



**Center for  
Economic Opportunity**

**TAXING THE POOR:  
RECENT INCOME TAX PROPOSALS AND  
THE POVERTY RATE IN NEW YORK CITY**

(all data is for New York City 2011 unless otherwise noted)

## An Alternative Poverty Measure

- *A measure of poverty that can identify the effect of policy on poverty.*
  - Capture more of what public programs do to support low-income families.
  - Compare the more complete measure of income against poverty thresholds that reflect the relatively high cost of living in New York City.

	Official	CEO
<b>Threshold</b>	Established in mid-1960s at three times the cost of "Economy Food Plan." Updated by change in Consumer Price Index. No geographic adjustment.	Equal to 33rd percentile of family expenditures on food, clothing, shelter and utilities, plus 20% misc. Updated by change in expenditures for the items in the threshold. Regional adjustment for housing costs.
<b>Resources</b>	Total family pre-tax cash income. Earnings, Investments, Transfer payments, if cash.	Total family <i>after-tax</i> income. Include value of in-kind benefits such as Food Stamps. Housing status adjustment. Subtract work-related expenses such as childcare and transportation costs. Subtract medical out-of-pocket.

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- What's wrong with current Poverty Measurement?
  - Threshold is untethered to any underlying rationale: No longer representative of what families spend on necessities; Has fallen relative to long-term rise in standard of living; Fails to account for inter-area differences in cost of living.
  - Definition of resources is out of date: Pre-tax cash omits tax credits and in-kind benefits that are an increasing share of what government provides to low-income families; CEO/SPM model includes better, more realistic measure of household resources and expenditures

# Using an Alternative Poverty Measure: Fiscal Policy, Stimulus Tax Credits and Recession

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## Actual and Hypothetical CEO Poverty Rates, 2007 – 2011: Eliminating the Tax Stimulus

(Numbers are Percent of the Population)

<b>A. Actual</b>	2007	2008	2009	2010	2011
<b>Poverty Rates:</b>					
Total CEO Income	19.8	19.0	19.7	20.9	21.3
<b>Net of:</b>					
Income Taxes	22.7	23.3	24.0	25.2	24.9
Payroll (FICA) Taxes	17.7	17.0	17.6	18.8	19.5
Combined Income & FICA Taxes	20.5	21.2	21.9	22.9	23.4
<b>Marginal Effects:</b>					
Income Taxes	-2.9	-4.3	-4.3	-4.3	-3.6
Payroll (FICA) Taxes	2.1	2.0	2.1	2.1	1.8
Combined Income & FICA Taxes	-0.7	-2.2	-2.2	-2.0	-2.1
<b>B. Hypothetical</b>					
<b>Poverty Rates:</b>					
Total CEO Income	N.A.	20.5	22.0	23.2	23.6
<b>Net of:</b>					
Income Taxes	N.A.	23.3	24.6	25.9	26.3
Payroll (FICA) Taxes	N.A.	18.2	19.6	21.0	20.9
Combined Income & FICA Taxes	N.A.	21.2	22.4	23.6	24.2
<b>Marginal Effects:</b>					
Income Taxes	N.A.	-2.8	-2.6	-2.7	-2.7
Payroll (FICA) Taxes	N.A.	2.3	2.4	2.2	2.7
Combined Income & FICA Taxes	N.A.	-0.7	-0.4	-0.4	-0.6

Source: American Community Survey Public Use Micro Sample as augmented by CEO.

Note: N.A. - Not applicable because hypothetical values were not calculated for 2007.

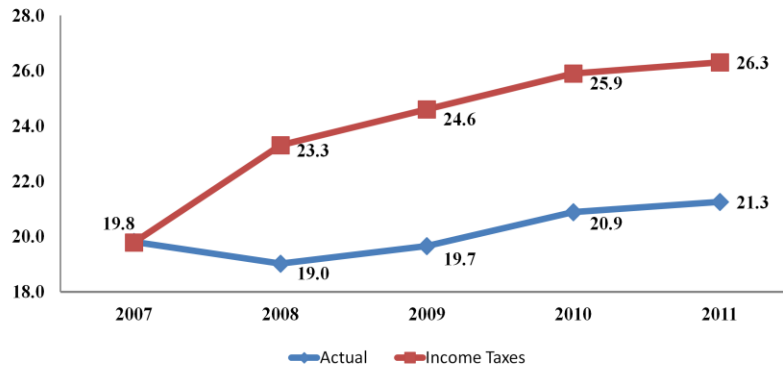
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Hypothetical = The poverty rate in the absence of tax stimulus programs. See Slide 7 for specific stimulus taxes.

## Had it Not Been For Policy Responses

**Actual and Hypothetical CEO Poverty Rates,  
without Stimulus Tax Credits, 2007-2011**  
(rates are percent of population)



Source: ACS PUMS as augmented by CEO.

# The Fiscal Cliff and Beyond: Tax Programs after 2012

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## Stimulus Tax Credits, 2011-2017: Fiscal Cliff Resolution becomes Obama tax proposal

STIMULUS CREDITS	2011	ELIGIBILITY REQUIREMENT		ATRA 2012	
		Work Required	Child Required	Made Permanent	Renewed to 2017
Recovery Rebate Credit (2008)					
Additional Standard Deduction for Real Estate (2008-2009)					
Additional Child Tax Credit Expansion (2008-2017) (Refundable Part of Child Tax Credit)	X	X	X		X
Making Work Pay Credit (2009-2010)		X			
Economic Recovery Payment (2009)					
EITC Marriage Penalty Elimination (2008 – ongoing)	X	X	X	X	
EITC Third Child Tier (2008-2017)	X	X	X		X
American Opportunity Credit (2009-2017) (Refundable Tuition Credit)	X				X
Payroll Tax Cut (2011-2012)	X	X			

Note: Two tax credit expansions that were implemented in 2001, prior to the recession, and extended through 2012 were also made permanent. The \$1,000 per child Tax Credit was scheduled to roll back to \$500, and the allowable amount of costs against the Child and Dependent Care Credit was scheduled to decline by \$600 per child.

Some stimulus credits were renewed in 2012 and extended to 2017, continuing to reduce poverty in working families with children.

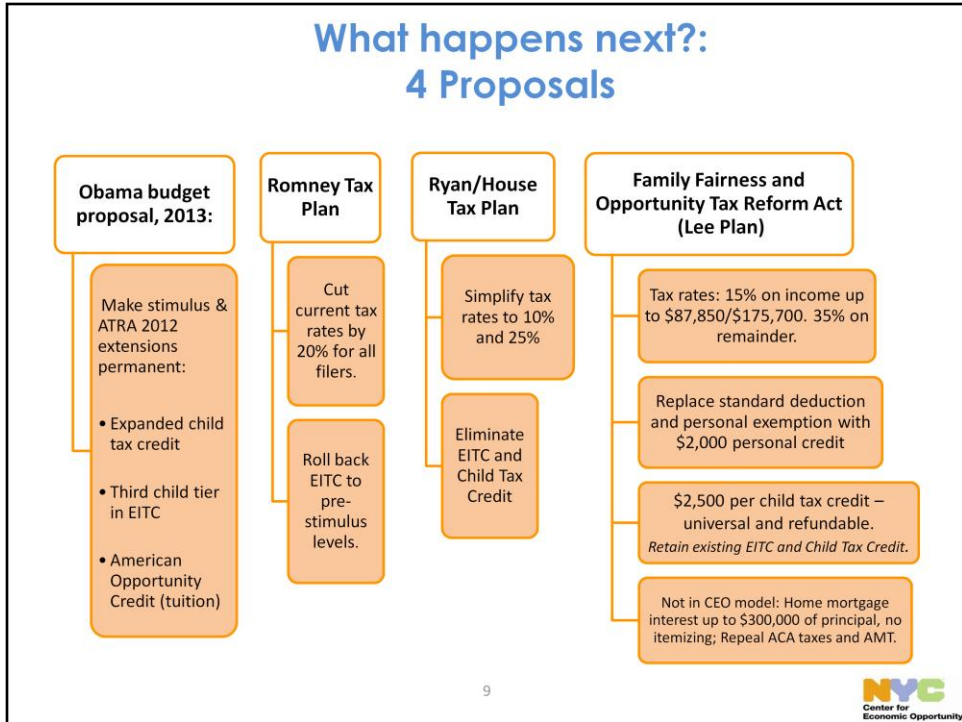
## What happens next?: Budget Proposals and the Poverty Rate

- Sequester cuts in Unemployment Insurance, WIC, Housing Supports → decline in CEO Income.
- No automatic cuts in tax credits. BUT: Proposals to cut/eliminate/expand EITC, Child Tax Credit
- Chained CPI could affect EITC levels by changing brackets and parameters.
- Shutdown affects annual household receipts of WIC, other subsidies → decline in CEO income.
- Local area poverty measure is a tool to measure effect of changes at federal level. (Over \$4 billion in tax relief to NYC families earning under \$50,000 in 2011.)
- Ongoing budget proposals include fiscal policy changes that affect poverty rate.

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## What happens next?: 4 Proposals



**Obama:** Generates poverty results similar to CEO Baseline – is same as 2011 taxes minus FICA tax cut.

**Romney:** <http://taxpolicycenter.org/taxtopics/romney-plan.cfm>

**Ryan:** Ryan 2013 assumptions based on consistent mentions in public discussion, see

<http://tax.cchgroup.com/downloads/files/pdfs/legislation/2014-Federal-Budget-Proposals.pdf> and

[www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=3869&DocTypeID=2](http://www.taxpolicycenter.org/numbers/displayatab.cfm?Docid=3869&DocTypeID=2). \*\*Note that CEO model halves tax rates to 5% for lowest bracket that is currently at 10%, biasing outcome to a bigger tax cut because language is repeatedly for “tax cut for all.”\*\*

**Lee:** [www.lee.senate.gov/public/index.cfm/2013/9/family-fairness-and-opportunity-tax-reform-act](http://www.lee.senate.gov/public/index.cfm/2013/9/family-fairness-and-opportunity-tax-reform-act). Includes higher tax rates for current lowest bracket, and lower standard deduction and personal exemption for all.

A note on mortgage deductions: 68,289 filers in poverty in NYC have mortgages; their mean home value=\$517,588. Only 13,117 filers in poverty have homes under \$300,000. This is 19.2% of filers in poverty with a mortgage. Of this group, 1,464 mortgages held by homeowners over 65.

ACA taxes are not included in 2011 tax model.

# Poverty Rates

	OBAMA	ROMNEY	RYAN	LEE
FULL CEO INCOME	21.9	23.4	26.8	18.8
NET INCOME TAXES	25.4	26.3	26.3	25.4
MARGINAL EFFECT INCOME TAXES	-3.5	-2.9	0.5	-6.6

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Obama plan poverty rate: Similar to retaining stimulus credits in CEO poverty rate without FICA cut

Romney plan poverty rate: Similar to rolling back stimulus credits.

Ryan plan poverty rate:

- Lowers tax rates on families that owe very little income tax after exemptions and deductions, lower rate has minimal effect.
- Removes refundable credits. The result is a net loss for low income families.

Lee plan poverty rate:

- \$2,000 credit is less than existing combined standard deduction and personal exemption, especially for seniors.
- Existing SD and PE are larger than taxes owed for many, full amount is not needed and \$2,000 often covers any taxes due.
- Bigger, fully refundable, child tax credit, adds to family resources, especially for families below the current \$3,000 cutoff for the refundable child tax credit.

## Poverty Rates by Age and Nativity/Citizenship

	OBAMA	ROMNEY	RYAN	LEE
<b>Age Group</b>				
Under 18	24.7	28.2	35.6	17.2
18 through 64	19.9	21.9	24.4	18.9
65 and over	22.4	23.5	24.1	22.3
<b>Nativity/Citizenship</b>				
Citizen by Birth	20.2	21.8	25.1	16.8
Naturalized Citizen	19.7	21.1	23.4	18.2
Not a Citizen	30.0	31.8	36.6	26.9

SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO.

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Lee Plan: Seniors lose benefits when SD and PE are cut. Some seniors fall into poverty, but a similar number live in extended households with children and move out of poverty based on household as unit of poverty measure. (see CEO reports referenced at end for details on poverty units) The net result is little change in overall poverty rate among seniors.

## Poverty Rates for Persons by Family Type

	OBAMA	ROMNEY	RYAN	LEE
<b>Husband Wife/Unmarried Partner</b>				
No Children Under 18	13.6	14.2	14.3	14.1
With Children Under 18	18.7	21.2	27.2	12.2
<b>Single Head of Household</b>				
No Children Under 18	20.3	21.7	23.1	19.5
With Children Under 18	31.8	34.4	41.9	24.2
Single Mother Family	33.2	36.0	43.8	25.6
<b>All Families with Children &lt; 18</b>	23.3	25.7	32.3	16.4
<b>Unrelated Individuals</b>	29.0	29.2	28.9	31.4

SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO.

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Little difference in poverty rate for households without children. Large and significant changes for households with children.

## Poverty Rate by Work Experience of Family

	OBAMA	ROMNEY	RYAN	LEE
2 Full-Time, Year Round Workers	5.4	6.0	8.2	4.6
1 Full-Time, Year-Round 1 Part-Time Worker	14.6	16.0	20.7	10.8
One Full-Time, Year-Round Worker	18.3	20.4	25.4	13.6
Less Than One Full-Time, Year-Round Worker	44.2	47.1	52.8	38.4
No Work	52.0	53.7	53.6	50.7

SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO.

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## Conclusions

- ❑ Tax stimulus alleviated poverty as incomes declined in the Great Recession.
- ❑ Program benefits were maximized in households containing working families with children, less so for those without work and childless.

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Note: An alternative version of the Lee plan notes that an entitlement program for families with children is an acceptable alternative to the additional child tax credit.

# Conclusions

❑ A universal, refundable child allowance alleviates poverty in all households where children are present.

ALL FAMILIES WITH CHILDREN UNDER 18	OBAMA	ROMNEY	RYAN	LEE
Two Full-Time, Year-Round Workers	6.1	6.8	10.6	3.9
One Full-Time, Year-Round, One Part-Time Worker	18.2	20.6	28.9	10.6
One Full-Time, Year-Round Worker	23.7	27.6	36.7	13.4
Less than One Full-Time, Year-Round Worker	48.3	53.0	64.2	34.0
No Work	74.6	77.3	77.4	69.2

SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO.

# Conclusions

❑ But the advantages of the Lee Plan are solely from adding a new child allowance. Omitting that credit raises the poverty rate:\*

	LEE	LEE, NO CHILD CREDIT
<b>POVERTY RATE</b>	18.8	24.4
Net of Income Taxes	25.4	25.4
Marginal Tax Effect	-6.6	-1.0
<b>POVERTY BY AGE</b>		
Under 18	17.2	28.2
18 - 64	18.9	23.3
65 and over	22.3	23.6
<b>FAMILY STRUCTURE</b>		
All Families with Children Under 18	16.4	26.2
Two Parent Family	12.2	22.0
Single Mother Family	25.6	35.5

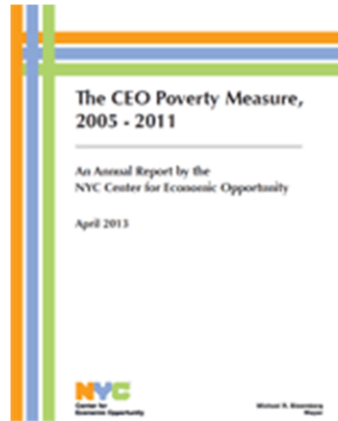
\*Does not include estimates for unitemized mortgage deduction, this would move a small number of households over the poverty line.  
SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO. 16



See notes to Slide 9 for details on families possibly affected by mortgage deduction.



For more information, see  
[NYC.GOV/CEO](http://NYC.GOV/CEO), Poverty Research



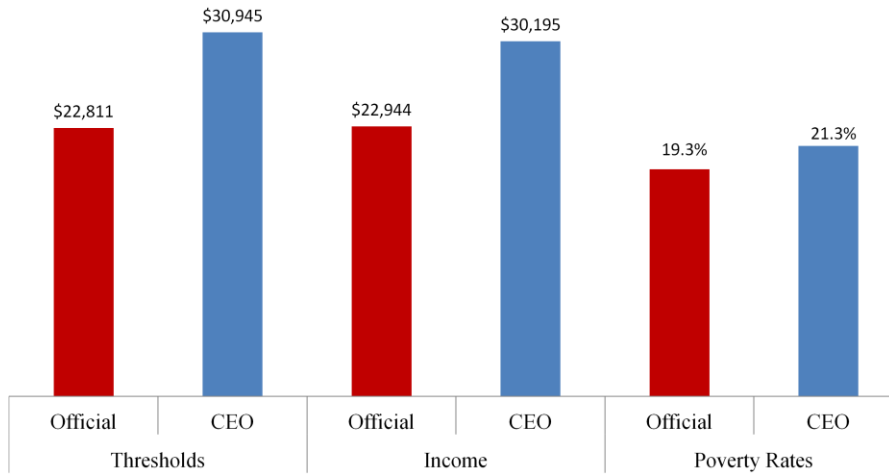
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EXTRA SLIDES:

## Comparing Thresholds, Incomes and Poverty Rates. NYC, 2011



Source: U.S. Bureau of the Census and American Community Survey Public Use Micro Sample as augmented by CEO.  
 Note: Incomes are measured at the 20<sup>th</sup> percentile and stated in family size and composition-adjusted dollars.

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## Stimulus Tax Credits, 2008 – 2011 & Fiscal Cliff Resolution

Tax/Credit	Years in Effect				Eligibility Requirement		ATRA 2012	
	2008	2009	2010	2011	Work Required	Child Required	Made Permanent	Renewed to 2017
Recovery Rebate Credit	X							
Additional Standard Deduction for Real Estate	X	X						
Additional Child Tax Credit Expansion (Refundable Part of Child Tax Credit)	X	X	X	X	X	X		X
Making Work Pay Credit		X	X		X			
Economic Recovery Payment		X						
EITC Marriage Penalty Elimination		X	X	X	X	X	X	
EITC Third Child Tier		X	X	X	X	X		X
American Opportunity Credit (Refundable Tuition Credit)		X	X	X				X
Payroll Tax Cut				X	X			

Note: Two tax credit expansions that were implemented in 2001 and extended through 2012 were also made permanent. The \$1,000 per child Tax Credit was scheduled to roll back to \$500, and the allowable amount of costs against the Child and Dependent Care Credit was scheduled to decline by \$600 per child.

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Some stimulus credits renewed 2012, extended to 2017, continuing to reduce poverty in working families.

## Poverty Rates: Race and Gender

	OBAMA	ROMNEY	RYAN	LEE
<b>Gender</b>				
Male	20.8	22.3	25.4	17.9
Female	22.9	24.5	28.1	19.9
<b>Race/Ethnicity</b>				
Non-Hispanic White	15.8	16.4	18.2	13.9
Non-Hispanic Black	22.2	23.4	26.9	19.3
Non-Hispanic Asian	27.3	29.4	33.0	23.5
Hispanic, Any Race	26.0	28.6	33.7	22.2

SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO.

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## Poverty Rates: Educational Attainment

	OBAMA	ROMNEY	RYAN	LEE
<b>Working Age Adults 18-64 By Educational Attainment</b>				
Less than High School	32.7	35.3	40.0	22.7
High School Degree	25.6	27.1	30.4	22.8
Some College	17.3	18.0	20.8	18.7
Bachelor's Degree or Higher	9.7	9.9	10.5	11.1

SOURCE: American Community Survey Public Use Microsample, 2011, as augmented by CEO.

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