

# President Obama Cut Taxes for 99% of Working Families in South Dakota in 2009

The 2009 federal income taxes that come due on April 15 have been cut for nearly all working Americans, including Americans at all income levels, by the Recovery Act signed by President Obama last year. No legislation enacted during the Obama administration increased taxes for 2009.

The table below shows how working families and individuals in South Dakota were affected by four of the major tax cuts included in the American Recovery and Reinvestment Act (the Recovery Act) signed into law by President Obama last year. These figures reveal that:

- 99 percent of working families and individuals in South Dakota benefitted from at least one of the tax cuts signed into law by President Obama.
- Working people in South Dakota received \$1,023, on average, from these breaks.
- These tax breaks benefitted working people at all income levels.

The various tax breaks are targeted at people at different income levels. For example, expansions of the Child Tax Credit and Earned Income Tax Credit mainly help the poorest three fifths of taxpayers, while the relief from the Alternative Minimum Tax mainly helps the richest fifth of taxpayers. The Making Work Pay Credit benefits all but the richest taxpayers.

Working People in South Dakota		Major Tax Cuts Enacted by President Obama <small>Combined effects of expansion of EITC and Child Credit, Making Work Pay Credit, and AMT relief.</small>		
Income Group	Average Income	Average Tax Cut	Share of Tax Cut	% with Cut
Lowest 20%	\$ 10,560	\$ -499	7.3%	100%
Second 20%	25,270	-538	10.6%	100%
Middle 20%	43,660	-762	15.4%	100%
Fourth 20%	66,200	-877	18.2%	100%
Next 15%	104,100	-1,905	31.8%	98%
Next 4%	214,050	-3,258	13.9%	97%
Top 1%	1,022,440	-2,444	2.7%	54%
<b>ALL</b>	<b>\$ 62,880</b>	<b>\$ -1,023</b>	<b>100.0%</b>	<b>99%</b>
Bottom 60%	\$ 26,560	\$ -611	33.3%	100%

Source: ITEP Microsimulation Model, April 2010

Working people are defined here as taxpayers who have earned income. It should be noted that the stimulus plan provided direct cash payments to a large proportion of people who were not working in 2009. For example, Social Security recipients received a one-time payment of \$250, and unemployment benefits were extended for the jobless. These non-tax benefits are not included in our figures.

More detailed figures can be found on the fourth and final page of this report.

### **Expanding the Child Tax Credit and Earned Income Tax Credit**

The Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) are both refundable tax credits, meaning that they often benefit families who don't earn enough to have any federal income tax liability. These families pay other types of federal taxes (like payroll taxes, gas taxes, tobacco taxes and others) as well as state and local taxes. These other types of taxes are particularly regressive, meaning they take a larger share of income from middle-income and low-income families than they take from the rich.

So it's entirely reasonable that Congress and the President would use refundable credits in the federal income tax like the CTC and EITC to offset some of the regressive impact of other taxes.

The Recovery Act included expansions in the CTC and EITC to help working families. The expansion of the CTC makes it more accessible to low-income families by lowering the earnings requirement for the refundable portion of the credit.

The expansion of the EITC has two parts. One part further reduces the "marriage penalty" that would otherwise make the EITC less generous for a married couple than for two unmarried individuals. The second part modestly increases the EITC for larger families.

These changes in the CTC and EITC are important in South Dakota. They provided the poorest three fifths of working people in South Dakota with \$154 in benefits, on average, in 2009.

### **The Making Work Pay Credit**

The Recovery Act included a tax credit for most working people to increase consumer spending, and thus help create jobs to mitigate the economic downturn.

Most economists agree that putting money in the hands of middle-income people and, especially, low-income people will help create jobs because people at these income levels are likely to spend any new money immediately on necessities. Wealthier people tend to save more of their money, which does not create the immediate boost in consumer demand needed to create jobs now.

The idea is that low- and middle-income people will be likely to quickly purchase necessities that they have delayed buying, and the companies selling these products or services will be able to hire more employees or lay off fewer employees than they would have otherwise.

The Making Work Pay Credit was designed with this in mind. The credit is worth up to \$400 (\$800 for married couples) or the amount of Social Security payroll taxes a family paid during the year, whichever is less. This means that a family must have at least some earnings to benefit from the credit.

The credit is phased out for taxpayers with incomes between \$75,000 and \$95,000 (between \$150,000 and \$190,000 for married couples).

Working people in South Dakota received about \$528, on average, from the Making Work Pay Credit in 2009.

### **Alternative Minimum Tax Relief**

The Alternative Minimum Tax (AMT) is a sort of backup income tax enacted in the late 1960s to ensure that well-off Americans pay at least some minimal level of income taxes no matter how good they are at finding loopholes that reduce their tax bill.

The tax cuts enacted under President George W. Bush cut the regular income tax but did not permanently cut the AMT, so more taxpayers were (predictably) thrown into the AMT. Most of the taxpayers who are affected are well-off, but not quite as well-off as those originally targeted by the AMT.

Congress has prevented this expansion of the AMT by enacting laws every year or so to increase the exemptions in the AMT that keep most of us from being affected by it. The most recent AMT relief measure was included in the Recovery Act.

In South Dakota, 87.8 percent of the benefits of AMT relief went to the richest fifth of the state's taxpayers.

### **Other Tax Cuts**

The Recovery Act also included an expansion of the HOPE credit for higher education, called the American Opportunity Tax Credit (AOTC). The AOTC allows a credit of 100 percent of the first \$2,000 spent on higher education and 25 percent of the next \$2,000; the maximum credit is \$2,500. The provision allows the credit for the first four years of post-secondary education (compared to only the first two years under prior law). The provision also allows the credit to be used for amounts paid for course materials (in addition to tuition and fees) and makes 40 percent of the credit refundable.

The Recovery Act also included several tax breaks for business. There are serious reasons to doubt that business breaks can help the economy. Business owners tend to not expand operations (i.e., hire more workers) in response to a tax cut. They expand operations because there is demand for whatever product or service they are selling. This is why putting benefits in the hands of low-income and middle-income people is a more effective way to create jobs.

<b>Working People in South Dakota</b>		<b>Expansion of EITC and Child Credit</b> Increased EITC for families with 3+ children & further reduced marriage penalty in the EITC; allowed more poor families to receive refundable Child Tax Credit.		<b>Making Work Pay Credit</b> Refundable credit up to \$400 for unmarried and \$800 for married, or amount of Social Security payroll taxes paid if less.		<b>Alternative Minimum Tax Relief</b> Increased the exemption that keeps most taxpayers from being affected by the AMT.		<b>Combined Tax Cuts</b> Combined effects of expansion of EITC and Child Credit, Making Work Pay Credit, and AMT relief.		
<b>Income Group</b>	<b>Average Income</b>	<b>Average Tax Cut</b>	<b>Share of Tax Cut</b>	<b>Average Tax Cut</b>	<b>Share of Tax Cut</b>	<b>Average Tax Cut</b>	<b>Share of Tax Cut</b>	<b>Average Tax Cut</b>	<b>Share of Tax Cut</b>	<b>% w/ tax cut</b>
<b>Lowest 20%</b>	\$ 10,560	\$ -145	24.3%	\$ -354	10.0%	\$ —	—	\$ -499	7.3%	100%
<b>Second 20%</b>	25,270	-94	21.4%	-444	17.0%	—	—	-538	10.6%	100%
<b>Middle 20%</b>	43,660	-218	50.9%	-544	21.3%	—	—	-762	15.4%	100%
<b>Fourth 20%</b>	66,200	-9	2.0%	-635	25.5%	-233	12.2%	-877	18.2%	100%
<b>Next 15%</b>	104,100	—	—	-716	23.1%	-1,190	50.0%	-1,905	31.8%	98%
<b>Next 4%</b>	214,050	—	—	-346	2.8%	-2,913	31.2%	-3,258	13.9%	97%
<b>Top 1%</b>	1,022,440	—	—	-78	0.2%	-2,366	6.6%	-2,444	2.7%	54%
<b>ALL</b>	<b>\$ 62,880</b>	<b>\$ -89</b>	<b>100.0%</b>	<b>\$ -528</b>	<b>100.0%</b>	<b>\$ -406</b>	<b>100.0%</b>	<b>\$ -1,023</b>	<b>100.0%</b>	<b>99%</b>
<b>Bottom 60%</b>	\$ 26,560	\$ -154	96.6%	\$ -457	48.2%	\$ —	—	\$ -611	33.3%	100%

Source: ITEP Microsimulation Model, April 2010