

# Fiscal Fact

## How Would the Fiscal Cliff Affect Typical Families in Each State?

*By*

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With the election behind it, the 112th Congress has a couple of months during the lame duck session to turn its attention to pressing fiscal issues. Large changes to both taxes and spending are scheduled to take place at the end of the year unless Congress acts.<sup>1</sup> On the tax side, the biggest potential change is the expiration of all Bush-era and Obama tax cuts.

Additionally, the Alternative Minimum Tax (AMT) has yet to be patched for the current tax year, let alone next. Congress could pass a retroactive patch (which it has done in the past) that would apply to the current year as well as next year; however, if it does not, the AMT exemption level would revert to what it was twelve years ago, and certain credits (such as the Child Tax Credit) would no longer be allowed against AMT liability. If this were to happen, millions of middle-class taxpayers could see a substantial tax increase, which for some could be even larger than the change from the end of the Bush-era tax cuts.

Finally, the 2% temporary cut to employee-side social security payroll taxes is also scheduled to expire at the end of this year—a potential third tax increase that would affect the vast majority of taxpayers.

To illustrate the potential impact on typical families, we have used Census and IRS data to estimate income and deductions for the median two-child family in each of the fifty states. We then ran these returns through our online tax calculator under two scenarios—2011 tax law (chosen because it is the latest year that an AMT patch was in effect), and 2013 law, assuming all Bush-era and Obama tax cuts expire and AMT remains unpatched.

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<sup>1</sup> See Tax Foundation Staff, *The Fiscal Cliff: A Primer*, TAX FOUNDATION SPECIAL REPORT No. 204 (Nov. 8, 2012), <http://taxfoundation.org/article/fiscal-cliff-primer>.

While there are exceptions, the general pattern is median families in high-income and low-income states are more affected than those in middle-income states. Higher-income families would be disproportionately affected by the imminent AMT changes—particularly those that owe higher than average state income tax, which is deductible under the ordinary tax system but not the AMT.

At the opposite end, low-income states are disproportionately affected because three tax increases from the end of the Bush-era tax cuts—the reduction in the child tax credit, the elimination of the 10% bracket, and the reduced standard deduction for married filers—represent fixed increases that do not depend on income. Therefore, these increases, as a percentage of income, are largest for lower-income families.

**Table 1. Top 10 States**

| <u>State</u>         | <u>Median Household Income for Four-Person Family (2011)</u> | <u>Tax Increase 2011 to 2013</u> | <u>Tax Increase as % of Income</u> | <u>Rank</u> |
|----------------------|--|----------------------------------|------------------------------------|-------------|
|                      |  |                                  |                                    | <u>2011</u> |
| <b>New Jersey</b>    | \$101,682  | \$6,933                          | 6.82%                              | 1           |
| <b>Maryland</b>      | \$106,707  | \$7,194                          | 6.74%                              | 2           |
| <b>Connecticut</b>   | \$100,451  | \$6,653                          | 6.62%                              | 3           |
| <b>Massachusetts</b> | \$101,523  | \$6,632                          | 6.53%                              | 4           |
| <b>New Hampshire</b> | \$97,441   | \$5,660                          | 5.81%                              | 5           |
| <b>North Dakota</b>  | \$84,896   | \$4,825                          | 5.68%                              | 6           |
| <b>West Virginia</b> | \$65,403   | \$3,612                          | 5.52%                              | 7           |
| <b>South Dakota</b>  | \$72,460   | \$3,997                          | 5.52%                              | 8           |
| <b>Arkansas</b>      | \$55,444   | \$3,056                          | 5.51%                              | 9           |
| <b>Mississippi</b>   | \$58,047   | \$3,108                          | 5.36%                              | 10          |

**Table 2. Bottom 10 States**

| <u>State</u>      | <u>Median Household Income for Four-Person Family (2011)</u> | <u>Tax Increase 2011 to 2013</u> | <u>Tax Increase as % of Income</u> | <u>Rank</u> |
|-------------------|--|----------------------------------|------------------------------------|-------------|
|                   |  |                                  |                                    | <u>2011</u> |
| <b>Maine</b>      | \$78,310   | \$3,489                          | 4.46%                              | 41          |
| <b>Iowa</b>       | \$76,777   | \$3,383                          | 4.41%                              | 42          |
| <b>Nebraska</b>   | \$75,495   | \$3,289                          | 4.36%                              | 43          |
| <b>Delaware</b>   | \$83,424   | \$3,622                          | 4.34%                              | 44          |
| <b>California</b> | \$74,122   | \$3,212                          | 4.33%                              | 45          |
| <b>Illinois</b>   | \$79,138   | \$3,417                          | 4.32%                              | 46          |
| <b>Kansas</b>     | \$74,853   | \$3,227                          | 4.31%                              | 47          |
| <b>Colorado</b>   | \$85,027   | \$3,646                          | 4.29%                              | 48          |
| <b>Hawaii</b>     | \$82,973   | \$3,453                          | 4.16%                              | 49          |
| <b>Washington</b> | \$81,582   | \$3,362                          | 4.12%                              | 50          |

The full data is shown below.

**Table 3: Full Results – Effect of Expiration of Bush-era Tax Cuts and AMT Patch on Median Family in Each State**

| State          | Median Household Income for Four-Person Family (2011) | Source: 2011 American Community Survey 1-year estimates |                           |                        | Source: Tax Foundation estimates based on IRS data <sup>2</sup> |                                    |  | Source: Tax Foundation MyTaxBurden.com Tax Policy Calculator |                  |                             |      |  |  |  |
|----------------|---|---|---------------------------|------------------------|---|------------------------------------|--|--|------------------|-----------------------------|------|--|--|--|
|                |   | Total Itemized Deductions                               | AMT Disallowed Deductions | AMT Allowed Deductions | Tax Increase, 2011 to 2013                                      | From Child Tax Credit <sup>3</sup> | From Other Bush Tax Cuts and Extenders | From AMT   | From Payroll Tax | Tax Increase as % of Income | Rank |  |  |  |
| New Jersey     | \$101,682   | \$24,257  | \$11,587                  | \$12,670               | \$6,933   | \$2,000                            | \$896                                  | \$2,004  | \$2,034          | 6.82%                       | 1    |  |  |  |
| Maryland       | \$106,707   | \$25,200  | \$10,475                  | \$14,724               | \$7,194   | \$2,000                            | \$1,427                                | \$1,633  | \$2,134          | 6.74%                       | 2    |  |  |  |
| Connecticut    | \$100,451   | \$20,440  | \$9,509                   | \$10,931               | \$6,653   | \$2,000                            | \$1,232                                | \$1,412  | \$2,009          | 6.62%                       | 3    |  |  |  |
| Massachusetts  | \$101,523   | \$19,326  | \$8,421                   | \$10,905               | \$6,632   | \$2,000                            | \$1,516                                | \$1,085  | \$2,030          | 6.53%                       | 4    |  |  |  |
| New Hampshire  | \$97,441  | \$15,780  | \$5,225                   | \$10,555               | \$5,660   | \$2,000                            | \$1,446                                | \$265  | \$1,949          | 5.81%                       | 5    |  |  |  |
| North Dakota   | \$84,896  | \$6,797**   | \$1,713                   | \$5,084                | \$4,825   | \$1,423                            | \$1,704                                | \$0  | \$1,698          | 5.68%                       | 6    |  |  |  |
| West Virginia  | \$65,403  | \$5,042**   | \$1,225                   | \$3,817                | \$3,612   | \$1,357                            | \$947                                  | \$0  | \$1,308          | 5.52%                       | 7    |  |  |  |
| South Dakota   | \$72,460  | \$6,151**   | \$1,257                   | \$4,893                | \$3,997   | \$1,000                            | \$1,547                                | \$0  | \$1,449          | 5.52%                       | 8    |  |  |  |
| Arkansas       | \$55,444  | \$6,675**   | \$1,508                   | \$5,167                | \$3,056   | \$1,000                            | \$947                                  | \$0  | \$1,109          | 5.51%                       | 9    |  |  |  |
| Mississippi    | \$58,047  | \$8,219**   | \$1,497                   | \$6,722                | \$3,108   | \$1,000                            | \$947                                  | \$0  | \$1,161          | 5.36%                       | 10   |  |  |  |
| Tennessee      | \$63,719  | \$7,768**   | \$1,410                   | \$6,358                | \$3,393   | \$1,172                            | \$947                                  | \$0  | \$1,274          | 5.33%                       | 11   |  |  |  |
| Alabama        | \$63,388  | \$9,109**   | \$1,660                   | \$7,449                | \$3,350   | \$1,135                            | \$947                                  | \$0  | \$1,268          | 5.29%                       | 12   |  |  |  |
| Indiana        | \$69,328  | \$8,027**   | \$2,131                   | \$5,896                | \$3,653   | \$1,000                            | \$1,266                                | \$0  | \$1,387          | 5.27%                       | 13   |  |  |  |
| Oklahoma       | \$63,069  | \$7,742**   | \$1,680                   | \$6,062                | \$3,309   | \$1,100                            | \$947                                  | \$0  | \$1,261          | 5.25%                       | 14   |  |  |  |
| South Carolina | \$60,143  | \$9,933**   | \$2,336                   | \$7,597                | \$3,150   | \$1,000                            | \$947                                  | \$0  | \$1,203          | 5.24%                       | 15   |  |  |  |
| Louisiana      | \$68,921  | \$8,286**   | \$1,353                   | \$6,932                | \$3,606   | \$1,000                            | \$1,227                                | \$0  | \$1,378          | 5.23%                       | 16   |  |  |  |
| New Mexico     | \$60,368  | \$8,055**   | \$1,676                   | \$6,379                | \$3,155   | \$1,000                            | \$947                                  | \$0  | \$1,207          | 5.23%                       | 17   |  |  |  |
| Texas          | \$65,932  | \$8,985**   | \$1,995                   | \$6,990                | \$3,441   | \$1,000                            | \$1,122                                | \$0  | \$1,319          | 5.22%                       | 18   |  |  |  |
| Florida        | \$63,937  | \$9,452**   | \$1,770                   | \$7,682                | \$3,331   | \$1,000                            | \$1,052                                | \$0  | \$1,279          | 5.21%                       | 19   |  |  |  |
| Arizona        | \$59,786  | \$10,393*   | \$2,007                   | \$8,386                | \$3,107   | \$1,000                            | \$911                                  | \$0  | \$1,196          | 5.20%                       | 20   |  |  |  |
| Kentucky       | \$66,409  | \$9,072**   | \$2,820                   | \$6,252                | \$3,437   | \$1,000                            | \$1,109                                | \$0  | \$1,328          | 5.18%                       | 21   |  |  |  |
| Idaho          | \$61,058  | \$10,551*   | \$2,406                   | \$8,145                | \$3,109   | \$1,000                            | \$887                                  | \$0  | \$1,221          | 5.09%                       | 22   |  |  |  |
| New York       | \$81,522  | \$16,153  | \$7,353                   | \$8,800                | \$4,103   | \$1,742                            | \$730                                  | \$0  | \$1,630          | 5.03%                       | 23   |  |  |  |
| Minnesota      | \$87,319  | \$16,130  | \$5,519                   | \$10,611               | \$4,382   | \$1,906                            | \$730                                  | \$0  | \$1,746          | 5.02%                       | 24   |  |  |  |
| Vermont        | \$84,011  | \$12,491  | \$4,894                   | \$7,597                | \$4,190   | \$1,780                            | \$730                                  | \$0  | \$1,680          | 4.99%                       | 25   |  |  |  |
| Alaska         | \$86,581  | \$9,898**   | \$1,932                   | \$7,967                | \$4,294   | \$1,508                            | \$1,054                                | \$0  | \$1,732          | 4.96%                       | 26   |  |  |  |
| Montana        | \$65,695  | \$10,172*   | \$2,622                   | \$7,550                | \$3,258   | \$1,000                            | \$944                                  | \$0  | \$1,314          | 4.96%                       | 27   |  |  |  |
| Virginia       | \$89,803  | \$17,468  | \$5,109                   | \$12,359               | \$4,451   | \$1,925                            | \$730                                  | \$0  | \$1,796          | 4.96%                       | 28   |  |  |  |
| Nevada         | \$65,212  | \$10,422*   | \$1,661                   | \$8,761                | \$3,211   | \$1,000                            | \$907                                  | \$0  | \$1,304          | 4.92%                       | 29   |  |  |  |
| Wyoming        | \$77,137  | \$8,243**   | \$1,225                   | \$7,018                | \$3,776   | \$1,000                            | \$1,234                                | \$0  | \$1,543          | 4.90%                       | 30   |  |  |  |
| Missouri       | \$70,687  | \$9,797**   | \$2,551                   | \$7,246                | \$3,414   | \$1,000                            | \$1,000                                | \$0  | \$1,414          | 4.83%                       | 31   |  |  |  |
| North Carolina | \$63,665  | \$11,275*   | \$3,079                   | \$8,196                | \$3,052   | \$1,000                            | \$779                                  | \$0  | \$1,273          | 4.79%                       | 32   |  |  |  |
| Wisconsin      | \$79,648  | \$14,406  | \$6,424                   | \$7,982                | \$3,810   | \$1,487                            | \$730                                  | \$0  | \$1,593          | 4.78%                       | 33   |  |  |  |
| Ohio           | \$72,764  | \$9,922**   | \$3,514                   | \$6,408                | \$3,437   | \$1,000                            | \$982                                  | \$0  | \$1,455          | 4.72%                       | 34   |  |  |  |

\*Family would take the standard deduction in 2011

\*\*Family would take the standard deduction in 2011 and also under 2013 current law

<sup>2</sup> The IRS has state-by-state averages for many tax items, including itemized deductions. We calculated the average itemized deduction as a percent of income for each state for the income bracket that the median family is in using 2010 state and income bracket data (the latest available), adjusted for family size using 2009 data (the latest data for which family size breakdowns are available), and applied the modified percentages to the 2011 median incomes shown in the table.

<sup>3</sup> Includes amounts from AMT changes that would prevent taking the credit against it. The amount purely from the Bush-era tax changes to the child tax credit is \$1,000 for every state.

| Source: 2011 American Community Survey 1-year estimates |   | Source: Tax Foundation estimates based on IRS data <sup>2</sup> |                           |                        | Source: Tax Foundation MyTaxBurden.com Tax Policy Calculator |                                    |  |            |                  |                             |      |  |
|---|---|---|---------------------------|------------------------|--|------------------------------------|--|------------|------------------|-----------------------------|------|--|
| State   | Median Household Income for Four-Person Family (2011) | Total Itemized Deductions                                       | AMT Disallowed Deductions | AMT Allowed Deductions | Tax Increase, 2011 to 2013                                   | From Child Tax Credit <sup>3</sup> | From Other Bush Tax Cuts and Extenders | From AMT   | From Payroll Tax | Tax Increase as % of Income | Rank |  |
| Rhode Island  | \$82,086  | \$15,779  | \$6,020                   | \$9,759                | \$3,871  | \$1,499                            | \$730                                  | \$0        | \$1,642          | 4.72%                       | 35   |  |
| Utah  | \$65,240  | \$14,163  | \$3,050                   | \$11,113               | \$3,035  | \$1,000                            | \$730                                  | \$0        | \$1,305          | 4.65%                       | 36   |  |
| Michigan  | \$72,366  | \$10,455*   | \$3,166                   | \$7,289                | \$3,349  | \$1,000                            | \$902                                  | \$0        | \$1,447          | 4.63%                       | 37   |  |
| Georgia   | \$65,851  | \$13,151  | \$3,250                   | \$9,901                | \$3,047  | \$1,000                            | \$730                                  | \$0        | \$1,317          | 4.63%                       | 38   |  |
| Oregon  | \$65,950  | \$13,686  | \$4,353                   | \$9,333                | \$3,049  | \$1,000                            | \$730                                  | \$0        | \$1,319          | 4.62%                       | 39   |  |
| Pennsylvania  | \$80,414  | \$12,250  | \$4,658                   | \$7,592                | \$3,687  | \$1,349                            | \$730                                  | \$0        | \$1,608          | 4.59%                       | 40   |  |
| Maine   | \$78,310  | \$13,016  | \$5,272                   | \$7,744                | \$3,489  | \$1,193                            | \$730                                  | \$0        | \$1,566          | 4.46%                       | 41   |  |
| Iowa  | \$76,777  | \$10,820*   | \$3,963                   | \$6,857                | \$3,383  | \$1,000                            | \$847                                  | \$0        | \$1,536          | 4.41%                       | 42   |  |
| Nebraska  | \$75,495  | \$11,270*   | \$4,074                   | \$7,196                | \$3,289  | \$1,000                            | \$779                                  | \$0        | \$1,510          | 4.36%                       | 43   |  |
| Delaware  | \$83,424  | \$14,693  | \$3,934                   | \$10,759               | \$3,622  | \$1,223                            | \$730                                  | \$0        | \$1,668          | 4.34%                       | 44   |  |
| California  | \$74,122  | \$15,827  | \$3,841                   | \$11,985               | \$3,212  | \$1,000                            | \$730                                  | \$0        | \$1,482          | 4.33%                       | 45   |  |
| Illinois  | \$79,138  | \$13,430  | \$4,757                   | \$8,673                | \$3,417  | \$1,105                            | \$730                                  | \$0        | \$1,583          | 4.32%                       | 46   |  |
| Kansas  | \$74,853  | \$13,094  | \$2,782                   | \$10,312               | \$3,227  | \$1,000                            | \$730                                  | \$0        | \$1,497          | 4.31%                       | 47   |  |
| Colorado  | \$85,027  | \$15,900  | \$3,738                   | \$12,162               | \$3,646  | \$1,216                            | \$730                                  | \$0        | \$1,701          | 4.29%                       | 48   |  |
| Hawaii  | \$82,973  | \$15,768  | \$3,964                   | \$11,804               | \$3,453  | \$1,063                            | \$730                                  | \$0        | \$1,659          | 4.16%                       | 49   |  |
| District of Columbia                                    | \$76,230  | \$15,091  | \$4,918                   | \$10,174               | \$3,255  | \$1,000                            | \$730                                  | \$0        | \$1,525          | 4.27%                       | 49   |  |
| Washington  | \$81,582  | \$13,986  | \$3,388                   | \$10,598               | \$3,362  | \$1,000                            | \$730                                  | \$0        | \$1,632          | 4.12%                       | 50   |  |
| <b>U.S. Median</b>                                      | <b>\$74,563</b>                                       | <b>\$12,019</b>   | <b>\$3,156</b>            | <b>\$8,863</b>         | <b>\$3,222</b>   | <b>\$1,000</b>                     | <b>\$730</b>                           | <b>\$0</b> | <b>\$1,491</b>   | <b>4.32%</b>                |      |  |

\*Family would take the standard deduction in 2011

\*\*Family would take the standard deduction in 2011 and also under 2013 current law