

THE UNITED STATES
1999

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 Food Stamps and Temporary Assistance for Needy Families (TANF) which are granted to families in need. 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 benefits are somewhat above the average for all States.

The 1999 APW level in Michigan is USD 29 980.

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*

The minimum employment record is 6 months, with a minimum gross salary of USD 3 090 per annum.

2.1.2 *Contribution conditions*

None.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of weekly benefit amount (WBA)*

Rate is 50% of gross reference earnings. The benefit is bound by a minimum WBA of USD 87 (USD 1 305 per year), and a maximum of USD 300 per week (USD 7 800 per year), in Michigan.

2.2.2 *Income and earnings disregards*

The benefit is not means-tested. Income from work may reduce the benefit to zero.

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*

26 weeks for Michigan (States with exceptionally high unemployment extend the benefit duration to 39 weeks).

2.5 *Treatment of particular groups*

2.5.1 *Young persons*

None.

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, nation-wide eligibility requirements to needy aged, blind and disabled persons. Its operation is beyond the scope of this publication.

Food Stamps are 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 food stamp benefits. Able-bodied adults without dependants are eligible for 3 months of benefits in a 36-month period, unless they meet a work requirement (work 20 hours or more per week, or participate in a qualifying work activity). 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 poverty guideline for a family of four in 1999 was USD 1 371 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 are unanticipated, irregular or infrequent income up to USD 30/quarter and income from tax refunds.

Counted (net) monthly income is computed as follows (1999):

- basic gross monthly income
- + TANF
- + Virtually all other cash assistance and retirement income
- standard deduction: USD 134

- 20 per cent of gross earnings in recognition of taxes and work related expenses
- court ordered child support payments made to non-household members
- out of pocket medical expenses for elderly (aged 60 or more) or disabled household members in excess of USD 35
- out-of-pocket child-care expenses up to:
 - max. per dependant under 2: USD 200
 - max. per dependant 2 or older: USD 175
- rent if it exceeds 50 per cent of net counted income so far and with a maximum of USD 275

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

Maximum Monthly Food Stamp allotments are linked to family size (see table):

Household size (persons)	Maximum allotments (USD per month)	Gross income eligibility limit (USD per month)	Net income eligibility limit (USD per month)
1	125	873	671
2	230	1 176	905
3	329	1 479	1 138
4	419	1 783	1 371
5	497	2 086	1 605
6	597	2 389	1 838
7	659	2 693	2 071
8	754	2 996	2 305
each additional person	+94	+304	+234

(rates from October 1st, 1998 to September 30th, 1999)

4.2.2 *Income and earnings disregards*

Food Stamps are not included in the means test of any other benefit.

4.3 *Tax treatment of benefit*

Food Stamps are not taxable.

4.4 *Benefit duration*

Indefinitely, as long as the conditions are fulfilled. Food Stamps are issued monthly.

4.5 *Treatment of particular groups*

4.5.1 *Young persons*

None.

4.5.2 *Older workers*

None.

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*

A non-citizen is not eligible for food stamps unless he/she meets all the normal eligibility requirements AND is both a qualified alien (according to specified rules and regulations) and meets the special food stamp criteria (according to specified rules and regulations).

5. Housing benefits

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

- (a) low-rent public housing, which is owned by one of over 3500 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. Among the poorest families, not more than one-fourth of eligible households is assisted, and program participation declines as incomes rise. All assisted households must be low-income, which for purposes of housing programs means that gross annual income is less than 80 percent of area median income. Area median income in the Detroit area was USD 63,200 in Fiscal Year 2000 for a family of 4, and USD 56,400 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 (less than 50 percent of area median income).

5.2 *Calculation of benefit amount*

The contribution to rent of the assisted tenant is, in general, 30 percent of adjusted income. The primary adjustments are USD 480 per year for each child and USD 400 per year for each adult. Medical expenses greater than 3 percent of gross income are also deducted, but only if the household has an elderly or disabled head or spouse.

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 percent of the Fair Market Rent (FMR) for the metropolitan area. The FMR in 2000 for Detroit was USD 650 per month for a two-bedroom unit; in Grand Rapids it was USD 566.

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.

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 percent 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 former Aid to Families with Dependent Children Program and the Job Opportunities and Basic Skills Training Program ending Federal entitlement to assistance. States, Territories and Indian Tribes determine eligibility and benefit levels and services provided to needy families. There is only one Federal requirement and that is that the family include at least one child or the mother must be pregnant.

Most families that receive TANF benefits also qualify for Medicaid benefits. Medicaid is a Federal-State program providing medical assistance for low-income persons who are aged, blind, disabled, members of families with dependent children, and certain other pregnant women and children. Within Federal guidelines, each State designs and administers its own program. Thus there is substantial variation among States in coverage, types and scope of benefits offered and amounts of payments for services. Transitional Medicaid benefits may be available up to 12 months after the loss of TANF benefits due to employment.

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 Aid to Families with Dependent Children (AFDC). The AFDC program was started as a benefit for 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 kids at home. Now, recipients of TANF are expected to work and become self-sufficient within the state's time limit, but no longer than 60 months.

The benefit is calculated based on the number of family members using the following amounts as a guideline (in Michigan):

- 1 person: USD 276 (i.e. pregnant mother expecting first child)
- 2 people: USD 371
- 3 people: USD 459
- 4 people: USD 563

- 5 people: USD 659
- 6 people: USD 792
- 7 people: USD 868

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. 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 benefits 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).

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. Child-care benefits

Federal funding for child care services is available under the Child Care and Development Fund (CCDF). CCDF requires States to serve families through a single, integrated child care system. Subsidised child care services are available to eligible parents through certificates or contracted

programs. Parents may select any legally operating child care provider. Child care providers serving children 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 immunisations; building and physical premises safety; and minimum health and safety training.

In Fiscal Year 1999, States spent USD 8.2 billion of federal and state funds on child care. States served 1.8 million children with CCDF, on an average monthly basis or 18 percent of children estimated as eligible under state rules were served. The average annual subsidy was USD 2,891.

The State of Michigan spent USD 33,424,678 in federal funds and no state funds on child care in FY 1999. In Michigan, 545,100 children were eligible for assistance. On average 101,889 children were served monthly, 19 percent of those eligible.

7.1 *Conditions for receipt*

Subsidies are for families receiving, leaving, or at risk of dependency on TANF, as well as low-income working families. The majority of CCDF funds are spent on direct assistance for children under age 13. States have broad discretion in setting eligibility guidelines, reimbursement rates, and co-payments. Federal law mandates the maximum level for eligibility to be 85 percent of the State median income and requires States to give priority to “very low income” families. Nine states set the level for eligibility at 85 percent in Fiscal Year 1999. Michigan was not one of these states. For a family of three, Michigan set the level of eligibility at 65 percent of the median income.

7.2 *Calculation of benefit amount*

Benefits amounts are set by the state and vary by income and number of children. Child care is subsidised on a sliding scale in Michigan based on gross monthly income and family size. In Michigan, the average monthly subsidy to the family per case was USD 537.91. The average monthly cost for all families that paid a co-payment was USD 42. For a family of three, the State will pay 95 percent of child care expenses if gross monthly income is from USD 0-USD 1847 and phases out to no assistance if gross monthly income is more than USD 2172.

7.3 *Tax treatment of benefits*

No states are known to treat this assistance as taxable.

7.4 *Benefit duration*

There is no statutory time limit on the assistance. Families may lose assistance if they no longer meet the eligibility standards.

7.5 *Treatment of particular groups*

7.5.1 *Young persons*

None

7.5.2 *Older Workers*

None

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 10.1.1.)

9. Lone-parent benefits

None.

10. Tax system

10.1 *Income tax schedule*

10.1.1 *Tax allowances and credits*

- Basic relief: exemption of USD 7 200 for a married couple filing jointly; exemption of USD 6 350 for single heads of households, or USD 4 300 for single individuals;
- Exemption per person: USD 2 750 per person, reduced by USD 0.02 for each USD 2 500 by which the taxpayer's income exceeds USD 189 950 for couples, USD 158 300 for heads of households, USD 126 600 for individuals).
- For each child claimed as a dependent of a taxpayer's return, the taxpayer is entitled to a dependency exemption of USD 2 750.
- For each child under 17 claimed as a dependant, the taxpayer is entitled to a credit of USD 500, reduced by USD 50 for each USD 1 000 of gross income over USD 110 000 for couples and USD 75 000 for heads of households and individuals.

- Low income credit: Earned Income Tax Credit – EITC. 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 6 800 of earned income in 1999. The credit phases down when income exceeds USD 12 460 (at a rate of 15.98%) and phases out when it reaches USD 26 928. The earned income threshold and the phaseout threshold are indexed for inflation. For taxpayers with two or more children, the credit is 40 per cent of up to USD 9 540 of earned income in 1999. The credit phases down when income exceeds USD 12 460 (at a rate of 21.06%) and phases out when it reaches USD 30 580. In 1994 and thereafter, low income workers without children are eligible for the earned income credit. In 1999 low income workers without children are permitted a non-wasteable earned income credit of 7.65 per cent of up to USD 4 530 of earned income. The credit phases down when income exceeds USD 5 670 (at a rate of 0.765%) and phases out when income reaches USD 10 200. This credit is available for taxpayers at least 25 years old and under 65 years old.

10.1.2 The definition of taxable income

Gross income minus the above tax exemptions.

10.1.3 The tax schedule

Federal income tax:

Single	Joint	Head of HH	Tax rate(%)
0 – 25 750	0 – 43 050	0 – 34 550	15
25 750 – 62 450	43 050 – 104 050	34 550 – 89 150	28
62 450 – 130 250	104 050 – 158 550	89 150 - -144 400	31
130 250 – 283 150	158 550 – 283 150	144 400 - -283 150	36
283 150+	283 150+	283 150 +	39.6

Local tax in Detroit:

- 3% of gross income above a personal exemption. The exemption is USD 750 per family member.

State tax in Michigan:

- 4.4 per cent of gross income above a personal exemption. The exemption is USD 2 800 per family member. 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. The maximum possible amount of this credit is USD 10 000.

10.2 *Treatment of family income*

Couples file jointly, but have the option to file separately using a tax schedule with tax brackets that are one-half the joint schedule.

10.3 *Social security contribution schedule*

6.2 per cent of gross earnings is payable as a contribution for old age, survivors, and disability insurance up to a maximum earnings level of USD 72 600. 1.45 per cent on all gross earnings (no limit) for hospital insurance.

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*

None.

12.2 *Policy changes announced*

The deduction for shelter costs (rent) in counted income for determining Food Stamps payments is abandoned as of 1 January 1997.

As of 1 July 1997, a cash welfare block grant called Temporary Assistance for Needy Families (TANF) replaces Aid to Families With Dependent Children (AFDC). The grant is made to individual states; its purpose is to increase state flexibility in providing assistance to needy families with children.

UNITED STATES

**The annual tax/benefit position of an unemployed single person
1999
(in U.S. dollars)**

	Unemployment insurance	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Unemployment compensation	14 990	
Total taxable benefits	14 990	0
B. Income tax and social security contributions		
Income tax allowances	7 050	
Taxable income	7 940	
Federal income tax	1 191	
State/local tax	925	
Social security contributions	0	
Total income tax and social security contributions	21 160	0
C. Non-taxable benefits		
Means-tested benefits		
Food Stamps	0	1 500
TANF	0	0
Non-means tested benefits		
Total non-taxable benefits	0	1 500
D. Net income out of work (A-B+C)	12 874	1 500
E. Net income in work	22 236	22 236
F. Net replacement rate (D/E) (per cent)	58	7

UNITED STATES

**The annual tax/benefit position of an unemployed married couple
with two children (6 and 4 years old)
1999
(in U.S. dollars)**

	Unemployment insurance	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Unemployment compensation	14 990	
Total taxable benefits	14 990	0
B. Income tax and social security contributions		
Income tax allowances	18 202	
Taxable income	0	
Federal income tax	0	
State/local tax	491	
Social security contributions	0	
Total income tax and social security contributions	491	0
C. Non-taxable benefits		
Means-tested benefits		
Food Stamps	0	5 028
TANF	0	6 756
Non-means tested benefits		
Earned Income Tax Credit		
Total non-taxable benefits	0	11 784
D. Net income out of work (A-B+C)	14 499	11 784
E. Net income in work	25 468	25 468
F. Net replacement rate (D/E) (per cent)	57	46

UNITED STATES

**The annual tax/benefit position of a lone parent
with two children (6 and 4 years old), 1999**
(in U.S. dollars)

	Unemployment insurance	Social assistance
A. Taxable benefits		
Means-tested benefits		
Non-means tested benefits		
Unemployment compensation	14 990	
Total taxable benefits	14 990	0
B. Income tax and social security contributions		
Income tax allowances	14 601	
Taxable income	389	
Federal income tax	0	
State/local tax	636	
Social security contributions	0	
Total income tax and social security contributions	636	0
C. Non-taxable benefits		
Means-tested benefits		
Food Stamps	0	3 948
TANF	0	5 508
Non-means tested benefits		
Earned Income Tax Credit		
Total non-taxable benefits	0	9 456
D. Net income out of work (A-B+C)	14 354	9 456
E. Net income in work	24 784	24 784
F. Net replacement rate (D/E) (per cent)	58	38