

Are You Better Off On Tax Day?

Will Middle Class Families Pay More or Less Federal Income Tax This Year?

In any given year middle-class Americans may feel that their tax burdens have grown. In fact, a recent poll found that while a majority (53%) believed taxes had stayed the same under the Obama Administration, almost a full quarter (24%) of those asked believed they had gone up and only 12% thought they had gone down.¹ Amidst this year's heated rhetoric over the tax implications of recovery efforts, health care reform, and the federal budget deficit, middle-class concern over rising taxes is particularly urgent and pronounced.

To test this perception, we prepared tax filings using the standard 1040 form for three middle-class families—The Parkers, the Waynes, and the Banners—to compare their 2007 and 2009 tax burdens. Each family represents a typical segment of the middle class. Aside from giving us cause to further share the frustration of taxpayers across the country working to fill out complicated returns, this exercise also provided evidence that for middle-class Americans the federal tax burden has actually dropped during the Obama Administration. Here's what we found:

The Parkers

| | |
|------------------------------|--|
| Bio: | A 50-year old married couple with two children in college. |
| Income: | \$86,000 |
| Tax Liability (2007): | \$5,176 |
| Tax Liability (2009): | \$2,369 |
| Are They Better Off? | Yes – by \$2,807 |

The Parkers are a 50-year old married couple making \$86,000 per year, which is the median household income of a two-earner family of that age. They have two children, ages 18 and 21, both of whom are in college at state schools that cost \$7,020, the national average for in-state tuition and fees per year at a public four-year school.² We assumed that after some of the slack for room and board is picked up by loans and financial aid, the Parkers paid \$14,000 in tuition costs. They filed a joint tax return, claiming exemptions for themselves and their two dependent children. The Parkers' income is derived solely from their salaries, with none coming from interest, capital gains, or other specialized sources. In an effort to keep their return simple, they take the standard deduction. A side-by-side comparison of their returns shows:

| College Tuition Tax Credits | |
|---|-----------------|
| 2007 – Hope Credit | \$3,300 |
| 2009 – American Opportunity Tax Credit | \$5,000 |
| <i>Difference</i> | +\$1,700 |
| Middle Class Tax Cut from the American Recovery and Reinvestment Act | |
| 2007 – N/A | \$0 |
| 2009 – Making Work Pay Credit | \$800 |
| <i>Difference</i> | +\$800 |
| Standard Deduction | |
| 2007 | \$10,700 |
| 2009 | \$11,400 |
| <i>Difference</i> | +\$700 |
| Amount Per Exemption | |
| 2007 | \$3,400 |
| 2009 | \$3,650 |
| <i>Difference</i> | +\$250 |

The Waynes

| | |
|------------------------------|---|
| Bio: | A 40-year old married couple with two young children. |
| Income: | \$74,000 |
| Tax Liability (2007): | \$4,676 |
| Tax Liability (2009): | \$3,569 |
| Are They Better Off? | Yes – by \$1,107 |

The Waynes are a 40-year old married couple making \$74,000 per year, which is the median household income of a two-earner family of that age. They have two children, ages 8 and 12, for whom they take the child tax credit. They filed a joint tax return, claiming exemptions for themselves and their two dependent children. The Waynes' income is derived solely from their salaries, with none coming from interest, capital gains, or other specialized sources. In an effort to keep their return simple, they take the standard deduction. A side-by-side comparison of their returns shows:

| Middle Class Tax Cut From the American Recovery and Reinvestment Act | |
|---|---------------|
| 2007 – N/A | \$0 |
| 2009 – Making Work Pay Credit | \$800 |
| <i>Difference</i> | +\$800 |
| Standard Deduction | |
| 2007 | \$10,700 |
| 2009 | \$11,400 |
| <i>Difference</i> | +\$700 |
| Amount Per Exemption | |
| 2007 | \$3,400 |
| 2009 | \$3,650 |
| <i>Difference</i> | +\$250 |

The Banners

| | |
|------------------------------|---|
| Bio: | A 35-year old single mother with a young child. |
| Income: | \$35,000 |
| Tax Liability (2007): | \$746 |
| Tax Liability (2009): | \$89 |
| Are They Better Off? | Yes – by \$657 |

The Banner household is comprised of a 35-year single mother with an income of \$35,000 and her six-year old son, for whom she pays \$3,000 per year in child care expenses and claims the child tax and child and dependent care credits. Ms. Banner files as a head of household and claims exemptions for herself and her son. Her income is derived solely from her salary, with none coming from interest, capital gains, or other specialized sources. In an effort to keep her return simple, she takes the standard deduction. A side-by-side comparison of her returns shows:

| Middle Class Tax Cut From the American Recovery and Reinvestment Act | |
|---|---------------|
| 2007 – N/A | \$0 |
| 2009 – Making Work Pay Credit | \$400 |
| <i>Difference</i> | +\$400 |

| Earned Income Credit | |
|-----------------------------|---------------|
| 2007 | \$0 |
| 2009 | \$70 |
| <i>Difference</i> | +\$70 |
| Standard Deduction | |
| 2007 | \$7,850 |
| 2009 | \$8,350 |
| <i>Difference</i> | +\$500 |
| Amount Per Exemption | |
| 2007 | \$3,400 |
| 2009 | \$3,650 |
| <i>Difference</i> | +\$250 |

Conclusion – Are You Better Off?

Contrary to the prevailing assumption, the federal tax burden on each of the middle class families above has actually lightened since 2007. So, get your tax returns in on time and enjoy your refund.

Endnotes

¹ CBS News/New York Times Poll, February 5th-10th, 2010, available at http://www.cbsnews.com/htdocs/pdf/poll_Tea_Party_021110.pdf?tag=contentMain;contentBody.

² College Board, "Trends in College Pricing: 2009," available at http://www.trends-collegeboard.com/college_pricing/pdf/2009_Trends_College_Pricing.pdf.

* Returns prepared by Third Way's Ryan McConaghy, Tess Stovall, and Mark Sagat.