

State Tax Systems Can Be Important Part of Safety Net

By Elaine Maag

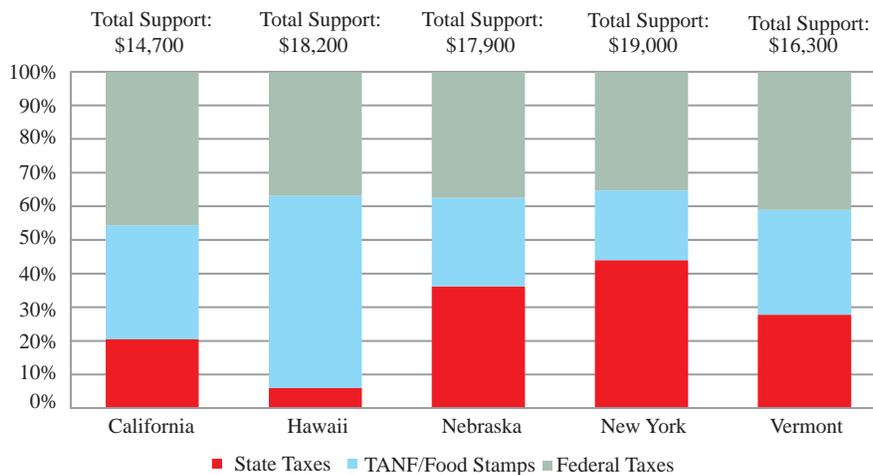
States play a varied role in protecting low-income families. Assistance for these families comes from traditional transfer programs such as the Supplemental Nutrition Assistance Program (SNAP — formerly Food Stamps) and Temporary Assistance for Needy Families (TANF). It also comes increasingly from work supports in the federal income tax system (primarily via the earned income tax credit) and, more recently from state income tax credits.

Using the Urban Institute’s Net Income Calculator, I examined the share of the transfer system that comes from state income tax returns for a single parent of two, working full time at the federal minimum wage in 2008. I included in my calculations SNAP, TANF, and state and federal income taxes. State and federal income taxes include money paid but also money received by families in the form of tax.

In total, the parent in this example earned just over \$15,000. This makes up the lion’s share of her resources. Added to that was just over \$6,700 in federal income tax credits, mostly from the EITC. The sum of her TANF and SNAP varied from a low of just over \$3,200 in many states to nearly \$10,400 in Hawaii. To that, state taxes ranged from subtracting more than \$200 in Alabama to adding more than \$8,300 in New York. In 12 states — Arkansas, California, Iowa, Louisiana, Maine, Maryland, Minnesota, Nebraska, New Mexico, New York, Oregon, and Vermont and the District of Columbia — state taxes accounted for more than 10 percent of all support. Another five states delivered between 5 and 10 percent of support to this family through state income taxes. To illustrate this variation, the chart shows the source of support in several states.

At a time when state income tax reform seems to be on the mind of many legislators, it’s important to remember that state tax credits can be an important source of work supports for low- and middle-income families.

Proportion of Transfers From State Income Tax, Federal Income Tax, and SNAP/TANF (Single Parent With 2 Children Working Full Time at the Minimum Wage (\$7.25))



Source: Urban Institute’s Net Income Calculator, available at <http://nicc.urban.org/NetIncomeCalculator/>. Calculations assume a single parent with two children who works full time (2,080 hours) at the minimum wage of \$7.25. Rent is the fair market rent reported for the largest country in the state. There are no other people in the household. Child care costs \$500 per month.