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THE IMPACT OF STATE INCOME TAXES ON LOW-INCOME FAMILIES IN 2011

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Summary

The successful bipartisan effort over the last two decades to reduce state income taxes on working-poor families has stalled and is in danger of reversing. No new states exempted working-poor families of four from income taxes in 2011, and in almost all of the 15 states where such families still pay income taxes, they saw their income taxes increase.

Taxing the incomes of working-poor families runs counter to decades of efforts by policymakers across the political spectrum to help families work their way out of poverty. The federal government has exempted such families from the income tax since the mid-1980s, and a majority of states now do so as well. Since 1991, the number of states with income taxes on working-poor families of four has fallen from 24 to 15, and even in most of the remaining 15 states, the income tax liabilities of these families have declined significantly since the 1990s. Poor families paid income tax bills of several hundred dollars in 2011 in seven states. A two-parent family of four with annual income at the poverty line (which is $23,018 for a family of that size) owed $548 in **Alabama**, $509 in **Illinois**, $331 in **Hawaii**, $274 in **Oregon**, and $273 in **Georgia**. Iowa and Montana also levied taxes of more than $200 on families with poverty-level incomes. Such amounts can make a big difference to a family struggling to escape poverty.

Some states went further and levied income tax on working families in *severe* poverty. Five states — **Alabama**, **Georgia**, **Illinois**, **Montana**, and **Ohio** — taxed the income of two-parent families of four earning less than three-quarters of the poverty line, or $17,264. Four states — **Alabama**, **Georgia**, **Illinois**, and **Montana** — taxed the income of one-parent families of three earning less than three-quarters of the poverty line, or $13,442.

Another 24 states required families of four with income just above the poverty line to pay income tax in 2011. There is strong evidence that even income modestly above the poverty line is often

[1] Additional data analysis for this report was provided by: Anderson Heiman, Michael Leachman Frank Mamo, Michael Mazerov, Elizabeth McNichol, Vincent Palacios, and Erica Williams.

Methodology

This analysis assesses the impact of each state's income tax in 2011 on two types of poor and near-poor families with children: a married couple with two dependent children and a single parent with two dependent children.[a] It focuses on two measures: the lowest income level at which state residents are required to pay income tax, and the amount of tax due at various income levels. We have generated the relevant data annually since the early 1990s, allowing for analysis of trends over the last two decades.[b]

A benchmark used throughout this analysis is the federal poverty line, or the annual estimate of the minimum financial resources required for a family to meet basic needs. The Census Bureau's poverty line for 2011 was $17,922 for a family of three and $23,018 for a family of four.[c] Many experts acknowledge that supporting a family requires an income level substantially *higher* than the federal poverty line, so this analysis may understate the extent to which state income taxes can make it more difficult for poor families to move up the economic ladder.

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[a] The married couple is assumed to file a joint return on its federal and state tax forms, and the single parent is assumed to file as a Head of Household. A few states' tax codes treat married couples with two workers differently than married couples with one worker, so each family is assumed to include one worker. For the few states whose tax codes take the age of children into account, the children are assumed to be ages 4 and 11.

[b] This report takes into account income tax provisions that are broadly available to low-income families and that are not intended to offset some other tax. It does not take into account tax credits or deductions that benefit only families with certain expenses; nor does it take into account provisions that are intended explicitly to offset taxes other than the income tax. For instance, it does not include the impact of tax provisions that are available only to families with out-of-pocket child care expenses or specific housing costs, because not all families face such costs. It also does not take into account sales tax credits, property tax "circuit breakers," and similar provisions, because this analysis does not attempt to gauge the impact of those taxes — only of income taxes.

[c] Specifically, this report uses the Census Bureau's weighted average poverty thresholds, available at http://www.census.gov/hhes/www/poverty/data/threshld/.

insufficient to meet families' basic needs, and so there is a strong case to be made for exempting near-poor families as well.

Simply getting rid of the income tax is not an option. In the vast majority of states, the income tax is a crucial source of funding for state services like education, health care and public safety; it provides over a third of all state tax revenues nationally. Repealing the income tax would make it harder for states to finance those important services.

Rather, the solution is to tailor tax codes to reflect the realities of struggling working-poor families. A number of states have done just that: in 2011, 18 of the 42 states with income taxes exempted both poor and near-poor families of four from the tax, and a substantial number offered significant refunds to low-income working families, primarily through Earned Income Tax Credits (EITCs).[2] But nearly all those improvements occurred before 2008.

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[2] The District of Columbia also has an income tax. The nine states without income taxes are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

The recent lack of progress toward eliminating state income taxes on low income families takes on added importance today because workers at the bottom of the income scale have experienced almost no income growth over the last two decades, even as those at the top of the income scale have seen their incomes surge. Eliminating income taxes on poor families allows them to keep more of what they earn in the face of stagnant wages, and can push back against rising income inequality. It can also help to offset the additional child care and transportation expenses that families incur as they strive to become economically self sufficient.

Beyond helping poor families to provide for work related expenses and basic necessities, research increasingly makes clear that raising the after-tax incomes of such families can boost poor children's chances of academic success and increase their earnings prospects as adults. This suggests that relieving poor families of state income taxes can help states cultivate the highly skilled workforce they will need to succeed economically in the future.

These findings show that that there is still significant room for improvement in many states' tax treatment of low-income families. To some degree, the slowing of progress in reducing these families' tax liabilities over the last several years has been inevitable, as states have faced the most difficult fiscal conditions in decades. But a few states have moved significantly backward in this area, *raising* taxes on low-income working families in order to finance tax cuts that benefit corporations and wealthy individuals. **Michigan, New Jersey,** and **Wisconsin,** for example, have scaled back their EITCs over the last two years while cutting business taxes, taxes on the wealthiest families, or both.

It is possible for states to go in the opposite direction — raising revenues overall while improving their tax treatment of the poor. For example, **Connecticut** enacted a new EITC last year while balancing its budget with a combination of spending cuts and new revenues.

In short, states need not dismantle policies designed to reduce poverty and encourage work. Rather, they should preserve these policies and build upon them when their fiscal situation improves.

Many States Continue to Levy Substantial Income Taxes on Poor Families

The Tax Threshold

One important measure of the impact of taxes on poor families is the income tax threshold — the point below which a family owes no income tax.

- In 10 states, the threshold for a single-parent family of three is below the $17,922 poverty line for such a family (see Table 1A).

- In 15 states, the threshold for a two-parent family of four is below the $23,018 poverty line for such a family (see Table 1B and Figure 1).

Why States Should Exempt the Poor from Paying Income Tax

In recent years a range of policymakers, commentators and political candidates have questioned the wisdom of exempting low-income families and individuals from paying income taxes, arguing that every American should have some "skin in the game" when it comes to paying for public services. These arguments have little merit. Exempting the poor from paying income taxes is a worthy policy goal for a number of reasons.

The poor pay a substantial amount of other taxes. Low income families and individuals pay a significant amount of sales taxes, property taxes and various other state and local taxes and fees. Indeed, on average, state and local taxes are regressive; that is, they take up a larger share of the income of lower income residents than of higher income residents. In 2009, the lowest-income 20 percent of taxpayers paid over 12 percent of their income in state and local taxes, while the highest income one percent of taxpayers paid just over 8 percent.[a]

And while low-income households are often exempt from paying federal income taxes, they do pay federal payroll and excise taxes, among other federal taxes and fees. When all federal, state, and local taxes are taken into account, the bottom fifth of households paid 16 percent of their incomes in taxes, on average in 2009.[b] Exempting the poor from the income tax can help to counterbalance the impact of other, more regressive, taxes that they pay.

Taxing poor families drives them deeper into poverty. Studies consistently find that the amount needed to provide for basic needs, like food and clothing, exceeds the federal poverty line in most parts of the country. Taxing poor families makes it even more difficult to provide for those needs.

Taxing poor families makes it harder for them to work their way to self sufficiency. Taxes reduce the resources that poor families have to pay for the additional child care and transportation expenses that they incur as they strive to work their way out of poverty. Moreover, families trying to work their way out of poverty often lose benefits like food stamps, Medicaid, or housing assistance as their income increases, reducing the extent to which additional income improves their well being. Income taxes on poor families can exacerbate this problem and send a negative message about the benefits of work.

Boosting the after-tax incomes of low-income families can improve their children's prospects of future success. Research increasingly makes clear that raising the after-tax incomes of poor families can boost poor children's chances of academic success and increase their earnings prospects as adults. This suggests that relieving poor families of paying income taxes can help states, and the country as a whole, to cultivate the highly skilled workforce required to succeed economically in the future.

Exempting the poor from paying income taxes can help struggling families through economic hard times. The poor are not a static group. Many families move into and out of poverty over time. For example, the number of people living in poverty nationwide grew by 8.9 million between the start of the great recession and 2010.[c] An income tax system that exempts the poor from taxation provides a reprieve from paying income taxes when families fall into poverty and are having trouble making ends meet, but requires them to pay when they regain their financial footing.

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[a] Citizens for Tax Justice, "All Americans Pay Taxes," April 15, 2010, available at http://www.ctj.org/pdf/taxday2010.pdf .
[b] Ibid.
[c] Danilo Trisi, Arloc Sherman and Matt Broadus, "Poverty Rate Second Highest in 45 Years; Record Numbers Lacked Health Insurance", Center on Budget and Policy Priorities, September 14, 2011, available

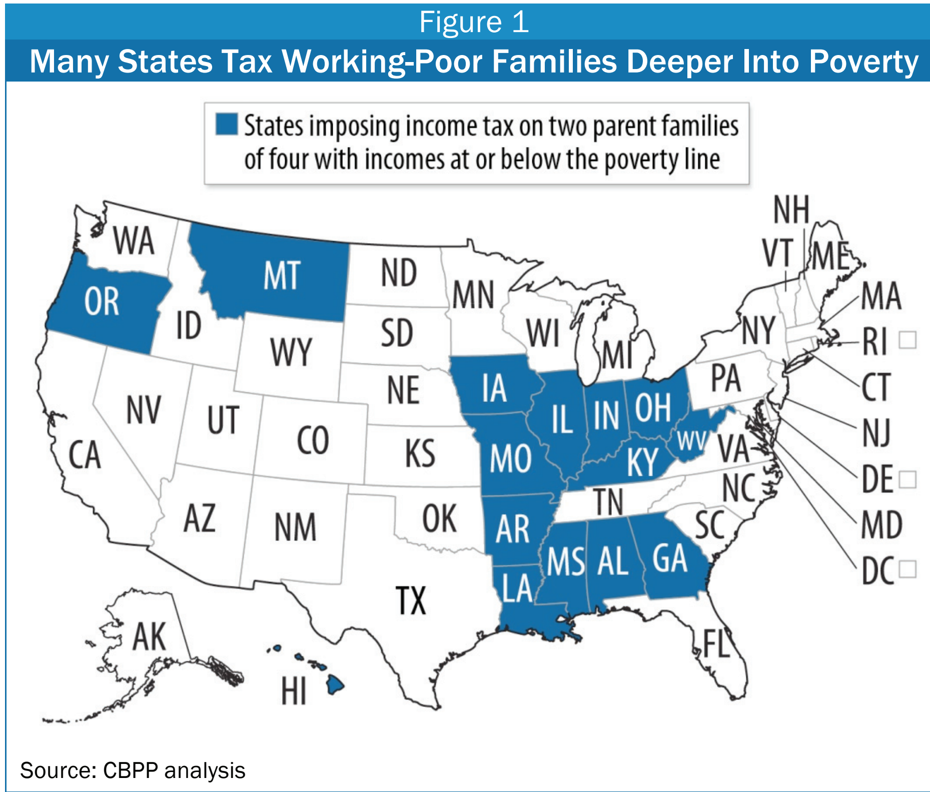

Figure 1
Many States Tax Working-Poor Families Deeper Into Poverty

Source: CBPP analysis

- Five states tax families of four in severe poverty, meaning those earning less than three-quarters of the poverty line $17,264 for a family of four): **Alabama, Georgia, Illinois, Montana,** and **Ohio.**

- In ten states, a family of three where the employed person works full-time at the minimum wage owed income tax in 2011: **Alabama**, **Arkansas**, **Georgia**, **Hawaii**, **Illinois**, **Mississippi**, **Missouri**, **Montana**, **Ohio**, and **Oregon**. (Such a person would have an income of $15,080 under the federal minimum wage, but some states have minimum wages above the federal level; see Table 3A.) Three states- **Alabama**, **Illinois**, and **Montana**- taxed families of four with one worker earning the full-time minimum wage income (see Table 3B).

- **California** had the nation's highest income tax thresholds for 2011: $46,900 for a family of three and $49,400 for a family of four. Those levels are well above the poverty lines for families of those sizes.

Taxes and Tax Credits for Poor Families

Several states charge those living in poverty several hundred dollars a year in income taxes — a substantial amount for a struggling family.

- In seven states, a family of four at the poverty line owes more than $200 in income taxes: **Alabama, Georgia, Hawaii, Illinois, Iowa, Montana,** and **Oregon** (see Table 2B).

- At the other end of the spectrum, 16 states not only avoid taxing poor families but also offer tax credits that provide refunds to families of four at the poverty line. Eighteen states provide

refunds to families of three at the poverty line (see Tables 2A and 2B). These credits act as a wage supplement and income support, encouraging work and reducing poverty. The largest refund for families at the poverty line is $1,899 for a family of three in **New York.**

Taxes on Near-Poor Families

Studies have consistently found that the basic cost of living — food, clothing, housing, transportation, and health care — exceeds the federal poverty line in most parts of the country, sometimes substantially.[3] So, many families with earnings above the official federal poverty line still have considerable difficulty making ends meet.

In recognition of the challenges faced by families with incomes somewhat above the poverty line, the federal and state governments have set eligibility ceilings for some programs, such as energy assistance, school lunch subsidies, and in many states health care subsidies, at or above 125 percent of the poverty line ($22,403 for a family of three, $28,773 for a family of four in 2011).

A majority of states, however, continue to levy income tax on families with incomes at 125 percent of the poverty line.

- Twenty-four states tax two-parent families of four earning 125 percent of the poverty level, and the bill exceeds $500 in nine states: **Alabama, Arkansas, Georgia, Hawaii, Illinois, Iowa, Kentucky, Oregon,** and **West Virginia** (see Figure 4B).

- Twenty-two states tax families of three with income at 125 percent of the poverty line. In seven states these families face taxes of over $500 (see Figure 4A).

How Can States Reduce Income Taxes on Poor Families?

States employ a variety of mechanisms to reduce income taxes on poor families. Nearly all states offer personal exemptions and/or standard deductions, which reduce the amount of income subject to taxation for all families, including those with low incomes. In a few states, these provisions by themselves are sufficient to lift the income tax threshold above the poverty line. In addition, many states have enacted provisions targeted to low- and moderate-income families. To date, 25 states have established an EITC based on the federal EITC to reduce the tax obligation of working-poor families, mostly those with children.[4]

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[3] See, for example, James Lin and Jared Bernstein, *What We Need to Get By,* Economic Policy Institute, October 2008, http://www.epi.org/publication/bp224/.

[4] The 25 states are Connecticut, the District of Columbia, Delaware, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, Washington, and Wisconsin. For more information on state EITCs, see, "Policy Basics: State Earned Income Tax Credits", 2011 Center on Budget and Policy Priorities, Jan. 13, 2011, http://www.cbpp.org/cms/index.cfm?fa=view&id=2506.

Why Does This Report Focus on the Income Tax, Which Costs Poor Families Less Than Other State Taxes?

In most states, poor families pay more in consumption taxes, such as sales and gasoline taxes, than income taxes. They also pay substantial amounts of property taxes and other taxes and fees. Why, then, does this report focus on the impact of state income taxes?

First, the income tax is a major component of most state tax systems, making up 34 percent of total state tax revenue nationally. The design of a state's income tax thus has a major effect on the overall fairness of the state's tax system.

Second, the income tax plays a huge role in determining the overall impact of a state's tax system on poor families. It is administratively simple for a state to eliminate income tax for people below a given income level using the income information that people provide when the tax is levied, i.e., on their tax returns. (As this report shows, a number of states have taken advantage of this opportunity.) Sales tax, on the other hand, is collected by merchants who have no knowledge of consumers' income levels, and landlords generally pass the cost of property taxes on to renters in the form of higher rents. As a result, the most significant low-income tax relief at the state level in the past decade has come by means of the income tax.

Third, families trying to work their way out of poverty often face an effective tax on every additional dollar earned in the form of lost benefits such as income support, food stamps, Medicaid, or housing assistance. Income taxes on poor families can exacerbate this problem and send a negative message about the extent to which increased earnings will improve family well-being.

Low-income families are better off if a state has an income tax than if it doesn't, even if their state's income tax needs significant improvement. The reason is that most states' income taxes, even those that tax the poor, are progressive; that is, income tax payments represent a smaller share of income for low-income families than for high-income families. The other primary source of state tax revenue, the sales tax, is regressive, consuming a larger share of the income of low-income families than of high-income families.

States that rely heavily on non-income taxes tend to have higher overall taxes on the poor than do other states. Most of the states without income taxes rely heavily on the sales tax instead, which renders their tax systems very burdensome for low-income families. Similarly, two states with income taxes but no general sales tax — Montana and Oregon — have less regressive tax systems overall than the average state because they do not levy general sales taxes, even though they impose above-average income tax burdens on the poor.

Some states offer other types of low-income tax credits, such as New Mexico's Low-Income Comprehensive Tax Rebate, a refundable tax credit for households with income of $22,000 or less. Finally, a few states have a "no-tax floor," which sets a dollar level below which families owe no tax but does not affect tax liability for families above that level.

Most States Have Made Substantial Progress Since the Early 1990s, but Others Lag Behind

Since the 1990s, many states have reduced or eliminated the incomes taxes on the poor. From 1991 to 2011, the number of states taxing poor, two-parent families of four decreased to 15 from 24.

Over that same span, the average state tax threshold increased from 84 percent of the poverty line to 120 percent of the poverty line. And many of the 15 states that still tax poor families of four have reduced the taxes levied on those families. From 1994 to 2011, the average tax levied by these 15 states fell by 35.4 percent, after adjusting for inflation. Tables 5, 6, and 7 show these changes over time.

- On the other hand, a few states tax the incomes of the poor *more* heavily than in the early 1990s. In **Arizona**, **Mississippi,** and **Ohio,** the income tax threshold for families of four has fallen compared to the poverty line since 1991 (see Table 7). In Mississippi, the threshold has fallen to 85 percent of the poverty line from 114 percent. By contrast, every other state with an income tax has seen its threshold increase as a percent of the poverty line since 1991.

- In five states — **Alabama**, **Georgia, Illinois, Iowa, and Mississippi**— the income tax on families of four with poverty-level incomes has risen since 1994 even faster than inflation (see Table 6). The inflation-adjusted increase was 55 percent in Georgia. In Iowa and Mississippi, such families' tax liability increased from zero to $251 and $103, respectively; Iowa's increase was the largest in dollar terms in any state. With the exception of Illinois, which raised tax rates, the reason for the tax increase is that personal exemptions, credits, or other features designed to protect low-income families from taxation have eroded due to inflation

States' recent fiscal troubles are significantly slowing their progress in reducing the tax liabilities of poor families. In the 2011 tax year, only a few states significantly reduced the tax liabilities of low-income families relative to 2010.

- **Arkansas** effectively created a new tax bracket for heads of households with two or more children. This corrected an error in a previous law that reduced taxes for low income families but left out head of household filers with two or more dependents. The correction increased the state's threshold for one parent families of three above the poverty line.

- **Connecticut** implemented a new EITC, set at 30 percent of the federal credit.

- **Maine** restored its EITC from 4 percent to 5 percent of the federal credit, after it had been cut for tax years 2009 and 2010.

In contrast to those improvements, fiscal problems and competing priorities prompted some states to enact measures that increase income taxes for poor and near-poor families. For example:

- **Michigan** is reducing its EITC to 6 percent of the federal credit (from 20 percent) beginning in the 2012 tax year. This change, if implemented, will reduce Michigan's threshold for two-parent families of four from its current level of 34 percent above the poverty line to slightly below the poverty line, and increase the taxes of two-parent families at the poverty line by $678.

- **New Jersey** reduced its EITC to 20 percent of the federal credit (from 25 percent), beginning in 2010, raising taxes on families of three and four by $252 and $266 respectively.

- **Wisconsin** reduced its EITC from 14 percent of the federal credit to 11 percent for families with two children beginning in 2011. This change drove Wisconsin's threshold for two-parent families of four below 125 percent of the poverty line.

All three of these states not only have faced large budget gaps but also have cut taxes for corporations and/or wealthy individuals even as they are raising taxes on the working poor. Michigan replaced its major business tax with a different type of business tax, giving companies a net tax break worth more than $1 billion in 2012. New Jersey reduced the income tax rate for taxpayers with incomes above $400,000 by allowing a temporary rate increase to expire. Wisconsin enacted $90 million in tax cuts for corporations and high-income households. EITC cuts helped each of those states offset the revenue loss from those tax cuts.

Fiscal problems also prompted **Illinois** to raise its flat income tax rate from three percent to five percent, increasing the tax liabilities of families of three with poverty level incomes by $255 and families of four with poverty level incomes by $322 in 2011. That tax increase, however, will be short-lived, as a scheduled increase in the state EITC that takes effect in 2012 and will be fully phased in by 2013 will almost completely offset the impact of the income tax increase for poor families.

Raising taxes on the working poor not only increases poverty, but also may be more harmful to states' economies than many other budget-balancing measures. This is, in part, because lower-income people spend nearly all of the money they make, mainly on necessities, so for every dollar they lose due to a tax increase, the total amount of spending in the economy drops by around a dollar. High-income people are likely to save a larger part of any extra income they receive, so for every dollar they lose due to a tax increase, total spending drops by less than a dollar, say, 90 cents. Thus, tax increases that mostly affect higher-income families and corporations have less of an impact on overall demand and are preferable for economic and job growth.[5]

Raising taxes on the working poor can also have longer-term consequences. Recent research suggests that poverty can impair children's chances of success later in life, making them less productive contributors to their states' future economies.[6] More specifically:

- A number of studies focused on welfare-to-work and anti-poverty programs have found that additional family income can boost the test scores of children from low-income families.[7]

- A recent study by leading researchers finds a strong relationship between family earnings in early childhood and earnings later in life for children growing up in low-income families. The

[5] This point — made by, among others, Nobel Prize-winner Joseph Stiglitz of Columbia University and Peter Orszag, former director of the Office of Management and Budget — is explained more fully in Nicholas Johnson, "Budget Cuts or Tax Increases at the State Level: Which Is Preferable When the Economy Is Weak?," Center on Budget and Policy Priorities, http://www.cbpp.org/cms/?fa=view&id=1032.

[6] See Arloc Sherman, "Poverty in Early Childhood Has a Long and Harmful Reach," *Off the Charts* blog, March 15, 2011, http://www.offthechartsblog.org/poverty-in-early-childhood-has-long-and-harmful-reach/, and Greg J. Duncan and Katherine Magneson, "The Long Reach of Childhood Poverty," *Pathways Journal,* Stanford University, Winter 2011, pp. 10-21, for an overview of this research.

[7] See Greg J. Duncan, Pamela Morris, and Christopher Rodrigues, "Does Money Really Matter? Estimating Impacts of Family Income on Young Children's Achievement with Data from Random-Assignment Experiments," *Developmental Psychology*, Volume 47, Issue 5, September 2011, pp.1263-1279; Kevin Milligan and Mark Stabile, "Do Child Tax Benefits Affect the Wellbeing of Children? Evidence from Canadian Child Benefit Expansions," National Bureau of Economic Research, December 2008; and Gordon Dahl and Lance Lochner, "The Impact of Family Income on Child Achievement: Evidence from the Earned Income Tax Credit," National Bureau of Economic Research, December 2008.

study finds that, for a child growing up in a family with income below $25,000, a $3,000 annual increase in family income when the child is under 5 years old is associated with a 19 percent increase in adult earnings and 135 additional annual work hours after age 25.[8]

These findings have crucial policy implications. They suggest that policies such as the EITC, which boost the incomes of poor families, can increase their children's chances of success in the classroom and ultimately in the workforce. Conversely, policies *reducing* the incomes of poor families, such as the EITC cuts in Michigan, New Jersey, and Wisconsin, can diminish poor children's prospects for academic and professional success. This suggests that any budgetary savings states achieve from cutting low-income credits carry with them significant economic costs, by making it more difficult to cultivate the highly skilled workforce that states will need to succeed economically.

In addition to slowing economic growth, increasing the taxes of working-poor families also exacerbates rising income inequality. The years between the end of World War II and the 1970s saw widely shared prosperity. But since the 1970s, income growth at the top of the income scale has vastly outpaced income growth in the rest of the population. The result is a concentration of income at the very top not seen since the 1920s.

Those at the bottom of the income scale have been left particularly far behind. Since 1979, the after-tax incomes of those in the bottom fifth of the income distribution have grown 18 percent, and the incomes of those in the middle 60 percent of the income distribution have grown by 38 percent, while the incomes of those in the top one percent of the income distribution have grown by 277 percent after adjusting for inflation.[9] Increasing the taxes of low income working families reduces their already stagnant wages and leaves them with an even smaller slice of the economic pie.

Conclusion

A number of states continue to tax the incomes of poor families — in some cases, very poor families. While states have made significant progress in this area over time, that progress has ground to a halt in the past few years, as fiscal problems constrained states' ability to advance targeted tax reductions. Moreover, some states have raised taxes on the working poor while cutting taxes for corporations and wealthy residents. Instead of undermining efforts to reduce the tax liabilities of poor families, states should preserve the progress they have made and build upon it as their budget outlook improves.

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[8] See Greg J. Duncan, Ariel Kalil, and Kathleen M. Ziol-Guest, "Early-Childhood Poverty and Adult Attainment, Behavior and Health," *Child Development,* January/February 2010, pp. 306-325.

[9] See Chad Stone et. al, "A Guide to Statistics on Income Inequality," Center on Budget and Policy Priorities, March 5, 2012, available at http://www.cbpp.org/files/11-28-11pov.pdf .

Table 1A		
2011 State Income Tax Thresholds, Single-Parent Family of Three		
Rank	**State**	**Threshold**
1	Alabama	$9,800
2	Illinois	$10,000
3	Montana	$10,300
4	Georgia	$12,700
5	Hawaii	$13,800
6	Mississippi	$14,400
7	Missouri	$14,500
8	Ohio	$15,000
9	Louisiana	$16,800
10	Oregon	$17,000
	Poverty Line	***$17,922***
11	West Virginia	$18,500
11	Indiana	$18,500
11	Kentucky	$18,500
11	Arkansas	$18,500
15	Iowa	$18,900
16	North Carolina	$19,100
17	North Dakota	$19,600
17	Colorado	$19,600
19	Idaho	$19,700
20	Utah	$20,000
21	Arizona	$20,100
22	Wisconsin	$22,000
23	Virginia	$23,300
24	Oklahoma	$24,200
25	Maine	$25,000
26	Pennsylvania	$25,500
27	South Carolina	$26,100
28	Massachusetts	$26,300
29	Michigan	$26,400
30	Delaware	$26,800
31	Nebraska	$27,700
32	Kansas	$27,800
33	District of Columbia	$29,800
34	New Jersey	$31,300
35	Maryland	$32,800
36	Rhode Island	$33,000
37	Vermont	$33,600
37	Minnesota	$33,600
39	New Mexico	$34,200
40	New York	$34,900
41	Connecticut	$35,000
42	California	$46,900
Average Threshold 2011		**$23,131**
Amount Above Poverty Line		**$5,209**

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 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

Table 1B		
2011 State Income Tax Thresholds, Two-Parent Family of Four		
Rank	**State**	**Threshold**
1	Montana	$12,500
2	Alabama	$12,600
3	Illinois	$13,100
4	Georgia	$15,900
5	Ohio	$16,600
6	Hawaii	$17,800
7	Missouri	$18,300
8	Iowa	$19,300
9	Mississippi	$19,600
10	Oregon	$20,200
11	Indiana	$20,500
12	Louisiana	$21,300
13	Arkansas	$22,200
14	West Virginia	$22,400
14	Kentucky	$22,400
	Poverty Line	***$23,018***
16	North Carolina	$23,400
17	Arizona	$23,600
18	North Dakota	$26,400
18	Colorado	$26,400
20	Idaho	$26,500
21	Utah	$26,900
22	Wisconsin	$27,500
23	Virginia	$27,700
24	Oklahoma	$28,400
25	Massachusetts	$29,500
26	Maine	$29,700
27	Michigan	$30,800
28	Kansas	$31,200
29	Pennsylvania	$32,000
30	Delaware	$32,100
31	District of Columbia	$32,800
32	South Carolina	$32,900
33	Nebraska	$33,700
34	New Jersey	$35,200
35	Maryland	$37,300
36	Rhode Island	$39,000
37	Minnesota	$39,300
37	Vermont	$39,300
39	New Mexico	$40,000
40	Connecticut	$40,500
41	New York	$40,700
42	California	$49,400
Average Threshold 2011		**$27,545**
Amount Above Poverty Line		**$4,527**

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 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

Table 2A			
2011 State Income Tax at Poverty Line, Single-Parent Family of Three			
Rank	State	Income	Tax
1	Alabama	$17,922	373
2	Illinois	$17,922	354
3	Hawaii	$17,922	258
4	Georgia	$17,922	173
5	Montana	$17,922	162
6	Mississippi	$17,922	106
7	Ohio	$17,922	95
8	Oregon	$17,922	80
9	Missouri	$17,922	77
10	Louisiana	$17,922	50
11	Arkansas	$17,922	0
11	Arizona	$17,922	0
11	California	$17,922	0
11	Colorado	$17,922	0
11	Delaware	$17,922	0
11	Idaho	$17,922	0
11	Kentucky	$17,922	0
11	Maine	$17,922	0
11	North Dakota	$17,922	0
11	Pennsylvania	$17,922	0
11	South Carolina	$17,922	0
11	Utah	$17,922	0
11	Virginia	$17,922	0
11	West Virginia	$17,922	0
25	Indiana	$17,922	(31)
26	North Carolina	$17,922	(81)
27	Iowa	$17,922	(103)
28	Rhode Island	$17,922	(182)
29	Oklahoma	$17,922	(243)
30	Wisconsin	$17,922	(320)
31	Nebraska	$17,922	(485)
32	New Mexico	$17,922	(545)
33	Massachusetts	$17,922	(679)
34	Kansas	$17,922	(718)
35	Michigan	$17,922	(726)
36	New Jersey	$17,922	(970)
37	Maryland	$17,922	(1,013)
38	Minnesota	$17,922	(1,278)
39	Connecticut	$17,922	(1,456)
40	Vermont	$17,922	(1,553)
41	District of Columbia	$17,922	(1,652)
42	New York	$17,922	(1,899)
Source: Center on Budget and Policy Priorities			

Table 2B			
2011 State Income Tax at Poverty Line, Two-Parent Family of Four			
Rank	State	Income	Tax
1	Alabama	$23,018	548
2	Illinois	$23,018	509
3	Hawaii	$23,018	331
4	Oregon	$23,018	274
5	Georgia	$23,018	273
6	Iowa	$23,018	251
7	Montana	$23,018	240
8	Ohio	$23,018	162
9	West Virginia	$23,018	151
10	Missouri	$23,018	120
11	Arkansas	$23,018	112
12	Indiana	$23,018	108
13	Mississippi	$23,018	103
14	Kentucky	$23,018	94
15	Louisiana	$23,018	48
16	Arizona	$23,018	0
16	California	$23,018	0
16	Colorado	$23,018	0
16	Delaware	$23,018	0
16	Idaho	$23,018	0
16	Maine	$23,018	0
16	North Dakota	$23,018	0
16	Pennsylvania	$23,018	0
16	South Carolina	$23,018	0
16	Utah	$23,018	0
16	Virginia	$23,018	0
27	North Carolina	$23,018	(21)
28	Rhode Island	$23,018	(182)
29	Oklahoma	$23,018	(242)
30	Wisconsin	$23,018	(342)
31	Nebraska	$23,018	(485)
31	New Mexico	$23,018	(485)
33	Massachusetts	$23,018	(530)
34	Kansas	$23,018	(592)
35	Michigan	$23,018	(664)
36	New Jersey	$23,018	(717)
37	Maryland	$23,018	(943)
38	District of Columbia	$23,018	(1,400)
39	Connecticut	$23,018	(1,454)
40	Vermont	$23,018	(1,551)
41	Minnesota	$23,018	(1,788)
42	New York	$23,018	(1,873)

Source: Center on Budget and Policy Priorities

Table 3A			
2011 State Income Tax at Minimum Wage, Single-Parent Family of Three			
Rank	**State**	**Income***	**Tax**
1	Illinois**	$17,160	308
2	Alabama	$15,080	228
3	Hawaii	$15,080	101
4	Montana**	$15,288	78
5	Georgia	$15,080	67
6	Oregon**	$17,680	56
7	Ohio**	$15,392	35
8	Mississippi	$15,080	20
9	Missouri	$15,080	10
10	Arkansas**	$18,600	9
11	Arizona**	$15,288	0
11	California**	$16,640	0
11	Colorado**	$15,309	0
11	Delaware	$15,080	0
11	Idaho	$15,080	0
11	Kentucky	$15,080	0
11	Maine**	$15,600	0
11	North Dakota	$15,080	0
11	Pennsylvania	$15,080	0
11	South Carolina	$15,080	0
11	Utah	$15,080	0
11	Virginia	$15,080	0
11	West Virginia	$15,080	0
24	Louisiana	$15,080	(69)
25	Indiana	$15,080	(151)
26	Rhode Island**	$15,392	(192)
27	North Carolina	$15,080	(256)
27	Oklahoma	$15,080	(256)
29	Iowa	$15,080	(358)
30	Wisconsin	$15,080	(505)
31	Nebraska	$15,080	(511)
32	New Mexico**	$15,600	(581)
33	Massachusetts**	$16,640	(767)
34	Kansas	$15,080	(865)
35	Michigan**	$15,392	(888)
36	New Jersey	$15,080	(1,022)
37	Maryland	$15,080	(1,209)
38	Minnesota	$15,080	(1,278)
39	Connecticut**	$17,160	(1,503)
40	Vermont**	$16,952	(1,617)
41	District of Columbia**	$17,160	(1,745)
42	New York	$15,080	(2,029)

*Income reflects full-time, year-round minimum wage earnings for one worker (52 weeks, 40 hours/week).

**These states had a minimum wage higher than the federal minimum wage in all of part of 2011.
Source: Center on Budget and Policy Priorities

Table 3B			
2011 State Income Tax at Minimum Wage, Two-Parent Family of Four			
Rank	State	Income*	Tax
1	Illinois**	$17,160	202
2	Alabama	$15,080	82
3	Montana**	$15,288	31
4	Arizona**	$15,288	0
4	Arkansas	$15,080	0
4	California**	$16,640	0
4	Colorado**	$15,309	0
4	Delaware	$15,080	0
4	Idaho	$15,080	0
4	Kentucky	$15,080	0
4	Maine**	$15,600	0
4	Mississippi	$15,080	0
4	Missouri	$15,080	0
4	North Dakota	$15,080	0
4	Ohio**	$15,392	0
4	Pennsylvania	$15,080	0
4	South Carolina	$15,080	0
4	Utah	$15,080	0
4	Virginia	$15,080	0
4	West Virginia	$15,080	0
4	Georgia	$15,080	0
22	Hawaii	$15,080	(85)
23	Louisiana	$15,080	(179)
24	Oregon**	$17,680	(184)
25	Indiana	$15,080	(185)
26	Rhode Island**	$15,392	(192)
27	North Carolina	$15,080	(256)
27	Oklahoma	$15,080	(256)
29	Iowa	$15,080	(358)
30	Nebraska	$15,080	(511)
31	Wisconsin	$15,080	(562)
32	New Mexico**	$15,600	(596)
33	Massachusetts**	$16,640	(767)
34	Kansas	$15,080	(917)
35	Michigan**	$15,392	(1,022)
35	New Jersey	$15,080	(1,022)
37	Maryland	$15,080	(1,278)
37	Minnesota	$15,080	(1,278)
39	Connecticut**	$17,160	(1,534)
40	Vermont**	$16,952	(1,636)
41	District of Columbia**	$17,160	(1,786)
42	New York	$15,080	(2,132)

*Income reflects full-time, year-round minimum wage earnings for one worker (52 weeks, 40 hours/week).

**These states had a minimum wage higher than the federal minimum wage in all of part of 2011.

Source: Center on Budget and Policy Priorities

Table 4A			
2011 State Income Tax at 125% of Poverty Line, Single-Parent Family of Three			
Rank	**State**	**Income**	**Tax**
1	Alabama	$22,403	673
2	Illinois	$22,403	625
3	West Virginia	$22,403	558
4	Kentucky	$22,403	555
5	Hawaii	$22,403	553
6	Arkansas	$22,403	540
7	Oregon	$22,403	527
8	Georgia	$22,403	427
9	Montana	$22,403	325
10	Iowa	$22,403	280
11	Mississippi	$22,403	270
12	Louisiana	$22,403	263
12	Missouri	$22,403	263
14	North Carolina	$22,403	236
15	Ohio	$22,403	213
16	Indiana	$22,403	206
17	Utah	$22,403	154
18	Colorado	$22,403	132
19	Arizona	$22,403	108
20	Idaho	$22,403	48
21	North Dakota	$22,403	42
22	Wisconsin	$22,403	37
23	California	$22,403	0
23	Delaware	$22,403	0
23	Maine	$22,403	0
23	Pennsylvania	$22,403	0
23	South Carolina	$22,403	0
23	Virginia	$22,403	0
29	Oklahoma	$22,403	(91)
30	Rhode Island	$22,403	(143)
31	Nebraska	$22,403	(300)
32	Massachusetts	$22,403	(314)
33	Michigan	$22,403	(341)
34	New Mexico	$22,403	(390)
35	Kansas	$22,403	(391)
36	New Jersey	$22,403	(523)
37	Maryland	$22,403	(581)
38	District of Columbia	$22,403	(1,059)
39	Connecticut	$22,403	(1,145)
40	Vermont	$22,403	(1,148)
41	New York	$22,403	(1,434)
42	Minnesota	$22,403	(1,636)

Source: Center on Budget and Policy Priorities

Table 4B			
2011 State Income Tax at 125% of Poverty Line, Two-Parent Family of Four			
Rank	State	Income	Tax
1	Kentucky	$28,773	1021
2	Alabama	$28,773	933
3	Oregon	$28,773	869
4	Illinois	$28,773	857
5	Arkansas	$28,773	834
6	West Virginia	$28,773	730
7	Iowa	$28,773	697
8	Hawaii	$28,773	660
9	Georgia	$28,773	601
10	Montana	$28,773	488
11	Indiana	$28,773	413
12	Missouri	$28,773	409
13	North Carolina	$28,773	385
14	Ohio	$28,773	341
15	Mississippi	$28,773	317
16	Louisiana	$28,773	283
17	Arizona	$28,773	220
18	Utah	$28,773	120
19	Virginia	$28,773	110
20	Colorado	$28,773	109
21	Wisconsin	$28,773	104
22	Idaho	$28,773	38
23	North Dakota	$28,773	36
24	Oklahoma	$28,773	22
25	Maine	$28,773	0
25	California	$28,773	0
25	Delaware	$28,773	0
25	Pennsylvania	$28,773	0
25	South Carolina	$28,773	0
30	Massachusetts	$28,773	(62)
31	Rhode Island	$28,773	(136)
32	Michigan	$28,773	(172)
33	Kansas	$28,773	(173)
34	Nebraska	$28,773	(279)
35	New Mexico	$28,773	(364)
36	New Jersey	$28,773	(381)
37	Maryland	$28,773	(393)
38	District of Columbia	$28,773	(571)
39	Connecticut	$28,773	(1,055)
40	Vermont	$28,773	(1,080)
41	New York	$28,773	(1,280)
42	Minnesota	$28,773	(1,648)

Source: Center on Budget and Policy Priorities

Table 5						
Tax Threshold for a Family of Four, 1991-2011						
State	1991	2000	2010	2011	Change 1991-2011	Change 2010-2011
Alabama	$4,600	$4,600	$12,600	$12,600	$8,000	$0
Arizona	15,000	23,600	$23,600	$23,600	$8,600	$0
Arkansas	10,700	15,600	$21,700	$22,200	$11,500	$500
California	20,900	36,800	$31,000	$49,400	$28,500	$18,400
Colorado	14,300	27,900	$26,100	$26,400	$12,100	$300
Connecticut	24,100	24,100	$24,100	$40,500	$16,400	$16,400
Delaware	8,600	20,300	$31,800	$32,100	$23,500	$300
District of Columbia	14,300	18,600	$32,400	$32,800	$18,500	$400
Georgia	9,000	15,300	$15,900	$15,900	$6,900	$0
Hawaii	6,300	11,000	$17,800	$17,800	$11,500	$0
Idaho	14,300	20,100	$26,100	$26,500	$12,200	$400
Illinois	4,000	14,000	$16,400	$13,100	$9,100	-$3,300
Indiana	4,000	9,500	$20,300	$20,500	$16,500	$200
Iowa	9,000	17,400	$19,300	$19,300	$10,300	$0
Kansas	13,000	21,100	$30,800	$31,200	$18,200	$400
Kentucky	5,000	5,400	$22,100	$22,400	$17,400	$300
Louisiana	11,000	13,000	$21,000	$21,300	$10,300	$300
Maine	14,100	23,100	$28,200	$29,700	$15,600	$1,500
Maryland	15,800	25,200	$36,800	$37,300	$21,500	$500
Massachusetts	12,000	20,600	$29,500	$29,500	$17,500	$0
Michigan	8,400	12,800	$30,300	$30,800	$22,400	$500
Minnesota	15,500	26,800	$37,500	$39,300	$23,800	$1,800
Mississippi	15,900	19,600	$19,600	$19,600	$3,700	$0
Missouri	8,900	14,100	$18,100	$18,300	$9,400	$200
Montana	6,600	9,500	$12,200	$12,500	$5,900	$300
Nebraska	14,300	18,900	$33,200	$33,700	$19,400	$500
New Jersey	5,000	20,000	$34,700	$35,200	$30,200	$500
New Mexico	14,300	21,000	$39,500	$40,000	$25,700	$500
New York	14,000	23,800	$40,300	$40,700	$26,700	$400
North Carolina	13,000	17,000	$23,200	$23,400	$10,400	$200
North Dakota	14,700	19,000	$26,000	$26,400	$11,700	$400
Ohio	10,500	12,700	$16,200	$16,600	$6,100	$400
Oklahoma	10,000	13,000	$28,200	$28,400	$18,400	$200
Oregon	10,100	14,800	$19,900	$20,200	$10,100	$300
Pennsylvania	9,800	28,000	$32,000	$32,000	$22,200	$0
Rhode Island	17,400	25,900	$36,500	$39,000	$21,600	$2,500
South Carolina	14,300	21,400	$32,400	$32,900	$18,600	$500
Utah	12,200	15,800	$26,500	$26,900	$14,700	$400
Vermont	17,400	26,800	$38,700	$39,300	$21,900	$600
Virginia	8,200	17,100	$27,400	$27,700	$19,500	$300
West Virginia	8,000	10,000	$22,100	$22,400	$14,400	$300
Wisconsin	14,400	20,700	$28,500	$27,500	$13,100	-$1,000
Average	$11,736	$18,474	$26,440	$27,545	$15,810	$1,105
Federal Poverty Line	$13,924	$17,603	$22,314	$23,018	$9,094	$704
Average as % Poverty Line	84%	105%	118%	120%	35%	1.2%
Number Above Poverty Line	18	23	27	27	9	0
Number Below Poverty Line	24	19	15	15	-9	0

					Change	Percent Change After Inflation	Change	Percent Change After Inflation
State	**1994**	**2000**	**2010**	**2011**	**2010-2011**	**2010-2011***	**1994-2011**	**1994-2011***
Alabama	348	443	498	548	50	7%	200	3.7%
Arkansas	214	311	96	112	16	13%	(102)	-65.5%
Georgia	116	55	238	273	35	11%	157	55.1%
Hawaii	406	420	292	331	39	10%	(75)	-46.3%
Illinois	334	145	187	509	322	164%	175	0.4%
Indiana	379	360	84	108	24	25%	(271)	-81.2%
Iowa	0	23	214	251	37	14%	251	N/A
Kentucky	499	575	90	94	4	1%	(405)	-87.6%
Louisiana	83	133	33	48	15	41%	(35)	-61.9%
Mississippi	0	0	81	103	22	23%	103	N/A
Missouri	147	80	102	120	18	14%	(27)	-46.2%
Montana	211	233	232	240	8	0%	29	-25.1%
Ohio	107	113	171	162	(9)	-8%	55	-0.2%
Oregon	331	278	234	274	40	14%	(57)	-45.5%
West Virginia	215	290	47	151	104	211%	(64)	-53.7%
AVERAGE	226	231	173	222	48	24%	(4)	-35.4%

Table 6

State Income Tax at the Poverty Line for Family of Four, 1994-2011 In States With Below Poverty Thresholds in 2011

Note: Dollar amounts shown are nominal amounts

*"Percent change after inflation" shows the percentage change adjusted for the 3.2% increase in the cost of living from 2010 to 2011 and the 51.8% increase in the cost of living from 1994 to 2011.

Source: Center on Budget and Policy Priorities

Table 7						
State Income Tax as a Percent of the Federal Poverty Line for a Family of Four, 1991-2011						
State	**1991**	**2001**	**2010**	**2011**	**% Point Change 1991-2011**	**% Point Change 2010-2011**
Alabama	33%	25%	56%	55%	22%	-2%
Arizona	108%	130%	106%	103%	-5%	-3%
Arkansas	77%	86%	97%	96%	20%	-1%
California	150%	214%	139%	215%	65%	76%
Colorado	103%	159%	117%	115%	12%	-2%
Connecticut	173%	133%	108%	176%	3%	68%
Delaware	62%	112%	143%	139%	78%	-3%
District of Columbia	103%	108%	145%	142%	40%	-3%
Georgia	65%	85%	71%	69%	4%	-2%
Hawaii	45%	62%	80%	77%	32%	-2%
Idaho	103%	115%	117%	115%	12%	-2%
Illinois	29%	79%	73%	57%	28%	-17%
Indiana	29%	52%	91%	89%	60%	-2%
Iowa	65%	97%	86%	84%	19%	-3%
Kansas	93%	119%	138%	136%	42%	-2%
Kentucky	36%	30%	99%	97%	61%	-2%
Louisiana	79%	74%	94%	93%	14%	-2%
Maine	101%	130%	126%	129%	28%	3%
Maryland	113%	145%	165%	162%	49%	-3%
Massachusetts	86%	125%	132%	128%	42%	-4%
Michigan	60%	71%	136%	134%	73%	-2%
Minnesota	111%	153%	168%	171%	59%	3%
Mississippi	114%	108%	88%	85%	-29%	-3%
Missouri	64%	79%	81%	80%	16%	-2%
Montana	47%	54%	55%	54%	7%	0%
Nebraska	103%	108%	149%	146%	44%	-2%
New Jersey	36%	110%	156%	153%	117%	-3%
New Mexico	103%	118%	177%	174%	71%	-3%
New York	101%	138%	181%	177%	76%	-4%
North Carolina	93%	94%	104%	102%	8%	-2%
North Dakota	106%	109%	117%	115%	9%	-2%
Ohio	75.4%	69%	73%	72%	-3%	0%
Oklahoma	72%	74%	126%	123%	52%	-3%
Oregon	73%	83%	89%	88%	15%	-1%
Pennsylvania	70%	166%	143%	139%	69%	-4%
Rhode Island	125%	148%	164%	169%	44%	6%
South Carolina	103%	122%	145%	143%	40%	-2%
Utah	88%	90%	119%	117%	29%	-2%
Vermont	125%	152%	173%	171%	46%	-3%
Virginia	59%	98%	123%	120%	61%	-2%
West Virginia	57%	55%	99%	97%	40%	-2%
Wisconsin	103%	119%	128%	119%	16%	-8%
Average	**84%**	**105%**	**118%**	**120%**	**35%**	**1%**
Source: Center on Budget and Policy Priorities						