



# tax facts

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## Tax Burden on Poor Families Has Declined Over Time

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Families with children in poverty receive net subsidies from the federal income and payroll tax system, but that has not always been the case. In the 1970s, income tax filing thresholds were low, and even families in poverty who owed no income tax faced substantial payroll taxes.

Congress enacted a refundable Earned Income Tax Credit (EITC) in 1975 to offset some payroll taxes for low-income workers. In 1986, 1990, 1993, and 2001, lawmakers greatly expanded the credit for families and moderately for childless workers. The combination of EITC changes, increases in exemptions and deductions, indexation of tax brackets, and expansion of the Child Tax Credit (CTC) has substantially improved the tax treatment of poor families with children. (In 2002, the poverty threshold for a married couple with no children was \$11,940; the threshold increases to \$24,260 for families with four children.)

Over the last 30 years, the payroll tax burden has increased for low-income families. In 1970, employers and employees each paid 4.8 percent on the first \$7,800 of earnings. Currently, the tax rate is 7.65 percent, while the wage base is \$87,000 for Social Security and un-

limited for Medicare. Thus, unlike income taxes, payroll taxes are regressive — proportionally higher at lower income levels — although the benefits they finance are intended to be progressive.

In 1970, families of all sizes at the poverty threshold owed significant federal tax. (See Table.) Between 1970 and 2002, the combined income and payroll tax for a one-child family fell as a percentage of income from 9.0 percent to -11.9 percent. In contrast, the relatively high amount of payroll tax paid by a family of six at the poverty level (owing to their relatively higher earnings) was not offset completely by refundable income tax credits until 2000. The offset was largely due to the child tax credit enacted in 1997, made partially refundable for families with three or more children. The 2001 tax cut expanded the refundable portion of the child tax credit. By 2002, a married couple with two children faced a combined tax rate of -15.6 percent; with four children, their combined tax rate was -6.9 percent. We observe a similar pattern for single-parent households (not shown).

Significantly, taxes owed at the poverty level for a single adult or married couple with no children have remained nearly constant over this time period — and are much higher than those faced by families with children, particularly in 1990 and beyond. This reflects the subsidies for children in the tax code, present in both the exemptions and deduction related to family size and the larger tax credits available to families with children.

Share of Wages Paid at the Poverty Level for Individual Federal Taxes: Married Couples												
	Income Taxes by Number of Children				Payroll Taxes by Number of Children				Combined Income & Payroll Taxes by Number of Children			
	0	1	2	4	0	1	2	4	0	1	2	4
1970	5.9	4.2	3.7	2.5	4.8	4.8	4.8	4.8	10.7	9.0	8.5	7.3
1980	0.3	-5.9	-0.9	2.0	8.0	8.0	8.0	8.0	8.3	2.1	7.1	10.0
1985	2.4	-0.8	3.2	3.7	7.1	7.1	7.1	7.1	9.5	6.3	10.3	10.8
1990	0.0	-9.1	-5.3	-1.6	7.7	7.7	7.7	7.7	7.7	-1.4	2.4	6.0
1995	0.0	-15.8	-14.7	-6.3	7.7	7.7	7.7	7.7	7.7	-8.1	-7.0	1.4
2000	0.0	-15.6	-16.5	-7.6	7.7	7.7	7.7	7.7	7.7	-8.0	-8.9	0.0
2001	0.0	-18.3	-21.0	-13.3	7.7	7.7	7.7	7.7	7.7	-10.7	-13.4	-5.7
2002	-0.1	-19.5	-23.2	-14.5	7.7	7.7	7.7	7.7	7.6	-11.9	-15.6	-6.9

Source: 1970-1995, Sammartino and Toder, *Social Policy and the Tax System*, 2002; 2000-2002, Tax Policy Center.



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