UNITED STATES
2004

1. Overview of the tax-benefit 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 administration of Food Stamps 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 benefits are somewhat above the average for all States.

1.1. Average worker wage (AW)

The AW for 2004 is USD 36 739.

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 following Earnings/Employment conditions are required to be met to qualify for unemployment benefits in the State of Michigan:

• "Regular" qualifying method: (a) one quarter in your base period must have wages of at least $1,998; and (b) total wages for all four quarters must equal at least one and a half times the highest amount of wages paid in any quarter of the base period.

OR

• Alternate Earnings Qualifier (AEQ): (a) You must have wages in at least two quarters; and (b) total wages for all four quarters must equal at least 20 times the state average weekly wage (SAWW).

The standard base period includes the first four of the last five completed calendar quarters prior to when a claim is filed. The four calendar quarters in a year are: January – March, April – June, July – September and October – December.

The AWW for 2004 is $765.12.

2.1.2 Contribution conditions

Employers pay 0.06 to 10.3 per cent of the first $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 gross benefit

The weekly benefit is equal to 4.1 per cent of high quarter wages during the base period plus $6 for each dependent up to 5 dependants in Michigan. The benefit is bound by a minimum of USD 81 per week (USD 1 134 per year), and a maximum of USD 362 per week (USD 9 412 per year), in Michigan.

2.2.2 Income and earnings disregards

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 and interaction with other benefits

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 base period earnings by the recipient's weekly benefit amount, with a minimum of 14 weeks and a maximum of 26 weeks for Michigan.

2.5 Treatment of particular groups

None.

3. Unemployment assistance

There are no unemployment assistance schemes in the United States.

4. 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 net income limit for a family of four in 2004 was USD 1534 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 (2004):

- Basic gross monthly income, including earnings, TANF cash benefits, and virtually all other cash assistance and retirement income.
- Less Standard deduction: USD 134.[1]
- Less 20 per cent of gross earnings in recognition of taxes and work related expenses
- Less court ordered child support payments made to non-household members
- Less out-of-pocket medical expenses for elderly (aged 60 or more) or disabled household members in excess of USD 35
- Less out-of-pocket child-care expenses up to:

Maximum per dependant under 2:	USD 200
Maximum per dependant 2 or older:	USD 175

- Less rent and utility expenses that exceeds 50 per cent of net counted income so far and with a maximum of USD 378. Average reported expenses in Michigan in 2004 were USD 529.

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).

1. In FY 2004, households of 4 persons or less had a standard deduction of $134, 5 person households had a deduction equal to $149 and for 6 or more persons, the standard deduction was equal to $171.

Maximum monthly food stamp allotments (in USD per month)*

Household size (persons)	Maximum allotments	Gross income eligibility limit	Net income eligibility limit
1	141	973	749
2	259	1313	1010
3	371	1654	1272
4	471	1994	1534
5	560	2334	1795
6	672	2674	2057
7	743	3014	2319
8	849	3354	2580
Each additional person	+106	+341	+262

* Rates from 1 October 2003 to 30 September 2004.

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 and interaction with other benefits

Food Stamps are not taxable.

4.4 Benefit duration

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

4.5 Treatment of particular group

4.5.1 Young persons

None.

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 are to have a shelter deduction greater than the maximum for other households; and they may have more countable assets than other households. Other administrative requirements are also relaxed.

4.5.3 Others if applicable

Households with disabled members: These households are subject to the same program rules as the elderly.

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.

The 2002 Farm Bill restored Food Stamp eligibility to most legal immigrants eligible for food stamp benefits. In FY 2003 all disabled legal immigrants had eligibility restored effective October 1, 2002. All

legal immigrants in the country for at least five years were had their eligibility restored April 1, 2003. On October 1, 2003 (the beginning of FY 2004) children under age 18 had their eligibility restored. Starting in FY 2004 the only legal immigrant group ineligible are legal immigrants over age 18 who are not disabled and who have not yet been in the U.S. for at least five years.

5. Housing benefits

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

Low-rent public housing, which is owned by one of over 3 500 Public Housing Authorities (PHAs) authorised under state law.

Housing choice vouchers, which subsidise private-market rentals and are also administered by PHAs.

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 69 900 in Fiscal Year 2004 for a family of 4, and USD 61 300 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 2004 for Detroit was USD801 per month for a two-bedroom unit; in Grand Rapids it was USD 636.

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.

5.3 Tax treatment of benefit and interaction with other benefits

Housing assistance is not taxable.

5.4 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 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 Region 4/Wayne County-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. 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 250 and the variable disregard from zero to 100 per cent. 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 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. Childcare for pre-school children

Schooling is compulsory from age 6.

According to data from the 1999 Survey of Income and Program Participation (SIPP), 74% of children under age 5 are in some type of non-parental child care (U.S. Bureau of the Census, 2003; http://www.census.gov/population/socdemo/child/ppl-168/tabH-1.pdf). According to the 1997 National Survey of American Families (NSAF), primary childcare arrangements vary by age-group as follows:

In %	**<1**	**1**	**2**	**3**	**4**	**5**
Parental care	46	30	38	31	19	16
Care by relatives	29	29	21	19	17	14
Childcare institution	10	18	21	30	53	61
Family day care	9	14	14	14	7	5
Nanny / babysitter	6	9	6	6	4	4

Note: Childcare institution includes Head Start, pre-school, pre-kindergarten, nursery school and child care centres.

Source: Tout, K., M. Zaslow, A.M. Papillo, and S. Vandivere, 2001, "Early care and education: Work support for families and developmental opportunity for young children", Urban Institute Occasional Paper No. 51, Urban Institute, Washington, D.C.

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 1999 Survey of Income and Program Participation (Census, 2003, http://www.census.gov/population/socdemo/child/ppl-168/tab06.pdf), families with children under age 5 and employed mothers spent an average of $94/week or 8.6% of monthly family income on child care, including both center-based and home-based arrangements. Families with children under age 5 years, employed mothers, and incomes below 100% of the federal poverty line, spend an average of 34% of their monthly income on child care. Those families with incomes between 100% and 200% of the federal

poverty line spend an average of 15.3% of their monthly income on child care, while families with incomes above 200% of the poverty line spend an average of 7.3% of their monthly income on child care.

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 2004 and 2005, 23 states cap reimbursement rates at 75% of the local market rate or higher. Co-payment rates are based on a percentage of family income (43 states) more often than a percentage of the cost of care (5 states) or the state's reimbursement rate ceiling (4 states). In 2004 and 2005, 11 states waive co-payment fees for *all* families at or below the poverty level; 39 states waive co-payment fees for *some* families with incomes at or below the poverty level; 2 states required fees from all families, even if incomes were at or below poverty (Child Care Bureau, CCDF Report of State Plans, FY 2004-2005). States may waive fees for other reasons, such as receipt of TANF cash assistance, child protective services, zero countable income, and for teen parents. Nationally in fiscal year 2000, 29.9% 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 2000 was 4.3% of family income. Excluding families with no co-payment, the mean co-payment was 6.1% 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. In 2003, the average credit was USD 508.

When applying for food stamp 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.

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 half the states also have contracted programs to purchase child care slots. (Note that under certificates, as well as contracted programs, the actual payment is due to the provider; only a small percentage of funds – 6 percent in fiscal year 2000 – are paid 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. Data are presented in this section from the most recent year available.

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 2004, an estimated USD 11.5 billion of federal and related state funds was available for CCDF, TANF, and SSBG child care. The comparable figure for Fiscal Year 2005 also is estimated to be USD 11.5 billion. The comparable figure for Fiscal Year 2003 was USD 11.5 billion as well and was USD 11.8 billion in fiscal year 2002. Through CCDF, TANF and SSBG-funding streams , a total of 2.36 million children were served on an average monthly basis in 2003 (the most recent year for which data are available). In 2003, USD 3.2 billion provided assistance under the Child and Dependent Care Tax Credit to 6.3 million recipients (tax filers) (http://www.irs.gov/pub/irs-soi/03in01fg.xls). Thirteen states offer child and dependant care tax credits to families in addition to the federal tax credit; eligibility limits and benefit levels vary widely.

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 a job training or education program, 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 28 per cent of SMI to 85 per cent of SMI, with 45 states setting limits below the federally-mandated allowable maximum of 85 per cent. On average in fiscal year 2004, the income eligibility level is 59 per cent of SMI. For a family of three, Michigan set the level of eligibility in Fiscal Year 2004 at 41 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 2003, the average monthly CCDF subsidy was USD 314 per child, and USD 541 per family; family co-payments averaged USD 60 per month. 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 centers. Among children receiving a CCDF subsidy in fiscal year 2003, 57.7% were in center-based care. For families under 100 per cent of the federal poverty line, the monthly average co-payment was USD 26 (across all types of care); for families over 100 per cent of poverty but below 150 per cent of poverty, the average was USD 80; and for families over 150 per cent of poverty, the average was USD 129.

In Michigan, the average monthly subsidy was USD 285 per child and USD 593 per family in Fiscal Year 2003; family co-payments average USD 34 per month. Among children receiving CCDF subsidies in fiscal year 2003, 15.3% were in center-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 4 526 for family size 10 or more as follows:

	Gross Monthly Income				
Group Size 1	$0-$1496	$1497-$1533	$1534-$1570	$1571-$1607	No FIA assistance if gross monthly income is over $1607
Group Size 2	$0-$1496	$1497-$1533	$1534-$1570	$1571-$1607	No FIA assistance if gross monthly income is over $1607
Group Size 3	$0-$1847	1848-$1895	$1896-$1943	$1944-$1990	No FIA assistance if gross monthly income is over $1990
Group Size 4	$0-$2198	$2199 $2255	$2256-$2311	$2312-$2367	No FIA assistance if gross monthly income is over $2367
Group Size 5	$0-$2551	$2552-$2616	$2617-$2681	$2682-$2746	No FIA assistance if gross monthly income is over $2746
Group Size 6	$0-$2902	$2903-$2976	$2977-$3050	$3051-$3123	No FIA assistance if gross monthly income is over $3123
Group Size 7	$0-$3253	$3254 $3336	$3337-$3418	$3419-$3500	No FIA assistance if gross monthly income is over $3500
Group Size 8	$0-$3604	$3605-$3695	$3696-$3786	$3787-$3877	No FIA assistance if gross monthly income is over $3877
Group Size 9	$0-$3955	$3956-$4055	$4056-$4155	$4156-$4254	No FIA assistance if gross monthly income is over $4254
Group Size 10+	$0-$4309	$4310-$4417	$4418-$4525	$4526-$4634	No FIA assistance if gross monthly income is over $4634
% of FIA Rate Paid	95%	90%	80%	70%	

Effective 02/01/2003

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 and type of care. For center-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 center-based care for 40 hours/week, the weekly subsidy would range from USD 85.50 to USD 63, 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 families receiving TANF cash assistance, for families with children receiving protective services, and for some families with incomes at or below the poverty level. 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 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 2004, 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 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 In 2003, the average amount of credit was USD 508 per year.

7.2.2.1 Calculation of gross benefit

See above.

7.2.2.2 Income and earnings disregards

More than half of the states disregard Social Security Income (SSI), TANF cash assistance income, and energy and housing assistance, and approximately 6 states disregard earned income when calculating the child care subsidy benefit.

7.2.3 Tax treatment of benefit and interaction with other benefits

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

7.2.4 Treatment of particular groups

States decide whether to target certain populations for CCDF subsidies. As reported in State Plans for fiscal years 2004 and 2005, eighteen states give first priority for child care subsidies to families receiving TANF cash assistance and/or families transitioning off TANF. Ten states identified multiple priorities, without ranking: families with children with special needs, very low-income families, TANF recipients, and teen parents, among others. Fifteen states and three territories make families with children with special needs and families with very low incomes a first priority. Three states give first priority to families of children receiving protective services. Examples of other populations that are given special priority by one or more States are: families receiving, 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. Families receiving or leaving TANF cash assistance also may have priority for TANF-direct child care subsidies, though such subsidies also are often provided to other families as well.

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 2004 a married couple filing a joint tax return is entitled to a standard deduction of USD 9 700. The standard deduction is USD 7 150 for heads of households and USD 4 850 for single individuals.

- In addition to the standard deduction, in 2004 a USD 3 100 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 2 percent for each USD 2 500 by which the taxpayer's income exceeds USD 214 050 for married couples, USD 142 700 for single taxpayers, and USD 178 350 for heads of households. All of a taxpayer's exemptions are phased out simultaneously.

- For each child under 17 claimed as a dependant, the taxpayer is entitled to a credit of USD 1000, 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. The credit is refundable to the extent of15 per cent of earned income in excess of USD 10 750.

- 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 7660 of earned income in 2004. For unmarried taxpayers, the credit phases down when income exceeds USD 14040 (at a rate of 15.98 per cent) and phases out when it reaches USD 30338. For married couples, the beginning and end-points of the phase-out range are, respectively, USD 15040 and USD 31 338. 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 10 750 of earned income in 2004. For unmarried taxpayers, the credit phases down when income exceeds USD 14 040 (at a rate of 21.06 per cent) and phases out when it reaches USD 34 458. For married couples, the beginning and end-points of the phase-out range are, respectively, USD 15 040 and 35 458 . In 1994 and thereafter, low income workers without children are eligible for the earned income credit. In 2004 low income workers without children are permitted a non-wastable earned income credit of 7.65 per cent of up to USD 5 100 of earned income. The credit phases down when income exceeds USD 6 390 (at a rate of 0.765 per cent) and phases out when income reaches USD 11 490. For married couples, the beginning and end-points of the phase-out range are, respectively USD 7 390 and USD 12 490. This credit is available for taxpayers at least 25 years old and under 65 years old.

Earned income equals the sum of wages and salaries and net self-employment income minus the deduction for one-half of self-employment taxes.

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 household	Tax rate (%)
0 – 7 150	0 – 14 300	0 – 10 200	10
7 150 – 29050	14 300 – 58 100	10 200 – 38 900	15
29050 – 70 350	58 100 – 117 250	38 900 – 100 500	25
70 350– 146 750	117 250 – 178 650	100 500 – 162 700	28
146 750 – 319 100	178 650 – 319 100	162 700 – 319 100	33
319 100+	319 100+	319 100+	35

Local tax in Detroit:

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

State tax in Michigan:

- 4 per cent of gross income above a personal exemption. The exemption is USD 3 100 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 87900. 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

The Working Families Tax Relief Reconciliation Act of 2004 increased the credit rate from 10 to 15 percent for the refundable portion of the child tax credit in tax year 2004. Under prior law, the credit rate would not have increased until 2005.

12.2 Policy changes announced

The Working Families Tax Relief Reconciliation Act of 2004 extends several tax relief measures originally enacted in 2001. The Act extends marriage penalty relief, an expanded 10 percent rate bracket, and an increased child tax credit for tax years 2005 through 2009.