New England Journal of Public Policy

Volume 7 | Issue 1 Article 8

3-21-1991

Tax to Grind: Unequal Personal Income Taxation of Massachusetts Single-Parent Families and Options for Reform

Randy Albelda
University of Massachusetts Boston, randy.albelda@umb.edu

Tax to Grind

Unequal Personal Income Taxation of Massachusetts Single-Parent Families and Options for Reform

Randy Albelda

While Massachusetts households headed by single parents have, on average, less income than other types of families, they are subject to the same effective income tax rate as the population as a whole. Consequently, such head-of-household families are victims of inequitable tax treatment in two ways. First, their current personal exemptions result in a higher tax burden on these families than on families of the same size and income who file joint income tax returns. Second, head-of-household families, defined as single filers, must apply a lower no-tax threshold than joint filers, even though the former are also composed of two or more persons. Both tax provisions translate to less tax relief for many low-income families than other low-income filers, yet they can easily be remedied at a relatively low cost to the commonwealth. This article presents data on the 1988 tax burdens of single, joint, and head-of-household filers and suggests three options for tax reform to correct these inequities.

This article addresses several Massachusetts income tax equity issues as they relate particularly to families with dependent children headed by one adult. (The federal tax code refers to these as head-of-household families.) The current income tax treatment of these families subjects many, especially those at low-income levels, to substantially higher effective tax rates than joint filers, and presents serious violations to the desirable principle of income tax equity. This implicit family policy penalizes single-parent families in Massachusetts.

Three personal income tax reforms directed primarily at single-parent families would promote considerable tax equity. Significantly, these proposals would represent a relatively small loss of revenue to the commonwealth. In adopting them, Massachusetts would join the federal government and a number of states with income taxes that have already enacted such changes.

In 1970, 11.0 percent of all Massachusetts families with children under eighteen were headed by females. By 1980 that percentage had grown to 18.2 percent.[1] Not only are many more families headed by single parents, but these families are more likely to be poor than other families. A 1986 report on poverty in Massachusetts reveals the extent to

Randy Albelda, assistant professor of economics at the University of Massachusetts at Boston, has served as research director of the Massachusetts Senate Taxation Committee and the Massachusetts state legislature's Special Commission on Tax Reform.

which the ranks of those whose income is below the federal poverty level are disproportionately composed of women and their children. The author of the report, Andrew Sum, estimates that the percentage of persons in poor families that were headed by single women increased from 42.9 percent to 67.8 percent between 1970 and 1985.[2]

Currently, single-headed female households have lower average income, adjusted for family size, than married couple families with or without children, single persons, or families headed by persons sixty-five years or older.[3] Despite increases in earnings income, single mothers have seen government transfer income cut dramatically since 1973. The net result is slow average growth in total income. However, since most of the government transfers single mothers receive are not taxable, the percentage of taxable income for head-of-household families has increased. These trends — larger numbers of single-headed families and a bigger percentage of their income being taxable — have resulted in single-parent families facing larger tax burdens than other low-income families of similar size but headed by married couples and even higher than many elder single and joint filers with smaller families and larger incomes.

Income taxes are the most effective redistributive tax instrument. Equity, both horizontal (treating similar families similarly) and vertical (taxing on an "ability to pay" basis) are desirable policy goals that are most easily achieved with income taxes. A strong case can be made for states to structure their income taxes to provide as much equity as possible, because other revenue instruments, namely, sales, property, and excise taxes and fees and charges, cannot.[4] Since the income tax is one of the few tax instruments that can completely exempt poor households from taxation, policymakers should take special care in adjusting this feature of the income tax system.

Federal tax reform in 1986 did make adjustments to the personal income tax code that included provisions which reflect changes in U.S. family structure, modern labor force patterns, and growing tax burdens on the poor. A head-of-household standard deduction was added, the earned income tax credit was increased, and the standard deduction and personal exemptions were boosted and indexed to inflation beginning in 1989. The changes removed many of the poor from tax rolls and allowed single parents the largest tax reduction among all family types.[5]

Massachusetts's general concern over the equity of income tax liability and protection of low-income families is demonstrated by its relative standing among the states. In 1988 only twelve states and the District of Columbia had a higher tax threshold for a family of four.[6] However, Massachusetts state tax policy generally does not take into account the significant evolution in the structure of the family, particularly the growth of families with dependent children headed by one adult.[7] Consequently, the commonwealth's own policy of providing relief from income taxation for some families is not being fully realized and in fact penalizes head-of-household families.

The first of my recommended reforms, establishing a head-of-household exemption, would assure that families with the same number of people receive the same amount of personal and dependent exemptions. The second reform, adjusting the no-tax status (NTS) — income tax threshold — for family size would correct the current practice of taxing families whose income is below the official poverty line, most of which are headed by females. The third reform, automatically adjusting the no-tax status (as amended above) to the inflation rate would ensure that no poor family faces income tax liabilities.

The suggested reforms will result in relatively minor changes in tax liabilities overall, as they largely affect taxpayers with modest obligations, and as such have a relatively small impact on tax revenues. This fact does not diminish the importance of these proposals: even a small income tax liability for a very low-income parent struggling to support her family is difficult and counterproductive in terms of the state's efforts to encourage the employment of single- and two-parent families. Although the burden imposed by the income tax may be small, with a few relatively minor adjustments that burden can effectively be eliminated. Hardship can be avoided while tax equity can be enhanced.

Since 1988, many state and local services have been and are being severely cut, tax revenues have fallen short of predicted levels, and the legislature has passed several new taxes, fees, and charges, Tax reform proposals that would decrease state tax revenues, such as those presented here, may seem capricious or misplaced. However, the fiscal crisis does not belie the importance of establishing tax equity for some of the most vulnerable families in the commonwealth. Just the opposite is true. Tax equity for these families takes on greater significance as low-income families — especially single parents — are facing some of the most severe cuts in state-financed programs and are hard hit by the most recent revenue-raising legislation — increased income tax rates, gasoline excise, and various fees and charges. For a relatively small price the state can and should relieve these families of some of their unfair income tax burdens.

Current Taxation of Heads of Households

Data on tax burdens of low-income families in Massachusetts is difficult to obtain. While actual data from tax returns would be the most desirable, it has severe limitations. Department of Revenue (DOR) data is based on actual tax returns that report adjusted gross income (AGI) for families that file returns. However, DOR data on poor families is distorted for two reasons. First, AGI excludes most money income from the government such as Social Security benefits, Supplemental Security Income, and Aid to Families with Dependent Children (all primary sources of income for low-income families). Second, many families that fall below the no-tax status do not bother to file returns. An alternative source is annual income data on Massachusetts residents extracted from Current Population Survey (CPS) collected by the Commerce Department. Despite problems associated with self-reporting of income, it is a better source for information on low-income families.

All the tax burden data reported here is generated from the Massachusetts Tax Simulation Model developed by Tufts University economist Andrew Reschovsky and Hunter College economist Howard Chernick, which is used extensively by the legislature and executive office in the state to understand the distributional effects of tax policy in Massachusetts.[8] Their model uses 1987 CPS data, adjusted for inflation to 1988, and applies the Massachusetts income tax provisions for 1988 to families from the sample.[9] Much of the data, analysis, and tax reform options presented here were developed for the Massachusetts legislature's Special Commission on Tax Reform in 1989.[10]

Head-of-household families represented 6.4 percent of total filing units in Massachusetts in 1988.[11] A head of household is defined, by the Internal Revenue Service, as a single taxpayer maintaining a home for over half the year for a child, grandchild, or any dependent, regardless of age, or separated taxpayers maintaining a home for a dependent child. Despite the significantly greater incidence of poverty among single-parent households, in Massachusetts these households generally bear average tax burdens that are higher than average at every income level but two, in which they are equal. Table 1 depicts the percentage of all units, average tax liability, and average tax burden (tax liability as a percentage of total money income) of all tax filers in 1988 and those of single-head-of-household filers.

Head-of-household filers at income levels above $5,000 and below $15,000 (which represent 28 percent of all such filers) have particularly high average tax liabilities relative to all filers. For those with money and income between $5,000 and $9,999, head-of-household filing units face a tax burden 50 percent greater than all families and have a 23.5 percent higher burden than that of all filing units in the $10,000 to $14,999 income range.

One reason the tax burden on low-income head-of-household families differs from other households is because 45 percent of all filers with total income below $15,000 are sixty-five years and older and eligible for considerable income tax protection. Those filers have substantially lower income tax liabilities because a much larger portion of their income, specifically Social Security benefits, is not subject to taxation. Elder filers also receive an additional $700 personal exemption. These sources of horizontal inequity reflect tax policy that aims to protect low-income seniors from personal income taxation. That particular policy is not questioned here.

However, two other sources of inequity in the Massachusetts state personal income tax system penalize head-of-household families and should be reformed. One is that the current levels of personal exemptions penalize single-parent filers in that joint filers receive higher exemptions for families of the same size at any income level. The other is that joint filers are exempt from income taxation at a level that is 50 percent higher than that of head-of-household families. These two provisions in the tax system can be changed to

Table 1

Percentage of Filing Units, Average Personal Income Tax Liabilities, and Tax Burdens for all Massachusetts Residents and Head-of-Household Filing Units, 1988*

	Percentage of Filing Units		Average Tax Liability		Average Tax Burden	
Total Money Income	Total Filers	HoH Filers	Total Filers	HoH Filers	Total Filers	HoH Filers
Less than $5,000	5.8%	3.9%	$ 0	$ 0	0.0%	0.0%
$5,000–9,999	13.0	12.9	15	31	0.2	0.3
$10,000–14,999	11.3	15.3	219	269	1.7	2.1
$15,000–19,999	10.3	9.6	455	494	2.6	2.7
$20,000–24,999	9.6	19.0	693	679	3.1	3.1
$25,000–29,999	7.7	13.7	934	1,031	3.4	3.7
$30,000–34,999	6.7	7.1	1,160	1,273	3.6	3.9
$35,000–39,999	5.6	7.5	1,432	1,552	3.8	4.1
$40,000–44,999	5.1	3.2	1,662	1,819	3.9	4.4
$45,000–49,999	4.2	2.5	1,942	1,994	4.1	4.2
$50,000–74,999	12.4	4.1	2,570	2,519	4.3	4.3
$75,000 and over	8.2	1.0	5,911	6,012	4.7	6.0
Total	100.0%	100.0%	$1,341	$ 847	2.8%	2.8%

*Includes filers with zero tax liability.

Source: Andrew Reschovsky, Massachusetts Income Tax Simulation Model with data from the March 1987 Current Population Survey.

remedy the unfair tax burdens faced by head-of-household families. It is to those options for tax reform I now turn.

Creating a Head-of-Household Personal Exemption

Effective in 1987, Massachusetts single filers were allowed a $2,200 personal exemption and joint filers a $4,400 personal exemption. In addition, all filers are allowed a $1,000 exemption for each dependent. Personal exemptions were originally established to protect from taxation a minimum amount of income needed for the purchase of necessities.[12] While nowhere near the levels necessary to shield a minimum needed for subsistence (at least measured by the poverty level), personal exemptions afford all filing units protection of some amount of income from taxation and add progressivity to the income tax system.

The dependent exemption is the major feature of the income tax, which adjusts taxable income for the increased expenses associated with family size. For example, a childless couple with a combined income of $25,000 receives fewer exemptions ($4,400) than a couple with three children whose income is also $25,000 ($7,400 in exemptions). Single-parent heads of households are entitled to the personal exemption allowed to single filers ($2,200) plus dependent exemptions. Thus, under current law, single parents are entitled to fewer personal exemptions than two-parent households of equal size. For example, a family of three comprised of a joint filer with one child receives $5,400 worth of exemptions, while a family of three comprised of a single head of household and two children receives $4,200 worth of exemptions. If these families had identical incomes and deductions, the single head of household would face a tax liability on earned income that is $60 more than the joint-filer family of the same size.

Expenses for a head of household are comparable to those of a married couple with the same size household, as pointed out repeatedly at the hearings before the U.S. Senate Finance Committee and the Subcommittee on Select Revenue Measures of the U.S. House Committee on Ways and Means during the debates preceding the 1986 federal tax reform.[13] According to a survey conducted by the Bureau of Labor Statistics and cited by the National Women's Law Center and the Women's Equity Action League in its testimony before Congress, the cost of a budget for a family headed by a single parent is very close to and often greater than the cost of a budget for the same size family headed by a married couple.[14] The federal poverty level for a head of household with one dependent (in Massachusetts, this family is entitled to $3,200 in personal exemptions) is higher than for a married couple with no dependents (in Massachusetts, this family is entitled to $4,400 in personal exemptions).

The federal government, Washington, D.C., and nineteen states treat head-of-household filers more favorably than single filers by either allowing them a higher personal exemption, a higher standard deduction or credits, or by applying differential tax rates to head-of-household and single filers.[15] The 1986 Federal Tax Reform Act revised the federal standard deduction with respect to household status, with the deduction being adjusted for inflation beginning in 1989.

Using the Massachusetts Tax Simulation Model, Reschovsky estimates that there are 148,830 Massachusetts head-of-household filing units with positive tax liabilities. This represents 81.6 percent of all head-of-household filing units, compared to the 74.2 percent of *all* filing units with positive income tax liabilities. This despite Reschovsky's finding that in 1987 a Massachusetts family headed by a single woman was eighteen times

Table 2

Average Personal Income Tax Liabilities and Tax Burdens and Percent Reduction of Tax Liability with a $3,400 Personal Income Tax Exemption for Head-of-Household Filing Units, 1988*

Total Money Income	Average Tax Liability	Average Tax Burden	Percent Reduction in Tax Liability
Less than $5,000	$ 0	0.0%	0.0%
$5,000–9,999	28	0.3	9.7
$10,000–14,999	225	1.7	16.4
$15,000–19,999	445	2.5	9.9
$20,000–24,999	623	2.8	10.6
$25,000–29,999	971	3.5	5.9
$30,000–34,999	1,213	3.7	4.9
$35,000–39,999	1,492	4.0	3.9
$40,000–44,999	1,759	4.2	3.4
$45,000–49,999	1,934	4.1	3.1
$50,000–74,999	2,459	4.2	2.6
$75,000 and over	5,952	6.0	1.0
Total	$ 801	2.6%	5.4%

*Includes filers with zero tax liability.

Source: Andrew Reschovsky, Massachusetts Income Tax Simulation Model with data from the March 1987 Current Population Survey.

more likely to be poor than a two-parent family with dependents under age eighteen. An increase in the personal exemption for a head of household to $3,400 from its current $2,200 level would assure identical treatment for families of the same size, irrespective of the status of the filing unit. Therefore, with this new exemption level, any family of three (all under age sixty-five) would be allowed $5,400 for personal exemptions (for joint filers, $4,400 + $1,000; for a head-of-household filer, $3,400 + $2,000).

Table 2 depicts the impact on tax burdens by increasing the personal exemption for heads of households to $3,400. The average tax burden for head-of-household filing units would decrease by 5.4 percent. Reschovsky has estimated the total cost (lost income tax revenue) of this proposal to be $8.4 million on 1988. This represents a reduction of about two tenths of one percent of the total income tax revenue collected in fiscal year 1988. While the dollar decrease in tax liability seems relatively small, it represents a substantial portion of the total income tax burden for low-income families.

With a new exemption level of $3,400, tax burdens for head-of-household filers approach those of all units in any particular income range. While the *percentage* reduction in tax burdens is greatest for head-of-household families in income ranges above $5,000 and below $25,000, the *average tax liability,* compared to all filers, is still large.

Massachusetts Family Income and Low-Income Protection: The No-Tax Status and Limited-Income-Tax Reduction Credit

The Massachusetts income tax includes a provision establishing an income level, based on adjusted gross income (AGI), below which no tax is paid. No-tax status (NTS) was intro-

Table 3

Distribution of Filing Units Eligible for No-Tax Status and Limited Income Tax Reduction Credit by Total Gross Income and Total Income Massachusetts Residents, 1988

	Filing Status					
	Single		Joint		Head of Household	
No-Tax Status	Number Eligible	% in Income Range	Number Eligible	% in Income Range	Number Eligible	% in Income Range
Adjusted Gross Income						
Less than $5,000	408,120	100%	107,980	100%	17,910	100%
$5,000–9,999	108,530	62	60,370	100	13,510	56
$10,000–14,999	0	0	13,950	26	0	0
Total	516,650	37%	182,300	15%	31,420	17%
Total Money Income						
Less than $5,000	139,510	100%	17,510	100%	7,070	100%
$5,000–9,999	272,160	86	27,570	100	16,840	71
$10,000–14,999	77,070	34	50,430	79	4,400	16
$15,000–19,999	16,350	8	46,160	61	1,050	6
$20,000 and over	11,560	2	40,630	4	2,060	2
Total	516,650	37%	182,300	15%	31,420	17%
Limited Income Tax Reduction Credit*						
Adjusted Gross Income						
Less than $5,000	0	0%	0	0%	0	0%
$5,000–9,999	66,810	100	0	0	9,530	88
$10,000–14,999	102,030	54	38,420	95	4,710	18
$15,000–19,999	0	0	22,850	44	0	0
$20,000–24,999	0	0	1,950	3	0	0
Total	168,840	28%	63,220	38%	14,240	16%
Total Money Income						
Less than $5,000	0	0%	0	0%	0	0%
$5,000–9,999	45,080	100	0	0	5,480	81
$10,000–14,999	86,940	60	12,120	91	4,880	21
$15,000–19,999	26,550	14	11,590	40	2,870	17
$20,000 and over	10,270	2	39,510	4	1,010	1
Total	168,840	28%	63,220	38%	14,240	16%

*For filers with positive tax liabilities.

Source: Andrew Reschovsky, Massachusetts Income Tax Simulation Model with data from the March 1987 Current Population Survey.

duced by Chapter 555 of the Acts of 1971, although Massachusetts has always had some mechanism for limiting the tax liability of low-income families. Since 1987 the NTS threshold has been set at $12,000 for married couples filing jointly and $8,000 for all other individuals and families. The NTS has been raised four times from its original levels of $3,000 for single filers and $5,000 for joint filers established in 1971. All four changes have been initiated since 1983.[16]

The most recent change (Chapter 488 of the Acts of 1986) increased the no-tax status threshold and resulted in the number of low- and moderate-income filers benefiting from higher no-tax thresholds almost doubling from 462,537 to 892,250 filers.[17] Also in 1986, the NTS provision was amended to include the limited income tax reduction credit (LITRC). The LITRC prohibits tax liabilities on AGI above the NTS threshold from exceeding 10 percent. For example, the maximum tax liability a joint filing unit with total AGI of $14,000 could face is $200 (10 percent of $2,000). The provision effectively reduces the tax rate on low- and moderate-income filing units and avoids tax treatment that might penalize work effort. Eligibility for the LITRC is based on the NTS thresholds, so that joint filers with incomes over $12,000 are eligible while single and head-of-household filers with incomes over $8,000 are eligible.

Currently a little over one quarter of all filing units in the commonwealth are eligible for NTS. The distribution of NTS filers by household and income is presented in the top half of Table 3. The disparity between head-of-household filers and others is striking. Despite having a minimum of two family members, all joint filers with income below $10,000 are eligible for NTS, while only 56 percent of head-of-household filers are eligible. A higher percentage (62 percent) of one-person single filing units are eligible for NTS with AGI less than $10,000 than are single filers who have two or more persons in their households.

A similar pattern emerges with eligibility for the LITRC. The bottom half of Table 3 depicts filing units eligible for the LITRC by filing status and as a percentage of all filers with positive tax liabilities eligible for LITRC. While 95 percent of all joint filers (at least two family members) and 54 percent of all single-member households with AGI between $10,000 and $15,000 are eligible for the LITRC, only 18 percent of head-of-household families are. Of all head-of-household families with positive tax liabilities, 16 percent are eligible for a tax reduction through the LITRC, while 38 percent of joint filers and 28 percent of single filers are eligible.

The current NTS thresholds give rise to several inequities that result in the skewed eligibility presented in Table 3. First, families of the same size are treated dissimilarly, based on whether the family is headed by a single parent or a married couple. The NTS threshold for single-parent families is the same as that for single filers. The result is that families of the same size and same income could face drastically different income taxation, depending on the marital status of the head. Currently, for example, the $8,000 NTS threshold is applicable to a single mother with four children, while a married couple with no dependents can qualify for NTS if its adjusted gross income is below $12,000. As a result, many low-income families are not eligible for NTS.

A second inequity arising from the current NTS and LITRC eligibility affects all low-income families, not just heads of households. Because NTS and the LITRC are not adjusted for family size, larger families are subject to tax liabilities while smaller families with the same per capita income are protected. For example, a joint-filing unit with no children is eligible for NTS status when its AGI is $12,000 (or per capita income of $6,000) while a joint-filing unit with three children and an AGI of $15,000 (a per capita AGI of $3,000 per year) is not.

The combination of defining head-of-household families as single filers and the unitary NTS threshold for joint filers obscures the relationship of the NTS provision to poverty levels. Table 4 presents the 1988 thresholds, poverty levels, and their ratios for different family types. In that year a family of three comprised of a head of household and two children could have had an adjusted gross income that is 83.9 percent of the poverty line and not have been eligible for NTS, while a family of two comprised of a couple filing jointly with an adjusted gross income of up to 151.5 percent above the poverty level would have been eligible for NTS. Under the current rules, single parents and married couples with large families can easily face positive tax liabilities even though their income is below the poverty level.

Adjusting NTS and the LITRC to Family Size

The problems outlined in the section above are easily remedied by adjusting the NTS to family size. It should be noted that adjusting NTS thresholds would in turn establish different levels of LITRC for filing units of different sizes as well. The AGI threshold applied to single filers in determining NTS would not change, since no adjustment for family size is necessary.

On the federal level, as of the 1986 Tax Reform Act, a no-tax threshold for heads of households corresponds to family size. Prior to that act, the federal no-tax threshold for single-parent households was the same as for single individuals, just as it now is in Massachusetts. The change was made at the federal level because it was recognized that heads of households with dependents had expenses equal to and in many cases in excess of the expenses faced by those filing joint returns who had no dependents. For example, the 1986 federal tax reform changes raised the no-tax threshold for head-of-household filers with two and four dependents by 57 percent and 63 percent, respectively.[18]

If joint and head-of-household filers would apply an NTS threshold to AGI equal to and below $7,600 plus their personal exemptions (assuming a $3,400 personal exemption for heads of households, as suggested earlier) and dependent exemptions, all families currently eligible for NTS would remain so and families with poverty level incomes or below would have faced no personal income tax liabilities in 1988.

Using the NTS threshold suggested above, the minimum level of $12,000 NTS for joint filers with no dependents ($7,600 + $4,400 = $12,000) still holds. But with its NTS adjusted as above, a family of three would have the same NTS threshold, regardless of composition; a couple with one child would face an NTS with AGI at or below $13,000

Table 4

No-Tax Status as a Percentage of Poverty Level by Household Type, 1988

Household Size	Household Type	1988 Poverty Level	1988 NTS	NTS as a % of Poverty Level
1	Single, no dependents (under 65)	$ 6,115	$ 8,000	130.8%
1	Single, no dependents (65 and over)	5,674	8,000	141.0
2	Head of household, 1 dependent	8,153	8,000	98.1
2	Married couple, no dependents	7,921	12,000	151.5
3	Head of household, 2 dependents	9,530	8,000	83.9
3	Married couple, 1 dependent	9,520	12,000	126.1
4	Head of household, 3 dependents	12,037	8,000	66.5
4	Married couple, 2 dependents	11,996	12,000	100.0

Source: Poverty levels from U.S. Department of Commerce, Bureau of the Census, *Money Income and Poverty Status in the United States, 1988,* Current Population Reports, 1989, P-60, no. 166.

Table 5

Average Personal Income Tax Burdens with Head-of-Household Exemptions and NTS Adjusted for Family Size, by Family Type, 1988*

Total Income	Total	Single	Joint	Head of Household
Less than $5,000	0.0%	0.0%	0.0%	0.0%
$5,000–9,999	0.1	0.2	0.0	0.0
$10,000–14,999	1.6	2.1	0.1	0.5
$15,000–19,999	2.5	3.2	0.8	2.0
$20,000–24,999	3.1	3.8	1.9	2.8
$25,000–29,999	3.4	3.9	2.6	3.5
$30,000–34,999	3.5	4.2	3.0	3.7
$35,000–39,999	3.8	4.2	3.5	4.0
$40,000–44,999	3.9	4.4	3.7	4.2
$45,000–49,999	4.1	4.6	3.9	4.1
$50,000–74,999	4.3	4.8	4.2	4.2
$75,000 and over	4.7	4.9	4.7	6.0
Total	2.7%	2.4%	3.2%	2.3%

*Includes filers with zero tax liability.

Source: Andrew Reschovsky, Massachusetts Income Tax Simulation Model with data from the March 1987 Current Population Survey.

($7,600 + $4,400 + $1,000) as would a single mother with two children ($7,600 + $3,400 + $2,000). Filers would be eligible for the limited income tax reduction credit for income tax liabilities that exceed 10 percent of their AGI above the NTS adjusted for family size.

Adjusting NTS for family size in this way increases the percentage of filing units eligible for NTS slightly from 26 percent to 28 percent and increases the percentage of filing units eligible for the limited income tax rate credit from 8.7 percent to 9.1 percent. The total cost of this option in 1988 would have been $13.6 million. The revenue lost as a result of such a change represents a decrease of one third of one percent of total income tax collections in fiscal year 1988.

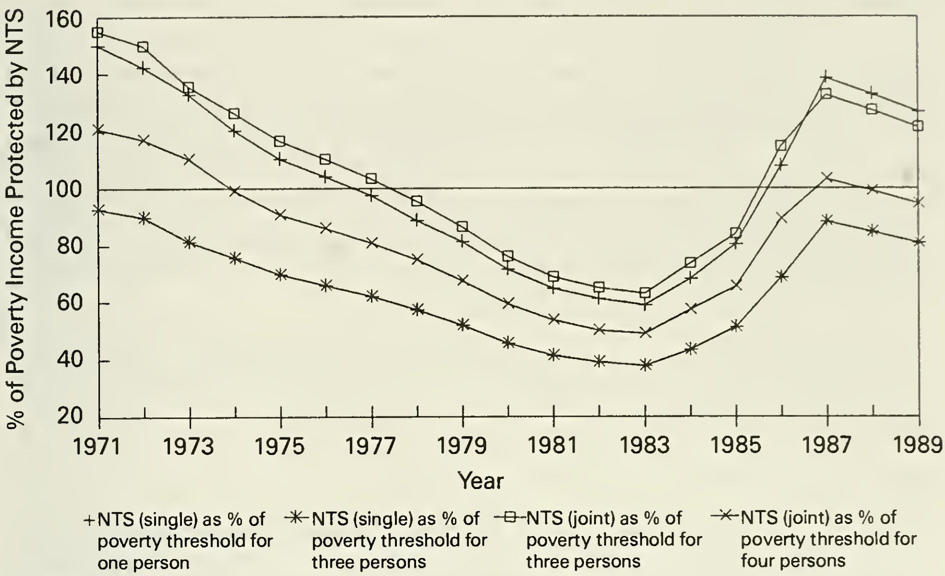
By adjusting the NTS figure to family size, over two thirds of the new filing units eligible for NTS would be heads of households, and the number of two-earner families that are now currently eligible would double. The impact of such an adjustment would be a net increase of 13,060 (5 percent) over the number of families currently eligible for the LITRC, with the majority of those coming from families with an AGI between $15,000 and $20,000. The proposal preserves the intent of the current rationale for NTS with much more equity for low-income two-parent families in which both parents work and for head-of-household families.

Table 5 depicts the tax burdens by family type after adjusting the NTS threshold for family size and allowing a higher personal deduction for a head of household. Together, these proposals accomplish much of the desired tax equity for head-of-household families, particularly those of low income. As the table indicates, the average tax burden for head-of-household filers is about that of single filers. The tax burdens for single-parent families with incomes below $15,000 would be virtually eliminated.

The combined effect of the two proposals would reduce tax burdens for head-of-household filers by close to 18 percent at a total cost to the commonwealth of $22 million.

Figure 1

NTS as a Percentage of Poverty Thresholds
Various Filing Units, 1971–1987



Source: Poverty levels from U.S. Department of Commerce, Bureau of the Census, *Poverty in the United States, 1987,* Current Population Reports, 1989, P-60, no. 163, 157. Poverty rates were adjusted for inflation using CPI.

Adjusting NTS to Inflation

While adjusting NTS to family size will eliminate the possibility of requiring families with incomes below the poverty level to pay income taxes, it will only do so for a short time. Poverty-level thresholds are officially adjusted for inflation every year. Yet because the NTS threshold is fixed by statute, it does not increase with price levels.

Despite the intent of NTS legislation, it has not consistently protected filing units below the poverty level from taxation in the past. Figure 1 depicts the NTS level as a percentage of poverty thresholds for four families of different sizes and filing status for the years 1971–1989. Despite generous increases in NTS in recent years, less income as a percentage of poverty threshold is protected by the NTS figure today than it was in 1971 for each filing status and size. For a single-unit household, the NTS level was set below the poverty threshold from 1977 until 1986. For a couple with two children, the NTS threshold was below the poverty line from 1974 through 1986 but has since dipped below it. A single mother with two children has never benefited from an NTS threshold above her family's poverty threshold, and in 1983 the NTS threshold protected less than 40 percent of poverty threshold income.

The legislative history of changes in the NTS threshold correspond to the existence of budget surpluses. Unfortunately, poverty levels do not rise only when there are budget excesses. The only means of protecting poor families from income tax is to automatically adjust the NTS level to the inflation rate. The cost of such a proposal to the state is the forgone income tax revenue collected from families whose incomes below the official poverty line make them ineligible for NTS (or LITRC) owing to an increase in their income unadjusted for inflation. Since the tax liability on low-income families is small in absolute terms, the cost of this proposal is guaranteed to be small, with the amount depending on the inflation rate. Yet even a small tax liability on families with income below the poverty level is an unnecessary burden.

The current fiscal situation in Massachusetts has resulted in severe budget cuts as well as tax increases. Both have placed enormous burdens on low-income female-headed households. The income tax increases, not reflected in the data presented here, burden those families with positive tax liabilities higher and hence more onerous than suggested in this article. The suggested tax reforms are relatively cheap, but enormously effective ways to virtually eliminate income taxes on these families. In addition, these reforms will also remove the liabilities of income taxes from families below the poverty line and provide equitable tax treatment to all head-of-household families.

A revised portion of this article was submitted to the Tax Reform Commission in 1989. I wish to thank Andrew Reschovsky and Cynthia Mann for development of ideas presented here.

Notes

1. The Census Bureau generally records data for two-parent families and female-headed families. The vast majority of head-of-household families are headed by women. For example, 79 percent of all single-parent families in the United States were female-headed in 1988 (U.S. Commerce Department, Census Bureau, Current Population Reports, *Money Income and Poverty Status in the United States,* Series P-60, no. 166, October 1989, 25). Massachusetts data for 1970 and 1980 come from the decennial census. For 1970: U.S. Census of the Population, *Characteristics of the Population,* vol. 1, part 23, Massachusetts (Washington, D.C.: U.S. Government Printing Office [GPO], February 1973), 23–251. For 1980: U.S. Census of the Population, *General Social and Economic Characteristics,* vol. 1, chapter C, part 23, Massachusetts (Washington, D.C.: GPO, June 1983), 23–81.
2. Andrew Sum, *The Shrinking of Family Poverty in Massachusetts: New Challenges for Opportunity,* prepared for the Massachusetts Division of Employment Security, May 1986, 20.
3. Family income is adjusted for family size by dividing by the poverty line defined in the Current Population Survey data. Randy Albelda and Chris Tilly, "Who Made It in Massachusetts?" Working paper, University of Massachusetts at Boston, 1991.
4. The extent to which poor people face significant levels of property, excise, and sales taxation in Massachusetts is discussed in Andrew Reschovsky and Howard Chernick, "Unfair Burdens: Taxation of the Poor in Massachusetts," a study for the Tax Equity Alliance for Massachusetts, February 1988.
5. Daniel H. Weinberg, "The Distributional Implications of the Tax Reform Act of 1986," University of Wisconsin–Madison Institute for Research on Poverty, *Focus* 10, no. 3 (Fall 1987): 14.
6. Data was compiled by the Center on Budget and Policy Priorities, "Tax Thresholds for Family of Four by State, 1988," Washington, D.C., 1988, unpublished table.
7. The Massachusetts personal income tax does not incorporate the federal features that adjust for family composition and income. The reason is that the levels of personal exemptions, various deductions and credits, and no-tax status are determined independently from federal definitions.
8. An extensive report on the distributional impact of the Massachusetts income tax and a lengthy description of the Massachusetts Income Tax Simulation Model can be found in Andrew Reschovsky, *Who Pays Massachusetts' Taxes? The Personal Income Tax,* second interim report of the Massachusetts legislature's Special Commission on Tax Reform, House No. 5149 (1987).
9. Reschovsky presented these results in a paper prepared for the Special Commission on Tax Reform, "The Income Taxation of the Family," August 1988. It should be noted that, effective

1989, income tax rates on wages and salaries have increased. These tax changes are not reflected in the data presented here.

10. Randy Albelda, *Option Paper: Family Policy and Taxation of Incomes*, presented to the Massachusetts state legislature's Special Commission on Tax Reform, Boston, January 1989.

11. Filing units are defined somewhat differently than households or families as defined by the Census Bureau. For example, a family is defined as a group of two or more persons residing together who must be related by birth, marriage, or adoption. A filing unit may include dependents who are not related by birth, marriage, or adoption.

12. This is a widely accepted rationale for personal exemptions. See Richard Tresch, *The Massachusetts Income Tax*, third interim report of the Special Commission on Tax Reform, House No. 6443, 1986, 19, and Eugene Steuerle, "Tax Treatment of Households of Different Size," in *Taxing the Family*, ed. Rudolph G. Penner (Washington, D.C.: American Enterprise Institute, 1983), 73–91.

13. See statement of Nancy Duff Campbell, National Women's Law Center, and Maxine Forman, Women's Equity Action League, submitted to the Committee on Finance, U.S. Senate (U.S. Congress. Senate, Committee on Finance, "Tax Reform Proposals: VI [Taxpayer Organizations and Public Interest Groups]," Senate Hearing 99–246/pt. 6 [June 19, 1985]: 2–88.) See also the testimony of Paul Moss, president, Parents Without Partners, Mary Burdette, director of governmental affairs, Children's Defense Fund, and Frederick C. Hutchinson, on behalf of Bread for the World, before the Subcommittee on Select Revenue Measures, Committee on Ways and Means, U.S. House of Representatives. (U.S. Congress. House of Representatives, Subcommittee on Select Revenue Measures, Committee on Ways and Means, "Tax Burdens of Low-Income Wage Earners," Committee Serial 99–58 [June 6, 1985]: 79–185, 252–285).

14. See U.S. Congress, Senate, "Tax Reform Proposals," testimony by Campbell and Forman, 15–18.

15. Five states — Alabama, Arizona, Louisiana, Mississippi, and Missouri — and Washington, D.C., allow for a head-of-household exemption or standard deduction that is more than the single-filer exemption and (with one exception, Missouri), equal to that of joint filers. California, Iowa, and Arkansas allow a credit for heads of households equal to that for joint filers). Ten states (California, Georgia, Hawaii, Maine, Minnesota, Nebraska, New Mexico, New York, North Carolina, and Utah) allow heads of households to apply tax rates that are more favorable than for single filers. Two states (Rhode Island and Vermont) pick up the federal provisions for heads of households by taxing a percentage of the federal tax liability. *Prentice-Hall All States Tax Guide*, "Personal Income Taxes — Rates, Exemptions, Reports" (Englewood Cliffs, N.J., November 1989), paragraph 228, 169–173B.

16. In 1984 the levels applied (single/joint) increased to $3,600/$6,100; in 1985 they became $4,400/$7,200; and in 1986 the NTS applied was $6,000/$10,000.

17. Massachusetts Department of Revenue, *Massachusetts Economic Indicators* IV, no. 5 (June 1989): 10.

18. Eugene Steuerle and Paul Wilson, "The Taxation of Poor and Lower Income Workers," *Clearinghouse Review* 21, no. 9 (February 1988): 1052.

Bibliography

Albelda, Randy. *Option Paper: Family Policy and Taxation of Incomes*. Presented to the Massachusetts state legislature's Special Commission on Tax Reform, Boston, January 1989.

Albelda, Randy, and Chris Tilly. "Who Made It in Massachusetts?" Working paper, University of Massachusetts at Boston, 1991.

Center on Budget and Policy Priorities. "Tax Thresholds for Family of Four by State, 1988." Washington, D.C., 1988, unpublished table.

Massachusetts Department of Revenue. *Massachusetts Economic Indicators* IV, no. 5, June 1989.

Prentice-Hall All States Tax Guide. "Personal Income Taxes — Rates, Exemptions, Reports." Englewood Cliffs, N.J.: Prentice-Hall. Paragraph 228: 169–173B, insert dated November 1989.

Reschovsky, Andrew. *Who Pays Massachusetts' Taxes? The Personal Income Tax.* Second interim report of the Massachusetts legislature's Special Commission on Tax Reform, House No. 5149, 1987.

———. "The Income Taxation of the Family." Paper commissioned by the Massachusetts state legislature's Special Commission on Tax Reform, Boston, August 1988.

Reschovsky, Andrew, and Howard Chernick. "Unfair Burdens: Taxation of the Poor in Massachusetts." Study for the Tax Equity Alliance for Massachusetts, Boston, February 1988.

Steuerle, Eugene. "Tax Treatment of Households of Different Size." In *Taxing the Family,* ed. Rudolph G. Penner. Washington, D.C.: American Enterprise Institute, 1983.

Steuerle, Eugene, and Paul Wilson. "The Taxation of Poor and Lower Income Workers." *Clearinghouse Review* 21, no. 9 (February 1988): 1047–1063.

Sum, Andrew. *The Shrinking of Family Poverty in Massachusetts: New Challenges for Opportunity.* Prepared for the Massachusetts Division of Employment Security, May 1986.

Tresch, Richard. *The Massachusetts Income Tax.* Third interim report of the Special Commission on Tax Reform, House No. 6443, Boston, 1986.

U.S. Census of the Population. *Characteristics of the Population,* vol. 1, part 23, Massachusetts. Washington, D.C.: GPO, February 1973.

U.S. Census of the Population. *General Social and Economic Characteristics,* vol. 1, chapter C, part 23, Massachusetts. Washington, D.C.: GPO, June 1983.

U.S. Commerce Department, Census Bureau. Current Population Reports. *Money Income and Poverty Status in the United States.* Series P-60, no. 166, October 1989.

U.S. Congress. House of Representatives, Subcommittee on Select Revenue Measures, Committee on Ways and Means. "Tax Burdens of Low-Income Wage Earners." Committee Serial 99–58, June 6, 1985.

U.S. Congress. Senate, Committee on Finance. "Tax Reform Proposals: VI (Taxpayer Organizations and Public Interest Groups)." Senate Hearing 99–246/pt. 6, June 19, 1985.

Weinberg, Daniel H. "The Distributional Implications of the Tax Reform Act of 1986." University of Wisconsin–Madison Institute for Research on Poverty, *Focus* 10, no. 3, Fall 1987.