State income taxes on the working poor vary by thousands of dollars

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The White House has called for policy change to ensure that "no one who works full-time should have to live in poverty." But a new report from the National Center for Children in Poverty (NCCP) at Columbia University's Mailman School of Public Health finds that a significant number of states continue to push the working poor deeper into poverty by imposing income tax liabilities on poverty-level earnings—liabilities that can total hundreds of dollars.

Taxing the Poor: State Income Tax Policies Make a Big Difference to Working Families compares how much working poor families owed in state income taxes or received in income tax refunds for the 2013 tax year. The report accompanies the simultaneous release of the 2014 edition of NCCP's 50-State Policy Tracker, a free online tool for comparing work supports that are critical for the economic security of working families, including the income tax policies discussed in Taxing the Poor.

Both the report and the online tool demonstrate the wide variation among states with respect to the supports they provide to the working poor. Notably, the report shows that a number of states continue to impose income taxes on families with poverty-level incomes. In sharp contrast, other states—leaning both Republican and Democratic—use Earned Income Tax Credits (EITCs) and other refundable credits to help poor families make ends meet. For example, in Alabama, a family of four with two children at the poverty threshold owed $588 in state income tax in 2013, while an equivalent family received a $672 tax

credit in Kansas and a credit worth $1,975 in New York.

"There is no viable justification for levying state income tax on poor working families that have a very tough time getting by," said Curtis Skinner, PhD, director of Family Economic Security at NCCP. "On the contrary, research shows that even a small income boost to poor families is associated with significant gains in child development and educational outcomes. States that provide that boost in the form of income tax refunds help their hardworking families today and secure a more productive workforce tomorrow."

The Policy Tracker makes it easy to compare state policies across six important work supports: (1) child care subsidies, (2) minimum wage, (3) family and medical leave, (4) income tax policy, (5) the EITC, and (6) the Child and Dependent Care Tax Credit. Singly and in combination, these programs make a big difference in helping working families meet their basic budget needs.

"The Policy Tracker is an extremely valuable tool for assessing how states differ in policies that directly affect the economic security of lower-income working residents," said NCCP Director Renée Wilson-Simmons, DrPH. "States are the nation's laboratories of policy innovation, and as progress in social policy at the federal level has slowed, state and local policymaking become even more critical to addressing the economic needs of poor American families. Clearly, reliable up-to-date state comparisons are essential to such innovation."

For each state and the District of Columbia, Taxing the Poor compares the exact state income tax liability owed or refund received by a single-parent family of three and a two-parent family of four whose income exactly matched Census-determined poverty thresholds. The report highlights the large impact of refundable tax credits on the tax returns of poor families, noting that the increased use of EITCs across states may

be attributable to its appeal across party lines. However, the report also shows that the states' income tax schedules—including the levels and types of deductions and exemptions as well as tax rates for low incomes—sometimes work at cross-purposes to the credits. For example, Illinois, Oregon, Louisiana, Indiana, Michigan, and North Carolina all offered refundable EITCs in 2013, but the resulting credits were not high enough to completely offset the income tax liabilities of some families living in poverty.

Skinner noted that tax policy differences are not entirely predictable by state per-capita income or the red state-blue state political divide. For example, the six states that impose tax burdens exceeding $200 for families of four at the poverty level are Alabama, Georgia, Hawaii, Illinois, Montana, and Oregon, an otherwise unlikely grouping.

"As both the report and the Policy Tracker demonstrate, there is obviously much work still to be done," remarked Skinner. "While there are a variety of approaches to reducing poverty among American families with children, it is important to ensure that programs work together efficiently to maximize their effectiveness. Our report and the Policy Tracker should help policymakers, advocates, researchers, and the media evaluate state policies through a comprehensive, comparative lens."

Provided by Columbia University's Mailman School of Public Health

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