



tax facts

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Tax Entry Thresholds, 2000-2011

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In 1986, a policy decision was made to exempt poor people from the income tax. Increases in the earned income tax credit (EITC) and the introduction of the child tax credit (CTC) have increased the so-called “tax entry threshold” since 1986, and provisions in the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) would continue that trend through 2010. The CTC is scheduled to increase in stages to \$1,000 over the next decade, and EGTRRA created a new lower tax rate for low-income families. The EITC will also increase gradually for many married couples. The chart below shows the change in the tax entry threshold from 2000 — before the passage of EGTRRA — through 2011, the year after EGTRRA expires. Put in a historical context, the tax entry threshold in 1985 for a married couple with two children was \$9,857 (in 2002 dollars) — less than one-third of what it will be when EGTRRA is fully phased in.

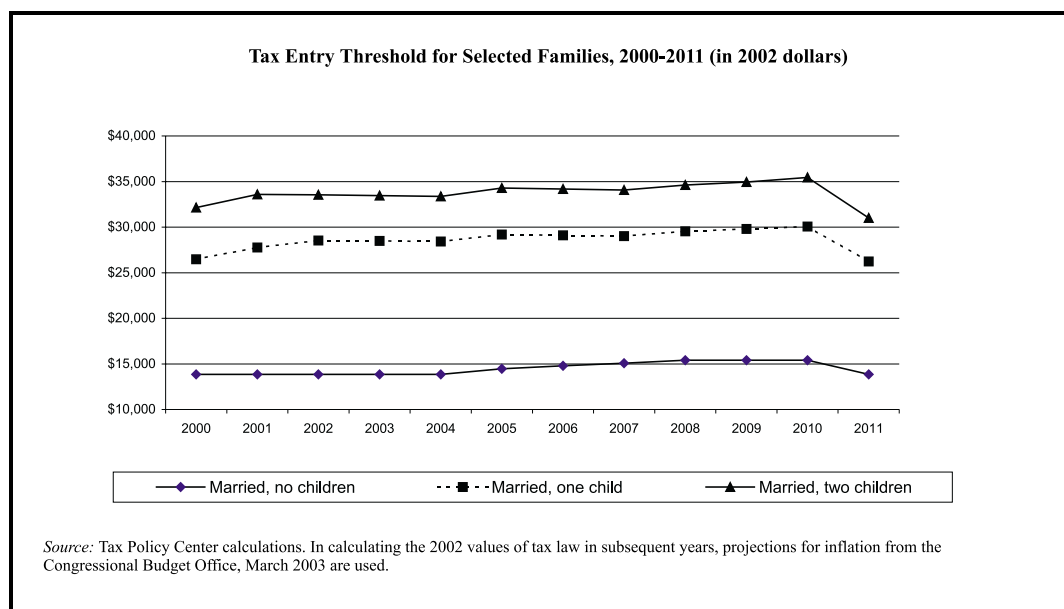
The change in the tax entry threshold is uneven because of the complex phase-ins of the law and the failure to index the child tax credit amounts for inflation. For these reasons, the tax entry threshold will actually decline slightly in 2003 and 2004 as the real value of the CTC and increased EITC thresholds decline.

EITC expansions scheduled for 2005 and 2008 and CTC expansions in 2009 and 2010 will boost

the tax entry threshold in those years for families with children. Families without children will see much smaller increases in their tax entry thresholds. For single childless taxpayers, only the introduction of the 10 percent bracket (which actually erodes in value between 2002 and 2008 before it is expanded and indexed for inflation in 2009) affects their income tax bill (not shown in chart). Married couples with children benefit from the phased in increase in the standard deduction between 2005 and 2009.

Ultimately, when EGTRRA is fully phased-in in 2010, a married couple with no children will be able to earn about \$15,400 (in 2002 dollars) before owing federal income taxes; a married couple with two children can earn a little more than \$35,400 (in 2002 dollars). By comparison, the poverty thresholds for these families are \$12,047 and \$18,244, respectively.

If EGTRRA expires as scheduled, the tax entry threshold will drop dramatically for families with children, and to a lesser degree for families without children. Because the CTC is not indexed for inflation, the tax entry threshold for families with children in 2011 will be lower than it was before EGTRRA’s enactment.



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