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More Working Poor Families Paying State Income Tax

Group calls for increase in "tax threshold" and a new state earned income tax credit

The number of low-income Connecticut families required to pay state income taxes will continue to grow each year, unless the state increases the "tax threshold," the income level at which families begin paying taxes taking into account all universally-available exemptions and credits. Of the 42 states, including the District of Columbia, that levy a state income tax, Connecticut is one of just two states that has not adjusted its tax threshold upward since 1991, according to a new report released by the Center on Budget and Policy Priorities and Connecticut Voices for Children. As a result, more low-income families have been paying the tax, and without legislative action, Connecticut will be taxing families at the poverty level within a few years.

When Connecticut first instituted its income tax in 1991, the state was a national leader in its support of low-wage families by not requiring many to pay the tax. In 1991, the tax threshold for a family of four was 73% above the federal poverty level. However, today, the threshold is just 17% over the poverty line, an overall drop of 56 percentage points and the largest decline in the nation. A family of four earning just \$24,100 owed the state income tax in 2006 (if ineligible for the property tax credit against the income tax because they owned neither a car nor home). If the tax threshold had remained at the same level above the federal poverty line, today it would be \$35,664.

Connecticut's trend is the opposite of most states. On average, states have *increased* their tax thresholds by 25% relative to the poverty level. Only Connecticut and Alabama have not adjusted their thresholds upward, and Alabama has passed legislation that will begin to raise *its* threshold in 2007.

This trend exacerbates the problem of Connecticut's regressive state and local tax system, in which our wealthiest residents pay a far smaller share of their income in state and local taxes (4.4%) than do lower-income residents (10%) and middle-income residents (9.5%).

To correct these problems, Connecticut Voices for Children recommends:

- Increasing the tax threshold each year by indexing our income tax exemptions to increases in inflation;

- Creating a state earned income tax credit (EITC), and
- Increasing the overall progressivity of the income tax so that taxes are distributed more fairly.

The EITC is a tax credit targeted to low-income working families. Currently 21 states, including all of Connecticut's neighboring states and the District of Columbia, have state EITCs, but Connecticut has not adopted one.

Inflationary erosion of Connecticut's tax threshold as compared to other states grows more pronounced each year. In 1997, only two states had a higher threshold. However, by 2006, 16 states and the District of Columbia had a higher threshold for tax liability. Connecticut's high cost of living and stagnant tax threshold are creating a financial crunch for low-income families, according to Connecticut Voices for Children.

"The erosion of Connecticut's tax threshold by inflation makes Connecticut a harder place for working parents to make ends meet and raise their children," said Doug Hall, Policy Fellow at Connecticut Voices for Children. "Many other states have moved ahead of us in helping working families provide for their children."

"The federal earned income tax credit has enjoyed broad bipartisan support for decades," said Shelley Geballe, President of Connecticut Voices. "Connecticut should join its neighboring states and build on the success of the federal model with a state earned income tax credit that rewards work and helps to alleviate the unfairness of Connecticut's tax code."

Connecticut Voices for Children is a statewide, research-based policy and advocacy organization for children and families (www.ctkidslink.org). The Center on Budget and Policy Priorities is a nonprofit, nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs. The report, "The Impact of State Income Taxes on Low-Income Families in 2006," is available at on the Center's Web site at www.cbpp.org.

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Stagnant Tax Threshold Hurts Connecticut Families

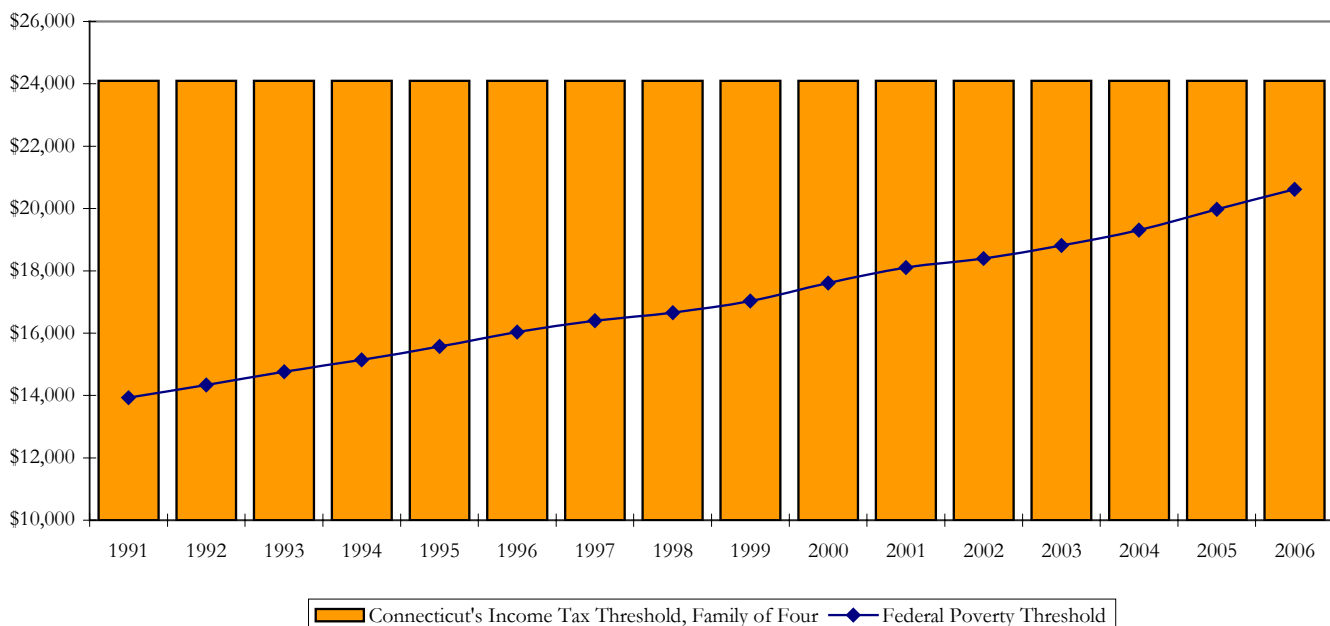
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Connecticut's tax threshold has been frozen for over 15 years.¹ The "tax threshold" is defined as the income level at which a taxpayer first owes income tax, taking into account exemptions, credits and deductions that are *universally* available. Connecticut's tax threshold for families has not been increased since the enactment of the personal income tax in 1991. This means that each year, an increasing number of low-wage families are becoming subject to the state's income tax. A family of four earning just \$24,100 can owe the state some income tax.² Connecticut is only one of two states with an income tax that has not adjusted its tax threshold upward since 1991.

Compared to the federal poverty level, Connecticut's tax threshold has plunged in the past 16 years. In 1991, Connecticut's tax threshold

was 73% over the federal poverty line. Since the state has not moved its threshold and the federal poverty line increases annually with inflation, our threshold today is just 17% over the federal poverty line. Without legislative action, Connecticut will soon be taxing families with poverty-level incomes. This 56 percentage point drop is by far the largest in the nation. It stands in stark contrast to national averages, where the tax threshold has increased by 25% relative to the federal poverty line. The federal poverty line has increased by 48% since 1991. If Connecticut's threshold were the same amount above the federal poverty line as in 1991, the tax threshold today would be \$35,664. Our income tax threshold has fallen well below where it was originally placed 16 years ago.

Erosion of Connecticut's Income Tax Threshold for a Family of Four Compared to the Federal Poverty Threshold, 1991-2006



Connecticut, once a leader in appropriately targeting the income tax, now watches as other states create more supportive conditions for low-wage working families. When Connecticut's income tax was enacted, the state provided the highest threshold in the nation. That is no longer the case. In 1997, two states had a higher threshold. In 2000, seven states had passed Connecticut. By 2006, 16 states and Washington DC had higher thresholds.

The overall regressivity of Connecticut's tax system could be reduced with a higher tax threshold. Poorer families spend a higher percentage of their incomes on state and local taxes than do high income earners. The Connecticut General Assembly's Program Review and Investigations Committee noted that Connecticut's personal income tax "does not offset the regressivity of the state's

sales, excise and property taxes." Increasing the tax threshold would make our tax system fairer.

Other changes to the income tax could make it more equitable. A refundable state Earned Income Tax Credit (EITC) would benefit our low-wage families; Connecticut is the only New England state with an income tax that does not also have a state EITC. Increasing income tax rates for higher income earners would also make the system fairer. Our wealthiest 1% of taxpayers (with average income of \$2.4 million) in 2002 paid just 4.4% of their income in state and local taxes (taking into account federal income tax deductions), compared to the 9.5% of the income of taxpayers in our middle quintile (average income of \$47,800) and the 10.2% of the income of our poorest quintile families (average income \$13,800).³

¹ This brief relies on a recent analysis by the Center on Budget and Policy Priorities. (J. Levitis, "The Impact of State Income Taxes on Low-Income Families in 2006.")

² For example, since some, but not all, families are eligible for the property tax credit against the income tax, this credit is not included when calculating the tax threshold. For families who are able to claim the credit, the point at which they are liable for income taxes is obviously higher.

³ Institute on Taxation and Economic Policy, *Who Pays?* (January 2003), available at: www.itepnet.org/whopays.htm. Note, this report relies on data that pre-dates various tax changes enacted beginning in FY 02 to address our deficit. ITEP expects to release updated numbers in the near future.

March 27, 2007

THE IMPACT OF STATE INCOME TAXES ON LOW-INCOME FAMILIES IN 2006

By Jason A. Levitis¹

Summary

Poor families in many states face substantial state income tax liability for the 2006 tax year. In 19 of the 42 states that levy income taxes, two-parent families of four with incomes below the federal poverty line are liable for income tax. In 15 of the 42 states, poor single-parent families of three pay income tax. And 29 of these states collect taxes from families of four with incomes just above the poverty line.

Some states levy income tax on working families in severe poverty. Six states — **Alabama, Hawaii, Indiana, Michigan, Montana, and West Virginia** — tax the income of two-parent families of four earning less than three-quarters of the poverty line such families. All of these states except **Indiana** also tax the income of one-parent families of three earning less than three-quarters of the poverty line.

In some states, families living in poverty face income tax bills of several hundred dollars. A two-parent family of four in **Alabama** with income at the poverty line owes \$573 in income tax, while such a family in **Hawaii** owes \$546, in **Arkansas** \$427, and in **West Virginia** \$406. Such amounts can make a big difference to a family struggling to escape poverty. Other states levying tax of more than \$200 on families with poverty-level incomes include **Indiana, Iowa, Michigan, Montana, New Jersey, and Oregon**. In 2006, the federal poverty line for a family of four was \$20,615, and the line for a family of three was \$16,079.

States' tax treatment of low-income families for 2006 has improved in some states since 2005 but gotten worse in others. Between 2005 and 2006, **Oklahoma and Oregon** reduced the income tax liability of poor families, **Delaware** entirely stopped taxing the incomes of poor families of three, and **Virginia** entirely stopped taxing the income of poor families of four. But four other states increased their taxes on poor families by 25 percent or more, and **New Jersey** began taxing poor families of four for the first time since 1998. The reason for these tax increases is that provisions designed to protect low-income families from taxation — including standard deductions, personal exemptions and low-income credits — were not increased to keep up with inflation. Overall, there

¹ Additional data analysis for this report was provided by Sarah Farkas, Brian Filipowich, Nicholas Johnson, Sloane Kuney, Karen Lyons, Michael Mazerov, Elizabeth C. McNichol, and Ifie Okwuje.

Methodology

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 “circuitbreakers,” and similar provisions, because this analysis does not attempt to gauge the impact of those taxes — only of income taxes.

was virtually no change this year in the number of states levying income taxes on families with incomes below the poverty line.

The outlook for the future is somewhat better. A number of states have recently enacted significant reforms that will reduce taxes on low-income families. Between 2007 and 2010, **Alabama, Arkansas, Hawaii, Michigan, Oklahoma, Oregon,** and **West Virginia** each will improve their income tax treatment of the poor. In **Arkansas, Michigan, Oklahoma,** and **West Virginia**, the changes will wipe out or dramatically reduce tax liability that now costs poor families hundreds of dollars. Overall, the number of states taxing poor families of four could decline from 19 to 16. And quite a few other states are currently considering similar measures.

Taxing the incomes of working-poor families runs counter to the efforts of 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.

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. In other words, relieving state income taxes on poor families can make a meaningful contribution toward “making work pay.”

States seeking to reduce or eliminate income taxes on low-income families can choose from an array of mechanisms to do so. These mechanisms include state Earned Income Tax Credits (EITCs) and other low-income tax credits, no-tax floors, and personal exemptions and standard deductions that are adequate to shield poverty-level income from taxation. Some states go beyond exempting poor families from income tax by making their EITCs or other low-income credits refundable. These policies provide a substantial income supplement to families struggling to escape poverty, but they are relatively inexpensive to states, since these families have little income to tax.

Despite some progress, there remains much to do before state income taxes adequately protect and assist families working to escape poverty.

State Income Taxation of the Poor in 2006

This analysis assesses the impact of each state's income tax in 2006 on poor and near-poor families with children. Forty-two states, counting the District of Columbia as a state, levy broad-based income taxes. Two family types are used as models for assessing taxes' impact: a married couple with two dependent children, and a single parent with two dependent children.² The analysis focuses on two measures: the lowest income level at which state residents are required to pay income tax, and the tax due at various poverty and near-poverty income levels.

A benchmark used throughout this analysis is the federal poverty line — an estimate prepared by the federal government of the minimum financial resources an American family needs. The Census Bureau's preliminary estimates of the poverty line for 2006 are \$16,079 for a family of three and \$20,615 for a family of four.³

Many States Continue to Levy Substantial Income Taxes on Poor Families in 2006

The Tax Threshold

One important measure of the impact of taxes on poor families is the income tax threshold — the point at which, as a family's income rises, it first begins to owe income tax. Tables 1A and 1B show the thresholds for a single parent with two children and for a married couple with two children, respectively.

- In 15 states, the income tax threshold for a single-parent family of three is less than the \$16,079 poverty line, meaning that families living in poverty must pay state income tax. In the remaining 27 states with income taxes, the threshold is above the poverty line; in those states, poor families pay no income tax or receive a refund.
- In 19 states, the threshold for a two-parent family of four is below the \$20,615 poverty line for such a family. In the remaining 23 states with income taxes, the threshold is above the poverty line.
- Six states— **Alabama, Hawaii, Indiana, Michigan, Montana, and West Virginia** — tax families of three or four earning less than three-quarters of the federal poverty line; three-quarters of the 2006 poverty line equals \$12,059 for a family of three and \$15,461 for a family of four.⁴

² The married couple is assumed to take filing status Married Filing Jointly on its federal and state tax forms, while the single parent is assumed to file as a Head of Household. Each family is assumed to include one worker. In each family, the children are taken to be ages four and eleven.

³ Specifically, this report uses the Census Bureau's preliminary estimates of the weighted poverty thresholds, available at www.census.gov/hhes/www/poverty/threshld/06prelim.html.

⁴ A number of these states have enacted but not yet implemented income tax changes that will significantly increase their thresholds in coming years. See *Emerging Trends in State Income Taxation of the Poor*, at pg. 8 below.

- Six states — **Alabama, Hawaii, Michigan, Montana, Oregon,** and **West Virginia** — tax families of three with full-time minimum wage earnings.⁵
- The state with the highest threshold is **California**, where the threshold is \$42,400 for a family of three and \$44,700 for a family of four — more than twice the poverty lines for families of those sizes.

Taxes on Poor Families

Several states charge families living in poverty several hundred dollars in income taxes — a substantial amount for a struggling family. Tables 2A, 2B, 3A, and 3B show these amounts.

- The tax bill for a poverty-line family of four exceeds \$200 in ten states: **Alabama, Arkansas, Hawaii, Indiana, Iowa, Michigan, Montana, New Jersey, Oregon,** and **West Virginia.**
- As noted above, a majority of states do not tax families with poverty-level income.
- Thirteen states not only avoid taxing poor families but also offer tax credits that provide refunds to families with income at the poverty line. These credits act as a wage supplement and income support, helping to support families' work efforts and reduce poverty. The amount of refund for families with income at the poverty line is as high as \$1,375 for a family of three in **New York** and \$1,587 for a family of four in **Minnesota.**

Taxes on Near-Poor Families

Many families with earnings above the official federal poverty line have difficulty making ends meet. Studies have consistently found that the basic costs of living — food, clothing, housing, transportation, and health care — in most parts of the country exceed the federal poverty line, sometimes substantially.⁶

Federal and state governments recognize the challenges faced by families with incomes slightly above the poverty line and have set eligibility ceilings for some assistance programs, such as energy assistance, school lunch subsidies, and in many states health care subsidies, at 125 percent of the poverty line (\$20,099 for a family of three, \$25,769 for a family of four) or above.

A majority of states, however, continue to levy income tax on families with incomes at 125 percent of the poverty line. Tables 4A and 4B show these amounts.

⁵ Calculations are based on the minimum wage in effect in each state in 2006, which in eighteen states exceeded the federal minimum wage of \$10,712 per year for a full-time worker. Among the six states listed here, **Hawaii, Michigan,** and **Oregon** had minimum wages above the federal level in 2006. In **Michigan** and **Oregon**, a single-parent family of three earning \$10,712 would not pay income tax. "Full-time" is assumed to be 40 hours per week, 52 weeks per year.

⁶ See, for example, Sylvia A. Allegretto, *Basic family budgets: Working families' incomes often fail to meet living expenses around the U.S.*, Economic Policy Institute, September 2005.

Why Does This Report Focus on the Income Tax — A Tax That Is Arguably the Fairest State Tax?

In most states, poor families pay more in consumption taxes, such as sales and gasoline taxes, than they do in 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 on poor families?

First, the income tax is a major component of state tax systems, making up 33 percent of total state tax revenue nationally. Thus, the design of a state's income tax has a major effect on the overall fairness of the state's tax system.

Second, because information on the taxpayer's income is available at the time the income tax is levied, it is administratively easier for states to target income tax cuts to poor families than it is to cut sales or property taxes on those families. For example, sales tax is generally collected by merchants from consumers without regard to their income level, and property taxes are passed through from property owners to renters as part of a rent payment. As a result, the great majority of the low-income tax relief enacted at the state level in the last decade has been administered through 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 can improve family well-being.

This report emphasizes that many states' income taxes leave considerable room for improvement. But it is important to recognize that a state tax system that includes an income tax — even one with a relatively low income threshold — typically serves low-income families better than a state tax system that does not include an income tax at all. 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. By contrast, the other primary source of tax revenue for states, the sales tax, is regressive, consuming a larger share of the income of low-income families than of high-income families.

Thus, states that rely heavily on non-income taxes tend to have higher overall taxes on the poor than do other states. Seven states with sales taxes — Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming — do not appear in this report because they do not levy income taxes. Their heavy reliance on the sales tax renders their tax systems very burdensome for low-income families. Conversely, two states with income taxes but no general sales tax — Montana and Oregon — are shown in this report to impose above-average income tax burdens on the poor, despite some recent improvement. While there is room for further improvement in this aspect of their income taxes, these two states still have less regressive tax systems overall than the average state because they do not levy general sales taxes.

- Twenty-nine states tax two-parent families of four earning 125 percent of the poverty level, with the tax bill exceeding \$500 in seven states — **Alabama, Arkansas, Hawaii, Iowa, Kentucky, Oklahoma, and West Virginia.**
- Twenty-four states tax families of three with income at 125 percent of the poverty line.

Can States Afford to Exempt Poor Residents from the Income Tax?

Reducing or eliminating income taxes for low-income families carries with it a “cost” to the state budget, in the form of lost revenue. This cost must be weighed against other demands on a state’s budget and in some years may be deemed unaffordable. But even states that have a large number of poor families, and even states that rely heavily on the income tax for revenue, have found that they can reduce or eliminate such taxes at a reasonable cost to the state treasury.

- *Income Tax Thresholds in Poor States.* Reducing income taxes on poor families can be a greater challenge for states with low median incomes and higher poverty rates than it is for wealthier states, because poorer states generally have more low-income taxpayers and a smaller overall tax base to absorb the loss of revenue. Yet both high-income states and low-income states have been able to exempt poor families from the income tax. Of the 27 states that exempt poor single-parent families of three from income taxation, 13 have median household incomes below the U.S. median according to the U.S. Census Bureau. They include three of the nation’s 10 poorest states, **Kentucky, New Mexico, and Oklahoma.**
- *Income Tax Thresholds in States that Rely Heavily on the Income Tax.* States that rely heavily on income taxes for revenue still can exempt poor families from taxation. Of the 10 states that Census Bureau figures indicate receive their largest share of state and local tax revenue from personal income taxes, seven — **Delaware, Kentucky, Maryland, Massachusetts, Minnesota, New York, and Virginia** — exempt poor families of three from the income tax.

How Can States Reduce Income Taxes on Poor Families?

States have used 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 number of 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. By early 2007, 21 states had enacted Earned Income Tax Credits based on the federal EITC, which is a tax credit for working-poor families, mostly those with children.⁷ Other states offer other types of low-income tax credits, such as **New Mexico’s** Low-Income Comprehensive Tax Rebate. Finally, a few states have “no-tax floors,” which set a dollar level below which families owe no tax but do not affect tax liability for families above that level.

⁷ The 21 states are the **District of Columbia, Delaware, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, and Wisconsin.** A 22nd state, **Colorado,** has an EITC that is available only in years when certain budgetary conditions are met. The **Colorado** EITC has been suspended since 2002 and, as a result of a ballot measure passed in 2005, will likely continue to be suspended through 2011. A full description of policy issues relating to state EITCs may be found in Ami Nagle and Nick Johnson, *A Hand Up: How State Earned Income Tax Credits Help Working Families Escape Poverty*, Center on Budget and Policy Priorities, 2006.

Some States Made Significant Improvements for 2006, but Overall There Was Little Change from the Previous Year

Between 2005 and 2006, a few states made significant improvements in their income-tax treatment of the poor, but on balance across states there was little progress. See Tables 5, 6, and 7.

Selected States Improved Between 2005 and 2006

A number of states implemented policy changes in 2006 to reduce income taxes on poor families or to increase poor families' tax refunds.

- **Delaware**, which in 2005 taxed families of three in poverty and families of four earning 125 percent of the poverty line, in 2006 implemented a non-refundable Earned Income Tax Credit set at 20 percent of the federal EITC. As a result, the income tax threshold for families of four in **Delaware** increased from \$20,300 to \$28,600. Both poor and near-poor families of three and four are now exempt from **Delaware's** income tax, though they are not eligible for a refund.
- **Virginia** also implemented a 20 percent nonrefundable EITC in 2006. As a result, the tax threshold for families of four in **Virginia** increased from \$19,400 to \$24,200. Poor families of three and four are now exempt from the state income tax, as are near-poor families of three.
- **Oklahoma** increased its standard deduction, which previously was capped at \$2,000 for families headed by married couples and single parents, to \$3,000 for these families in 2006. As a result, **Oklahoma's** income tax thresholds each increased by \$1,000, and the tax it levies on poor families declined significantly.
- **Oregon's** Earned Income Tax Credit — equal to 5 percent of the federal EITC — is refundable for the first time in 2006. This means, for example, that two-parent families of four with a full-time worker earning **Oregon's** minimum-wage — the equivalent of \$15,599 per year — receive a refund worth \$136 instead of having simply owing no income tax.
- Several states that already were among the better ones in their income-tax treatment of the poor made further improvements. These include the **District of Columbia** (which increased its standard deduction and personal exemption), **Nebraska** (which implemented a refundable EITC), **New Mexico** (which implemented a new income exemption for low-to-moderate-income families), and **New York** (which enacted a new refundable child credit for children over age 3).

Overall, There Was Little Change Compared to 2005

While a few states improved their income-tax treatment of the poor in 2005, others showed no improvement or even increased their taxation of the poor.

The Number of States That Tax Poor Families Changed Very Little Between 2005 and 2006

- Nineteen states tax poor two-parent families of four in 2006, the same number that did so in

2005. The list of states changed slightly. **Virginia** moved off the list with its implementation of a 20 percent nonrefundable EITC. But **New Jersey**'s \$20,000 threshold fell below the poverty line for families of four for the first time since 1998.

- Fifteen states tax poor single-parent families of three in 2006, one fewer than the sixteen that did so in 2005. The difference is **Delaware**, which implemented a 20 percent nonrefundable EITC.
- Twenty-one states — half of those with income taxes — reduced their tax thresholds as a percent of the poverty line for two-parent families of four. Only 10 states increased their thresholds relative to the poverty line. (The remaining 11 held their thresholds about constant compared to the poverty line.)

Several States Increased the Tax Levied on Poor Families

The amount of tax levied on families with income at the poverty line, as shown in Table 6, rose in a number of states between 2005 and 2006.

- Of the 19 states that tax poor families of four in 2006, 14 levy a higher tax on these families in 2006 than they did in 2005, even after adjusting for inflation. Among these states, the median tax levied increased from \$178 to \$211, an inflation-adjusted increase of 15 percent.
- In some states, the increase was quite substantial. In **New Jersey**, families of four at the poverty line received a refund of \$728 in 2005 but owe \$219 in 2006. And tax liability for families of four increased by at least 25 percent in **Georgia, Iowa, Mississippi, and North Carolina**, all after adjusting for inflation.

Why Some States' Income-Tax Treatment of the Poor is Worsening

In the 21 states where income tax thresholds fell relative to the poverty line since 2005, and the 14 states where the tax levied grew more than inflation, it was generally not because of explicit policy changes. Rather, tax thresholds fell and tax bills rose because states failed to update their standard deductions, personal exemptions, and low-income credits to keep up with inflation.⁸ For example, **New Jersey** taxed poor families in 2006 but not 2005, but it did not enact an explicit policy change in the interim. It merely failed to adjust its tax systems to keep up with the rising cost of living. **New Jersey**'s income tax threshold for families of four held steady at \$20,000 between 2005 and 2006, even as the poverty line, representing a constant level of buying power, climbed over that figure. The tax **Georgia** levies on families of four at the poverty line jumped 38% — from \$112 to \$160 — for the same reason: the poverty line increased, but **Georgia**'s exemptions, standard deductions, and low-income credit did not increase accordingly.

⁸ The poverty line increases each year to account for the higher cost of food, shelter, and other necessities.

Emerging Trends in State Income Taxation of the Poor

A Number of States Have Enacted Reforms that Take Effect After 2006

While state income-tax treatment of the poor generally showed only modest improvement between 2005 and 2006, a number of states have recently passed significant reforms due to take effect later.

Under current law, the following income-tax changes affecting low-income families will take effect between 2007 and 2010:

- In 2007, low-income families in **Alabama** will benefit from increased standard deductions as well as a new dependent exemption. **Alabama's** thresholds will increase for the first time in over forty years.
- In 2007, **Arkansas** will raise its no-tax floor to near the poverty line and implement a nonrefundable low-income credit that phases out gradually as income increases.
- In 2007 **Hawaii** will implement income tax cuts including standard deduction increases and bracket expansions.
- **Michigan**, which for years has been one of the heaviest taxers of the income of poor families, will move close to other end of spectrum in 2008 and 2009 when it phases in a refundable EITC equal to 20 percent of the federal EITC.
- In 2007, **New Mexico** will implement a refundable EITC equal to 8 percent of the federal EITC and expand its income tax exemption for low-to-moderate-income families.
- Between 2007 and 2010, **Oklahoma** will gradually increase its standard deductions to the federal level.
- **Oregon's** EITC will increase slightly in 2008, from 5 percent of the federal EITC to 6 percent of the federal EITC.
- In 2008, **Utah** will implement a major tax reform package that will significantly improve its income tax treatment of the poor.
- Between 2007 and 2008, **West Virginia** will phase in a low-income credit that exempts most poor families from the income tax and phases out gradually as income increases.⁹

In addition, several states — including **Connecticut, Hawaii, Illinois, Indiana, Iowa, Montana, New Jersey, and North Carolina** — are considering measures in their current legislative sessions that would considerably improve their income-tax treatment of the poor.

⁹ In addition, **Arizona, the District of Columbia, and Ohio** will continue to phase in across-the-board rate cuts which will minimally benefit low-income families.

Some States Still Have a Long Way to Go

While these reforms are helpful, even once they take effect there will remain much to do. If the changes described above were in place today, state income taxes would still impose a significant burden on families in or near poverty. Tables 8A, 8B, 9A, and 9B show the income tax liability poor families would face if changes that have been enacted but not yet implemented were in effect for tax year 2006.

- Sixteen states would still tax the income of families of four at the poverty line, and 13 states would do so for families of three at the poverty line.
- The income tax thresholds for families of three would still be less than three-quarters of the poverty line in **Alabama, Hawaii, and Montana**. For families of four, the threshold would be less than the three-quarters of the poverty line in these three states plus **Indiana**.
- Seven states — **Alabama, Hawaii, Indiana, Iowa, Montana, New Jersey, and Oregon** — would still charge families of four at the poverty line over \$200 in income tax. **Alabama** and **Hawaii** would also charge poor families of three more than \$200.

Some of the states listed above have gone years without significantly reducing the income tax they impose on poor families. But a number of the states that have recently passed low-income tax relief nonetheless will continue to levy high income taxes on low-income families. The reason is that these states' reforms either were not sufficient or were not sufficiently well targeted to poor families. **Alabama, Hawaii, and Oregon** will all continue to rank among the heaviest taxers of the income of the poor even after their enacted reforms are implemented.

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

Overall, States' Income-Tax Treatment of the Poor Has Improved Greatly

Since the early 1990s, states generally have improved their income-tax treatment of working poor families. From 1991 to 2006, the number of states levying income tax on poor two-parent families of four decreased from 24 to 19. Over that same span, the average of state tax thresholds increased from 84 percent to 109 percent of the poverty line. And many of the 19 states that still tax poor families of four have reduced the taxes levied. From 1994 to 2006, the median tax levied fell by 27 percent, after adjusting for inflation. Tables 5, and 6, and 7 show these changes over time.

A Few States Tax the Incomes of the Poor More Heavily than in the Early 1990s.

A smaller number of states stand out for their lack of progress between the early 1990s and 2006 in reducing income taxes on the poor.

- In **Alabama, Connecticut, Mississippi, and West Virginia**, the income tax threshold has fallen compared to the poverty line since 1991. In **Connecticut**, the threshold has fallen over that time from 173 percent to 117 percent of the poverty line.

- In eight states — **Alabama, Arkansas, Georgia, Iowa, Louisiana, Mississippi, Ohio,** and **West Virginia** — the income taxes on families of four with poverty-level incomes have risen since 1994 even after accounting for inflation. As Table 6 shows, the inflation-adjusted increase was 49 percent in **Louisiana**, 47 percent in **Arkansas**, and 39 percent in **West Virginia**. In **Iowa**, these families' tax liability increased from zero to \$236, the highest dollar increase in any state. In each of these states, the reason for the tax increase is that personal exemptions, credits, or other features designed to protect the incomes of low-income families from taxation have eroded due to inflation.

Conclusion

Too many states continue to tax the income of poor families — in some cases, extremely poor families. Improvements in selected states in 2006 were offset by backsliding in others, leading to little improvement overall since 2005. The longer trend is brighter — income taxation of poor families has decreased since the early 1990's — but even over that period some states have increased taxes on families in poverty. There is a broad range of affordable mechanisms for exempting the poor from the income tax. As Hawaii Governor Linda Lingle said in her 2006 State of the State Address, “the bottom line is that we are collecting income taxes from people who simply can't afford to pay them.” A number of states would do well to heed her words.

Table 1A. State Income Tax Thresholds for Single-Parent Families of Three, 2006

Rank	State	Threshold
1	Alabama	\$4,600
2	Montana	9,300
3	Hawaii	9,800
4	West Virginia	10,000
5	Michigan	11,100
6	Louisiana	12,300
7	Georgia	12,700
8	Arkansas	13,400
9	Illinois	13,600
9	Missouri	13,600
11	Indiana	14,000
12	Ohio	14,200
13	Mississippi	14,400
14	Oregon	14,600
15	North Carolina	15,300
..... Poverty Line		16,079
16	Kentucky	16,600
17	Oklahoma	17,000
18	Colorado	17,500
18	Idaho	17,500
18	Utah	17,500
21	North Dakota	17,900
22	Iowa	18,100
23	Connecticut	19,100
24	New Jersey	20,000
25	Arizona	20,100
26	South Carolina	20,800
27	Wisconsin	20,900
28	Virginia	21,100
29	Maine	23,000
30	Nebraska	23,600
31	Massachusetts	24,300
32	Kansas	24,400
33	District of Columbia	24,600
34	New Mexico	24,700
35	Delaware	24,800
36	Pennsylvania	25,500
37	Rhode Island	28,500
38	Maryland	28,900
39	Vermont	29,800
40	Minnesota	29,900
41	New York	32,500
42	California	42,400
Average Threshold 2006		\$19,400
Amount Above Poverty Line		\$3,321

Table 1B. State Income Tax Thresholds for Two-Parent Families of Four, 2006

Rank	State	Threshold
1	Alabama	\$4,600
2	West Virginia	10,000
3	Montana	11,300
4	Hawaii	11,500
5	Michigan	14,400
6	Indiana	15,000
7	Illinois	15,600
7	Ohio	15,600
9	Georgia	15,900
10	Arkansas	16,000
11	Louisiana	16,900
12	Missouri	17,000
13	Oregon	17,500
14	Oklahoma	18,200
15	Iowa	18,300
16	North Carolina	19,400
17	Mississippi	19,600
18	Kentucky	19,900
19	New Jersey	20,000
..... Poverty Line		20,615
20	Colorado	23,500
20	Utah	23,500
22	Arizona	23,600
22	Idaho	23,600
24	North Dakota	24,000
25	Connecticut	24,100
26	Virginia	24,200
27	Wisconsin	25,000
28	District of Columbia	25,600
28	Nebraska	25,600
30	Kansas	26,100
31	Massachusetts	26,200
32	Maine	26,400
33	South Carolina	26,800
34	Delaware	28,600
35	New Mexico	30,800
36	Maryland	31,000
37	Rhode Island	31,500
38	Pennsylvania	32,000
39	Minnesota	33,200
39	Vermont	33,200
41	New York	36,300
42	California	44,700
Average Threshold 2006		\$22,500
Amount Above Poverty Line		\$1,885

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 2006 poverty line is a Census Bureau estimate based on the actual 2005 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

Table 2A. State Income Tax at Poverty Line for Single-Parent Families of Three, 2006

Rank	State	Income	Tax
1	Alabama	\$16,079	\$483
2	Hawaii	16,079	401
3	West Virginia	16,079	302
4	Michigan	16,079	194
5	Louisiana	16,079	150
6	Montana	16,079	142
7	Arkansas	16,079	135
8	Oregon	16,079	120
9	Georgia	16,079	97
10	Ohio	16,079	93
11	Illinois	16,079	89
12	Indiana	16,079	86
13	Missouri	16,079	51
14	North Carolina	16,079	51
15	Mississippi	16,079	50
16	Arizona	16,079	0
16	California	16,079	0
16	Colorado	16,079	0
16	Connecticut	16,079	0
16	Delaware	16,079	0
16	Idaho	16,079	0
16	Iowa	16,079	0
16	Kentucky	16,079	0
16	Maine	16,079	0
16	North Dakota	16,079	0
16	Pennsylvania	16,079	0
16	South Carolina	16,079	0
16	Utah	16,079	0
16	Virginia	16,079	0
30	Oklahoma	16,079	(44)
31	New Mexico	16,079	(65)
32	Rhode Island	16,079	(160)
33	Nebraska	16,079	(342)
34	Wisconsin	16,079	(416)
35	Kansas	16,079	(551)
36	Maryland	16,079	(627)
37	Massachusetts	16,079	(641)
38	New Jersey	16,079	(854)
39	Minnesota	16,079	(1,135)
40	District of Columbia	16,079	(1,154)
41	Vermont	16,079	(1,366)
42	New York	16,079	(1,375)

Source: Center on Budget and Policy Priorities

Table 2B. State Income Tax at Poverty Line for Two-Parent Families of Four, 2006

Rank	State	Income	Tax
1	Alabama	\$20,615	\$573
2	Hawaii	20,615	546
3	Arkansas	20,615	427
4	West Virginia	20,615	406
5	Oregon	20,615	319
6	Michigan	20,615	242
7	Indiana	20,615	239
8	Iowa	20,615	236
9	New Jersey	20,615	219
10	Montana	20,615	211
11	Illinois	20,615	192
12	Louisiana	20,615	169
13	Georgia	20,615	160
14	Ohio	20,615	159
15	Oklahoma	20,615	139
16	Missouri	20,615	83
17	Kentucky	20,615	82
18	North Carolina	20,615	78
19	Mississippi	20,615	30
20	Arizona	20,615	0
20	California	20,615	0
20	Colorado	20,615	0
20	Connecticut	20,615	0
20	Delaware	20,615	0
20	Idaho	20,615	0
20	Maine	20,615	0
20	North Dakota	20,615	0
20	Pennsylvania	20,615	0
20	South Carolina	20,615	0
20	Utah	20,615	0
20	Virginia	20,615	0
32	New Mexico	20,615	(40)
33	Rhode Island	20,615	(140)
34	Nebraska	20,615	(299)
35	Kansas	20,615	(363)
36	Wisconsin	20,615	(373)
37	Maryland	20,615	(423)
38	Massachusetts	20,615	(447)
39	District of Columbia	20,615	(708)
40	Vermont	20,615	(1,195)
41	New York	20,615	(1,436)
42	Minnesota	20,615	(1,587)

Source: Center on Budget and Policy Priorities

Table 3A. State Income Tax at Minimum Wage for Single-Parent Families of Three, 2006

Rank	State	Income*	Tax
1	Hawaii**	\$14,040	\$243
2	Alabama	10,712	218
3	West Virginia	10,712	143
4	Oregon**	15,599	80
5	Michigan**	11,645	21
6	Montana	10,712	15
7	Arizona	10,712	0
7	Arkansas**	11,282	0
7	California**	14,040	0
7	Colorado	10,712	0
7	Connecticut**	15,392	0
7	Delaware**	12,792	0
7	Idaho	10,712	0
7	Iowa	10,712	0
7	Kentucky	10,712	0
7	Louisiana	10,712	0
7	Maine**	13,650	0
7	Mississippi	10,712	0
7	Missouri	10,712	0
7	North Carolina	10,712	0
7	North Dakota	10,712	0
7	Ohio	10,712	0
7	Pennsylvania	10,712	0
7	South Carolina	10,712	0
7	Utah	10,712	0
7	Virginia	10,712	0
27	Illinois**	13,520	(1)
28	Georgia	10,712	(24)
29	Indiana	10,712	(97)
30	New Mexico	10,712	(100)
31	Rhode Island**	14,648	(170)
32	Oklahoma	10,712	(215)
33	Nebraska	10,712	(343)
34	Wisconsin**	12,827	(635)
35	Kansas	10,712	(644)
36	Massachusetts**	14,040	(680)
37	Maryland**	12,524	(844)
38	New Jersey**	13,311	(907)
39	Minnesota**	12,792	(1,135)
40	District of Columbia**	14,560	(1,315)
41	Vermont**	15,079	(1,434)
42	New York**	14,036	(1,500)

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

** These eighteen states had a minimum wage higher than the federal minimum wage in all or part of 2006.

Source: Center on Budget and Policy Priorities

Table 3B. State Income Tax at Minimum Wage for Two-Parent Families of Four, 2006

Rank	State	Income*	Tax
1	Alabama	\$10,712	\$178
2	Hawaii**	14,040	83
3	West Virginia	10,712	83
4	Arizona	10,712	0
4	Arkansas**	11,282	0
4	California**	14,040	0
4	Colorado	10,712	0
4	Connecticut**	15,392	0
4	Delaware**	12,792	0
4	Idaho	10,712	0
4	Iowa	10,712	0
4	Kentucky	10,712	0
4	Louisiana	10,712	0
4	Maine**	13,650	0
4	Michigan**	11,645	0
4	Mississippi	10,712	0
4	Missouri	10,712	0
4	Montana	10,712	0
4	North Carolina	10,712	0
4	North Dakota	10,712	0
4	Ohio	10,712	0
4	Pennsylvania	10,712	0
4	South Carolina	10,712	0
4	Utah	10,712	0
4	Virginia	10,712	0
26	Georgia	10,712	(32)
27	Illinois**	13,520	(61)
28	New Mexico	10,712	(130)
29	Indiana	10,712	(131)
30	Oregon**	15,599	(136)
31	Rhode Island**	14,648	(170)
32	Oklahoma	10,712	(215)
33	Nebraska	10,712	(343)
34	Wisconsin**	12,827	(635)
35	Kansas	10,712	(644)
36	Massachusetts**	14,040	(680)
37	Maryland**	12,524	(907)
37	New Jersey**	13,311	(907)
39	Minnesota**	12,792	(1,135)
40	District of Columbia**	14,560	(1,315)
41	Vermont**	15,079	(1,452)
42	New York**	14,036	(1,561)

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

** These eighteen states had a minimum wage higher than the federal minimum wage in all or part of 2006.

Source: Center on Budget and Policy Priorities

**Table 4A. State Income Tax at 125% of Poverty Line for
Single-Parent Families of Three, 2006**

Rank	State	Income	Tax
1	Alabama	\$20,099	\$683
2	Hawaii	20,099	681
3	Oregon	20,099	511
4	Arkansas	20,099	491
5	Kentucky	20,099	485
6	West Virginia	20,099	462
7	Michigan	20,099	351
8	Louisiana	20,099	310
9	Georgia	20,099	293
10	North Carolina	20,099	291
11	Montana	20,099	287
12	Indiana	20,099	274
13	Illinois	20,099	252
14	New Jersey	20,099	225
15	Iowa	20,099	210
16	Ohio	20,099	208
17	Missouri	20,099	194
18	Mississippi	20,099	178
19	Oklahoma	20,099	178
20	Utah	20,099	159
21	Colorado	20,099	123
22	North Dakota	20,099	55
23	Idaho	20,099	47
24	Connecticut	20,099	8
25	Arizona	20,099	0
25	California	20,099	0
25	Delaware	20,099	0
25	Maine	20,099	0
25	Pennsylvania	20,099	0
25	South Carolina	20,099	0
25	Virginia	20,099	0
32	New Mexico	20,099	(30)
33	Wisconsin	20,099	(73)
34	Rhode Island	20,099	(114)
35	Nebraska	20,099	(183)
36	Maryland	20,099	(268)
37	Kansas	20,099	(284)
38	Massachusetts	20,099	(333)
39	District of Columbia	20,099	(639)
40	Vermont	20,099	(1,002)
41	New York	20,099	(1,248)
42	Minnesota	20,099	(1,445)

Source: Center on Budget and Policy Priorities

**Table 4B. State Income Tax at 125% of Poverty Line for
Two-Parent Families of Four, 2006**

Rank	State	Income	Tax
1	Kentucky	\$25,769	\$891
2	Hawaii	25,769	862
3	Oregon	25,769	832
4	Alabama	25,769	828
5	Arkansas	25,769	713
6	Iowa	25,769	659
7	West Virginia	25,769	610
8	Oklahoma	25,769	490
9	Indiana	25,769	479
10	Michigan	25,769	443
11	Montana	25,769	429
12	Georgia	25,769	421
13	Illinois	25,769	401
14	North Carolina	25,769	387
15	Ohio	25,769	335
16	Missouri	25,769	307
17	New Jersey	25,769	294
18	Louisiana	25,769	292
19	Mississippi	25,769	197
20	Utah	25,769	178
21	Arizona	25,769	174
22	Virginia	25,769	149
23	Colorado	25,769	104
24	Wisconsin	25,769	64
25	North Dakota	25,769	48
26	Idaho	25,769	36
27	District of Columbia	25,769	32
28	Nebraska	25,769	15
29	Connecticut	25,769	13
30	California	25,769	0
30	Delaware	25,769	0
30	Maine	25,769	0
30	Maryland	25,769	0
30	New Mexico	25,769	0
30	Pennsylvania	25,769	0
30	South Carolina	25,769	0
37	Kansas	25,769	(20)
38	Massachusetts	25,769	(33)
39	Rhode Island	25,769	(77)
40	Vermont	25,769	(766)
41	New York	25,769	(1,103)
42	Minnesota	25,769	(1,171)

Source: Center on Budget and Policy Priorities

Table 5A. Tax Threshold for a Family of Four, 1991-2006

State	1991	1994	1997	2000	2003	2004	2005	2006	Change 1991-2006
Alabama	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$4,600	\$0
Arizona	15,000	15,800	20,000	23,600	23,600	23,600	23,600	23,600	8,600
Arkansas	10,700	10,700	10,700	15,600	15,500	15,500	15,900	16,000	5,300
California	20,900	22,600	23,800	36,800	40,200	41,500	42,700	44,700	23,800
Colorado	14,300	16,200	17,500	27,900	21,700	22,100	22,800	23,500	9,200
Connecticut	24,100	24,100	24,100	24,100	24,100	24,100	24,100	24,100	0
Delaware	8,600	8,600	12,700	20,300	20,300	20,300	20,300	28,600	20,000
District of Columbia	14,300	16,200	17,500	18,600	20,700	21,700	23,900	25,600	11,300
Georgia	9,000	11,100	13,100	15,300	15,900	15,900	15,900	15,900	6,900
Hawaii	6,300	6,300	6,100	11,000	11,500	11,500	11,500	11,500	5,200
Idaho	14,300	16,200	17,500	20,100	21,800	22,200	22,800	23,600	9,300
Illinois	4,000	4,000	4,000	14,000	15,000	15,200	15,349	15,600	11,600
Indiana	4,000	4,000	8,500	9,500	14,400	14,600	14,800	15,000	11,000
Iowa	9,000	15,300	16,500	17,400	17,900	18,000	18,200	18,300	9,300
Kansas	13,000	13,000	13,000	21,100	24,400	24,700	25,600	26,100	13,100
Kentucky	5,000	5,000	5,000	5,400	5,500	5,600	19,400	19,900	14,900
Louisiana	11,000	11,000	12,300	13,000	15,600	15,900	16,400	16,900	5,900
Maine	14,100	14,800	17,500	23,100	24,600	25,000	25,700	26,400	12,300
Maryland	15,800	19,400	22,900	25,200	28,500	29,000	30,300	31,000	15,200
Massachusetts	12,000	12,000	17,400	20,600	24,000	24,300	25,400	26,200	14,200
Michigan	8,400	8,400	10,000	12,800	13,600	13,600	14,000	14,400	6,000
Minnesota	15,500	19,000	21,600	26,800	30,200	30,900	31,800	33,200	17,700
Mississippi	15,900	15,900	15,900	19,600	19,600	19,600	19,600	19,600	3,700
Missouri	8,900	9,700	10,200	14,100	16,200	16,400	16,700	17,000	8,100
Montana	6,600	7,200	8,800	9,500	10,100	10,400	10,800	11,300	4,700
Nebraska	14,300	16,200	17,900	18,900	21,700	22,100	22,800	25,600	11,300
New Jersey	5,000	7,500	7,500	20,000	20,000	20,000	20,000	20,000	15,000
New Mexico	14,300	16,300	17,500	21,000	22,000	22,100	22,800	30,800	16,500
New York	14,000	16,900	22,300	23,800	27,700	28,200	29,300	36,300	22,300
North Carolina	13,000	13,000	17,000	17,000	18,000	19,400	19,400	19,400	6,400
North Dakota	14,700	16,500	18,000	19,000	22,200	22,600	23,300	24,000	9,300
Ohio	10,500	10,500	12,000	12,700	12,900	13,100	15,400	15,600	5,100
Oklahoma	10,000	10,900	12,200	13,000	16,600	16,800	17,200	18,200	8,200
Oregon	10,100	10,900	14,000	14,800	16,000	16,400	16,900	17,500	7,400
Pennsylvania	9,800	15,300	20,600	28,000	31,000	32,000	32,000	32,000	22,200
Rhode Island	17,400	21,100	24,400	25,900	28,700	29,300	30,600	31,500	14,100
South Carolina	14,300	16,800	20,200	21,400	23,200	25,200	27,000	26,800	12,500
Utah	12,200	13,600	14,900	15,800	21,700	22,100	22,800	23,500	11,300
Vermont	17,400	21,100	24,400	26,800	30,200	30,800	32,200	33,200	15,800
Virginia	8,200	8,200	8,200	17,100	18,400	18,900	19,400	24,200	16,000
West Virginia	8,000	8,000	10,000	10,000	10,000	10,000	10,000	10,000	2,000
Wisconsin	14,400	16,400	17,000	20,700	23,000	23,400	24,300	25,000	10,600
Average	\$11,736	\$13,102	\$14,983	\$18,474	\$20,067	\$20,443	\$21,370	\$22,529	\$10,793
Federal Poverty Line	\$13,924	\$15,141	\$16,400	\$17,603	\$18,811	\$19,311	\$19,961	\$20,615	\$6,691
Average as % Poverty Line	84%	87%	91%	105%	107%	106%	107%	109%	25%
Number Above Poverty Line	18	19	21	23	24	25	23	23	5
Number Below Poverty Line	24	23	21	19	18	17	19	19	-5

Source: Center on Budget and Policy Priorities

**Table 6. State Income Tax at the Poverty Line for Families of Four, 1994-2006
In States with Below-Poverty Thresholds in 2006**

State	1994	2004	2005	2006	Change 94-06	Percent change after inflation, 94- 06*	Change 05-06	Percent change after inflation, 05-06*
New Jersey	\$193	(\$680)	(\$728)	\$219	\$26	-17%	\$947	—
Mississippi	0	0	11	30	30	—	20	172%
North Carolina	128	0	39	78	(51)	-55%	39	95%
Georgia	116	89	112	160	44	1%	48	38%
Iowa	0	141	183	236	236	—	53	25%
Missouri	147	62	71	83	(65)	-59%	12	13%
Hawaii	406	434	470	546	140	-1%	76	12%
Illinois	334	169	177	192	(142)	-58%	15	5%
Indiana	379	215	222	239	(140)	-54%	17	4%
West Virginia	215	354	378	406	191	39%	28	4%
Alabama	348	513	538	573	225	21%	35	3%
Arkansas	214	403	406	427	213	47%	21	2%
Kentucky	499	652	78	82	(417)	-88%	3	1%
Michigan	301	226	232	242	(59)	-41%	10	1%
Oregon	331	289	310	319	(12)	-29%	8	-1%
Ohio	107	154	157	159	52	9%	2	-2%
Montana	211	255	209	211	(0)	-27%	2	-2%
Louisiana	83	168	178	169	86	49%	(9)	-8%
Oklahoma	139	141	162	139	0	-26%	(23)	-17%
Median	\$211	\$169	\$178	\$211	\$0	-27%	\$33	15%
Number increasing						8		14
Number decreasing						11		5

Note: Dollar amounts shown are nominal amounts.

"Percent change after inflation" shows the percentage change adjusted for the 3.3 percent change in the cost of living from 2005 to 2006 or the 36 percent change in the cost of living from 1994 to 2006 as measured by the Consumer Price Index.

Source: Center on Budget and Policy Priorities

Table 7. Tax Threshold as a Percent of the Federal Poverty Line for a Family of Four, 1991-2006

State	1991	1996	2001	2005	2006	%Point Change 1991-2006	%Point Change 2005-2006
Alabama	33%	29%	25%	23%	22%	-11%	-1%
Arizona	108%	125%	130%	118%	114%	7%	-4%
Arkansas	77%	67%	86%	80%	78%	1%	-2%
California	150%	146%	214%	214%	217%	67%	3%
Colorado	103%	105%	159%	114%	114%	11%	0%
Connecticut	173%	150%	133%	121%	117%	-56%	-4%
Delaware	62%	78%	112%	102%	139%	77%	37%
District of Columbia	103%	105%	108%	120%	124%	21%	4%
Georgia	65%	69%	85%	80%	77%	12%	-3%
Hawaii	45%	38%	62%	58%	56%	11%	-2%
Idaho	103%	105%	115%	114%	114%	12%	0%
Illinois	29%	25%	79%	77%	76%	47%	-1%
Indiana	29%	25%	52%	74%	73%	44%	-1%
Iowa	65%	102%	97%	91%	89%	24%	-2%
Kansas	93%	81%	119%	128%	127%	33%	-2%
Kentucky	36%	31%	30%	97%	97%	61%	-1%
Louisiana	79%	77%	74%	82%	82%	3%	0%
Maine	101%	95%	130%	129%	128%	27%	-1%
Maryland	113%	139%	145%	152%	150%	37%	-1%
Massachusetts	86%	97%	125%	127%	127%	41%	0%
Michigan	60%	60%	71%	70%	70%	10%	0%
Minnesota	111%	130%	153%	159%	161%	50%	2%
Mississippi	114%	99%	108%	98%	95%	-19%	-3%
Missouri	64%	62%	79%	84%	82%	19%	-1%
Montana	47%	54%	54%	54%	55%	7%	1%
Nebraska	103%	105%	108%	114%	124%	21%	10%
New Jersey	36%	47%	110%	100%	97%	61%	-3%
New Mexico	103%	105%	118%	114%	149%	47%	35%
New York	101%	135%	138%	147%	176%	76%	29%
North Carolina	93%	106%	94%	97%	94%	1%	-3%
North Dakota	106%	109%	109%	117%	116%	11%	0%
Ohio	75%	72%	69%	77%	76%	0%	-1%
Oklahoma	72%	74%	74%	86%	88%	16%	2%
Oregon	73%	71%	83%	85%	85%	12%	0%
Pennsylvania	70%	95%	166%	160%	155%	85%	-5%
Rhode Island	125%	148%	148%	153%	153%	28%	0%
South Carolina	103%	117%	122%	135%	130%	27%	-5%
Utah	88%	90%	90%	114%	114%	26%	0%
Vermont	125%	148%	152%	161%	161%	36%	0%
Virginia	59%	51%	98%	97%	117%	58%	20%
West Virginia	57%	62%	55%	50%	49%	-9%	-2%
Wisconsin	103%	104%	119%	122%	121%	18%	0%
Average	84%	89%	105%	107%	109%	25%	2%

Source: Center on Budget and Policy Priorities

**Table 8A. State Income Tax Thresholds for Single-Parent Families of Three
Including Enacted Changes*
(Among States with Below-Poverty Thresholds)**

Rank	State	Threshold
1	Montana	\$9,300
2	Alabama	9,800
3	Hawaii	10,400
4	Louisiana	12,300
5	Georgia	12,700
6	Illinois	13,600
6	Missouri	13,600
8	Indiana	14,000
9	Ohio	14,200
10	Mississippi	14,400
11	Arkansas	14,800
12	Oregon	15,200
13	North Carolina	15,300
Poverty Line: \$16,079		

**Table 8B. State Income Tax Thresholds for Two-Parent Families of Four
Including Enacted Changes*
(Among States with Below-Poverty Thresholds)**

Rank	State	Threshold
1	Montana	\$11,300
2	Alabama	12,600
3	Hawaii	14,000
4	Indiana	15,000
5	Illinois	15,600
5	Ohio	15,600
7	Georgia	15,900
8	Louisiana	16,900
9	Missouri	17,000
10	Oregon	17,900
11	Iowa	18,300
12	North Carolina	19,400
13	Mississippi	19,600
14	Kentucky	19,900
15	New Jersey	20,000
15	West Virginia	20,000
Poverty Line: \$20,615		

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 2006 poverty line is a Census Bureau estimate based on the actual 2005 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.

*These tables reflect policy in 2006 if enacted changes were fully implemented.

Source: Center on Budget and Policy Priorities

**Table 9A. State Income Tax at Poverty Line for One-Parent Families of Three Including Enacted Changes*
(Among States with Below-Poverty Thresholds)**

Rank	State	Income	Tax
1	Hawaii	\$16,079	\$291
2	Alabama	16,079	278
3	Louisiana	16,079	150
4	Montana	16,079	142
5	Arkansas	16,079	135
6	Georgia	16,079	97
7	Ohio	16,079	93
8	Illinois	16,079	89
9	Indiana	16,079	86
10	Oregon	16,079	77
11	Missouri	16,079	51
12	North Carolina	16,079	51
13	Mississippi	16,079	50

**Table 9B. State Income Tax at Poverty Line for Two-Parent Families of Four Including Enacted Changes*
(Among States with Below-Poverty Thresholds)**

Rank	State	Income	Tax
1	Alabama	\$20,615	\$383
2	Hawaii	20,615	379
3	Oregon	20,615	282
4	Indiana	20,615	239
5	Iowa	20,615	236
6	New Jersey	20,615	219
7	Montana	20,615	211
8	Illinois	20,615	192
9	Louisiana	20,615	169
10	Georgia	20,615	160
11	Ohio	20,615	159
12	West Virginia	20,615	122
13	Missouri	20,615	83
14	Kentucky	20,615	82
15	North Carolina	20,615	78
16	Mississippi	20,615	30

* These tables reflect policy in 2006 if enacted changes were fully implemented.
Source: Center on Budget and Policy Priorities