

Reference date for all information is July 1st 2008

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

THE UNITED STATES 2008

1. Overview of the system

Generally, unemployed persons can receive unemployment compensation for a maximum of 26 weeks. There are a number of provisions for low income families. The most important are the Supplemental Nutrition Assistance Program (SNAP), formerly known as food stamps¹, and Temporary Assistance for Needy Families (TANF) which are granted to families in need. Responsibility for administration of SNAP is shared, with the Federal government paying for the benefit costs and setting broad rules and the States directly administering the program. Responsibility for TANF belongs to the individual States. An Earned Income Tax Credit is available to poor working families. The tax unit is the individual, but couples have the option to be taxed jointly. Tax and benefit systems vary from State to State. The State of Michigan is used to represent a typical manufacturing region. Michigan TANF and Unemployment Insurance benefits are somewhat above the average for all States.

1.1. Average worker wage (AW²)

The 2008 AW level is USD 39 481.

2. Unemployment insurance

The US Department of Labor oversees the system, but each State administers its own programme. Eligibility conditions differ from State to State, as do maximum benefit levels. Generally, all States require that UI-recipients be able to, and available for, work.

2.1 Conditions for receipt

2.1.1 Employment conditions

To qualify for the minimum weekly benefit amount (WBA), wages must equal 11/2 X the high quarter wages (HQW) in the base period (BP), or in the alternative BP wages must equal 20 times the state AWW and wages in 2 quarters. Minimum wages needed in the BP to qualify must be at least USD 4,136 in Michigan.

¹ On October 1, 2008, the Food Stamp Program changed its name to the Supplemental Nutrition Assistance Program (SNAP), reflecting the Program's mission to not only provide food assistance, but also to improve the nutritional quality of low-income people's diets.

² AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration (www.oecd.org/ctp). For more information on methodology see *Taxing Wages 2007-2008*. OECD, 2007, part 5, sections 2 and 3.

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2.1.2 *Contribution conditions*

Employers pay 0.06 to 10.3 per cent of the first USD 9,000 for each covered employee in Michigan. Tax rates among employers vary depending on their experience with respect to unemployment.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of weekly benefit amount (WBA)*

4.1 per cent of high quarter wages during the base period plus USD 6 for each dependent up to 5 dependants in Michigan. The benefit is bound by a minimum WBA of USD 113 (USD 1,582 per year), and a maximum of USD 362 per week (USD 9,412 per year), in Michigan.

2.2.2 *Income and earnings disregards*

The benefit is not means-tested. Income from work less than or equal to gross benefit amount is withdrawn at a rate of 50 cents to the dollar. Earnings above gross benefit amount are subtracted from 1.5 times the gross benefit amount. Individuals earning more than 1.5 times their gross benefit amount are ineligible to receive benefits.

2.3 *Tax treatment of benefit*

Unemployment insurance benefit income is subject to both Federal and State government income tax, but is exempted from social security taxes.

2.4 *Benefit duration*

Duration of benefit is calculated by dividing 43% of reference earnings by the recipient's weekly benefit, with a minimum of 14 weeks and a maximum of 26 weeks for Michigan. From 2008 it is now the usual 26 weeks *plus*

Tier-1

The EUC08 program, signed into law on June 30, 2008, provides up to 13 weeks of 100 percent federally-financed compensation to eligible individuals in all states. Public Law (P.L.) 110-449 expanded the EUC08 program on November 21, 2008 to provide up to 20 weeks of 100 percent federally-funded unemployment compensation to eligible individuals in all states. In Michigan provided up to 20 weeks of 100% federally-financed compensation to eligible individuals on June 30, 2008.

Tier-2

Public Law (P.L.) 110-449 originally expanded the EUC08 program by providing a second tier of benefits of up to 13 weeks for eligible individuals in those states with high unemployment. This tier has since been modified on November 21, 2008 from 13 to 14 weeks and is eligible to claimants in all states without regard to the state unemployment rate.

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

None.

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2.5.2 *Older worker*

None.

3. **Unemployment assistance**

There are no unemployment assistance schemes in the United States.

4. **Social assistance**

The Supplemental Security Income (SSI) Programme is a means-tested, federally administered income assistance programme which provides monthly cash payments in accordance with uniform, nationwide eligibility requirements to needy aged, blind and disabled persons. Its operation is beyond the scope of this publication.

SNAP is designed primarily to increase the food purchasing power of eligible low-income households to a point where they can buy a nutritionally adequate low-cost diet. This benefit scheme is classified – for the purposes of this publication – as social assistance.

4.1 *Conditions for receipt*

Households who meet the income tests described below and who meet other requirements (such as sufficiently low assets and immigration rules, for example) are eligible for SNAP benefits. In 2008, able-bodied adults living in households without childrens were eligible for 3 months of benefits in a 36-month period, unless they met a work requirement (work 20 hours or more per week, or participated in a qualifying work activity) or lived in an area with high unemployment where the State had requested and was granted a waiver. To be entitled to the benefit, households need to pass two income tests (except for households where all members receive TANF or SSI, who qualify automatically):

- Basic (gross) monthly income must not exceed 130 per cent of the poverty guidelines.
- Counted (net) monthly income must not exceed 100 per cent of the poverty guideline.

The net income guideline for a family of four in 2008 was USD 1721 per month.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

Basic (gross) monthly income is the cash household income. Earned income before federal, state and local taxes, and social security contributions is counted. The Earned Income Tax Credit (EITC) (see Section 8) is not included in basic monthly income. Also excepted is unanticipated, irregular or infrequent income up to USD 30/quarter and income from tax refunds.

Counted (net) monthly income is computed as follows (2008):

- Basic gross monthly income
- TANF

Comment [jlg1]: This requirement has been waived for the period running from April 1, 2009 through September 30, 2010.

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- Virtually all other cash assistance and retirement income
- Standard deduction: USD 134*
- 20 per cent of gross earnings deduction in recognition of taxes and work related expenses
- Court ordered child support payments deduction made to non-household members
- Out-of-pocket medical expenses deduction for elderly (aged 60 or more) or disabled household members in excess of USD 35
- Out-of-pocket dependent-care expenses deduction up to:

Maximum per dependant under 2:	USD 200
Maximum per dependant 2 or older:	USD 175
- Excess shelter expense (rent and utility expenses) deduction if it exceeds 50 per cent of net counted income so far and with a maximum of USD 431. For calculation purposes, the average shelter expense in Michigan in 2007 was USD 650.

* Beginning in FY 2003 the standard deduction is equal to 8.31 percent of the poverty level which varies by household size. The deduction can be no less than \$134. In FY 2008 households of 3 persons or less had a standard deduction of \$134, 4-person households had a deduction equal to \$143, 5-person households had a deduction equal to \$167 and for 6 or more persons, the standard deduction was equal to \$191.

As low-income families are expected to spend 30 per cent of their net income on food, the maximum benefit amounts are decreased by 30 per cent of counted (net) income.

Maximum Monthly SNAP allotments are linked to family size (see table).

Maximum monthly SNAP allotments for FY 2008 (in USD per month)*

Household size (persons)	Maximum allotments	Gross income eligibility limit	Net income eligibility limit
1	162	1,107	851
2	298	1,484	1,141
3	426	1,861	1,431
4	542	2,238	1,721
5	643	2,615	2,011
6	772	2,992	2 301
7	853	3,369	2,591
8	975	3,746	2,881
Each additional person	+122	+377	+290

* Rates from 1 October 2007 to 30 September 2008.

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4.2.2 *Income and earnings disregards*

SNAP benefits are not included in the means test of any other benefit.

4.3 *Tax treatment of benefit*

SNAP benefits are not taxable.

4.4 *Benefit duration*

Indefinitely, as long as eligibility conditions are fulfilled. SNAP benefits are issued monthly.

4.5 *Treatment of particular groups*

4.5.1 *Young persons*

Earnings before high school graduation are excluded from household countable income..

4.5.2 *Older workers*

Households with elderly (aged 60 and over) members: several program rules are relaxed for these households: they do not need to meet the basic (gross) income guideline; they may claim an excess shelter expense deduction greater than the maximum for other households; and they may have more countable assets than other households. Other administrative requirements are also relaxed.

Households with disabled members: in 2008 these households had the same program rules as the elderly. *{(NOTE: The asset limit was raised in FY 2003 to \$3,000 to match elderly)}*

4.5.3 *Unemployed, healthy childless adults*

Healthy, childless adults are subject to strict work requirements and time limits on their participation. They may receive benefits for only three months in any 36-month period unless they work, meet work requirements, are exempted under other provisions of law, or live in an area waived from work requirements due to insufficient jobs.

4.5.4 *Immigrants*

The 2002 Farm Bill restored SNAP eligibility to most legal immigrants provided they meet the income and asset eligibility requirements. All disabled legal immigrants had eligibility restored effective October 1, 2002, and all legal immigrants in the country for at least five years were had their eligibility restored April 1, 2003. Children under age 18 had their eligibility restored on October 1, 2003. Those admitted as refugees, granted asylum, or given a stay of deportation are eligible without a waiting period, as are legal immigrants with a military connection. Today, the only legal immigrant group who remain ineligible are nondisabled adults who have not yet been in the U.S. for at least five years, were not admitted as a refugee, and do not have a military connection..

5. **Housing benefits**

The Federal government provides housing assistance to low-income households through three mechanisms:

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- a) Low-rent public housing, which is owned by one of over 3 500 Public Housing Authorities (PHAs) authorised under state law.
- b) Housing choice vouchers, which subsidise private-market rentals and are also administered by PHAs.
- c) Direct contracts with some 20 000 owners of certain private projects.

5.1 *Conditions for receipt*

Housing assistance is not an entitlement. Access to assistance is rationed through waiting lists maintained by PHAs and private owners. These entities are permitted to select households for assistance according to preferences they themselves determine, subject to compliance with the civil rights laws and other statutes.

All assisted households must be low-income, which for purposes of housing programs means that gross annual income is less than 80 per cent of area median income. Area median income in the Detroit area was USD 68,400 in Fiscal Year 2008 for a family of 4, and USD 59,200 in Grand Rapids.

However, Federal admissions policies and the condition of the assisted stock generally limit the utilisation of assisted housing to families with very low incomes. For example, 75 per cent of new admissions to the voucher program must have incomes below 30 per cent of area median income.

Among the poorest families, not more than one-fourth of eligible households are assisted, and program participation declines as incomes rise.

5.2 *Calculation of benefit amount*

The contribution to rent of the assisted tenant is, in general, 30 per cent of adjusted income. The primary adjustments are USD 480 per year for each child and USD 400 per year for each elderly or disabled adult. Medical expenses greater than 3 per cent of gross income are also deducted, but only if the household has an elderly or disabled head or spouse. The tenant's contribution to rent is reduced by the amount of an allowance for monthly utility payments, which is specific to the area and basic characteristics of the unit.

For public housing, the Federal subsidy to the PHA is a formula amount intended to cover direct costs, minus the rent roll.

For housing choice vouchers, the amount paid to the owner is the difference between the reasonable rent (the rent paid by unassisted tenants for comparable units) and the tenant contribution. However, if the unit selected by the tenant has a rent exceeding the PHA payment standard, the tenant must pay the excess. The payment standard may be anywhere from 90 to 110 per cent of the Fair Market Rent (FMR) for the metropolitan area. The FMR in 2008 for Detroit was USD 805 per month for a two-bedroom unit; in Grand Rapids it was USD 702.

For project-based contracts with owners, the amount paid to the owner is the difference between the contract rent agreed upon with the Federal government and the tenant contribution.

Tenant contribution (prior to utility allowance) must exceed a minimum rent. For Federal contracts with private owners, the minimum rent is USD 25 per month. For public housing and vouchers, the PHA determines the minimum rent within a range between USD 0 and USD 50 per month, inclusive

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5.3 Tax treatment of benefits

Housing assistance is not taxable.

5.4 Benefit duration

There is no statutory limit on duration of assistance. Families may lose assistance through fraud, other criminal activity, or failure to comply with lease obligations.

5.5 Treatment of particular groups

Benefits are pro-rated to households with undocumented non-citizens. For example, a household with five members, of whom one is undocumented, would receive 80 per cent of the subsidy otherwise available.

6. Family benefits

6.1 Conditions for receipt

The Temporary Assistance for Needy Families (TANF) program (enacted in 1996) replaced the Aid to Families with Dependent Children (AFDC) program and the Job Opportunities and Basic Skills Training (JPBS) program ending the Federal entitlement to assistance. States, Territories, and Indian Tribes (henceforth referred to as States) determine eligibility and benefit levels and services provided to needy families. Although States may impose various conditions on the receipt of assistance, a family must, based on Federal law, include at least one child or the mother must be pregnant.

6.2 Calculation of benefit amount

There are no Federal TANF rules or requirements regarding the State's calculation of benefits. Each State may establish its own benefit levels and determine its own benefit calculation. TANF is the successor to the AFDC program, which was started as a benefit for the children of widows and orphans. Over time, most of the beneficiary families were headed by unmarried mothers. When AFDC began, the benefit enabled mothers without a spouse to support them to care for their children at home. Now, recipients of TANF are expected to work and become self-sufficient within a State-imposed time-limited period for which benefits are available, but generally no longer than 60 months.

The benefit is calculated based on the number of family members using the following amounts as a guideline in 2006 (in Region 4/Wayne County-Michigan):

- 1 person: USD 305 (*i.e.* pregnant mother expecting first child)
- 2 people: USD 401
- 3 people: USD 489
- 4 people: USD 593
- 5 people: USD 689
- 6 people: USD 822

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- 7 people: USD 898

6.2.2 *Income and earnings disregards*

Except where another Federal statute specifies that certain income or other benefits should be disregarded, each State may decide which income to consider in calculating the benefit amount. There is considerable variation among the States in their treatment of earned income. In calculating the monthly benefit, Michigan disregards the first USD 200 of income earned plus 20 per cent of any additional earnings; across all states, the fixed income disregard ranges from zero to USD 1,020 and the variable disregard from zero to 100 per cent up to the limit. In general, states with high fixed disregards tend to have smaller variable disregards and vice versa. Some states (not Michigan) impose a "family cap" on benefits. The initial benefit is based on the size of the family at the time of application, and benefits do not increase for additional children conceived after eligibility is determined.

6.3 *Tax treatment of benefit*

Family benefits are not taxable.

6.4 *Benefit duration*

Eligibility and benefits are determined monthly. Federal funding for TANF assistance is limited to 60 months for each family. The 60 months do not have to be consecutive, but it is a lifetime limit. Each State has the option of shortening the time limit. States may use their own funds to provide benefits after the expiration of the 60 months. Many States have either shortened the time limit (for example, several States have a 24 month time limit) or limited the number of months that a family may receive benefits within a certain period of time. For example, the family may receive benefits for 24 months within a 60-month period, but there is a lifetime limit of 60 months of federally-funded assistance with up to 20 percent of the caseload exempted from the Federal time limit due to hardship).

6.5 *Treatment of particular groups*

Federally recognised Indian Tribes now have the opportunity to administer their own TANF program in a manner similar to States. States have the flexibility to give special treatment to the victims of domestic violence. States have the option to certify that they will assist victims of domestic violence by: screening for them when they apply for TANF; referring these clients to counselling and supportive services; and waiving time limits, residency requirements, child support co-operation requirements, and family cap provisions.

7. **Childcare for pre-school children**

Schooling is compulsory from age 6.

According to the Federal Interagency Forum on Child and Family Statistics [using data from the 2005 National Household Education Survey (NHES)], 61 percent of children from birth through age six (and not yet in kindergarten) are in some type of non-parental child care. Primary childcare arrangements among these children vary by age-group as follows (<http://childstats.gov/americaschildren/tables.asp>, Table FAM3.A):

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Type of Care by Age of Child	Parental Care Only	Total in Non-Parental Care	Care in Home by a Relative	Care in Home by a Non-Relative	Centre-Based Care
Ages 0-2	49%	51%	22%	16%	20%
Ages 3-6 (Not in Kindergarten)	24%	74%	23%	12%	57%

Note: Centre-based programs include day care centres, pre-kindergartens, nursery schools, Head Start programs, and other early childhood education programs.

Source: Forum on Child and Family Statistics. *America's Children in Brief: Key National Indicators of Well-Being, 2008*. Washington, DC: US Government Printing Office.

7.1 Out-of-pocket childcare fees paid by parents

Fees paid by parents for full-time formal center-based care vary substantially; some families may pay 100% of costs, others may have fully subsidized care, while others may have partially subsidized care. Eligibility for child care subsidies is based on state-determined criteria for family income and work requirements. Eligibility guidelines and the amount of subsidy an eligible family receives vary widely by state.

According to the 2005 National Household Education Survey (National Center for Education Statistics, <http://nces.ed.gov/pubs2006/2006075.pdf>, Table 8), across all families mean weekly out-of-pocket expenses for non-parental care arrangements for children under age 5 were \$60/week for relative care, \$105/week for non-relative care, and \$86/week for centre-based care. Families with children under age 5 years and below 100 per cent of the federal poverty line had mean weekly out-of-pocket expenses for child care of \$38/week for relative care, \$56/week for non-relative care, and \$54/week for centre-based care. (Note: These estimates indicate per child expenses. For children with more than one care arrangement, only expenses within that given type of care are summed to calculate the total spent per week.)

Child care services are primarily provided through a market-based system at rates determined by market forces. Rates vary substantially based on region, state, age of child, and type of child care setting. The Child Care and Development Fund (CCDF) is the government child care subsidy program, which provides subsidies to low-income working families to offset the cost of purchasing child care, while maintaining the parental choice afforded by the market system. CCDF is a federal block grant program, providing funds directly to states to operate a child care subsidy program designed to meet local needs. States have broad flexibility in determining eligibility guidelines (up to a maximum of 85% of state median income), reimbursement rates, & co-payment amounts, as well as the scope and quality of services.

Reimbursement rates and co-payment amounts are not federally mandated. States determine the allocation and level of benefits. In 2008, 9 States and 4 Territories capped reimbursement rates at the 75th percentile of the local market rate or higher. In 2008, 44 States and Territories reported a reimbursement system that provides rate add-ons on top of the base rate for meeting a variety of criteria (e.g., non standard hour care, serving infants and toddlers or children with special needs, or for programs that meet certain quality standards such as accreditation). While co-payment rates are based on a percentage income and size of family, other factors may be used to determine a family's contribution, including number of children in

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care, whether care is full-or part-time, or cost of care. In 2008, 26 States and Territories reported using additional factors besides family size and income to determine the co-payments. In 2008, 15 states waived co-payment fees for *all* families at or below the poverty level; 37 states waived co-payment fees for some families with incomes at or below the poverty level; 4 states required fees from all families, even if incomes were at or below poverty (Child Care Bureau, CCDF Report of State Plans, FY 2008-2009). Nationally in fiscal year 2007, 27% of families receiving child care subsidies did not have a co-payment. Including families with no co-payment, the mean co-payment amount in fiscal year 2007 was 5% of family income. Excluding families with no co-payment, the mean co-payment was 6% of family income.

Child care fees are tax deductible through the Child and Dependant Care Tax Credit (see Calculation of Benefit Amount section below). The tax credit is non-refundable, so families that do not pay taxes do not benefit from the credit.

When applying for SNAP benefits, child care fees can be deducted up to USD 175 per month for children ages 2 years and older and up to USD 200 per month for children under age 2 years. Some states apply similar disregards for families applying for TANF cash assistance.

Comment [DHHS2]: CCB could not confirm this information with the U.S. Department of Agriculture. Therefore, this information requires further verification.

7.2 Child-care benefits

The major program for federal funding for child care services is the Child Care and Development Fund (CCDF). Under the CCDF, states receive grants from the federal government to operate child care subsidy programs. Additionally, there are two block grant programs that provide child care funding: Temporary Assistance for Needy Families (TANF) and the Social Services Block Grant (SSBG). TANF is the cash assistance program; states may transfer up to 30 per cent of their TANF block grant to CCDF or spend TANF funds directly on child care. The SSBG program provides funding to states for many social services including child care. CCDF requires States to serve families through a single, integrated child care system; TANF funds that are transferred into CCDF are part of those integrated systems; TANF funds used directly for child care and SSBG funds provide separate child care programs in some states and are integrated into the CCDF system in other states. Under CCDF, the majority of subsidised child care services are available to eligible parents through certificates or vouchers, but 23 states also have contracted programs to purchase child care slots. (Note that under certificates, as well as contracted programs, the actual payment is generally due to the provider; only a small percentage of funds – 3 percent in fiscal year 2007 – are paid as cash directly to parents). Parents may select any legally operating child care provider – including child care centers, family members, neighbors, family child care programs, after-school programs, and faith-based programs. Child care providers funded by CCDF must meet basic health and safety requirements set by states and tribes. These requirements must address prevention and control of infectious diseases, including immunizations; building and physical premises safety; and minimum health and safety training.

Another major source of support for child care services is the Child and Dependent Care Credit, which provides tax assistance to families who pay for child care in order to work in paid employment.

In Fiscal Year 2007, approximately USD 12 billion of federal and related state funds were available for CCDF, TANF, and SSBG child care. Through CCDF, TANF and SSBG-funding streams, an estimated 2.5 million children were served on an average monthly basis in 2006 (the most recent year for which data are available). In 2005, USD \$3.5 billion provided assistance under the Child and Dependent Care Tax Credit to 6.5 million taxpayers. (<http://www.irs.gov/pub/irs-soi/06inalcr.pdf>). About half of the states offer child and dependant care tax credits or deductions to families in addition to the federal tax credit; eligibility limits and benefit levels vary widely. Data are presented in this section from the most recent year available.

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7.2.1 *Conditions for receipt*

Subsidies are for families receiving, leaving, or at risk of dependency on TANF, as well as low-income working families. Federal law provides each state with broad discretion in determining how its child care program will operate, such as setting eligibility guidelines, reimbursement rates, and co-payments. Federal law does currently limit the maximum level for eligibility to be 85 per cent of the State median income and requires States to give priority to very low income families. Parents must be working or attending job training or education, or the child must be in need of protective services. Typically a child must be under age 13 to be eligible. However, children with special needs may be eligible up to 19 years old. Eligibility limits set by states range from 34 per cent of State median income (SMI) to 85 per cent of SMI, with 46 states setting limits below the federally-mandated allowable maximum of 85 per cent. On average in fiscal year 2008, the income eligibility level is 60 per cent of SMI. For a family of three, Michigan set the level of eligibility in Fiscal Year 2008 at 40 per cent of the State median income and had no waiting list.

7.2.2 *Calculation of benefit amount*

CCDF and TANF child care benefits amounts are set by the state and vary by income and number of children. According to administrative data for fiscal year 2007, the weighted average monthly CCDF subsidy among the 50 States and District of Columbia was USD 591 per family; family co-payments averaged USD 74 per month. (The weight is in proportion to the number of families/children served by CCDF in each State). These amounts include care for children of all ages, full and part-time care, and care by relatives as well as family day care homes and child care centres. Among children receiving a CCDF subsidy in fiscal year 2007, 58 per cent were in centre-based care. For families under 100 per cent of the federal poverty line, the monthly average co-payment was USD 34 (across all types of care); for families over 100 per cent of poverty but below 150 per cent of poverty, the average was USD 95; and for families over 150 per cent of poverty, the average was USD 157.

In Michigan, the average monthly subsidy was USD 286 per child and USD 572 per family in Fiscal Year 2007; family co-payments average USD 26 per month. Among children receiving CCDF subsidies in fiscal year 2007, 17 per cent were in centre-based care. Child care is subsidised on a sliding scale in Michigan based on gross monthly income and family size. The ceiling income for subsidy eligibility ranges from USD 1 607 for family size of 2 to USD 4 634 for family size 10 or more. Co-payments range from 5 per cent to 30 per cent of Michigan's child care reimbursement rate ceiling. Reimbursement rate ceilings vary by age of child, type of care, and by locality. For centre-based care, the rate ceiling is USD 2.85 per hour for children ages 0 to 2 ½ years and USD 2.25 per hour for children ages 2 ½ years and older. For example, for a child over age 2 ½ years in centre-based care for 40 hours/week, the weekly subsidy is USD 90, and the weekly co-payment fee would range from USD 4.50 to USD 27, depending on family income. Michigan waives co-payment fees for some families at or below the poverty level, specifically for families receiving TANF cash assistance and for families with children receiving protective services.

The Child and Dependent Care Credit provides tax assistance to families who pay for child care in order to work in paid employment or look for work. The amount of credit is based on income, the number of dependents, and the amount of child care expenses. Families with adjusted gross income of less than or equal to USD 15 000 are eligible to receive a child care credit of 35 per cent of qualifying child care expenses. Families with higher income receive a lower credit, with the rate falling to 20 per cent for individuals and couples with adjusted gross incomes above USD 43 000. In 2007, qualifying child care expenses are capped at USD 3 000 for one child and USD 6 000 for two or more children. Thus the maximum value of the credit is USD 1 050 for an individual or couple with one child and adjusted gross

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income below USD 15 000 and USD 2 100 for a low-income family with two or more children. The credit is not refundable and so families that do not pay taxes do not benefit from the credit.

7.2.3 *Calculation of gross benefit*

See above.

7.2.4 *Income and earnings disregards*

Twenty-one states disregard Social Security Income (SSI), 10 states disregard TANF cash assistance income, 21 states disregard energy assistance, 18 States disregard the value of housing assistance, and approximately 22 states disregard Federal and state earned income tax credits when calculating the child care subsidy benefit.

7.3 *Tax treatment of benefit and interaction with other benefits*

No states are known to treat CCDF or TANF assistance as taxable.

7.4 *Treatment of particular groups*

States decide whether to target certain populations for CCDF subsidies. As reported in State Plans for fiscal years 2008 and 2009, 25 states give first priority for child care subsidies to families receiving TANF cash assistance and/or families transitioning off TANF. All states are required to give priorities to families of children with special needs and families with very low incomes. Examples of other populations that are given special priority by one or more States are: families with medical emergencies, parents who are students in post-secondary education, parents in homeless or spousal-abuse shelters, children in protective services or in foster care, and children in need of before and after-school care. Some State also give priorities to families receiving TANF cash assistance while others grantee child care subsidies to families that are transitioning off of TANF.

8. **Employment-conditional benefits**

The Earned Income Tax Credit (EITC) is a refundable tax credit. Eligible for EITC are working families with children under 19 (or under 24 if full-time student, or any age if permanently or totally disabled) and childless working persons aged between 25 and 65 that meet certain income thresholds. (See section 10.1.1.)

9. **Lone-parent benefits**

None.

10. **Tax system**

10.1 *Income tax schedule*

10.1.1 *Tax allowances and credits*

- *Basic reliefs:* In 2008 a married couple filing a joint tax return is entitled to a standard deduction of USD 10 900. The standard deduction is USD 8 000 for heads of households and USD 5 450 for single individuals. This relief is indexed for inflation. More liberal standard deductions are

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available for taxpayers who are age 65 or older and taxpayers who are blind. Special rules apply to children who have sufficient income to pay tax and are also claimed as dependents by their parents.

In addition to the standard deduction, in 2008 a USD 3 500 *personal exemption* is given every taxpayer (including both husband and wife filing a joint return). The personal exemption is indexed annually for inflation. The deduction for personal exemptions is reduced by 0.67 percent (USD23.33) for each USD 2 500 or fraction thereof by which the taxpayer's income exceeds USD 239 950 for married couples, USD 159 950 for single taxpayers, and USD 199 950 for heads of households. All of a taxpayer's exemptions are phased out simultaneously.

- *Standard marital status reliefs*: Married couples generally benefit from a more favourable schedule of tax rates for joint returns of spouses (see Section 1.13). There are no other general tax reliefs for marriage.
- *Relief for children*: For each child and other person claimed as a dependent on a taxpayer's return, the taxpayer is entitled to a dependency exemption of USD 3 500 in 2008. Low income workers with dependants are allowed a refundable (non-wastable) earned income credit. For taxpayers with one child, the credit is 34 per cent of up to USD 8 580 of earned income in 2008. The credit phases down when income exceeds USD 15 740 (18 740 for married taxpayers) and phases out when it reaches USD 33 995 (36 995 for married taxpayers). The earned income threshold and the phase-out threshold are indexed for inflation. For taxpayers with two or more children, the credit is 40 per cent of up to USD 12 060 of earned income in 2008. The credit phases down when income exceeds USD 15 740 (18 740 for married taxpayers) and phases out when it reaches USD 38 646 (41 646 for married taxpayers).

Since 1998, taxpayers are permitted a tax credit for each qualifying child under the age of 17. In 2008 the maximum credit is USD 1 000. The maximum credit is reduced for taxpayers with income in excess of certain thresholds. The credit is reduced by USD 50 for each USD 1 000 of income in excess of USD 110 000 for married taxpayers (USD 75 000 for single and head of household taxpayers). These threshold amounts are not indexed for inflation. The child credit is refundable (non-wastable) to the extent of 15 per cent of earned income in excess of USD 8 500. A taxpayer with three or more qualifying children may be allowed a supplemental refundable (non-wastable) child credit, subject to certain restrictions.

- *Relief for low income workers without children*: In 1994 and thereafter, low income workers without children are eligible for the earned income credit. In 2008 low income workers without children are permitted a non-wastable earned income credit of 7.65 per cent of up to USD 5 720 of earned income. The credit phases down when income exceeds USD 7 160 (10 160 for married taxpayers) and phases out when income reaches USD 12 880 (15 880 for married taxpayers). This credit is available for taxpayers at least 25 years old and under 65 years old.
- *Relief for social security and other taxes*. There is no special relief for social security taxes although the non-wastable earned income credits described above are sometimes considered an offset to social security contributions made by eligible employees. Furthermore, only a portion of social security benefits are subject to tax.

Starting in May 2008, the Treasury will begin sending **economic stimulus payments** to more than 130 million individuals. The stimulus payments will go out through the late spring and summer.

The IRS will use the 2007 tax return to determine eligibility and calculate the basic amount of the payment. In most cases, the payment will equal the amount of tax liability on the return with a

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maximum amount of \$600 for individuals (\$1,200 for taxpayers who file a joint return) and a minimum of \$300 for individuals (\$600 for taxpayers who file a joint return).

Even those who have little or no tax liability may qualify for a minimum payment of \$300 (\$600 if filing a joint return) if their tax return reflects \$3,000 or more in qualifying income. For the purpose of the stimulus payments, qualifying income consists of earned income such as wages and net self-employment income as well as Social Security or certain Railroad Retirement benefits and veterans' disability compensation, pension or survivors' benefits received from the Department of Veterans Affairs in 2007. However, Supplemental Security Income (SSI) does not count as qualifying income for the stimulus payment.

Low-income workers who have earned income above \$3,000 but do not have a regular filing requirement must file a 2007 tax return to receive the minimum stimulus payment. Similarly, Social Security recipients, certain Railroad retirees, and those who receive the veterans' benefits mentioned above must file a 2007 return in order to notify the IRS of their qualifying income.

Eligibility for the stimulus payment is subject to maximum income limits. The payment, including the basic amount and the amount for qualifying children, will be reduced by 5 percent of the amount of income in excess of \$75,000 for individuals and \$150,000 for those with a Married Filing Jointly filing status.

Individuals who pay no tax and who have less than \$3,000 of qualifying income will not be eligible for the stimulus payment.

10.1.2 The definition of taxable income

Gross income minus the above tax exemptions.

10.1.3 The tax schedule

Federal Income Tax rates

Taxable Income Bracket (USD) ¹			Marginal Tax Rate (%)
Single Individual	Joint Return of Married Couple	Head of Household	
0 to 8 025	0 to 16 050	0 to 11 450	10
8 025 to 32 550	16 050 to 65 100	11 450 to 43 650	15
32 550 to 78 850	65 100 to 131 450	43 650 to 112 650	25
78 850 to 164 550	161 450 to 200 300	112 650 to 182 400	28
164 550 to 357 700	200 300 to 357 700	182 400 to 357 700	33
357 700 and over	357 700 and over	357 700 and over	35

1. The taxable income brackets are indexed for inflation.

State and local income taxes

The District of Columbia and 43 of the 50 States impose some form of individual income tax. In addition, some local governments (cities and counties) impose an individual income tax, although this is not generally the case. State individual income tax structures are usually related to the federal tax structure

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by the use of similar definitions of taxable income, with some appropriate adjustments. This linkage is not a legal requirement but a practical convention that functions for the convenience of the taxpayer who must fill out both federal and State income tax returns.

The AW calculations assume that the average worker lives in Detroit, Michigan. The state of Michigan permits a personal exemption of USD 3 300 for the taxpayer, the taxpayer's spouse and each child, an additional USD 600 exemption for each child 18 years old and younger, and taxes income at the rate of 4.35 per cent. The city of Detroit permits a personal exemption of USD 600 and taxes income at the rate of 2.5 per cent. Michigan provides a credit for city taxes paid. If the city income tax paid is USD 100 or less, the credit is 20 per cent of the city income tax paid. If the city income tax paid is over USD 100 but not over USD 150, the credit is 10 per cent of the excess of the city income tax paid over USD 100 plus USD 20. If the city income tax paid is over USD 150, the credit is 5 per cent of the excess of the city income tax paid over USD 150 plus USD 25.

10.2 Treatment of family income

Families are generally taxed in one of three ways:

- As married couples filing jointly on the combined income of both spouses;
- As married individuals filing separately and reporting actual income of each spouse; or
- As heads of households (only unmarried or separated individuals with dependents).

All others, including dependent children with sufficient income, file as single individuals.

10.3 Social security contribution schedule

10.3.1 Employees' contributions

Pensions

The rate for employee contributions is 7.65 per cent (6.2 per cent for old age, survivors, and disability insurance, and 1.45 per cent for old age hospital insurance). The 6.2 per cent rate applies to earnings up to USD 102 000. Beginning in 1994, there is no limit on the amount of earnings subject to the 1.45 per cent rate.

There is no distinction by marital status or sex.

10.3.2 Employers' contributions

Pensions

Employers match the employees' tax of 6.2 per cent on earnings up to USD 102 000 and 1.45 per cent of all earnings (without limit).

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Unemployment

Employers are required by the federal government to pay unemployment tax of 6.2 per cent on earnings up to USD 7 000. Taxes are also paid to various state-sponsored unemployment plans which may generally be credited against the required federal percentage. In 2007 the average unemployment insurance tax rate in Michigan was 4.9 percent of the first USD 9 000 of wages. The model considers that the Federal government allows employers to take a credit for state unemployment taxes of up to 5.4 per cent, resulting in a net Federal tax of 0.8 per cent on earnings up to USD 7 000.

11. Part-time work

11.1 *Special benefit rules for part-time work*

The unemployment benefit is calculated for qualifying part-time workers the same as it is for full-time workers.

11.2 *Special tax and social security contribution rules for part-time work*

Part-time workers only qualify for unemployment insurance if they work more than 20 hours per week or earn more than USD 1 340 per year. There are no specific rules for part-time workers to be eligible to the Earned Income Tax Credit (section 8).

12. Policy developments

12.1 *Policy changes introduced in the last year*

The Working Families Tax Relief Reconciliation Act of 2004 extends marriage penalty relief, an expanded 10 percent rate bracket, and an increased child tax credit for tax years 2005 through 2009.

Economic stimulus payments was introduced in 2008.

12.2 *Policy changes announced*

The Food, Conservation, and Energy Act of 2008 (P.L. 110-246) became law June 18, 2008 and took effect in Fiscal year 2009. Below is a summary of the law's provisions that affected SNAP.

Section 4001 – Renaming of the Food Stamp Act and Program – This provision renames the Food Stamp Program the Supplemental Nutrition Assistance Program (SNAP) and renames the Food Stamp Act of 1977 the Food and Nutrition Act of 2008. (Section 4002 makes conforming amendments.)

Section 4101 – Exclusion of certain military payments from income – This provision excludes combat-related military pay from consideration as income when determining eligibility and benefit levels if the additional pay is the result of deployment to or service in a combat zone and was not received immediately prior to serving in a combat zone.

Section 4102- Strengthening the food purchasing power of low-income Americans – This provision raises the minimum standard deduction from \$134 (current) to \$144 for FY 2009 and indexes it to inflation starting in FY 2010.

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Section 4103 – Supporting working families with child care expenses – This provision eliminates the cap on the deduction for dependent care expenses, allowing working families with children to deduct the entire amount of child care expenses when calculating eligibility and benefit levels.

Section 4104 – Asset indexation, education and retirement accounts – The provision indexes the asset limit to inflation and adjusts it to the nearest \$250 increment beginning October 1, 2008. Each adjustment is based on the unrounded amount for the prior 12-month period. It also excludes most education and retirement accounts as countable resources in determining SNAP eligibility.

Section 4105 – Facilitating simplified reporting – This provision authorizes all households to be placed on simplified reporting, eliminating the prohibition on simplified reporting for elderly, disabled, homeless and migrant households.

Section 4106 – Transitional benefits option – This provision allows State agencies to provide transitional benefits to households leaving a State funded cash assistance program.

Section 4107 - Increasing the minimum benefit – This provision indexes the minimum benefit to 8 percent of the cost of the maximum allotment for a household containing 1 member.

Section 4108 – Employment, training, and job retention – This provision permits the use of education and training (E&T) funds for post-employment job retention services for up to 90 days. It clarifies that any individual voluntarily electing to participate in an E&T program is not subject to the hour of work limitation.

Section 4111 – Nutrition Education – This provision clarifies the legal basis and requirements for nutrition education in the Supplemental Nutrition Assistance Program.

Section 4112 – Technical clarification regarding eligibility – This provision requires USDA to define the term “fleeing” and “actively seeking”, and ensures that State agencies use consistent procedures that disqualify individuals whom law enforcement authorities are actively seeking for the purpose of holding criminal proceedings against the individual.

Section 4113 – Clarification of split issuance – This provision clarifies that States must issue Supplemental Nutrition Assistance Program benefits to individuals in one lump sum monthly unless a benefit correction is necessary.

Section 4114 – Accrual of benefits – This provision requires State agencies to establish a procedure for recovering electronic benefits from a household’s account if the account hasn’t been accessed within 6 months. It requires State agencies to expunge benefits that have not been accessed by a household after a period of 12 months. It requires the State agency to notify households if their benefits are moved off-line and to make the benefits available within 48 hours upon the request of a household.

Section 4115 – Issuance and use of program benefits – This provision prohibits States from issuing paper coupons as of the date of enactment of the Farm Bill. It de-obligates paper coupons as legal tender one year from this date, and makes EBT cards the sole method of delivery. It updates the statute with more current EBT terminology. This provision prohibits interchange fees to retailers for EBT transactions.

Section 4116 – Review of major changes in program design – This provision requires USDA to develop standards for identifying major changes in the operations of State agencies and requires States to notify USDA upon implementing a major change in operations and collect any information required by USDA.

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Section 4117 – Civil rights compliance – This provision applies four major civil rights laws (the Age Discrimination Act of 1975, Section 504 of the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, and Title VI of the Civil Rights Act of 1964) to all aspects of the Supplemental Nutrition Assistance Program.

Section 4118 – Codification of access rules – This provision requires States to comply with USDA rules requiring bilingual personnel and material in areas in which a substantial number of low income household members speak a language other than English.

Section 4119 – State option for telephonic signature – This provision allows States to establish a system by which an applicant may sign an application through a recorded verbal assent over the telephone. The system must record the verbal assent, include effective safeguards against impersonation, identity theft and invasions of privacy, not interfere with the right to apply in writing, provide the household a written copy of the application with instructions for correcting any errors, and make the date of application the date of the verbal assent.

Section 4120 – Privacy protections – This provision requires States to establish safeguards that would prohibit the use or disclosure of information obtained from households except to persons directly connected with the administration or enforcement of 1) the Food and Nutrition Act, 2) related regulations, 3) Federal assistance programs, or 4) Federally-assisted State programs.

Section 4121 – Preservation of access and payment accuracy – This provision adds plans for proper testing to the list of criteria USDA must apply when deciding whether to approve federal funding for new State automated systems, including pilot projects in limited areas for major systems changes.

Section 4122 – Funding of employment and training programs – This provision makes E&T funding allocations to States available for fifteen months rather than until expended.

Section 4131 – Eligibility Disqualification – This provision allows disqualification of a person who has been found by a court or administrative agency to have (1) intentionally obtained cash by purchasing products with SNAP benefits that have containers requiring return deposits, discarding the product, and returning the container for the deposit amount, or (2) intentionally sold food purchased using SNAP benefits. The disqualification period must be prescribed by regulation.

Section 4132 – Civil penalties and disqualification of retail food stores and wholesale food concerns – This provision allows USDA both to assess a civil penalty and to disqualify a retail or wholesale food store authorized to participate in SNAP, and eliminates the minimum disqualification period. As a condition of reinstatement, a store that has been previously disqualified or assessed a penalty may be required to furnish a bond for five years to cover the value of benefits that the store may accept in the future. The provision also allows USDA, in certain cases, to suspend a retail store or wholesale food concern from processing benefits pending administrative action to disqualify the store.

Section 4133 – Major systems failures – This provision allows USDA to prohibit State agencies from collecting claims from a household and to assert a claim against a State in cases of major systemic error resulting in substantial overpayments. It allows for administrative and judicial review and alternative methods of collection if the State fails to make a payment.

Section 4141- Pilot projects to evaluate health and nutrition promotion in the supplemental nutrition assistance program – This provision authorizes USDA to carry out pilot projects to develop, test and evaluate methods of using the SNAP program to improve the dietary and health status of households eligible for or participating in SNAP and to reduce overweight and obesity. It provides \$20 million in

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mandatory funding for a project to test point-of-purchase incentives for healthful foods (to be made available on October 1, 2008, to remain available until expended).

, and authorizes appropriations for other projects. It requires the Secretary to submit an annual report to Congress on the status of each pilot and the results of the evaluations as well as to broadly disseminate the evaluation results. It authorizes to be appropriated the necessary sums to carry out this section but includes \$20,000,000 in mandatory funding

Section 4407 – Effective and Implementation Date – This provision sets the effective date for Title IV provisions, except as otherwise provided, at October 1, 2008.

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5) became law February 17, 2009 and took effect on April 1, 2009. Below is a summary of the law's provisions that affected SNAP.

Section 101(a and b) – Maximum Benefit Increase – This provision provides that SNAP benefits will be calculated using 113.6 percent of the June 2008 value of the Thrifty food Plan (TFP) effective April 1, 2009. These benefits will not be reduced in future Fiscal Years, and will remain at the April 1, 2009 level until the October following when the June TFP value exceeds 113.6 percent of the June 2008 TFP value.

Section 101 (c) – Administrative Expenses – This provision provides States with \$145 million in FY 2009 and \$150 million in FY 2010 for State Administrative expenses, less \$4.5 million for management and oversight and evaluating the impacts of the increased benefit. The allocation formula is based on State caseloads and State caseload growth.

Section 101 (e) – Treatment of Jobless Workers – This provision waives the work requirements and time limits for unemployed able-bodied adults without children.