Congressional Budget Office

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Illustrative Examples of Effective Marginal Tax Rates Faced by Married and Single Taxpayers: Supplemental Material for *Effective Marginal Tax Rates for Low- and Moderate-Income Workers*

November 2012

In this document, the Congressional Budget Office (CBO) illustrates effective marginal tax rates under the tax and transfer systems for hypothetical families consisting of a single parent with one child, a married taxpayer with two children, and a single taxpayer with no children. These illustrations supplement the analysis of effective marginal tax rates (hereafter, marginal tax rates) faced by a hypothetical single parent with one child described in Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers* (November 2012).

Like the full report, this supplemental material focuses on households with income below 450 percent of the federal poverty guidelines (commonly known as the federal poverty level, so abbreviated FPL). In 2012, those guidelines were $11,170 for a household of one, $15,130 for a household of two, and $23,050 for a household of four.

For the purposes of the Congressional Budget Office's (CBO's) analysis, effective marginal tax rates were generally calculated as the change in taxes and transfers associated with a $100 increase in annual earnings. In this analysis, CBO also considered the marginal tax rates associated with a larger change in earnings, such as that associated with moving from joblessness to part-time or full-time employment.[1]

The estimates include marginal tax rates arising from federal and state individual income taxes, federal payroll taxes, and the phaseout of benefits provided through Temporary Assistance for Needy Families (TANF), Housing Choice Voucher Program, and Supplemental Nutrition Assistance Program (SNAP, the program formerly known as Food Stamps). Income limits for Medicaid and the Children's Health Insurance Program (CHIP) are also illustrated, though the calculations of marginal tax rates do not include the value of Medicaid and CHIP. This analysis is based on income tax rates in effect in the Commonwealth of Pennsylvania as well as the rules governing transfer programs in that state; Pennsylvania was chosen because its tax and transfer systems are similar to those in many other states.

[1] CBO assumes that the prospective job would pay the minimum wage ($7.25 an hour) and the individual works part time (20 hours per week for the entire year) or full time (40 hours per week for the entire year).

Single Parent With One Child

Taxpayers with children face considerable variation in their marginal federal income tax rates, particularly at lower income levels in 2012 (see the first panel of Figure 1). The phase-in of the earned income tax credit (EITC) and child tax credit reduces marginal rates to negative levels, while the phaseout of the EITC increases marginal tax rates above statutory rates. When state income taxes and federal payroll taxes are added, the marginal tax rates arising from taxes in 2012 range from -37 percent to 46 percent for a hypothetical single parent with one child.

Effective Marginal Tax Rates in 2012

Combining benefit reductions with income and payroll taxes result in positive marginal tax rates regardless of income, ranging from 17 percent to 95 percent (see the second panel of Figure 1). At $4,900 and $23,500 of income, the taxpayer loses eligibility for TANF and SNAP, respectively, and because the benefit amounts have not phased out completely by those thresholds, marginal tax rates at those income levels jump up (see Table 1). Taxpayers whose incomes approach the income limits for Medicaid (at $7,100, or 47 percent of FPL, for a parent) and income limits for free or reduced-cost CHIP (respectively, at $30,300 and $45,400, or 200 percent and 300 percent of FPL) also face spikes in their marginal tax rates.

Disposable Income in 2012

A taxpayer's disposable income differs from his or her earnings because of taxes and transfers. (For this illustration, CBO assumes the taxpayer's only source of income is from wages.) At low levels of earnings, the value of refundable tax credits and benefits boosts the taxpayer's disposable income above earnings (see Figure 2). Because marginal tax rates are positive when benefit reductions are included, disposable income does not increase as quickly as earnings—each additional dollar of earnings results in less than a dollar of additional disposable income. At some income levels, the loss of benefits results in a drop in disposable income. As earnings rise above 175 percent of FPL, disposable income falls below earnings because income and payroll tax liabilities, before credits are included, exceed the sum of transfer payments, the EITC, and child tax credit. The amount of disposable income people have after including Medicaid and CHIP relies heavily on the valuation of health insurance coverage. (This calculation of disposable income does not include the value of employment-based health insurance, which tends to be substantial for people who have such insurance.)

Marginal Tax Rates Associated With Labor Force Entry in 2012

The marginal rates shown in the first and second panels of Figure 1 are generally more important for choices about hours of work for people who are already working than for choices about whether to work. Individuals who are deciding whether to enter or leave the labor force probably compare the total amount of income—after taxes and after transfers—that they would receive without working to the amount they would receive from working part time or full time. Earnings from part-time and full-time work correspond to about 50 and 100 percent of FPL for a household of two. The marginal rate associated with part-time work is 36 percent, while the marginal rate associated with full-time work is 47 percent (see Table 2). A parent who is out of the labor force qualifies for Medicaid because Pennsylvania excludes the value of refundable tax credits and SNAP, housing vouchers, and TANF benefits in determining Medicaid eligibility. Earnings from part-time or full-time work, however, would exceed Medicaid's income limit.

Marginal Tax Rates Under the Federal Income Tax System in 2013

Various provisions in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 are scheduled to expire at the end of 2012. As a result, the 10 percent rate bracket will be repealed, the child tax credit will be reduced from $1,000 to $500, and the refundable portion of the child tax credit will be limited to taxpayers with three or more children. Those scheduled law changes in 2013 will reduce variation in the marginal federal income tax rates for head of household filers with one child (see the third panel of Figure 1).

Marginal Tax Rates Under the Federal Income Tax System in 2014

Starting in 2014, some low- and moderate-income families will become eligible for additional assistance with health insurance costs under the provisions of the Affordable Care Act.[2] Part of that assistance will take the form of premium assistance tax credits. Taxpayers who are not eligible for other health insurance and whose incomes are between 138 percent and 400 percent of FPL will be eligible for those refundable tax credits to assist with purchasing health insurance through the newly created exchanges. The implementation of those credits in 2014 will increase marginal tax rates under the federal income tax for eligible taxpayers with incomes between $21,500 and $62,300, which CBO estimates would correspond to 138 and 400 percent of FPL for a household of two in 2014 (see the third panel of Figure 1).

[2] The Affordable Care Act comprises the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act of 2010.

Married Taxpayer With Two Children

Married taxpayers with two children are eligible for the same federal tax preferences as head of household filers with one child (see the first panel of Figure 3). Because of the additional child, the EITC phases in and out at higher rates. In addition, the second child allows the taxpayer to claim a higher child tax credit (up to $2,000 rather than $1,000). The joint filing status provides a larger standard deduction, wider statutory tax brackets, and a wider plateau range for the EITC than the head of household filing status. However, many tax provisions affect married taxpayers with two children and head of household filers with one child at similar points relative to the federal poverty guidelines, which adjust for different household sizes. (For example, both types of filers enter the 15 percent bracket at about 200 percent of FPL.)

One exception, however, is the AMT. In this example, married taxpayers with two children are subject to the 26 percent rate from the AMT at lower levels relative to FPL. In 2012, a head of household filer with one child does not owe the AMT until income reaches 426 percent of FPL, or $64,500. A married filer with two children, however, owes the AMT when income reaches 341 percent of FPL, or $78,500. The difference is the result of the married taxpayer's additional child, which qualifies the taxpayer for an additional dependent exemption under the regular income tax—but not under the AMT.

Effective Marginal Tax Rates in 2012

As with single parents, married filers face positive marginal tax rates, regardless of income, when payroll taxes, state income taxes, and means-tested transfers are included (see the second panel of Figure 3). Over the EITC phase-in range, the marginal tax rate exceeds 11 percent after incorporating transfers. Married taxpayers would also face the Medicaid cliff at 47 percent of FPL, although their children would receive either Medicaid or CHIP at no cost until earnings exceed higher thresholds—200 percent of FPL in the case of CHIP (see Table 1). As a taxpayer moves through the EITC plateau and phaseout, the reduction in SNAP and housing benefits substantially raises the marginal rate, to as high as 97 percent. After the taxpayer loses eligibility for these programs, only the marginal rate from taxes generally applies. Between 200 and 300 percent of FPL, the family pays a reduced premium and some cost-sharing for CHIP. Marginal tax rates spike upward at the income levels where premiums increase—at 200, 250, 275, and 300 percent of FPL.

Disposable Income in 2012

A married couple with two children is eligible for the same transfer benefits as the single parent with one child. At low levels of earnings, the combination of tax credits and transfer benefits boosts married taxpayers' disposable income to almost the poverty line (or to about 140 percent of FPL, if the value of Medicaid and CHIP is included) (see Figure 4). As earnings grow, disposable income grows more slowly because of positive marginal tax rates and at some points, falls as benefits are lost. Disposable income exceeds earnings until earnings reach about 150 percent of FPL (or about 200 percent of FPL if the value of Medicaid and CHIP is included).

Marginal Tax Rates Associated With Labor Force Entry in 2012

Married people with children would face marginal tax rates of 28 percent if both spouses moved from out of the labor force to part-time work at the minimum wage (see Table 2). The marginal tax rate if the spouses shifted from part-time to full-time work at the minimum wage, which corresponds to income at 65 percent and 131 percent of FPL, would be 69 percent. Marginal tax rates are lower when married parents become part-time workers because their combined earnings would place them in the EITC plateau (where they receive the maximum EITC, which is higher for larger families); when those workers move into full-time jobs, the increase in their combined income would cause the EITC to decline. Earnings would also result in the loss of Medicaid for the parents. (Pennsylvania excludes the value of refundable tax credits and these transfer benefits from income.)

Marginal Tax Rates Under the Federal Income Tax System in 2013

Like head of household filers, married taxpayers with two children will face less variation in marginal tax rates under the federal income tax in 2013 because of the expiration of the 10 percent bracket and the restriction of the refundable portion of the child tax credit to families with less than three children (see the third panel of Figure 3). Married couples will also be affected by the expiration of several other provisions—an increase in the standard deduction, an expansion of the 15 percent rate bracket, and a higher income threshold for the EITC phaseout range—that only affect joint filers. The expiration of those provisions causes a shift in marginal tax rates: Married couples will become subject to the EITC phaseout, a positive income tax liability, and the 25 percent tax rate at lower real income levels in 2013 than in 2012.

Marginal Tax Rates Under the Federal Income Tax System in 2014

The introduction of premium assistance credits in 2014 will increase marginal tax rates for married taxpayers with incomes between $32,700 and $95,000 (corresponding to CBO's estimates of 138 percent and 400 percent of the FPL for a household of four in 2014). Over a portion of that range—up to about 184 percent of FPL—married couples with children will also be in the phaseout range of the EITC. (A married taxpayer at this income level would not be eligible for any of the means-tested transfer programs.) In that range, the premium assistance credits will cause marginal tax rates to increase from about 36 percent in 2013 to nearly 50 percent in 2014. After the EITC phases out entirely, the marginal rates drop to about 30 percent. In the last bracket of the premium assistance credit schedule, a married taxpayer will be subject to the 26 percent AMT rate and the 9.5 percent marginal rate from the premium credits. This bumps marginal rates up to 35.5 percent for married taxpayers with incomes between $76,500 and $95,100.

Single Taxpayer With No Children

In contrast to taxpayers with children, a single childless person faces less variation in his or her marginal rates as earnings change. Singles without children are eligible for fewer benefits, and those benefits are generally smaller than for those with children. Consequently, their marginal tax rates do not get as high as those of taxpayers with children.

Unlike taxpayers with children, unmarried taxpayers without children cross the income tax threshold—before credits are subtracted—when their income is below the federal poverty guidelines (90 percent for single taxpayers without children compared to 110 percent for head of household filers with one child and 120 percent for married filers with two children). Taxpayers without children are also eligible for fewer tax credits. Under the federal income tax, they can claim the EITC, but the credit phases in at a much smaller rate than the rate applicable to families with children: 7.65 percent, compared to at least 34 percent for a family with children (see the first panel of Figure 5). The EITC also applies to a narrower range of income if the taxpayer does not have children, phasing out completely when income reaches 125 percent of FPL. As a result, taxpayers without children incur a positive tax liability, after credits, at substantially lower levels relative to FPL than taxpayers with children: Childless taxpayers have a positive tax liability at slightly above the FPL, compared to about twice the FPL for filers with children.

Effective Marginal Tax Rates in 2012

While singles without children are generally ineligible for TANF and Medicaid, they would—under certain circumstances—qualify for housing vouchers and SNAP benefits. The reduction of the housing voucher amount adds 30 percentage points to marginal tax rates, while the reduction of SNAP benefits typically adds 24 percentage points (see the second panel of Figure 5). This boosts marginal rates of taxpayers in the EITC phase-in range to 35 or 62 percent, when both housing assistance and SNAP phase out. In the short EITC plateau range, the reduction of both transfer benefits boosts marginal rates to above 70 percent. Taxpayers in the EITC phaseout are initially eligible for both housing assistance and SNAP benefits. This results in marginal tax rates that are briefly as high as 87 percent when income is between $9,800 and $11,400 from the combination of the reduction in benefits, the EITC phaseout, the 10 percent statutory rate, and state income and payroll taxes. After the EITC phases out and transfers cease, marginal tax rates stabilize, ranging from 30 percent to 40 percent.

Disposable Income in 2012

Because the EITC for a single taxpayer without children phases in at a lower rate and has a smaller maximum amount than for taxpayers with children, the EITC only slightly boosts disposable income above earnings (see Figure 6). Unmarried workers without children are eligible for SNAP and housing vouchers, though their benefits from these programs are generally less than those of larger families. Disposable income falls below earnings at about 150 percent of FPL.

Marginal Tax Rates Associated With Labor Force Entry in 2012

Single taxpayers with no children who were out of the labor force would face a marginal tax rate of 48 percent for taking a part-time job paying the minimum wage in 2012 (see Table 2). (Earnings from a part-time job would correspond to 68 percent of FPL.) Relative to those with children, they face higher marginal tax rates because they are not eligible for the child tax credit, they receive a much smaller EITC, and they would owe the state income tax. The increased earnings from changing from a part-time to a full-time job, which corresponds to 135 percent of FPL, also results in higher marginal tax rates than those faced by unmarried taxpayers with children. Those higher rates occur because full-time work generates earnings above the maximum amount at which those people are eligible to receive the EITC.

Marginal Tax Rates Under the Federal Income Tax System in 2013

Some single taxpayers will face higher marginal rates in 2013 than in 2012 because of the increase in statutory rates (see the third panel of Figure 5). Taxpayers with incomes between

$9,900 and $18,500 will face a 15 percent statutory rate, which bumps their marginal tax rate from 17.65 to 22.65 percent (if they are in the EITC phaseout range) or from 10 percent to 15 percent (if they do not receive the EITC). Taxpayers with incomes exceeding $48,800 will face a marginal tax rate of 28 percent instead of 25 percent.

Marginal Tax Rates Under the Federal Income Tax System in 2014

The implementation of premium assistance credits in 2014 will increase marginal tax rates for single taxpayers whose incomes are between $15,900 and $46,000 (estimated to be, respectively, 138 percent and 400 percent of FPL for a household of one) (see the third panel of Figure 5). In the absence of these subsidies, taxpayers in this income range would face a federal income marginal rate of 15 percent (the same marginal federal income tax rate they would face in 2013). Because the EITC completely phases out before the premium assistance credits begin, single taxpayers do not face marginal federal income tax rates as high as those faced by taxpayers with children in 2014.

Figure 1.
Marginal Tax Rates for a Hypothetical Single Parent with One Child

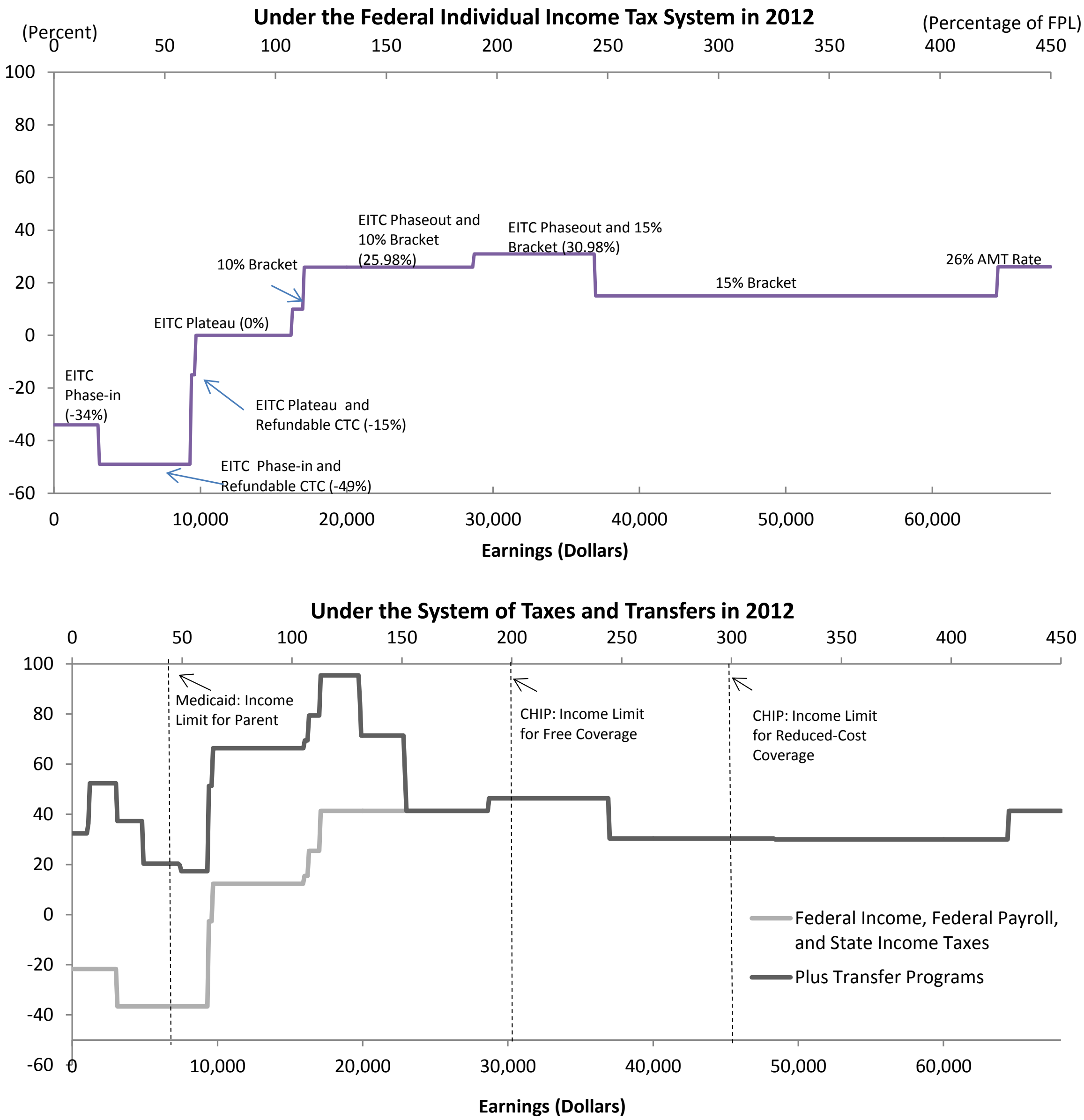
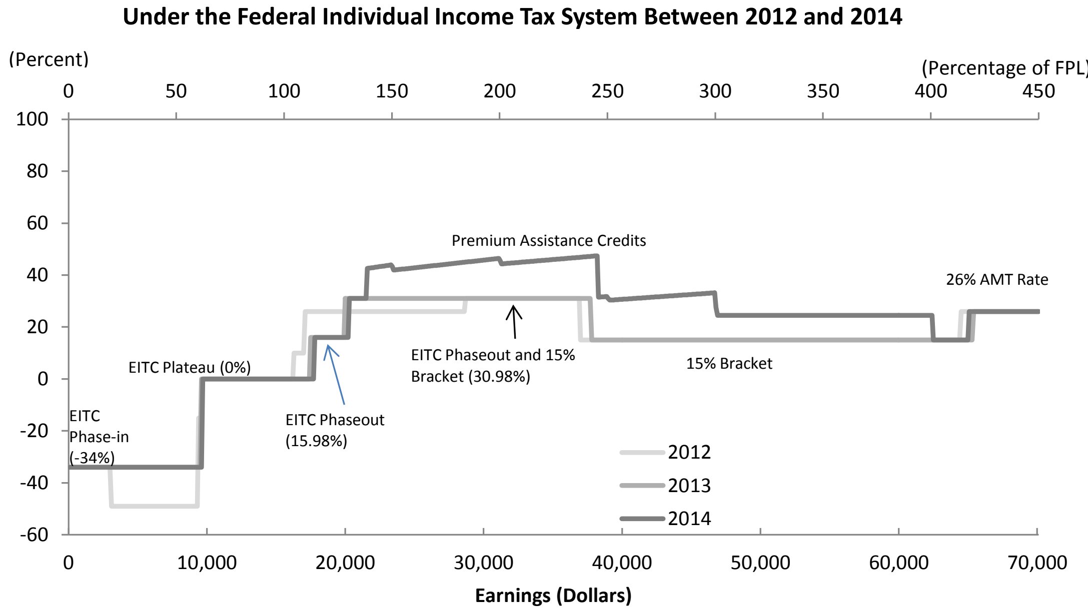


Figure 1. Continued

Marginal Tax Rates for a Hypothetical Single Parent with One Child



Source: Congressional Budget Office.

Notes: This example assumes that the taxpayer files as a head of household (an unmarried individual who provides most of the cost of maintaining a household for his or her dependents), has one child, and qualifies for both the EITC and CTC; that all income is from wages, salaries, or net earnings from self-employment (otherwise described as earnings); and that the taxpayer has itemized deductions worth 18 percent of income and claims the greater of those deductions or the standard deduction. (Forty percent of the itemized deductions are assumed to be state and local taxes, and the rest are charitable contributions and mortgage interest.)

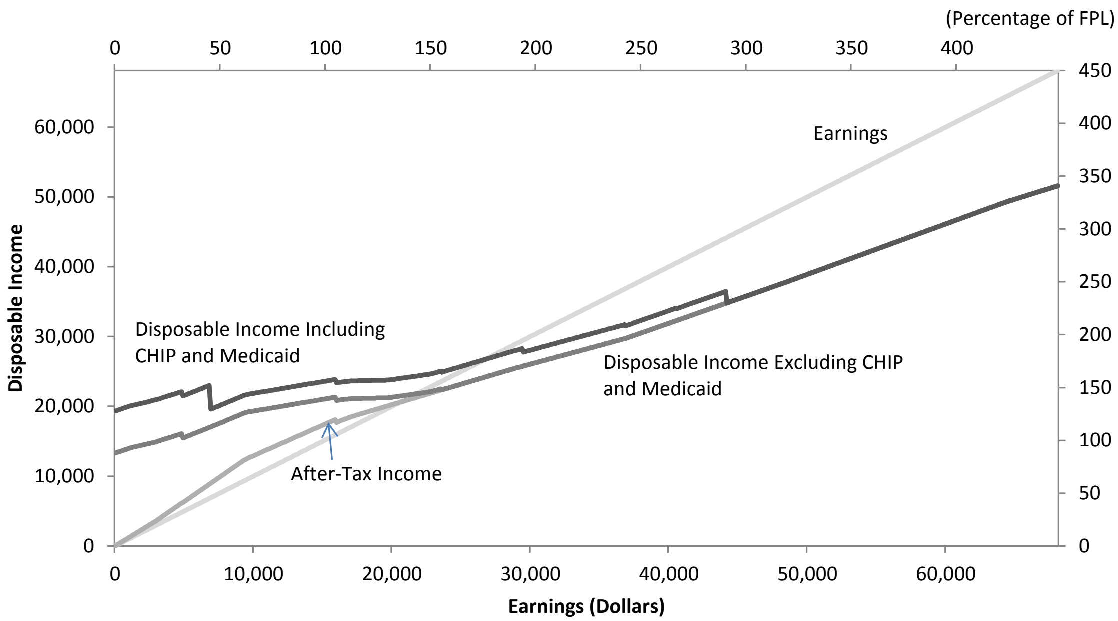
In the second panel, state individual income taxes are assumed to be 3.07 percent of taxable income (that is, total income from all sources minus the allowable adjustments, exemptions, and deductions a taxpayer can claim). Marginal rates that include federal payroll taxes are computed as a percentage of compensation before the employer's share of payroll taxes has been paid. Transfer benefits (from TANF, SNAP, and the Housing Voucher Choice Program) are computed using stylized program rules based on those in effect in the Commonwealth of Pennsylvania. SNAP gross income limits are 160 percent of the federal poverty guidelines, and the taxpayer can claim the standard deduction as well as deductions for earnings and housing costs. (Pennsylvania does not apply a net income test to SNAP.) Monthly housing costs are assumed to be $559. Median family income and fair-market rents for housing vouchers are set to $27,563 and $559, respectively. The TANF benefit is the difference between $316 and net income (income minus 50 percent of earnings). Pennsylvania disregards $120 of earnings and 50 percent of the remainder to calculate Medicaid eligibility. The dotted lines indicate income limits for Medicaid and CHIP where taxpayers face cliffs. Similar spikes in marginal tax rates when the taxpayer loses eligibility for TANF and SNAP are not illustrated.

In the third panel, the marginal rate increases associated with the cliff in premium assistance credits at 400 percent of FPL and cost-sharing subsidies provided in the Affordable Care Act (ACA) in 2014 are not shown. It is assumed that the state expands Medicaid as originally specified in the ACA to 138 percent of FPL. The ACA comprises the Patient Protection and Affordable Care Act (Public Law 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

EITC= earned income tax credit; CTC=child tax credit; AMT=alternative minimum tax; FPL=federal poverty guidelines; TANF=Temporary Assistance for Needy Families; SNAP=Supplemental Nutrition Assistance Program (formerly known as the Food Stamp program); and CHIP=Children’s Health Insurance Program.

Figure 2.

Relationship Between Earnings and Disposable Income for a Hypothetical Single Parent with One Child in 2012



Source: Congressional Budget Office.
Notes: This example assumes that the taxpayer files as a head of household (an unmarried individual who provides most of the cost of maintaining a household for his or her dependents), has one child, and qualifies for both the EITC and CTC; that all income is from wages, salaries, or net earnings from self-employment (otherwise described as earnings); and that the taxpayer has itemized deductions worth 18 percent of income and claims the greater of those deductions or the standard deduction. (Forty percent of the itemized deductions are assumed to be state and local taxes, and the rest are charitable contributions and mortgage interest.)

Disposable income was calculated as the sum of earnings and transfers (from TANF, SNAP, and the Housing Choice Voucher Program) minus tax liability (from federal individual income, state individual income, and federal payroll taxes). The market value of Medicaid is taken from the 2011 Annual Social and Economic Supplement of the Census Bureau's Current Population Survey; those values were based on the average cost of providing benefits to a nondisabled child and nondisabled adult residing in the Commonwealth of Pennsylvania.

EITC = earned income tax credit; CTC = child tax credit; FPL = federal poverty guidelines; SNAP = Supplemental Nutrition Assistance Program (formerly known as the Food Stamp program); TANF = Temporary Aid for Needy Families; and CHIP = Children's Health Insurance Program.

Figure 3.
Marginal Tax Rates for a Hypothetical Married Couple with Two Children

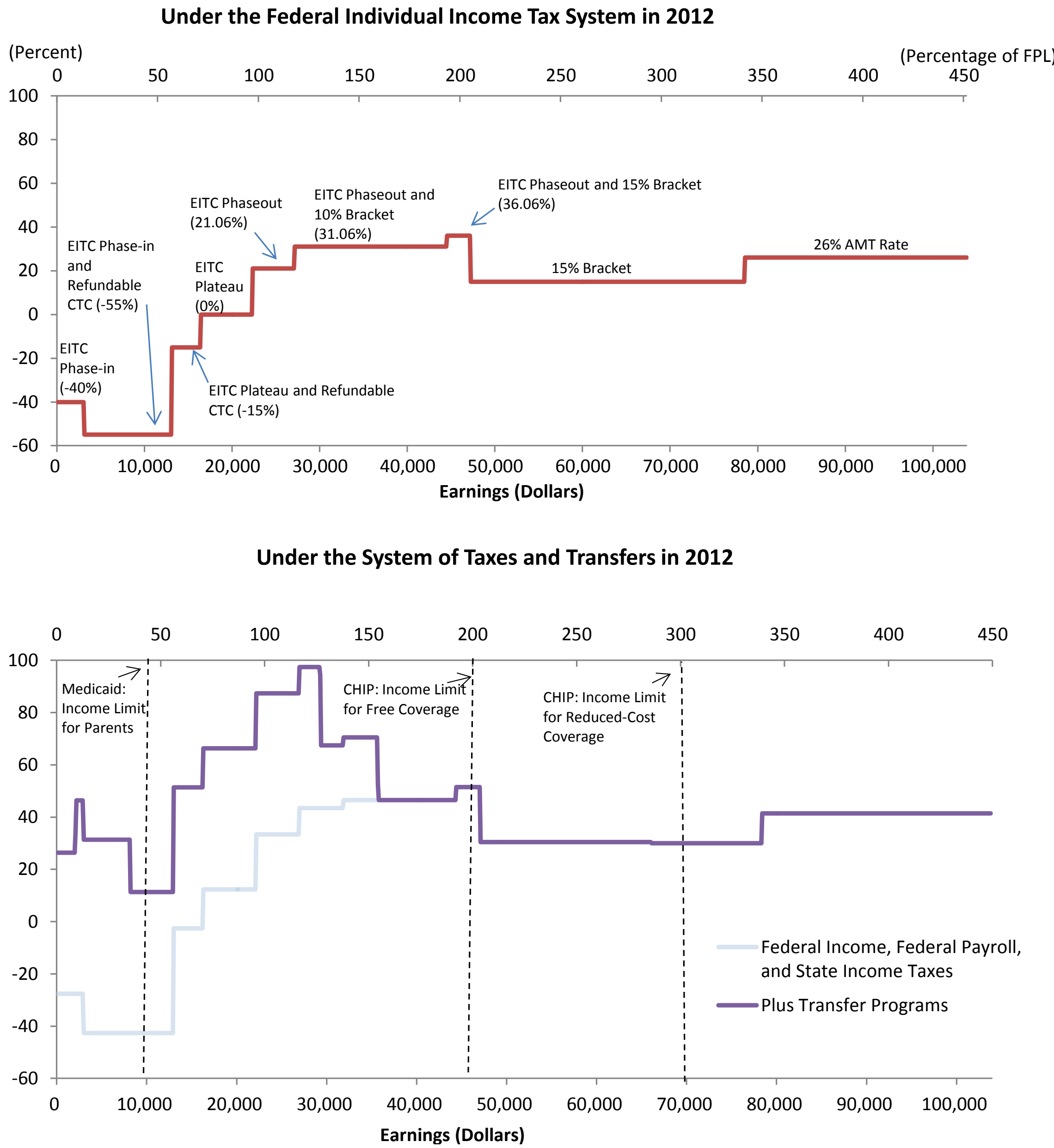
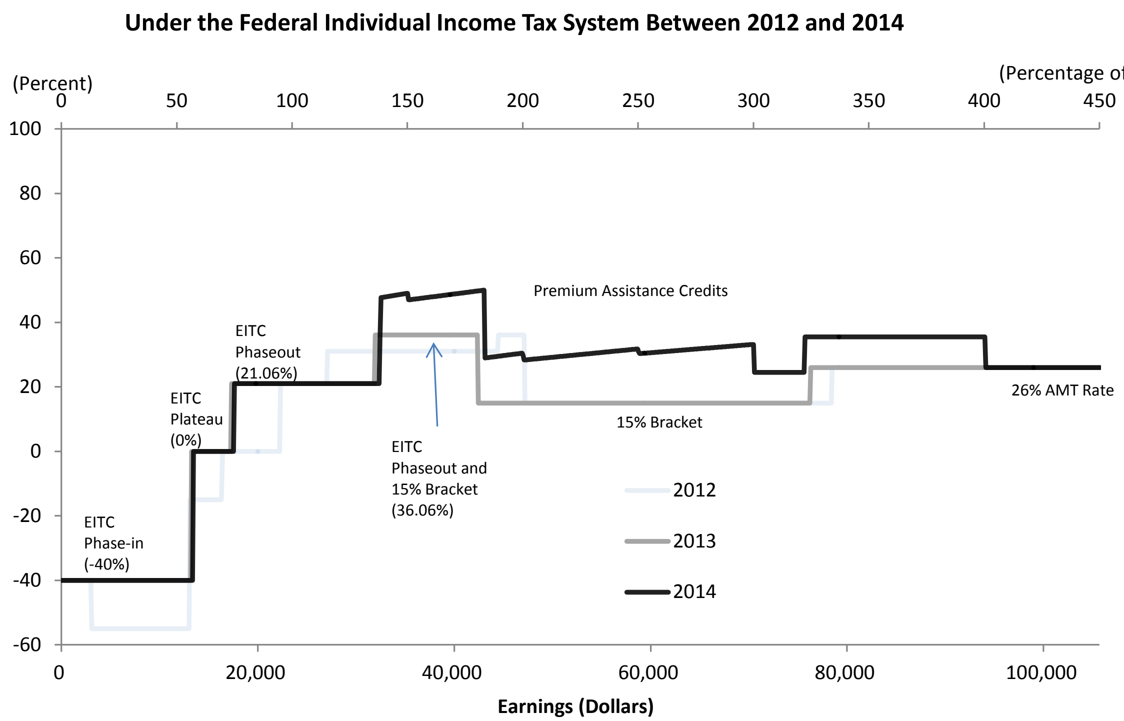


Figure 3. Continued

Marginal Tax Rates for a Hypothetical Married Couple with Two Children



Source: Congressional Budget Office.

Notes: This example assumes that the taxpayers are married and filing jointly, have two children, and qualify for both the EITC and CTC; that all income is from wages, salaries, or net earnings from self-employment (otherwise described as earnings) earned by one spouse; and that the couple has itemized deductions worth 18 percent of income and claims the greater of those deductions or the standard deduction. (Forty percent of the itemized deductions are assumed to be state and local taxes, and the rest are charitable contributions and mortgage interest.)

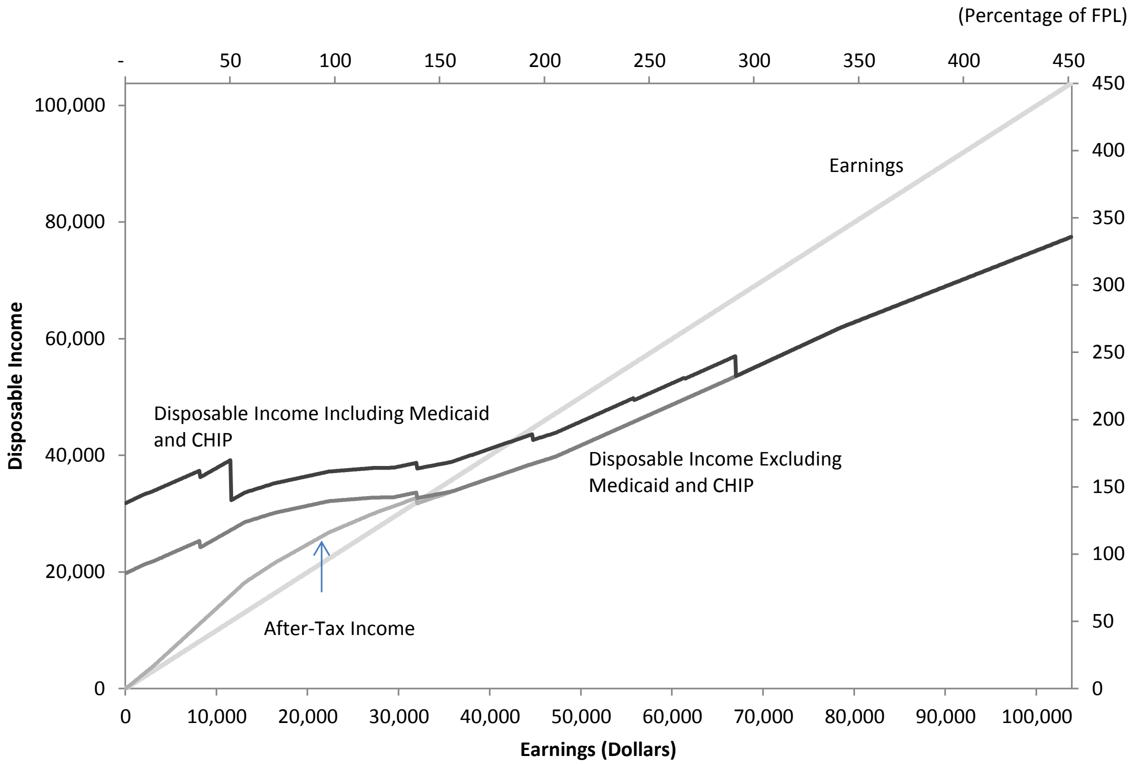
In the second panel, state taxes are assumed to be 3.07 percent of taxable income (that is, total income from all sources minus the allowable adjustments, exemptions, and deductions a taxpayer can claim). Marginal rates that include federal payroll taxes are computed as a percentage of compensation before the employer's share of payroll taxes has been paid. Transfer benefits (from TANF, SNAP, and the Housing Choice Voucher Program) are computed using stylized program rules based on those in effect in the Commonwealth of Pennsylvania. SNAP gross income limits are 160 percent of the federal poverty guidelines, and the taxpayer can claim the standard deduction as well as deductions for earnings and housing costs. (Pennsylvania does not apply a net income test to SNAP.) Monthly housing costs are assumed to be $711. Median family income and fair-market rents for housing vouchers are set to $34,454 and $711, respectively. The dotted lines indicate income limits for Medicaid and CHIP where taxpayers face cliffs. A similar spike in marginal tax rates when the taxpayer loses eligibility for TANF is not illustrated.

In the third panel, the marginal rate increases associated with the cliff in premium assistance credits at 400 percent of FPL and cost-sharing subsidies provided in the Affordable Care Act (ACA) in 2014 are not shown. It is assumed that the state expands Medicaid as originally specified in the ACA to 138 percent of FPL. The ACA comprises the Patient Protection and Affordable Care Act (Public Law 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

EITC= earned income tax credit; CTC=child tax credit; AMT=alternative minimum tax; FPL=federal poverty guidelines; TANF=Temporary Assistance for Needy Families; SNAP=Supplemental Nutrition Assistance Program (formerly known as the Food Stamp program); and CHIP=Children's Health Insurance Program.

Figure 4.

Relationship Between Earnings and Disposable Income for a Hypothetical Married Couple with Two Children in 2012



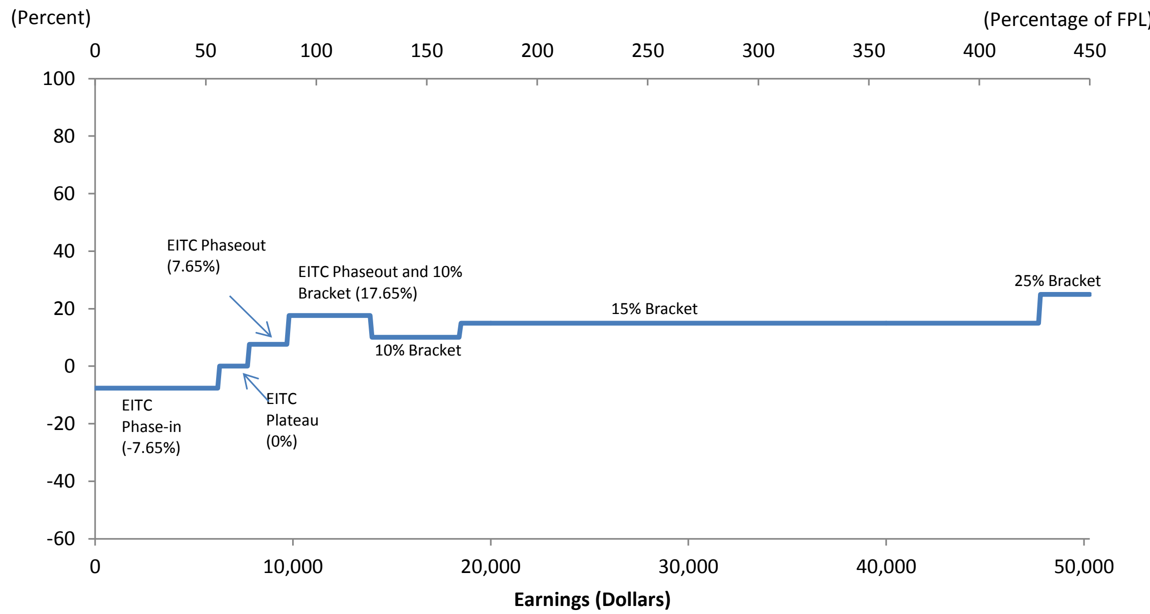
Source: Congressional Budget Office.
Notes: This example assumes that the taxpayers are married and filing jointly, have two children, and qualify for both the EITC and CTC; that all income is from wages, salaries, or net earnings from self-employment (otherwise described as earnings) earned by one spouse; and that the couple has itemized deductions worth 18 percent of income and claims the greater of those deductions or the standard deduction. (Forty percent of the itemized deductions are assumed to be state and local taxes, and the rest are charitable contributions and mortgage interest.)

Disposable income was calculated as the sum of earnings and transfers (from TANF, SNAP, and the Housing Choice Voucher Program) minus tax liability (from federal individual income, state individual income, and federal payroll taxes). The market value of Medicaid is taken from the 2011 Annual Social and Economic Supplement of the Census Bureau's Current Population Survey; those values were based on the average cost of providing benefits to a nondisabled child and nondisabled adult residing in the Commonwealth of Pennsylvania.

EITC = earned income tax credit; CTC = child tax credit; FPL = federal poverty guidelines; SNAP = Supplemental Nutrition Assistance Program (formerly known as the Food Stamp program); TANF = Temporary Assistance for Needy Families; and CHIP = Children's Health Insurance Program.

Figure 5.
Marginal Tax Rates for a Hypothetical Single Filer with No Children

Under the Federal Individual Income Tax System in 2012



Under the System of Taxes and Transfers in 2012

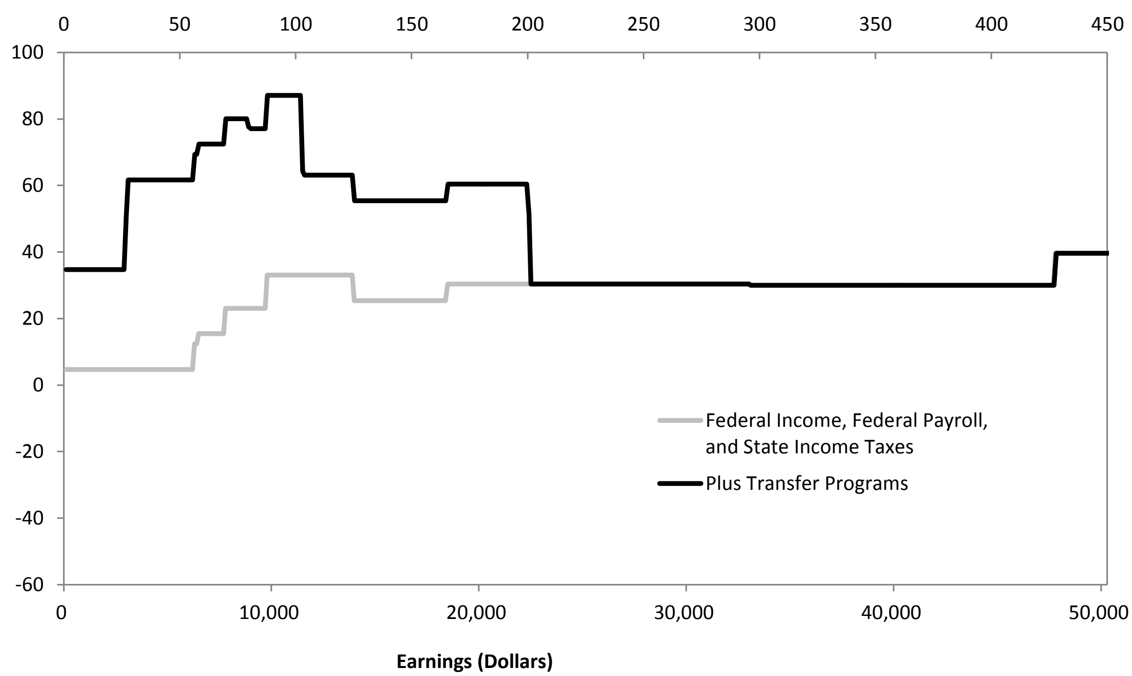
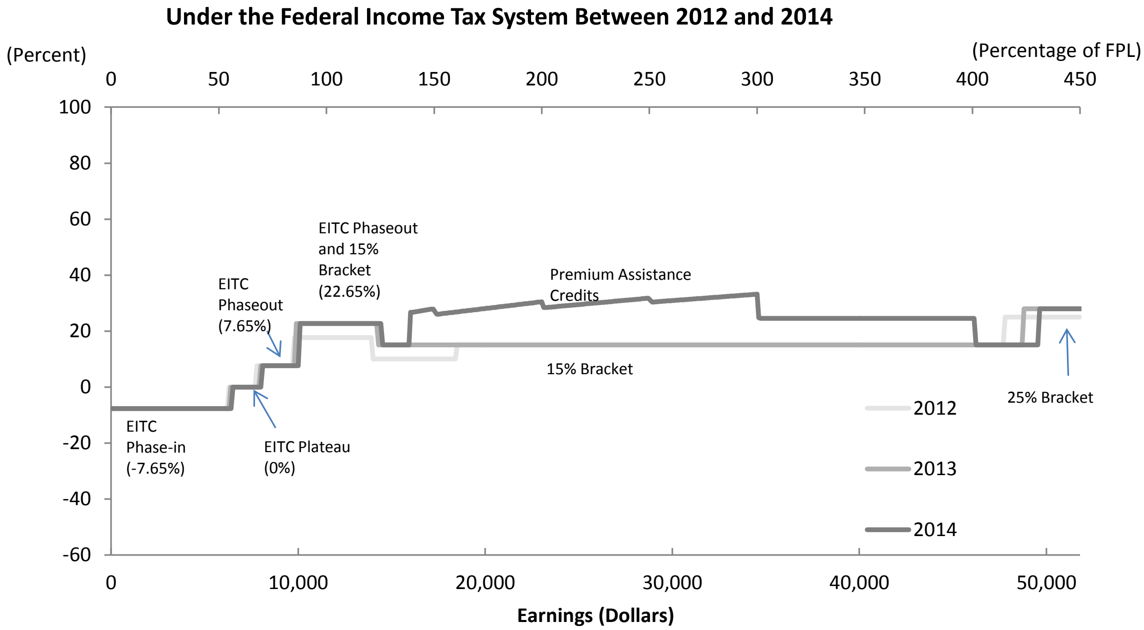


Figure 5. Continued
Marginal Tax Rates for a Hypothetical Single Taxpayer with No Children



Source: Congressional Budget Office.
Notes: This example assumes that the taxpayer is single and has no dependents; that all income is from wages, salaries, or net earnings from self-employment (otherwise described as earnings); and that the taxpayer has itemized deductions worth 18 percent of income and claims the greater of those deductions or the standard deduction. (Forty percent of the itemized deductions are assumed to be state and local taxes, and the rest are charitable contributions and mortgage interest.)

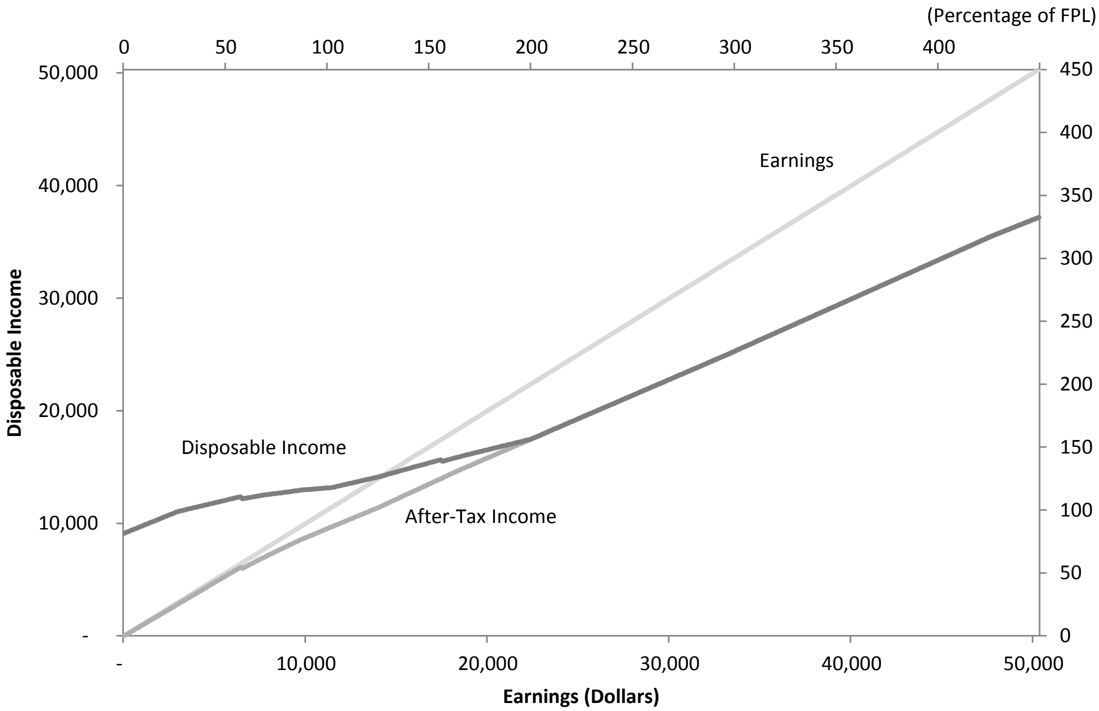
In the second panel, state taxes are assumed to be 3.07 percent of taxable income (that is, total income from all sources minus the allowable adjustments, exemptions, and deductions a taxpayer can claim). Marginal rates that include federal payroll taxes are computed as a percentage of compensation before the employer's share of payroll taxes has been paid. Transfer benefits (from SNAP and the Housing Choice Voucher Program) are computed using stylized program rules based on those in effect in the Commonwealth of Pennsylvania. SNAP gross income limits are 160 percent of the federal poverty guidelines, and the taxpayer can claim the standard deduction as well as deductions for earnings and housing costs. (Pennsylvania does not apply a net income test to SNAP.) Monthly housing costs are assumed to be $559. Median family income and fair-market rents for housing vouchers are set to $24,118 and $559, respectively. The spike in marginal tax rates when the taxpayer loses eligibility for SNAP is not illustrated.

In the third panel, the marginal rate increases associated with the cliff in premium assistance credits at 400 percent of FPL and cost-sharing subsidies provided in the Affordable Care Act (ACA) in 2014 are not shown. It is assumed that the state expands Medicaid as originally specified in the ACA to 138 percent of FPL. The ACA comprises the Patient Protection and Affordable Care Act (Public Law 111-148) and the health care provisions of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152).

EITC= earned income tax credit; AMT=alternative minimum tax; SNAP=Supplemental Nutrition Assistance Program (formerly known as the Food Stamp program); and FPL=federal poverty guidelines.

Figure 6.

Relationship Between Earnings and Disposable Income for a Hypothetical Single Taxpayer with No Children in 2012



Source: Congressional Budget Office.

Notes: This example assumes that the taxpayer is single and has no dependents; that all income is from wages, salaries, or net earnings from self-employment (otherwise described as earnings); and that the taxpayer has itemized deductions worth 18 percent of income and claims the greater of those deductions or the standard deduction. (Forty percent of the itemized deductions are assumed to be state and local taxes, and the rest are charitable contributions and mortgage interest.)

Disposable income was calculated as the sum of earnings and transfers (from SNAP and the Housing Choice Voucher Program) minus tax liability (from federal individual income, state individual income, and federal payroll taxes).

SNAP = Supplemental Nutrition Assistance Program (formerly known as the Food Stamp program) and FPL=federal poverty guidelines.

Table 1.
Income Limits for Transfer Program Eligibility in 2012

(Dollars)

	Single Parent with One Child	Married Couple with Two Children	Single Taxpayer with No Children
Temporary Assistance for Needy Families (TANF)	4,900	8,100	N.A.
Housing Choice Voucher Program[a]	22,800	29,300	22,300
Supplemental Nutrition Assistance Program (SNAP)	23,500	35,700[a]	17,500
Medicaid (Parent)	6,900	11,500	N.A.
Children's Health Insurance Program (CHIP) (No Cost)	29,500	44,800	N.A.
CHIP (Reduced Cost)	44,200	67,100	N.A.

Source: Congressional Budget Office.

Notes: Eligibility for transfer benefits were computed using stylized program rules based on those in effect in the Commonwealth of Pennsylvania.

[a]Benefits phase out completely before eligibility income limit is lost so marginal tax rates do not spike at income limit.

Table 2.
Effective Tax Rate on Income from a Change in Employment Status, 2012

(Dollars)	Single Parent with One Child	Married Couple with Two Children	Single Taxpayer with No Children
Not Employed			
Income After Taxes and Transfers	13,305	19,777	9,111
Change from Not Employed to Part-time Work at Minimum Wage			
Increase in Income Before Taxes and Transfers	7,540	15,080	7,540
Increase in Income After Taxes and Transfers	4,800	10,808	3,884
Effective Tax Rate on Change in Employment Status[a] (Percent)	36	28	48
Change from Part-time to Full-time Work at Minimum Wage			
Increase in Income Before Taxes and Transfers	7,540	15,080	7,540
Increase in Income After Taxes and Transfers	3,997	4,603	2,677
Effective Tax Rate on Change in Employment Status[a] (Percent)	47	69	64

Source: Congressional Budget Office

Notes: Taxes included federal and state individual income taxes and federal payroll taxes. The transfer programs considered in this illustration were TANF, Medicaid, SNAP, CHIP and the Housing Choice Voucher Program. Transfer benefits were computed using stylized program rules based on those in effect in the Commonwealth of Pennsylvania. Income does not include value of employment-based insurance for which worker may be eligible.

TANF=Temporary Assistance for Needy Families; SNAP=Supplemental Nutrition Assistance Program; and CHIP=Children's Health Insurance Program.

a. Calculated as one minus the ratio of the change in income after taxes and transfers to the change in income before taxes and transfers.