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PRESS RELEASE

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INDIANA TAXING WORKING FAMILIES FURTHER INTO POVERTY

Indianapolis, IN – According to a new report, *The Impact of State Income Taxes on Low-Income Families 2008*, released by the Center on Budget and Policy Priorities (CBPP), Indiana is one of six states that taxes families in severe poverty. This means a two-parent family of four earning less than three-quarters of the Federal Poverty Guidelines in 2008 (\$16,513 for a family of four) pays more than \$200 a year in state income taxes in Indiana.

Additionally, another important measure of the impact of taxes on low-income working families is the income tax threshold — the point below which a family owes no income tax. In 2008, Indiana's state tax threshold for a single-parent with two children was \$14,500 and for a two-parent family of four was \$15,500. This means Indiana is taxing low-income families that are far below the Federal Poverty Guidelines which were \$17,165 for a family of three and \$22,017 for a family of four in 2008. These levels are also far below the average state income tax threshold in 2008 of \$21,700 for a family of three or \$25,500 for a family of four. Eliminating state income taxes on working families with incomes at the Federal Poverty Guidelines gives a boost in take-home pay that helps offset high costs of living and can make a meaningful contribution toward "making work pay."

However, this report only focuses on state income taxes. *The 2009 Self-Sufficiency Standard for Indiana* released earlier this month by the Indiana Institute for Working Families, a program of Indiana Community Action Association, measures how much income is needed for a family of a certain composition in a specific geographic location to adequately meet their basic needs without public or private assistance. According to the 2009 Standard in Marion County, the expenses for a family of four consisting of two adults, one preschooler, and one schoolage child amount to \$4,359 a month. Taxes (including federal and state income tax, payroll taxes, and state and local sales tax where applicable) for this family type amounts to 15 percent of their income, which is the third highest expense for this family type after childcare (25 percent) and housing (17 percent). It is equivalent to the proportion of income budgeted for food. Other expenses for this family type include transportation (11%), health care (10%), and miscellaneous expenses (8%). The tax burden on low-income families means they have less money in their pockets to pay for necessities such as childcare and transportation costs that families incur as they strive to become economically self-sufficient.

Some ways to alleviate this burden on low-income working families include raising the state income tax threshold to the Federal Poverty Guidelines, increasing the state Earned Income Tax Credit (Indiana's EITC is currently set at 9% of the federal EITC), increasing standard deductions and personal exemptions to adequate levels to protect families in poverty from taxation, and enacting a "no-tax floor" (which sets a dollar level below which families owe no tax but does not affect tax liability for families above that level). A \$20,000 no-tax floor, for example, means that a family making below that amount owes no taxes, but once income surpasses that level the tax is owed on all taxable income from one dollar up.

Given states' balanced budget requirements and current dire fiscal conditions, states will have limited opportunities to reduce taxes on low-income working families anytime soon. Nonetheless, removing the tax burden on low-income families should remain a priority for states that still have such taxes. Taxing the incomes of working-poor families runs counter to the efforts of policymakers across the political spectrum to help families work their way out of poverty. The federal government has exempted such families from the income tax since the mid-1980s, and a majority of states now do so as well.

To view CBPP's full report on state income taxes, please visit <http://www.cbpp.org/files/11-4-09sfp.pdf>.

To view the 2009 Self-Sufficiency Standard, please visit <http://www.incap.org/documents/FINAL%202009%20Indiana%20SSS%20Report%2010-26-09.pdf>.

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Indiana Community Action Association (IN-CAA)

The Indiana Community Action Association, Inc. (IN-CAA) is a statewide not-for-profit membership corporation, incorporated in the State of Indiana in 1970. IN-CAA's members or Network is comprised of Indiana's 24 Community Action Agencies (CAAs), which serve all of Indiana's 92 counties. IN-CAA envisions a state with limited or no poverty, where its residents have decent, safe, and sanitary living conditions, and where resources are available to help low income individuals attain self sufficiency.

Indiana Institute for Working Families

The Indiana Institute for Working Families, a program of the Indiana Community Action Association (IN-CAA), was founded in 2004 with generous support from The Joyce Foundation. The goal of the Institute is to help Hoosier families achieve and maintain economic self-sufficiency. The Institute is the only statewide program in Indiana that combines research and policy analysis on federal and state legislation, public policies and programs impacting low-income working families with education and outreach. The Institute achieves its work by focusing its activities in the following areas: public policy research and analysis; advocacy, education, and information; and national, statewide, and community partnerships.