes of families with low-wage workers and to offset the burden of other state and local taxes paid by low-income families, primarily sales taxes and property taxes.

Many of the states that have not yet removed state income taxes from poor families have not made it a priority to do so. Most state economies expanded through the 1990s and most states experienced robust fiscal conditions. As a result, more than 30 states enacted significant personal income tax cuts in the last five years. But many of the states with the largest income tax cuts in recent years chose to cut top tax rates or cut all tax rates in ways that provide a disproportionate benefit to higher-income taxpayers. Six of the states that have enacted personal income tax rate cuts in recent years still have income tax thresholds below the poverty line — **Hawaii, Michigan, Ohio, Oklahoma, Oregon, and Utah**.

# # #

State Income Tax Thresholds for Two-Parent Families of Four, 2000

Poverty line (estimated): $17,601

Rank	State	Threshold	Rank	State	Threshold
1	Alabama	$4,600	20	District of Columbia	$18,600
2	Kentucky	5,400	21	Nebraska	18,900
3	Indiana	9,500	22	North Dakota	19,000
3	Montana	9,500	23	Mississippi	19,600
5	West Virginia	10,000	24	New Jersey	20,000
6	Hawaii	11,000	25	Idaho	20,100
7	Ohio	12,700	26	Delaware	20,300
8	Michigan	12,800	27	Massachusetts	20,600
9	Louisiana	13,000	28	Wisconsin	20,700
9	Oklahoma	13,000	29	New Mexico	21,000
11	Illinois	14,000	30	Kansas	21,100
12	Missouri	14,100	31	South Carolina	21,400
13	Oregon	14,800	32	Maine	23,100
14	Georgia	15,300	33	Arizona	23,600
15	Arkansas	15,600	34	New York	23,800
16	Utah	15,800	35	Connecticut	24,100
17	North Carolina	17,000	36	Maryland	25,200
18	Virginia	17,100	37	Rhode Island	25,900
19	Iowa	17,400	38	Minnesota	26,800
			38	Vermont	26,800
			40	Colorado	27,900
			41	Pennsylvania	28,000
			42	California	36,800
Average Threshold 2000		**$12,768**	**Average Threshold 2000**		**$23,187**
Amount Below Poverty		**$4,833**	**Amount Above Poverty**		**$5,586**

Note: A threshold is the lowest income level at which a family has state income tax liability. In this table thresholds are rounded to the nearest $100. The 2000 poverty line is a Census Bureau estimate based on the actual 1999 line adjusted for inflation. The threshold calculations include earned income tax credits, other general tax credits, exemptions, and standard deductions. Credits that are intended to offset the effects of taxes other than the income tax or that are not available to all low-income families are not taken into account.

Source: Center on Budget and Policy Priorities

State Income Tax at Poverty Line for Two-Parent Families of Four, 2000

	State	Income	Tax
1	Kentucky	17,601	$575
2	Alabama	17,601	443
3	Hawaii	17,601	420
4	Indiana	17,601	360
5	Virginia	17,601	341
6	Arkansas	17,601	311
7	West Virginia	17,601	290
8	Oregon	17,601	278
9	Montana	17,601	233
10	Oklahoma	17,601	232
11	Michigan	17,601	202
12	Illinois	17,601	145
13	Louisiana	17,601	133
14	Ohio	17,601	113
15	Missouri	17,601	80
16	Georgia	17,601	55
17	Utah	17,601	47
18	North Carolina	17,601	37
19	Iowa	17,601	23
20	Arizona	17,601	0
20	California	17,601	0
20	Connecticut	17,601	0
20	Delaware	17,601	0
20	District of Columbia	17,601	0
20	Idaho*	17,601	0
20	Maine	17,601	0
20	Mississippi	17,601	0
20	Nebraska	17,601	0
20	North Dakota	17,601	0
20	Pennsylvania	17,601	0
20	Rhode Island	17,601	0
20	South Carolina	17,601	0
33	New Mexico	17,601	(70)
34	New Jersey	17,601	(109)
35	Maryland	17,601	(133)
36	Kansas	17,601	(193)
37	Colorado	17,601	(285)
37	Massachusetts	17,601	(285)
39	Wisconsin	17,601	(400)
40	New York	17,601	(537)
41	Vermont	17,601	(913)
42	Minnesota	17,601	(1,360)

*The income tax threshold for a two-parent family of four in Idaho was above the poverty line in 2000, but there was a $10 permanent building fund tax on each filing household.

Source: Center on Budget and Policy Priorities

State Income Tax Burdens on Low-Income Families in 2000
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