

The Massachusetts “Dependent Under 12” Income Tax Deduction

Making a Good Deduction Better

MA “Dependent Under 12” Tax Deduction

How it works:

- Reduces a filer’s taxable income
- By up to \$3,600 for one qualifying dependent
- By up to \$7,200 for two or more qualifying dependents

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Historical Overview:

- Prior to 2001, value = \$1,200 for one or more qualifying dependents
- For TY 2002, increased to \$2,400 for a single dependent and \$4,800 for two or more
- For TY 2003, increased to \$3,600 for a single dependent and \$7,200 for two or more

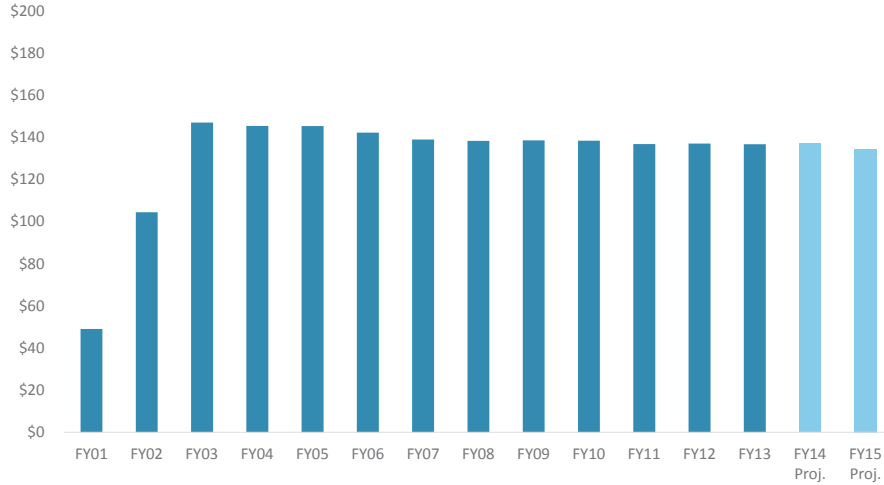
MA “Dependent Under 12” Tax Deduction

Most Current Data (2013):

- Claimed by 617,000 filers
 - Total deductions claimed = \$3.0 billion
- Claimed by 519,000 filers who owed taxes
 - Total deductions claimed = \$2.5 billion
- Total state cost = \$132 M
 - At PIT rate of 5.25%

MA "Dependent Under 12" Deduction Program Cost, FY01-FY15

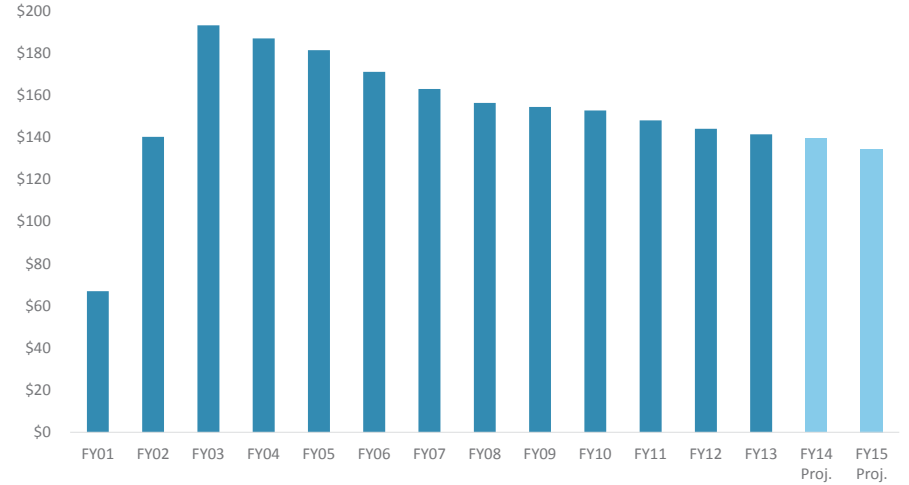
Nominal annual cost (unadjusted for inflation), in millions



Source: Massachusetts Tax Expenditure Budget

MA "Dependent Under 12" Deduction Program Cost, FY01-FY15

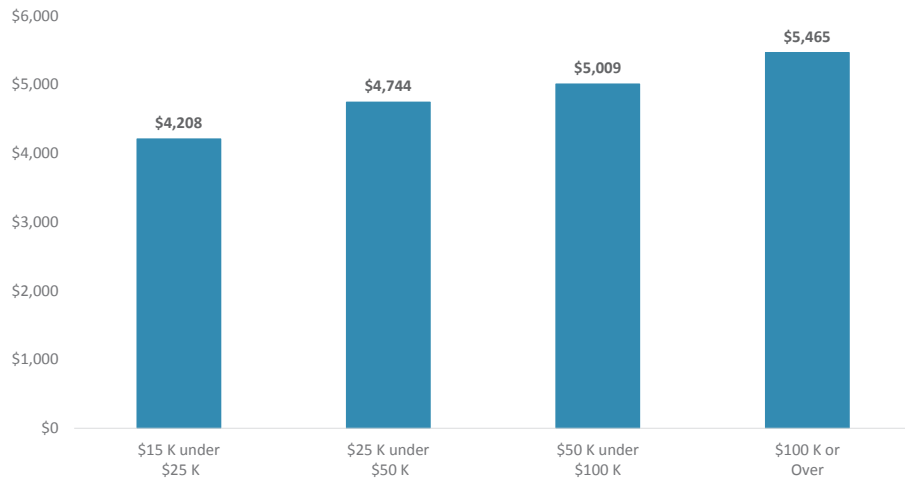
Inflation adjusted annual cost, in millions



Source: Massachusetts Tax Expenditure Budget

Low and Moderate Income Filers Receive Smaller Average Deductions

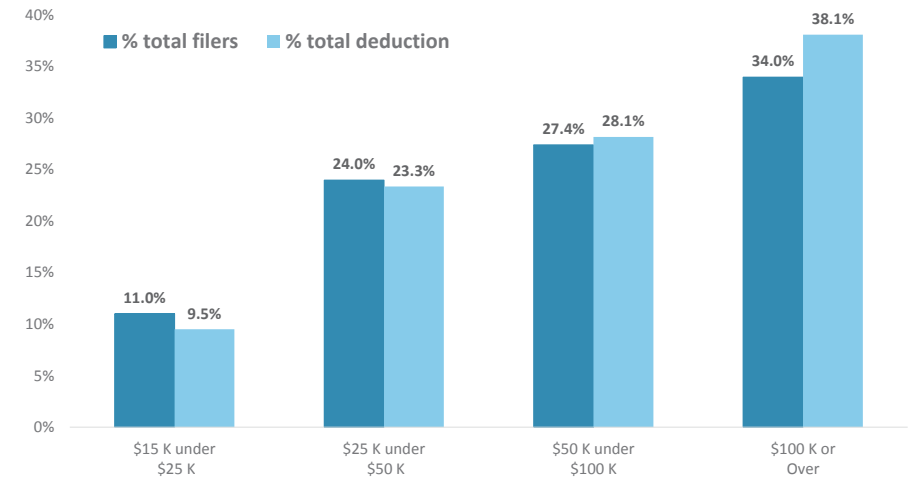
Average deduction for filers who both claimed DU12 deduction and paid state taxes, 2011



Source: MA DOR

Low and Moderate Income Filers Receive Smaller Shares of "Dependent Under 12" Deduction Total

Share of filers who both claimed DU12 deduction and paid state taxes, 2011



Source: MA DOR

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Possible Progressive Reform Options:

- Structure it as a credit, not a deduction
- Make it fully refundable
- Return to 2003 value, adjusted for inflation
- Increase age for qualifying dependents
- Provide addt'l value for more than 2 kids
- Phase out the benefit for high-income filers

QUESTIONS?