

Tax Assumptions and Child Support Tables



Submitted to:

State of Minnesota Department of Human Services

Submitted by:

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PURPOSE

The primary purpose of this document is to provide baseline information to for the workgroup addressing how taxes should be addressed in the child support guidelines. This includes four areas.

- Consideration of taxes in the proposed, updated table developed by Center for Policy Research (CPR).
- Consideration of taxes in the existing table.
- Changes in taxes over time and federal tax reform.
- Transferring consideration of tax differences (between an intact family and an obligated parent as provided in table option B.2 in the November briefing materials) in a worksheet.

The point of the latter is to start a discussion of how to make the adjustment by showing one.

CONSIDERATION OF TAXES IN PROPOSED, UPDATED TABLE

The economic basis of the proposed, updated tables in the November and January CPR briefings are the USDA measurements of child-rearing expenditures. As explained on pages 3 and 4 of the USDA report,¹ the data source underlying the USDA measurements is data from the 2011-15 Consumer Expenditure Survey (CES) conducted for the U.S. Bureau of Labor Statistics. The CES consists of a survey of about 7,000 households per quarter, so about 28,000 households per year. The USDA examined expenditures for a subset of CES households; namely, households of 23,297 married-couple where the parents were ages 20 to 60, the parents had at least one child age 17 or under in the household, and there were no other related or unrelated people living with the parents.

One of the data fields captured in the CES interviews is **BEFORE-TAX** income; hence, the updated table is based on **BEFORE-TAX** income. As a consequence, the taxes of the household are whatever the household experienced. To help illustrate that, a few of the questions from the 2013 CES interview questionnaire are extracted and shown in Exhibit 1. The USDA measurements of child-rearing expenditures do not report details about taxes even though the CES collects information about what individual households paid in taxes. Getting those details would require significant effort, information from the USDA, and possibly computer code written for the extraction in whatever computer language the USDA uses. It would require extracting the data for the same 23,979 couples over the same time. It is likely that the USDA only extracted the CES data that they reported in their report on child-rearing expenditures.

¹ Lino, Mark, et al. (2017). *Expenditures on Children by Families: 2015 Annual Report*. U.S. Department of Agriculture, Center for Nutrition and Policy Promotion. Miscellaneous Publication No. 1528-2015, Washington, D.C. Available at <http://www.cnpp.usda.gov/publications/crc/crc2015.pdf>

Exhibit 1: Sample of Questions Asked about Income in The 2013 Survey
(source: <https://www.bls.gov/cex/capi/2013/csxsection21a.htm>)

The next few questions are about income DURING THE PAST 12 MONTHS, that is from [DATE1] TO [DATE2].

Did you/(NAME) receive any wages, salary, tips, bonuses, or commissions?

1. [Yes](#)
2. [No](#)

How much did You/(Name) receive before taxes?

[\[enter value\]](#) _____

1. [Do not know the exact amount](#)

Could you tell me which range on CARD A best reflects your total wages and salaries for ALL JOBS during the PAST 12 MONTHS?

1. [\\$0-\\$4,999](#)
2. [\\$5,000-\\$9,999](#)
3. [\\$10,000-\\$14,999](#)
4. [\\$15,000-\\$19,999](#)
5. [\\$20,000-\\$29,999](#)
6. [\\$30,000-\\$39,999](#)
7. [\\$40,000-\\$49,999](#)
8. [\\$50,000-\\$69,999](#)
9. [\\$70,000-\\$89,999](#)
10. [\\$90,000-\\$119,999](#)
11. [\\$120,000 and over](#)

What was the amount of your last pay before any deductions? [\[enter value\]](#) _____

What period of time did this cover?

1. [One week](#)
2. [Two weeks](#)
3. [Month](#)
4. [Quarter](#)
5. [Year](#)
6. [Twice a month](#)
7. [Other](#)

* Specify: [\[enter text\]](#) _____

Does the respondent have a paper or electronic pay check record present for his/her/Name's/the last paycheck?

1. [Yes](#)
2. [No](#)

Was there any money deducted from your pay for -
Federal income tax?

1. [Yes](#)
2. [No](#)

How much? [\[enter value\]](#) _____

Was there any money deducted from your pay for -
State or local income tax?

1. [Yes](#)
2. [No](#)

How much? [\[enter value\]](#) _____

Was there any money deducted from your pay for -
Private pension fund?

1. [Yes](#)
2. [No](#)

How much? [\[enter value\]](#) _____

Was there any money deducted from your pay for -
Government retirement?

CONSIDERATION OF TAXES IN EXISTING TABLE

As detailed in CPR's July briefing, the existing table is based on several different studies of child-rearing expenditures (and probably no economic study below combined gross incomes of \$2,000 per month). With that said, **MOST** of the existing table is based on the USDA measurements of child-rearing expenditures adjusted for housing expenses.² Specifically, the adjusted-USDA amounts form the basis of the table amounts for two and more children for combined gross incomes of \$2,000 to about \$8,400 per month. The precise year of the underlying USDA study is unknown but likely to be 2000 or 2001. There is a lag between when the USDA examines the data and develops its measurements and when the CES data are collected. It appears that a 2000 or 2001 USDA data would have been produced from families surveyed in 1990-92. The consequence of this is that these families would have experienced the tax rates in effect in 1990-92.

As shown in CPR's July briefing, the other economic studies that form the basis of the existing table are the Betson-Engel measurements at very high incomes and the Betson-Rothbarth measurements for the one-child amounts for combined gross incomes of about \$3,300 to about \$7,300 per month. Both Betson measurements are converted from a percentage of total family expenditures to a gross-income basis by considering federal and state income tax and FICA. It appears that tax rates prevailing in 2005 were used.

CHANGES IN FEDERAL TAXES AND FICA OVER TIME

Based on the information above, tax rates of these years are critical:

- 1990-91 when the CES data were collected for the USDA measurements underlying the existing table;
- 2005 when the Betson measurements were converted to gross-income amounts; and
- Current and future tax rates.

Most states with gross-income guidelines based on Betson measurements also used tax formulas from employer withholding formulas published by the IRS (and that particular state's tax agency) to convert the Betson measurements to a gross-income basis. Income withholding formulas over 1040-year end filing forms are used for several reasons. Families live paycheck to paycheck, so withholding formula are more reflective of monthly income. Most tax benefits to families (*e.g.*, Earned Income Tax Credit and Child Tax Credit) are not advanced. Further, families tend to use these items to offset debt or big-ticket items (*e.g.*, replace a broken refrigerator). The withholding formulas also tend to be more current since they are published several months prior to the 1040 forms.

² The housing adjustment was to accommodate the believed over-statement of housing expenses in the USDA due to the methodology they were using at the time. Since then, the USDA has changed its methodology.

Historically, the federal income withholding formula and the IRS 1040 formula are not perfect matches. The withholding formula results in slightly less after-tax income.

2017 FEDERAL TAX REFORM

Congress adopted significant tax reform in December 2017 that are due to expire for personal income taxes in 2025. One of the major changes affecting families is the elimination of the personal exemptions (*i.e.*, deduction for claiming minor children as dependents). Another change is an increase the child tax credit to \$2,000 per child and an effective expansion of the income range eligible for the child tax credit. As is, low incomes are often not eligible for the child tax credit because they do not have sufficient tax liability for a credit against their tax liability. The child tax credit also phases out at very high incomes. The increased child tax credit also expires in 2025.

To ease the burden on employers and for other reasons, the IRS has not changed the W-4 withholding formula that employees must file in 2018. They plan to change it later this year to reflect the elimination of the personal exemption. The IRS has developed 2018 employer withholding formulas that can be used with the 2017 W-4 withholding. The IRS plans to change the 2019 W-4 form as well as the 2019 withholding formula.

The consequence of this to Minnesota child support guidelines is that federal taxes are a moving target in the next decade. IRS federal income withholding formula in effect in 2018 will change in 2019 to reflect the new W-4. Then, in 2025, the federal personal income tax rate changes are scheduled to expire.

TAX RATES: 1990, 2005, AND 2018

There are three major components of personal income taxes:

- Federal,
- State, and
- FICA.

Exhibit 2: Federal Personal Allowance , Income Percentages and FICA			
	Monthly Withholding Allowance	Number of Income Brackets and Percentages	FICA
1990	\$170.83	4 brackets: 15%, 28%, 33% and 28%	7.65% for first \$50,400/yr and 1.45% for incomes above that
2006	\$266.67	6 brackets: 10%, 15%, 28%, 28%, 33%, 35%	7.65% for first \$90,000/yr and 1.45% for incomes above that
2008	\$345.80	7 brackets: 10%, 12%,22%, 24%, 32%,36%, 37%	7.65% for first \$128,400/yr and 1.45% for incomes above that plus 0.9% additional Medicare tax for single taxpayers with incomes above \$200,000/yr and married filers with incomes above \$250,000/yr

The federal tax rates for 1990, 2005, and 2018 are shown below. CPR did not investigate changes in state tax rates over these years.

1990

TABLE 4—If the Payroll Period With Respect to an Employee is Monthly

(a) SINGLE person—including head of household:				(b) MARRIED person—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to be withheld shall be:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to be withheld shall be:	
Not over \$100		0		Not over \$283		0	
Over—	But not over—		of excess over—	Over—	But not over—		of excess over—
\$100	—\$1,721	15%	—\$100	\$283	—\$2,988	15%	—\$283
\$1,721	—\$4,021	\$243.15 plus 28%	—\$1,721	\$2,988	—\$6,817	\$405.75 plus 28%	—\$2,988
\$4,021	—\$9,192	\$887.15 plus 33%	—\$4,021	\$6,817	—\$16,718	\$1,477.87 plus 33%	—\$6,817
\$9,192		\$2,593.58 plus 28%	—\$9,192	\$16,718		\$4,745.20 plus 28%	—\$16,718

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2005

TABLE 4—MONTHLY Payroll Period

(a) SINGLE person (including head of household)—				(b) MARRIED person—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over \$221		\$0		Not over \$667		\$0	
Over—	But not over—		of excess over—	Over—	But not over—		of excess over—
\$221	—\$817	10%	—\$221	\$667	—\$1,883	10%	—\$667
\$817	—\$2,625	\$59.60 plus 15%	—\$817	\$1,883	—\$5,517	\$121.60 plus 15%	—\$1,883
\$2,625	—\$5,813	\$330.80 plus 25%	—\$2,625	\$5,517	—\$10,063	\$666.70 plus 25%	—\$5,517
\$5,813	—\$12,663	\$1,127.80 plus 28%	—\$5,813	\$10,063	—\$15,800	\$1,803.20 plus 28%	—\$10,063
\$12,663	—\$27,354	\$3,045.80 plus 33%	—\$12,663	\$15,800	—\$27,771	\$3,409.56 plus 33%	—\$15,800
\$27,354		\$7,893.83 plus 35%	—\$27,354	\$27,771		\$7,359.99 plus 35%	—\$27,771

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\$20,900 \$0,210.04 plus 37%		—\$20,900		\$20,401 \$0,724.11 plus 37%		—\$20,401	
TABLE 4—MONTHLY Payroll Period							
(a) SINGLE person (including head of household)—				(b) MARRIED person—			
If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:		If the amount of wages (after subtracting withholding allowances) is:		The amount of income tax to withhold is:	
Not over \$308		\$0		Not over \$963		\$0	
Over—	But not over—		of excess over—	Over—	But not over—		of excess over—
\$308	—\$1,102 . . .	\$0.00 plus 10%	—\$308	\$963	—\$2,550 . . .	\$0.00 plus 10%	—\$963
\$1,102	—\$3,533 . . .	\$79.40 plus 12%	—\$1,102	\$2,550	—\$7,413 . . .	\$158.70 plus 12%	—\$2,550
\$3,533	—\$7,183 . . .	\$371.12 plus 22%	—\$3,533	\$7,413	—\$14,713 . . .	\$742.26 plus 22%	—\$7,413
\$7,183	—\$13,433 . . .	\$1,174.12 plus 24%	—\$7,183	\$14,713	—\$27,213 . . .	\$2,348.26 plus 24%	—\$14,713
\$13,433	—\$16,975 . . .	\$2,674.12 plus 32%	—\$13,433	\$27,213	—\$34,296 . . .	\$5,348.26 plus 32%	—\$27,213
\$16,975	—\$41,975 . . .	\$3,807.56 plus 35%	—\$16,975	\$34,296	—\$50,963 . . .	\$7,614.82 plus 35%	—\$34,296
\$41,975		\$12,557.56 plus 37%	—\$41,975	\$50,963		\$13,448.27 plus 37%	—\$50,963

SECOND HOUSEHOLD ADJUSTMENT (OPTION B.2) IN THE WORKSHEET

Option B.2 in the November briefing provided a second household adjustment in the table to account for the proposed, updated schedule being based on child-rearing expenditures in two-parent households who were likely to file taxes as a married couple claiming the number of joint children the parents have. The worksheet below illustrates how that same adjustment (made in Option B.2) could be made in the worksheet. There are several variations of this alternative. The difference in the obligation (before consideration of parenting expenses) is shown in red font. Putting it in the worksheet would require a tax conversion table to find the amount in Line Xa. For purposes of this illustration it was calculated using 2017 employer withholding formula and assuming a tax filing of a married couple with one child and a combined income of \$3,447 per month.

	CASE	X		
Number of Joint Children		1		
		Parent A	Parent B	Combined
		Jenny	Paul	
Income				
1a. Monthly Income Received		\$ 1,446	\$ 2,000	\$ 3,446
1b. Children's SS/VA benefits derived from...		\$ -	\$ -	
1c. Potential income		\$ -	\$ -	
d. Spousal maint. orders obligated to be paid		\$ -	\$ -	
1e. Child support orders obligated to be paid for nonjoint child(ren)		\$ -	\$ -	
1f. Monthly gross income (1a + 1b + 1c + 1d)		\$ 1,446	\$ 2,000	\$ 3,446
Adjustments (CURRENT WORKSHEET)				
2a. Number of nonjoint children in the home (maximum of 2)		0	0	
2b. Deduction for Nonjoint children in the home		0	0	
3. Parental income for determining child support (PICS)		\$ 1,446	\$ 2,000	\$ 3,446
4. Percentage share of combined (PICS)		42.0%	58.0%	100.0%
5. Combined basic support obligation- Option B.4				\$843
6. Pro rata basic support obligation -				
		\$ 354	\$ 489	
Adjustments (Consideration of Taxes)				
Xa. Income and FICA Taxes on Combined Income				\$ 534
Xb. Each Parent's Pro Rata of Above (Line 4 x Line Xa)		\$ 224	\$ 310	
Xc. Parent's Actual Taxes		\$ 200	\$ 446	
Xd. Difference in Assumed and Actual Taxes		\$ 24	\$ (136)	
Xe. Adjusted Income (Line 11 + Line Xd)		\$ 1,470	\$ 1,864	\$ 3,334
Xf. Each parent's adjusted PICS		44.1%	55.9%	100.0%
Xg. Adjusted pro rata basic support obligation		\$ 372	\$ 471	
Basic Support Obligations:				
		Percent of child(ren)'s time with parent		
7. Basic Support Obligation after Parenting Expense: EXISTING w/ existing PTA				