

Poverty and Income Tax Entry Threshold

By Elaine Maag

The tax entry threshold is the income level at which a person begins paying federal income taxes. The federal income tax system exempts an amount of income from taxation based on the type of tax unit (married or unmarried, with or without children) and the number of people in the tax unit. Tax credits can raise the tax entry threshold further and include credits that encourage particular activities such as the earned income tax credit (work); credits aimed at supporting families such as the child tax credit (CTC); and credits aimed at subsidizing costs of working such as the child and dependent care tax credit. For the calculations in the table, only general provisions available to everyone with earnings, children, and qualifying income are used.

The poverty line aims to measure the minimum amount of income a family needs to achieve an

adequate standard of living. The poverty level increases with family size to recognize the greater needs of larger families. Comparing the tax entry threshold to the poverty line provides one way to judge how the tax system treats low-income families.

Thanks to the temporary Recovery Rebate Credit in 2008 and the Making Work Pay credit (MWP) in 2009 and 2010, families in poverty have owed no federal income tax for the past three years. Families with children pay no federal income tax until their incomes reach twice poverty. If payroll taxes were included, the tax entry threshold would be reduced substantially. Because MWP expired at the end of 2010, some poor households will have to pay income tax in 2011. Although a one-year payroll tax cut partially replaced the MWP for 2011, that had no effect on the tax-entry point because payroll and income taxes are separate. MWP was larger than the payroll tax cut for most low-income workers, so the change raised total taxes on low-income households.

Relationship Between Tax Entry Thresholds and Poverty, Selected Years 1980-2010 (2010 dollars)							
	1980	1990	2000	2005	2008	2009	2010
Tax Entry Threshold After Credits (\$) ^a							
Single, No Children	8,733	8,842	10,477	10,876	15,145	13,614	13,401
Single, One Child	18,387	22,381	27,339	30,766	33,198	32,847	32,379
Single, Two Children	19,874	24,433	34,372	38,655	44,211	40,528	39,936
Married, No Children	14,290	15,933	16,399	18,315	30,286	27,142	26,704
Married, One Child	21,501	25,132	29,607	35,406	43,974	40,858	40,249
Married, Two Children	22,989	27,186	36,320	45,777	56,297	51,060	50,253
Tax Entry Threshold After Credits as a Percentage of Poverty ^a							
Single, No Children	77%	78%	92%	96%	134%	120%	118%
Single, One Child	122%	149%	182%	205%	221%	219%	215%
Single, Two Children	113%	139%	196%	220%	252%	231%	227%
Married, No Children	98%	109%	112%	125%	207%	186%	183%
Married, One Child	123%	143%	169%	202%	251%	233%	229%
Married, Two Children	104%	123%	164%	207%	255%	231%	227%
<p><i>Notes:</i> Assumes all income is wages, children qualify for EITC and CTC, and no childcare expenses. The tax entry threshold is the income level at which a household begins to owe income tax.</p> <p>^aCalculations include CTC and EITC in years in which they were effective. The CTC was first effective in 1998. The EITC for families with children was first effective in 1975; individuals with no children first claimed the EITC in 1994. Calculations include the Recovery Rebate Credit in 2008 and the Making Work Pay Credit in 2009 and 2010.</p> <p><i>Sources:</i> Tax entry thresholds calculated by Urban-Brookings Tax Policy Center; poverty thresholds from 1980 to 2010 from the U.S. Census Bureau.</p>							



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