Center on Budget and Policy Priorities

NEWS RELEASE

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

Sixteen states taxed working-poor families deeper into poverty last year, according to a new report from the Center on Budget and Policy Priorities. Income tax bills on poor families in those 16 states ranged from a few dollars to several hundred dollars, which is a significant amount for a family struggling to make ends meet, the report said.

"Undermining families' efforts to work their way out of poverty is never a good idea," said Phil Oliff, the report's co-author. "But it's especially harmful in the current recession, when people are already struggling just to get by."

The report measures the "tax threshold" in each state — the income level at which families begin owing income taxes. In 16 of the 42 states that levy an income tax, the threshold for two-parent families of four was below $22,017, the 2008 poverty line for such a family. The remaining states as well as the federal government do not tax working poor families.

Two fewer states taxed poor families than in 2007. **Michigan** adopted an Earned Income Tax Credit (EITC) that pushed its threshold slightly above the poverty line. **Oklahoma** made changes to its income tax deductions and rates, and expanded a credit for families with children, lifting its threshold above the poverty line for two-parent families of four. Although **Hawaii** and **Louisiana** made significant improvements to their tax systems, they remain among the 16 states that tax poor families. A number of other states made significant improvements.

In several states, income-tax treatment of the poor worsened as inflation eroded the value of provisions intended to protect the poor from taxation. This erosion coincided with a rising level of poverty and joblessness resulting from the recession.

Among the report's findings:

- Sixteen states, out of the 42 with an income tax, taxed working-poor, married couples with two children in 2008: **Alabama, Arkansas, Georgia, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Mississippi, Missouri, Montana, North Carolina, Ohio, Oregon** and **West Virginia** (see Figure 1, below)**.**

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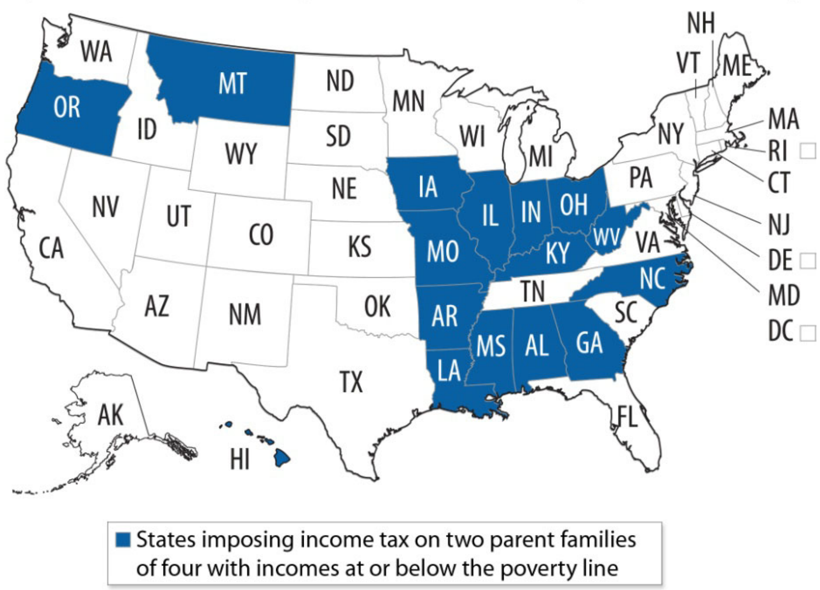
- **Michigan** and **Oklahoma** stopped taxing poor families in 2007, and eight other states implemented changes to reduce low-income families' tax bills. **Hawaii** and **West Virginia**, both of which in 2007 had levied some of the highest taxes on low-income families, also made improvements in 2008.

FIGURE 1:

Many States Tax Working-Poor Families Deeper Into Poverty



- On the other hand, in 23 states the value of provisions that protect low-income families from taxation eroded, in large part due to a failure to adjust them for inflation. As a result, poor and/or near-poor families' tax bills in those states rose.

- The number of states taxing extremely poor families of four – those with incomes below three-quarters of the poverty line ($16,513) – decreased from nine in 2007 to six in 2008. Three states that previously taxed such families began exempting them: **Hawaii, Michigan,** and **West Virginia**. States still taxing extremely poor families are: **Alabama, Georgia, Illinois, Indiana, Montana,** and **Ohio**.

Over the last two decades, state policymakers increasingly have viewed the exemption of poor families from taxation as a straightforward way to reduce poverty and support work. The number of states levying income tax on poor two-parent families of four decreased from 24 to 16 between 1991 and 2008. The federal government has exempted poor families from tax since the mid-1980s.

Even in a time of widespread state budget shortfalls, there are a number of relatively inexpensive, effective solutions for state policymakers to consider. These include state EITCs and other low-income tax credits, no-tax "floors" (an income level below which a family owes no tax), and adequate personal exemptions and standard deductions.

"Dire economic conditions are already reducing states' tax revenue. This makes it harder for states to enact new tax cuts targeted to poor families," said Oliff. "But doing so should still be a priority. Taxing people deeper into poverty runs counter to the goal of helping families achieve self-sufficiency."

The full report is available at http://www.cbpp.org/newlink. In addition to examining families of four, the report also analyzes state income taxes for single-parent families of three.

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