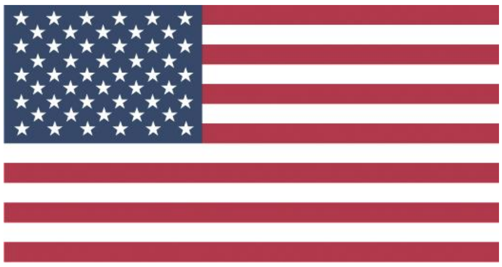
THE OECD TAX-BENEFIT DATABASE

Description of policy rules for the United States 2023



BETTER POLICIES FOR BETTER LIVES

THE OECD TAX-BENEFIT DATABASE FOR THE UNITED STATES

Description of policy rules for 2023

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OECD
BETTER POLICIES FOR BETTER LIVES

Jobs and Income Division
Directorate for Employment, Labour and Social Affairs

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Preface

This report provides a detailed description of the tax and benefit rules in the United States as they apply to working-age individuals and their dependent children. It also includes output from the OECD Tax-Benefit model (**TaxBEN**), which puts all these complex legal rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the net disposable income of families in different labour market circumstances, .e.g. in employment versus unemployment.

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families ("vignettes"), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click here for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)

TaxBEN web calculator

Methodology and user guide

OECD tax-benefit data portal

Network of national experts

Guidelines for updating this report (for national experts)

General guidelines

Detailed **guidelines for updating Section 5** "Net costs for Early Childhood Education and Care"

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **January 1, 2023**.
- The **TaxBEN** models all policies in effect on the reference date. This includes temporary policies implemented in response to the **Covid-19 pandemic**.
- The symbol *(i)* in the text provides a link to the glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- **TaxBEN** variables are indicated in the text using the format `[variable name]`.

BETTER POLICIES FOR BETTER LIVES

Jobs and Income Division
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The OECD tax-benefit model for the United States: Policy rules in 2023

OECD Note: This report primarily describes the system in **Michigan**, which is modelled in the OECD tax-benefit model (TaxBEN). Additional information is provided for the states of California and Texas (both currently not modelled).

1. Reference wages and other reference amounts

Average wage **[AW]**: The OECD tax-benefit model (TaxBEN) uses Secretariat estimates of the average full-time wage (available here).[1] If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth[2] to the latest available wage estimate.

The TaxBEN model uses the federal minimum wage **[MIN]**, which in 2023 is USD 7.25 per hour. The annual minimum wage in the TaxBEN model is computed by multiplying the minimum hourly wage (as of January 1, 2023) by 40*52, i.e. USD 7.25*40*52 = USD 15,080.[3]

2. Unemployment benefits

2.1. Unemployment insurance

Variable names:[4] **[UB; UI_p; UI_s]**

This benefit is contributory, not means-tested and taxable.

2.1.1. Eligibility conditions

Each state administers its own programme. Eligibility conditions differ from state to state, as do maximum benefit levels.

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[1] Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

[2] Wage growth projections are based on OECD Economic Outlook and EU economic forecasts (for non-OECD countries).

[3] Note that statutory minimum wage levels differ across states and are above the federal level in most states, see here: https://www.dol.gov/whd/minwage/america.htm. TaxBEN assumes the federal minimum wage level.

[4] Each (sub-)section in this chapter lists the variable names for the different benefits and taxes as they are used in TaxBEN. The first variable usually denotes the aggregate component while variable names ending with "_p" refer to the first adult (so-called "principal" adult) whereas those ending with "_s" are related to the spouse (alternative specifications to denote adults are possible, e.g. "_1" and "_2"). For instance, in this section, **UB** denote unemployment benefits, which are the sum of individual-specific unemployment insurance benefits of the principal adult, **UI_p**, and the spouse, **UI_s** (as relevant).

Earnings requirement: The earnings requirement details how much an individual must have earned and the period of time during which the individual must have had earnings to qualify for benefits. In this context, the Base Period comprises four quarters. Total earnings across the Base Period are the Base Period Wage (BPW). Earnings in the quarter with the highest wages in the Base Period are the High Quarter Wage (HQW).

OECD Note: TaxBEN assumes full time, consistent employment across an employment record measured in months. For example, someone with an employment record of 4 months has wages in two of the Base Period quarters. Their HQW is 3 times their monthly salary and their BPW is 4 times their monthly salary.

Michigan

To qualify for the minimum weekly benefit amount (WBA) in January 2023, High Quarter Wages (HQW) must equal USD 3,919 and Base Period Wages (BPW) must equal USD 5,878 with BPW being 1½ times the HQW, with wages in 2 quarters. Alternatively, BPW must equal 20 times the state average weekly wage (SAWW) with wages in 2 quarters (USD 24,323.60 in BPW).

California

To qualify for the minimum weekly benefit amount (WBA) in January 2023, HQW must be at least USD 1,300; or HQW of at least USD 900 with total BPW equal to or greater than 1¼ times the HQW (at least USD 1,125).

Texas

To qualify for the minimum weekly benefit amount (WBA) in January 2023, BPW must equal at least USD 2,664 with 37 times the WBA in the BP, and wages in 2 quarters.

Minimum employment record: The “Minimum Employment Record” (or “Coverage Threshold”) in a state is the threshold amount of wages that determines whether an employer is subject to the payment of unemployment taxes (and consequently their employees are then covered by the unemployment program in the state). Whether an employing unit is an employer depends on the number of days or weeks a worker is employed or the amount of the employing unit’s quarterly or yearly payroll. Requirements vary by state[5].

In the in TaxBEN model it is assumed that employers meet these thresholds (see Section 7.2 for further details on unemployment insurance taxes). However, the employer does not have to pay a minimum amount of taxes with respect to an individual for this individual to qualify for benefits.[6]

[5] In Michigan, except for agricultural labor and domestic service, if an employing unit or employer paid wages of 1,000 or more in the calendar year, or if the employing unit had one or more workers on at least one day in each of 20 weeks during the current or immediately preceding calendar year.

In California, an employer is defined as one that paid wages over USD 100 in a quarter, except that in agricultural labor if an employing unit pays wages in excess of USD 100 to one individual in a calendar quarter.

In Texas, in agricultural labor industries, one is considered an employer if there are 3 employees in at least 20 different calendar weeks of the calendar year or wages in cash of USD 6,250 during a CQ paid.

[6] Consequently, the “minimum employment record” for individual workers as implemented in TaxBEN is only related to the requirement of having earnings in at least 2 quarters, as defined in the ‘earnings requirement’ above.

Behavioural requirements:[7]

Generally, all states require that UI recipients be able to work and available for full-time work. All states also require that UI recipients be actively seeking work. TaxBEN assumes "involuntary" job loss and that the behavioural requirements are satisfied[8].

2.1.2. Benefit amount

Michigan

In January 2023, the weekly benefit amount (WBA) in Michigan is calculated as the 4.1 percent of HQW during the Base Period (rounded down to the next dollar) plus USD 6 for each dependent up to 5 dependents, maximum WBA is the same with or without dependents. The benefit is bound by a minimum WBA of USD 157 (USD 157*14 weeks (see Section 2.1.3) = USD 2,198 per benefit year), and a maximum of USD 362 per week (USD 362*20 weeks (see Section 2.1.3) = USD 7,240 per benefit year).

The maximum annual benefit amount is the lesser of 20*WBA or 43% of BPW.

California

In January 2023, the weekly benefit amount in California is between 1/23 and 1/26 of HQW rounded up to the next dollar. If HQW is greater than or equal to USD 1833, it is 1/26 of the HQW. If the HQW is less than USD 1,833, it is 1/23 of the HQW. The WBA is bound by a minimum of USD 40 and a maximum of USD 450 per week.

The maximum benefit amount is the lesser of 26*WBA and 50% of BPW.

Texas

In January 2023, the weekly benefit amount in Texas is calculated as 1/25 HQW rounded to the nearest dollar. The benefit is bound by a minimum WBA of USD 72(USD 72*10 weeks = USD 720 per benefit year), and a maximum WBA of USD 563 per week (USD 563*26 weeks = USD 14,638per benefit year).

The maximum annual benefit amount is the lesser of 26 times the WBA or 27% BPW.

2.1.3. Benefit duration

The duration of regular state UI benefits varies by state. If a worker is still unemployed after those benefits are exhausted, they will draw Extended Benefits if the state has triggered on Extended Benefits and is in an Extended Benefits period. On 1 January 2023, Extended Benefits were not payable in Michigan, California or Texas.[9]

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[7] Details on behavioural requirements and sanction provisions for unemployment benefits are reported at https://www.oecd.org/social/strictness-benefit-eligibility.htm

[8] "Involuntary" job loss refers to individuals who are unemployed through no fault of their own. Most commonly, this involves individuals who are laid off. It may also apply to individuals who are discharged for reasons unrelated to misconduct or who are determined to have good cause for quitting a job.

[9] States that qualify for the Extended Benefit (EB) are those with a 13-week IUR (insured unemployment rate) of 5 percent or higher, and 120 percent above the IUR rate for the corresponding 13-week period in the two previous years. The maximum number of weeks of EB is 13 or 50 percent of the total amount of regular state UI benefits, whichever is less. The amount is the same as under the regular state UI benefit.

In Michigan, California and Texas, the regular benefit duration is the maximum annual benefit divided by the WBA (see Section 2.1.2).

In Michigan, the benefit period is between 14 and 20 weeks. In California, the benefit is between 14 and 26 weeks. In Texas, the benefit is between 10 and 26 weeks.

OECD Note: The TaxBEN model calculates benefits on a monthly basis, assuming 52 weeks and 12 months per year. To convert from a weekly amount to a monthly amount, the result is multiplied by 52 and divided by 12 (that is, 4.333 weeks per month). For example, the benefit period in Michigan is thus between 3.231 and 4.615 months.

2.1.4. Means test

See Section 2.1.7.

2.1.5. Tax treatment

Unemployment insurance benefit income is subject to federal government income tax, but is exempted from social security taxes.

In Michigan, unemployment insurance benefit income is also subject to state government income tax.

2.1.6. Interaction with other components of the tax-benefit system

None.

2.1.7. Combining benefit receipt and employment/starting a new job

The benefit is compatible with work but earnings reduce the amount of unemployment benefits.

In *Michigan*, the weekly benefit amount (WBA) is reduced by 50 cents for every dollar earned during that week if the earnings plus the WBA is less than 1.5 times the WBA, and reduced by 1.5 times their WBA minus the individual's earnings if the earnings plus the WBA is greater than 1.5 times the WBA. Individuals earning more than 1.5 times their WBA are ineligible to receive benefits for that week.

In *California*, the WBA is reduced by earnings less the larger of USD 25 or ¼ of wages.

In *Texas*, the WBA is reduced by earnings less the larger of USD 5 or ¼ of wages.

Upon filing a claim, a claimant establishes a benefit year (i.e., generally this is 52 weeks). This is simply a period of time in which the maximum benefit amount can be collected.[10] The reduced amount of unemployment benefits while in employment may allow a recipient to receive unemployment benefits for a longer period of time, as they are drawing a smaller benefit each week. Upon expiration of the benefit year, any remaining maximum benefit amount is no longer available.

Michigan qualified for EB between April 26, 2020, and April 17, 2021. California qualified for EB between May 10, 2020, and September 11, 2021. Texas qualified for EB between May 31, 2020, and September 11, 2021.

[10] When the individual returns to work and later becomes unemployed again during the same benefit year, they may continue to receive benefits from the remaining maximum benefit amount (provided they are otherwise eligible).

2.1.8. Indexation

In the US, the UI program is considered a federal-state partnership and is not subject to automatic indexation, therefore, in states that opt, under state law, to index the minimum and/or maximum weekly benefit amounts payable the formula by with indexing occurs varies by state, typical in some manner tied to the state's average weekly wage.

Michigan

in the reference State for the OECD TaxBEN model the minimum monetary eligibility formula is tied to Michigan's average weekly wage (cp. Section 2.1.1).

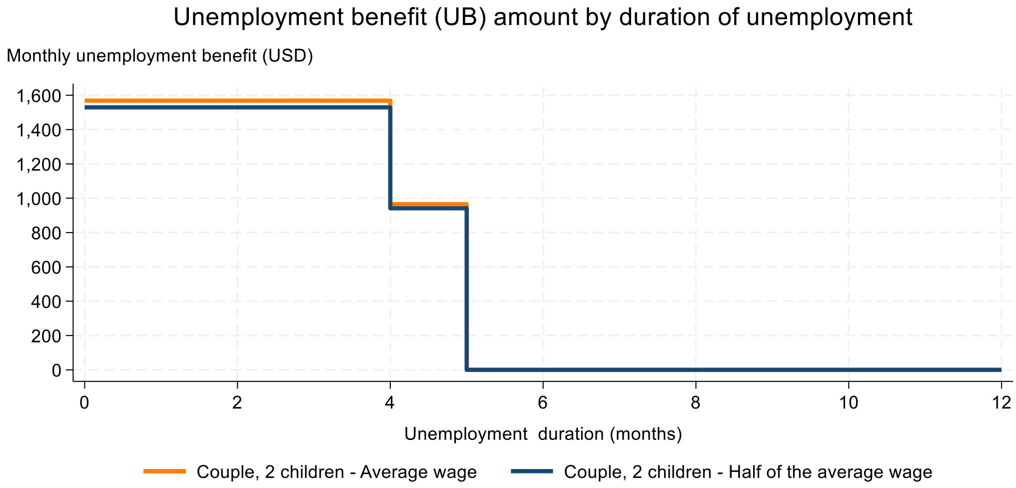
California

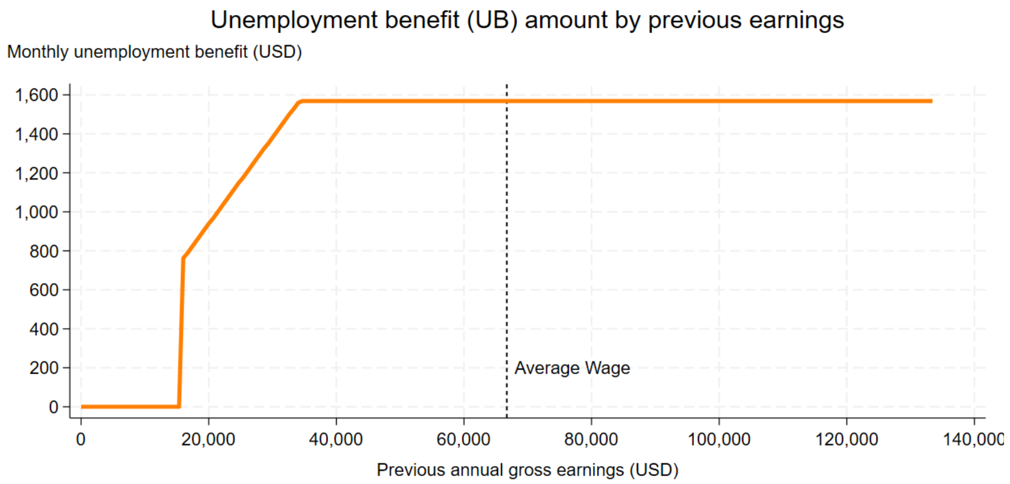
California does not have automatic indexation of its monetary eligibility formula or weekly benefit amount.

Texas

The minimum monetary eligibility formula is not subject to indexation. The maximum weekly benefit amount is indexed with an automatic adjustment annually on January 1 based on the state average weekly wage.

Figure 1. Unemployment insurance by time of receipt and previous earnings





Note: Results are for a couple, both aged 40, with 2 children. The claimant has a 'long' and continuous previous employment record, and the spouse is ineligible for UI benefits. The TaxBEN model assumes 4.333 weeks per month. A 20-week benefit period is thus 4.615 months.

Source: Results based on the OECD tax-benefit model 2023; rules for State of Michigan.

2.2. Unemployment assistance

OECD note: In many OCED countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, can claim Unemployment Assistance (UA) or Social Assistance benefits (SA – Section 3). These UA and SA benefits have different purposes (and reach different target groups). For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is *not always* the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.

Based on this definition, the United States and the representative region/municipality considered in this report (Michigan) do not currently provide Unemployment Assistance programmes. Nevertheless, the United States does provide a Social Assistance programme (described in Section 3.1).

3. Social assistance and housing benefits

3.1. Supplemental Nutrition Assistance Program (SNAP)

Variable names: **[SA]**

This is a non-contributory benefit, means-tested and not taxable.

SNAP has been in place since 1977 and was known as the *Food Stamp Program* before 2008. It is designed primarily to increase the food purchasing power of eligible low-income households to a point where they can buy a nutritionally adequate low-cost diet. This benefit scheme is classified as ‘social assistance’ in TaxBEN. The Temporary Assistance for Needy Families (TANF) is covered in Section 4. Other social assistance programmes such as state General Assistance (GA) and Supplemental Security Income (SSI) are beyond the scope of TaxBEN but are briefly described in the Annex.

Between 2002 and 2012 the participation (“take-up”) rate for Food Stamps/SNAP rose sharply, from 54 percent to 83 percent. Between 2013 and 2018, participation rates remained fairly steady, fluctuating between 82 and 85 percent. In FY 2019 participation rates were 81 percent and 78 percent in pre-pandemic FY 2020.[11]

3.1.1. Eligibility conditions

Households who meet the income and asset tests described below and who meet other requirements (such as work registration and immigration rules, for example) are eligible for SNAP benefits. To be entitled to the benefit, households need to pass two income tests and an asset test (see income definition in Section 3.1.4) except for households where all members receive TANF, GA or SSI, who qualify automatically[12]:

- Basic (gross) monthly income must not exceed 130 percent of the poverty guidelines;
- Counted (net) monthly income must not exceed 100 percent of the poverty guidelines;
- Countable assets cannot exceed USD 4,250 for households with an elderly or disabled member, USD 2,750 for other households (not considered in TaxBEN).

In addition to the above requirements, many states (44 in January 2023, including Michigan, California and Texas) have chosen to provide a TANF-funded noncash benefit to confer categorical eligibility on a broad number of households, known as ‘broad-based categorical eligibility’.

In *Michigan*, broad-based categorical eligibility is applied to households where:

[11] See Trends in Supplemental Nutrition Assistance Program Participation Rates: Fiscal Year 2016 to Fiscal Year 2018 (azureedge.net) Table C.1, page 39; https://fns-prod.azureedge.net/sites/default/files/resource-files/Trends2010-2017.pdf Table H.1, page xiii; http://www.fns.usda.gov/snap/trends-fiscal-year-2016-to-2020.

[12] This automatic qualification is referred to as “*categorical eligibility*”. Households in which all members are receiving benefits through TANF, SSI, or GA are categorically eligible for SNAP. In addition, states are required to confer categorical eligibility on households receiving benefits or services that are at least 50 percent funded by TANF and have the option to confer categorical eligibility on households receiving benefits or services that are less than 50 percent funded by TANF.

- Basic (gross) monthly income must not exceed 200 percent of the poverty guidelines*;*
- Countable assets (excluding vehicles) cannot exceed USD 15,000 (not considered in TaxBEN).

In *California*, broad-based categorical eligibility is applied to households where:

- Gross monthly income is less than 200 percent of the poverty guidelines
- No assets limit

In *Texas*, broad-based categorical eligibility is applied to households where:

- Gross monthly income is less than 165 percent of the poverty guidelines
- Countable assets are less than or equal to USD 5000, which excludes one vehicle up to a value of $15,000 but includes excess vehicle value above this threshold

The poverty guidelines in 2023 are included in the table below.

Household with elderly (aged 60 and over) members do not need to meet the basic (gross) income guideline and are waived from other programme requirements.

3.1.2. Benefit amount

Maximum Monthly SNAP allotments are linked to family size (see table) and based on the cost of the Thrifty Food Plan (TFP). As directed by Congress, in 2021 USDA released a re-evaluation of the TFP based on current food prices, what Americans typically eat, dietary guidance, and the nutrients in food items. The SNAP benefit is subject to an income test (see Section 3.1.4).

Maximum monthly SNAP allotments for January 2023 (in USD per month)

Household size (persons)	Maximum allotments	Gross income eligibility limit	Net income eligibility limit (Poverty Guideline)
1	$281	$1,473	$1,133
2	$516	$1,984	$1,526
3	$740	$2,495	$1,920
4	$939	$3,007	$2,313
5	$1,116	$3,518	$2,706
6	$1,339	$4,029	$3,100
7	$1,480	$4,541	$3,493
8	$1,691	$5,052	$3,886
Each additional person	+$211	+$512	+$394

3.1.3. Benefit duration

No time limit, as long as eligibility conditions are met for most participants. SNAP benefits are issued monthly. Households are required to periodically submit information in order to be recertified for SNAP. Healthy, childless adults aged 18-49 are subject to strict work requirements and 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. In July of 2023 the ABAWD time suspended during the COVID-19 pandemic will be reinstated.

COVID-19 measures (Not currently implemented in TaxBEN model)

In response to the COVID-19 pandemic, the Families First Coronavirus Response Act temporarily suspends the time limit for most ABAWDs from April 1, 2020 through the month following the month in which the public health emergency declaration is lifted. This suspension is still in place on 1 January 2023.

3.1.4. Means test

The SNAP benefit is subject to two income eligibility tests and one asset eligibility test (see Section 3.1.1). More detail of the assessable income and assets for these tests are described below, as well as the income test reduction in the benefit amount.

Income test

Basic (gross) monthly income is the cash household income, including:

- Earnings
- Unemployment insurance (Section 2.1)
- TANF (Section 4)
- Other income not included in the TaxBEN model (including Social Security income, Supplemental Security Income benefits, child support payments, retirement pensions, and virtually all other unearned income)
- Income tax and social security contributions are NOT deducted from income before applying the income test.
- The Earned Income Tax Credit (EITC) (see Section 6) is not included in basic monthly income. Also excepted is unanticipated, irregular or infrequent income up to USD 30/quarter and income from tax refunds.

In Fiscal Year (FY) 2023, net monthly income was calculated by deducting the following from gross monthly income:

- A standard deduction for all SNAP households: USD 193 for households of 4 persons or less; USD 225 for 5-person households and USD 258 for 6 or more persons[13];
- 20 per cent of gross earnings in recognition of taxes and work related expenses;
- Out-of-pocket medical expenses for elderly or disabled household members in excess of USD 35 as well as out-of-pocket dependent-care expenses necessary for work, school, or while seeking employment (not modelled in TaxBEN);
- Excess shelter expense (rent or mortgage and utility expenses) if shelter expenses exceed 50 per cent of gross income less the above deductions, with a maximum of USD 624 per month for households with no elderly or disabled members. Households with elderly or disabled members do not face a shelter expense cap. States are also permitted to establish Standard Utility Allowances that households may use in lieu of actual utility expenses. SUAs may include expenses such as fuel for heating and/or cooling, electricity and fuel for purposes other than heating or cooling, water, sewage, well and septic installation and maintenance, telephone, and trash collection;

[13] Since FY 2003, the standard deduction has been equal to 8.31 percent of the poverty guideline which varies by household size (see in the table above).

- A dependent care deduction when needed for work, training, or education.
- A standard shelter deduction for homeless households of $166.81 (not modelled in TaxBEN);
- In some states, court ordered child support payments made to non-household members (not modelled in TaxBEN).

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

A minimum monthly payment of USD 23 per month is applicable to one or two person households entitled to SNAP.

Asset test (not modelled in TaxBEN)

To be eligible for SNAP, countable assets cannot exceed USD 4,250 for households with an elderly or disabled member, or USD 2,750 for other households.

As of January 2023, most States with broad-based categorical eligibility do not have asset limits for SNAP. Some of these States have asset limits that are higher than the regular SNAP limits.

Assets include both liquid resources (such as bank accounts or cash on hand) and non-liquid resources, i.e. certain types of property (such as vehicles). Many types of assets are not counted in SNAP, including a household's primary residence and retirement accounts.

Federal SNAP rules count the market value of most vehicles above a dollar threshold (currently USD 4,650) toward the asset limit. Whether a vehicle counts as an asset depends on whether it is used for employment or an essential task, such as a taxi or a specialized vehicle for someone with a disability. However, states have flexibility to apply less restrictive vehicle asset rules.[14]

3.1.5. Tax treatment

SNAP benefits are not taxable.

3.1.6. Interaction with other components of the tax-benefit system

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

3.1.7. Combining benefit receipt and employment/starting a new job

20 per cent of gross earnings are disregarded in SNAP income test in recognition of taxes and work related expense.

3.1.8. Indexation

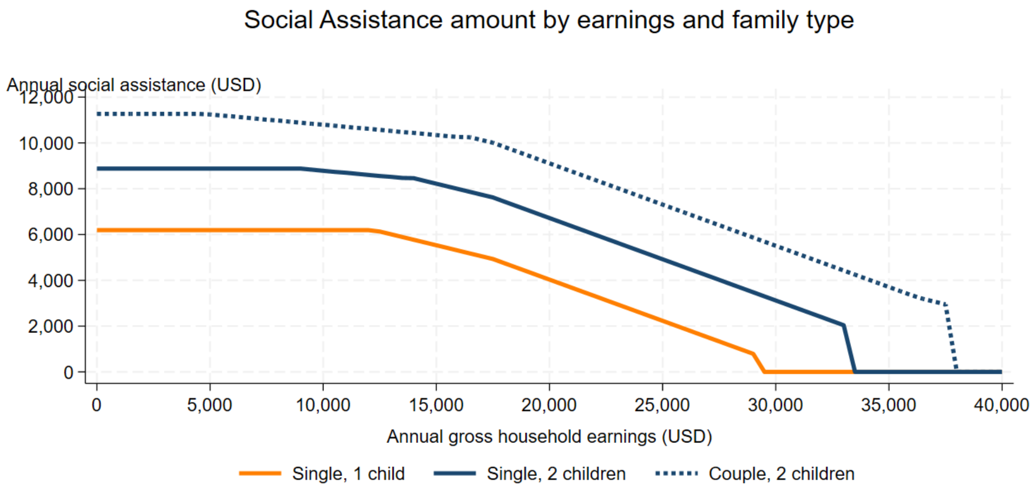
SNAP maximum allotments, deductions, and income eligibility standards are adjusted at the beginning of each fiscal year. The adjustments are based on changes in the cost of living. The TFP represents a healthful and minimal-cost diet for a family of four. Maximum allotments are calculated from this cost every June and take effect on October 1.

[14] More information can be found here: https://www.fns.usda.gov/snap/recipient/eligibility and https://www.cbpp.org/research/food-assistance/a-quick-guide-to-snap-eligibility-and-benefits

A re-evaluation of the TFP resulted in an increase in SNAP benefits for almost all households beginning in October 2021. The USDA will re-evaluate the TFP every five years thereafter. Prior to this requirement, the TFP was introduced in 1975 and updated in 1983, 1999 and 2006.[15]

Income eligibility standards are set by law every year. Gross monthly income limits are set at 130 percent of the poverty level for the household size. Net monthly income limits are set at 100 percent of poverty.[16]

Figure 2. SNAP by family type



Note: Results for a single without children aged 40 and for a one-earner couple with two children aged 4 and 6 (adults aged 40) where the spouse is without work but available to the labour market (i.e. assumed to meet any behavioural eligibility requirements as applicable). Note that gross earnings are supplemented with TANF benefits when performing the SNAP means test.

Source: Calculations based on the OECD tax-benefit model, 2023; rules for State of Michigan

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3.2. Housing benefits

The three major federal rental assistance programs are: 1) public housing; 2) project-based Section 8; 3) tenant-based Section 8 vouchers. Individual states are permitted to use funds from a limited number of other federal programmes to provide rental housing assistance. For example, some states choose to allocate a portion of funding from the Temporary Assistance to Needy Families (TANF) programme to operate rental subsidy programs, though these programs generally offer assistance that is short in duration and for limited numbers of specific target populations. Given long waiting periods for some of these benefits and the level of discretion in their admission, they are not covered in TaxBEN. Some further details can be found in the Annex.

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[15] https://www.fns.usda.gov/snap/thriftyfoodplan

[16] https://www.fns.usda.gov/snap/allotment/COLA

4. Family benefits

4.1. Temporary Assistance for Needy Families (TANF)

Variable names: **[FB]**

TANF provides families with children with financial assistance and related support services[17].

This is a non-contributory benefit, means-tested and not taxable.

Note however that actual participation ("take-up") rates for TANF have been declining continuously since the program's creation. A historically low 20.3 percent of families who met program eligibility requirements actually received TANF benefits in 2020 (most recent data available) – down from 78.9 percent in 1996.[18]

4.1.1. Eligibility conditions

Although states may impose various conditions on the receipt of assistance, a family must, based on Federal law, include at least one minor child or the mother must be pregnant. [19] Also, the applicant must be a US national, citizen, or permanent resident.

States impose additional conditions on the receipt of assistance, many of which are assumed to be met in the TaxBEN model[20].

In California, households with two non-disabled parents are only eligible if the principal wage earner is unemployed or has not worked for more than 100 hours in the four weeks preceding the date of application. In Michigan and Texas[21] there are no restrictions on two-parent households.

The family must meet income (see Section 4.1.7) and asset limits[22] (not considered in the TaxBEN model).

[17] In Michigan, the TANF cash assistance program is called the Family Independence Program (FIP) and in California it is called California Work Opportunity and Responsibility to Kids (CalWORKs).

[18] See https://aspe.hhs.gov/sites/default/files/documents/85da9415ece89b2989ad290755d38f7b/welfare-indicators-rtc.pdf (p. 14).

[19] In Michigan, children aged between 6 and 17 are not eligible for the program if they are not in school. The TaxBEN model assumes that eligible children attend school.

[20] Including that the family have a Social Security Number, that children are immunised, that claimants follow child support rules and work participation rules if it is required of them. Households consisting of only pregnant women, and households with SSI recipients, minor parents, stepparents, noncitizens and nonparent caretakers are also not considered in the TaxBEN model.

[21] Texas does not have a two-parent program inside TANF, however it operates one with state-only funds outside the TANF structure.

[22] In Michigan, USD 15 000 in countable liquid assets and real property must be valued at less than USD 200 000; all vehicles owned by the assistance unit are excluded. In California USD 2250 in cash, bank accounts and other resources (some property may be exempt), or USD 3500 if disabled or over 60 years of age. In Texas, USD 1000, excluding USD 4650 of each vehicle owned by the household.

4.1.2. Benefit amount

Michigan

The maximum benefit amount is calculated based on the number of family members, as follows (benefit levels have not changed since 2009):

- 1 person: USD 306 (e.g. pregnant lone mother expecting first child)
- 2 people: USD 403
- 3 people: USD 492
- 4 people: USD 597
- 5 people: USD 694
- 6 people: USD 828
- 7 people: USD 905

California

The maximum amount a family can receive is called the Maximum Aid Payment (MAP) and varies by the number of qualified family members and the region they live in, with higher rates to the more urban Region 1 counties compared to the more rural Region 2 counties. Higher rates are also available to 'Exempt' families. The following table presents results for families who are non-exempt, living in San Francisco (Region 1).

Maximum monthly CalWORKs allotments effective 1 January 2023 (in place since October 2022) (in USD per month)[23]

Household size (persons)	Region 1
	MAP – Non-exempt
1	707
2	895
3	1130
4	1363
5	1597
6	1830
7	2065
8	2299
9	2532
10 or more	2767

[23] Source: Table 2A of CalWORKS Annual Summary August 2023, available at CalWORKs Reports.

Texas

The maximum amount a family can receive is called the Maximum Grant and varies by the number of qualified family members and type of family.

Monthly Maximum Grant in Texas on 1 January 2023 (in place since October 2022) (USD)

Household size (persons)	1 October 2022	
	Single Parent (actual)	Couple Parents (actual)
1	n/a	n/a
2	283	n/a
3	327	358
4	393	402
5	436	466
6	501	511

Note: TaxBEN generally only considers household size up to six members (up to two adults and up to four children). Current rates for all household sizes and types can be found here.

4.1.3. *Benefit duration*

Eligibility and benefits are determined monthly. Federal funding for a family with an adult receiving federally funded TANF assistance is limited to 60 months. The 60 months do not have to be consecutive, but it is a lifetime limit. States may use their own funds to provide benefits after the expiration of the 60 months or exclude families from the accumulation of months toward the federal 60-month limit. They may also exempt families that reach the time limit due to hardship. The hardship exemption is up to 20 percent of a state’s caseload. States may also create their own time limits (in addition to the federal time limit). Many states have either shortened the time limit (for example, several states have a 24 month time limit) or limited the number of months that a family may receive benefits within a certain period of time. For example, the family may receive benefits for 24 months within a 60 month period, but there is a lifetime limit of 60 months of federally-funded assistance with up to 20 percent of the caseload exempted from the Federal time limit due to hardship.

Michigan did not enforce a time limit from 1996 to 2007 but has enacted a 48-month time limit as of October 2007, regardless of the funding source (federal or state funds). The time limit includes exemptions for age (65 or older), a verified disability or long-term incapacity, and when a spouse or parent provides care for a disabled family member living in the home.

California limits adults paid under the CalWORKs program to a period of 48 months over their lifetime, though there are exemptions for particular circumstances. There is no limit for children, who may continue to receive cash aid, under the Safety Net program, until they turn 18 or are no longer eligible.

Texas limits assistance to a period of 60 months over their lifetime (but has also intermittent time limits of 12, 24, and 36 months[24]). Texas has extensions for those with earnings up to $168 per month, cooperating but unable to find employment, unemployed

[24]See for details https://wrd.urban.org/wrd/Data/databooks/2020%20Welfare%20Rules%20Databook%20(final%2002%2023%202022).pdf, p. 222.

due to high local unemployment, those who are ill, incapacitated, or has a disability, as well as those caring for a person who is ill, incapacitated, or has a disability.

The TaxBEN model is unable to model duration of family benefits, so these duration limits are not considered.

4.1.4. Means test

TANF benefits are means-tested against income. 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. See Section 4.1.7 for the treatment of earned income.

4.1.5. Tax treatment

Family benefits are not taxable.

4.1.6. Interaction with other components of the tax-benefit system

TANF benefits are included in the means-test for SNAP, see Section 3.1.

4.1.7. Combining benefit receipt and employment/starting a new job

Although this benefit is compatible with earnings there is considerable variation among the states in their treatment of earned income. Across all states, the fixed income disregard ranges from zero to USD 600 and the variable disregard from zero to 100 per cent up to a limit, which can be based on income and/or time since starting work. In general, states with high fixed disregards tend to have smaller variable disregards and vice versa. Some states impose a "family cap" on benefits. The initial benefit is based on the size of the family at the time of application, and benefits in some states do not increase for additional children conceived after eligibility is determined.

Generally, states impose two types of income test; eligibility tests which must be satisfied at the time of application and/or throughout the benefit period, and the income test which determines the benefit amount the recipient is entitled to.

For the purposes of the TANF income tests, ‘gross income’ is the unit’s total earned and unearned income (including income from employment, unemployment insurance, and income sources not included in the TaxBEN model, such as disability-based income, child/spousal support payments, Social Security benefits). ‘Net income’ is calculated by subtracting the state’s earned income disregards from the unit’s gross earned income and then adding the unit’s unearned income.

Michigan

In calculating the monthly benefit, Michigan disregards the first USD 200 of income earned plus 20 per cent of any additional earnings to determine initial eligibility; once eligibility has been established, it disregards the first USD 200 of income earned plus 50 per cent of any additional earnings.

Michigan does not have a “family cap.”

California

The eligibility test applies at the time of application. Disregarding the first USD 90 of income earned per adult, net income must be below the Minimum Basic Standard of Adequate Care (MBSAC) of the family (see following table for Region 1).

Minimum Basic Standard of Adequate Care (MBSAC) at 1 January 2023 (effective from 1 July 2022)[25] (in USD per month)

Household size (persons)	Region 1
1	807
2	1324
3	1641
4	1947
5	2221
6	2499
7	2746
8	2988
9	3242
10	3519
More than 10	Add USD 32 per additional person

Once eligibility has been established, the first USD 500 of earned income per adult plus 50 per cent of any additional earnings are disregarded. Remaining income is deducted from the maximum benefit amount.

Texas

Texas has three eligibility tests.

- At the time of application: Disregarding USD 120 of earned income per adult, the net income must be below the Budgetary Needs of the family.
- At the time of application: Disregarding USD 120 of earned income per adult plus 33.3 per cent of additional earnings, the net income must be below the Recognizable Needs of the family.
- Throughout the benefit period: Disregarding USD 120 of earned income per adult, the net income must be below the Recognizable Needs of the family. In four months (not necessarily consecutive) 90 per cent of additional earnings up to USD 1400 are disregarded for the purposes of this test.

Once eligibility has been established, the first USD 120 of income per adult is disregarded. For four months (not necessarily consecutive), 90 per cent of any additional earnings up to USD 1400 are disregarded[26]. Remaining income is deducted from the maximum benefit amount.

[25] Source: All County Letter 22-39 (ca.gov).

[26] Once the recipient has used the 90 per cent disregard in four months, they are not eligible for the disregard again until the TANF case has been denied and 12 months have passed since the denial.

Monthly needs limits in Texas effective 1 October 2021[27] (USD)

Household size (persons)	Budgetary Needs (1 October 2021)		Recognizable Needs (1 October 2021)	
	Single Parent	Couple Parents	Single Parent	Couple Parents
1	n/a	n/a	n/a	n/a
2	650	n/a	163	n/a
3	751	824	188	206
4	903	925	226	231
5	1003	1073	251	268
6	1153	1176	288	294

Note: TaxBEN generally only considers household size up to six members (up to two adults and up to four children). Current rates for all household sizes and types can be found here.

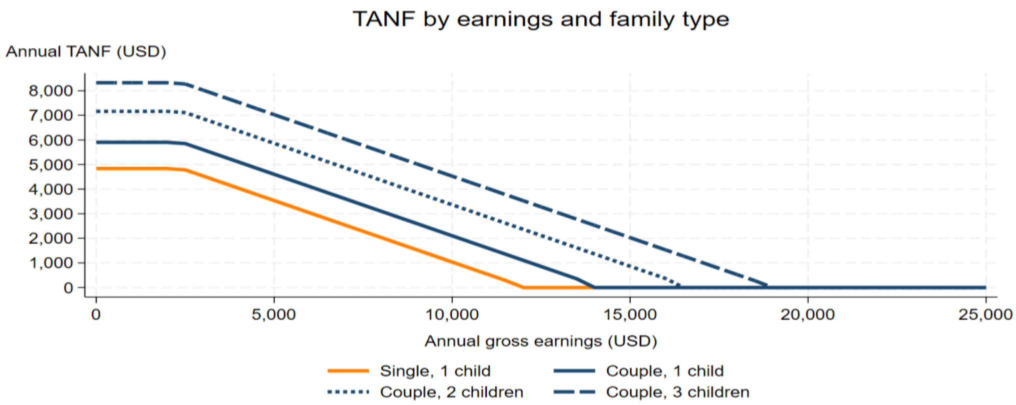
4.1.8. Indexation

Michigan doesn't index benefits.

California periodically raises benefits to some extent: Each Year, income eligibility for CalWORKs automatically increases while grant amounts do not automatically increase but rather generally must be adjusted by new legislation.[28]

Texas make small adjustments to their benefit levels so that they remain around 17 percent of the poverty line.[29]

Figure 3. TANF by family type



Note: Results for a single parent with one child, and a one-earner couple with two, three, and four children. Adults are aged 40, children are below age 18. The spouse in the one-earner couple is without work but available to the labour market (i.e. assumed to meet any behavioural eligibility requirements as applicable). Note that while the figure shows how TANF benefit varies with gross income, the benefit is calculated using net income.

Source: Calculations based on the OECD tax-benefit model, 2023; rules for State of Michigan.

[27] Data for 1 January 2023 (effective 1 October 2022) not available; most recent data (1 October 2023) can be found at: https://www.hhs.texas.gov/handbooks/texas-works-handbook/c-110-tanf.

[28] See here for details: https://lao.ca.gov/Publications/Report/4340

[29] See here for details: https://www.cbpp.org/research/income-security/increases-in-tanf-cash-benefit-levels-are-critical-to-help-families-meet-0

5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2023.**

The compulsory school age is age 5. Of children served in centers not associated with a public school district, according to a 2019 survey (most recent), 71 percent of children attend centers that received at least some public funding.[30]

Gross child care fees are not regulated by any laws. However, for families receiving CCDF child care subsidies, copayment amounts are determined by states.

The TaxBEN model includes the childcare costs and subsidies in the state of Michigan.

5.1. Gross childcare fees

Variable names: **`[UScc_cost]`**

Child care services are primarily provided through a market-based system at rates determined by market forces in the priced child care market. Hence, gross fees charged to parents are set autonomously by the providers and vary substantially based on region, state, age of child, and type of child care setting. Therefore, average gross fees for the state of Michigan are implemented in TaxBEN.[31]

In 2021 (most recent data available), the average annual cost of full-time, centre-based child care in Michigan was USD 13,458 for infants and USD 11,315 for a 4-year old[32] (in TaxBEN, these rates are uprated to 2023 using CPI, giving an average annual full time cost of USD 15,151 for infants and USD 12,738 for a 4-year old). TaxBEN considers the fee for infants as representative of the costs for all children aged 0-2 years, and applies the costs for 4-year old children to all children aged 3-5 years.

No estimates are available for the cost of meals, as this is not a standardized service. Accordingly, meal costs are not considered in TaxBEN.

5.1.1. Discounts for part-time usage

Michigan pays its child care subsidies based on an hourly rate, which would be the same for full-day and part-time care. See Section 5.3.2.

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[30] https://www.acf.hhs.gov/opre/report/center-based-early-care-and-education-providers-2012-and-2019-counts-and

[31] Note, however, that these gross fees are applied subject to a ceiling for the calculation of childcare subsidies (cp. Section 5.3). If providers want to charge more than the ceiling, parents may pay that difference directly to the provider, outside of the subsidy program. To estimate child care costs, TaxBEN assumes that providers do charge more than the ceiling, an amount equal to the average gross fee in Michigan.

[32] 2021 Child care affordability Affordability Analysis https://info.childcareaware.org/hubfs/Child%20Care%20Affordability%20Analysis%202021.pdf

5.2. *Fee discounts and free provision I (Head Start Program and State Preschool Programs)*

The federal Head Start Program[33] provides free centre-based and home-based care to children aged 3 and 4 from low-income families[34]. Family incomes (before taxes) must be equal to or below the Federal Poverty Guidelines, which on January 1st, 2023 for a family of 3 was USD 24,860.[35] Children in foster care, children experiencing homelessness, and children from families eligible to receive public assistance (SNAP, TANF or SSI) are eligible for Head Start regardless of income. Additionally, programs are allowed to enroll a limited number of children (up to 35 percent of a program's total Head Start enrollment) with incomes between 100 percent and 130 percent of the federal poverty line. Finally, up to 10 percent of a program's enrollment may include any other children who would benefit from services, regardless of family income. Families do not pay a fee. Some programs are full-day and some are part-day.

TaxBEN models the full-day Head Start Program for children aged 3 and 4 for families with income below the federal poverty line.

Many states also have preschool programs (frequently called public pre-kindergarten programs) that serve 3 and 4-year olds, though these programs vary dramatically across states in terms of numbers served, eligibility requirements, and parent co-payment and are therefore not considered in TaxBEN. [36]

5.3. *Fee discounts and free provision II (Child Care and Development Fund, CCDF)*

Variable names: `[cc_subsidy]`

The Child Care and Development Fund (CCDF) is a multibillion-dollar Federal and State partnership programme. As a block grant, CCDF provides funding to states, territories, and tribes to provide child care subsidies through vouchers or certificates to low-income families, and grants and contracts with providers in some states. CCDF provides access to child care services for low-income families so parents can work, attend school, or enrol in training. Additionally, CCDF promotes the healthy development of children by improving the quality of early learning and afterschool experiences. In FY 2020 (latest preliminary data available), CCDF served approximately 1.489 million children under the age of 13 from 900,300 low-income working families each month.[37] Each state has discretion in determining how its CCDF

[33] https://eclkc.ohs.acf.hhs.gov/programs/article/head-start-programs

[34] A very limited number of slots are also available to pregnant women and infants aged 0 through 2 via the Early Head Start Program, not modelled in TaxBEN.

[35] https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines

[36] Across states in 2021 (most recent data available), an (unweighted) average of 29 percent of 4-year olds are served by state preschool, and an (unweighted) average of 5 percent of 3-year olds are served by state preschool. Average state spending per child is USD 5,867. See https://nieer.org/wp-content/uploads/2022/04/YB2021_Executive_Summary.pdf

In Michigan in 2021, 31 percent of 4-year-olds were served and no 3-year-olds were served. The income eligibility threshold was 400 percent of the federal poverty line (USD 87,840 for a family of three). The cost per child, paid by the government, was USD 6,958. See https://nieer.org/wp-content/uploads/2022/04/Michigan_YB2021.pdf

[37] Further characteristics of families served by the Child Care and Development Fund (CCDF) based on preliminary FY 2020 data can be found here: https://www.acf.hhs.gov/occ/data/fy-

child care programmes will operate. CCDF subsidies may be used to pay for care offered in center and non-center family settings. TaxBEN uses CCDF as implemented in Michigan.

COVID-19 measures (Implemented in TaxBEN model)

In Michigan, copay amounts are temporarily $0 for all children, from November 7, 2021 through September 23, 2023.[38] Hourly provider payment rates are shown in the table below. These rates are not indexed to inflation. In TaxBEN, households pay the copay plus the difference between the gross child care fee from Section 5.1 and the provider payment rate, assuming the Base Rate. This is consistent with Michigan's subsidy policy.

Table. Hourly Rates with temporary rate increase

	Birth up to age 2.5	**Age 2.5 to Age 5**	**School Age**
Base Rate	$7.90	$5.60	$5.45
1 Star	$7.90	$5.60	$5.45
2 Star	$8.35	$6.05	$5.95
3 Star	$9.30	$6.95	$6.85
4 Star	$9.70	$7.45	$7.25
5 Star	$10.65	$8.35	$8.15

Source: https://www.michigan.gov/-/media/Project/Websites/mde/ogs/cdc-2/provider_docs/payment_rates_for_website.pdf?rev=d978e87be661480fa43779af1b4fe4e4

Note: Star ratings indicate the quality of care.

5.3.1. *Eligibility*

Parents must be working, engaged in job search, or attending job training or education (in Michigan this includes SNAP Employment and Training activities). Only parents who have already been receiving CCDF subsidies are eligible to use job search as an approved activity for eligibility, and this may only be used as an eligible activity through the end of a family's eligibility period. Parents who are engaging in job search, and who are not already receiving child care subsidies, are not eligible to receive subsidies in Michigan (in some other states these parents would be eligible).

OECD note: In the TaxBEN model, adults are assumed to be either working or looking for work. As such, only families with working adults are considered eligible for CCDF.

2020-ccdf-data-tables-preliminary. Note however that this is only a small fraction of children eligible for child care subsidies. More details on eligibility versus actual participation ("take-up") rates can be found here: https://aspe.hhs.gov/estimates-child-care-eligibility-receipt

[38] https://www.michigan.gov/-/media/Project/Websites/mde/ogs/cdc-2/parent_docs/cdc_income_eligibility_chart_7-2015_reauth_chgs.pdf?rev=d11c7e7d49d14c78bf480f8eda77bfef

Typically a child must be under age 13, however, children with special needs may be eligible up to 19 years of age.[39] According to the most recent income-thresholds data (2020) the eligibility thresholds based on income for a family of three ranged from USD 1,511 per month in Puerto Rico to USD 6,157 per month in California.[40] As of 2023, Michigan's eligibility threshold for a family of three is USD 3,838 per month (the basic level, for a family of one, is USD 2,266 per month).[41]

The Federal law requires states to provide a minimum of 12 months of eligibility to children of families receiving CCDF assistance, regardless of increases in parents' earnings as long as their income remains at or below the eligibility threshold of 85 percent of state medium income (SMI).[42]

5.3.2. *Benefit amount*

Normally, CCDF childcare benefits amounts are set by the state and typically vary by type of provider and other factors. Families receiving CCDF subsidies are required to contribute to the price of care on a sliding scale (based at a minimum on family size and income), although states may waive co-payments for families at or below poverty, for children in protective services, or families meeting other criteria established by the state. In Michigan, co-payments are temporarily $0 for all children, from November 7, 2021 through September 23, 2023.[43]

Michigan's child care subsidies are based on a sliding scale related to gross monthly income and family size. Michigan uses two eligibility criteria:

- an "entry" income ceiling for the initial subsidy eligibility per month ranges from USD 3052 for a family of 2 to USD 4626 for a family of 4, and
- a "continuing" income ceiling for families that continue in the program of USD 4,503 per month for a family of 2 and USD 6,622 per month for a family of 4.

The TaxBEN model applies the "entry" eligibility threshold. Copay is the same hourly rate whether the child is in part- or full-time care. Michigan waives co-payment fees for some families at or below the poverty level, specifically for families receiving TANF cash assistance and for families with children receiving protective services (not

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[39] As TaxBEN focuses on pre-school children, the age limit applied in the model is below 6 years.

[40] https://ccdf.urban.org/sites/default/files/ccdf_policies_database_2020_book_of_tables_jan2023.pdfTable 14. These thresholds reflect the income level needed to initially qualify for child care subsidies; some states, including Michigan have a second, higher threshold for families who already receive subsidies to allow for some income growth over time without impacting continued eligibility.

[41] https://www.michigan.gov/documents/mde/CDC_Income_Eligibility_Chart_7.2015_reauth_chgs_493178_7.pdf

[42] In addition, the Federal law requires states to prioritize services for specific populations including children of very low income families, children with special needs, and children experiencing homelessness. States have flexibility as to how they offer priority to these populations, including by prioritizing enrolment, waiving co-payments, paying higher rates for access to higher-quality care, or using grants or contracts to reserve slots for priority populations. Many states offer priority for a child care subsidy to families receiving TANF cash assistance and to families transitioning off of TANF.

[43] https://www.michigan.gov/documents/mde/CDC_Income_Eligibility_Chart_7.2015_reauth_chgs_493178_7.pdf

considered in TaxBEN). In Michigan, households are required to pay the co-pay amounts plus any excess costs. In TaxBEN, households pay the copay plus the difference between the gross child care fee from Section 5.1 and the provider payment rate. This is consistent with Michigan's subsidy policy.

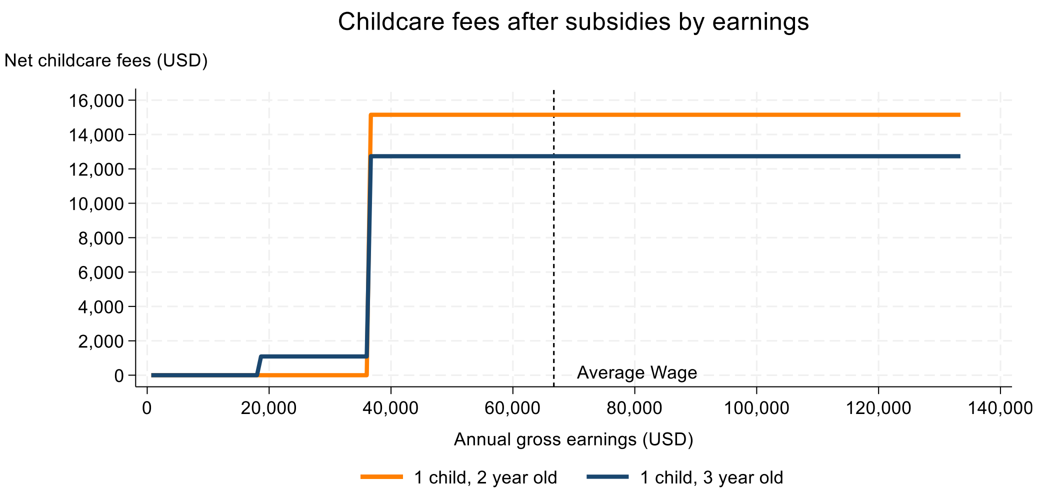
Michigan pays providers based on an hourly rate, and the same hourly rate is applied to children in both part and full time care. Provider payment rate ceilings vary by age of child, type of care, and quality of care. Tax treatment

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

5.3.3. Interaction with other components of the tax-benefit system

When determining eligibility for CCDF, Supplemental Security Income (SSI) is fully counted in approximately half the states. TANF income is fully counted in a little under half of the states; it is either not counted or only counted under certain circumstances in the remainder. Most states do not count the value of energy assistance, housing assistance, the SNAP, or state EITC refunds.[44] Michigan does not count any of these benefits[45] to determine eligibility but only gross income (and unemployment benefits) which is the case modelled in TaxBEN.

Figure 4. Childcare fees after subsidies



Note: Results for a lone parent working full-time with one child (aged 2 and 3 respectively), adult is aged 40. Gross childcare fees are shown after taking into account any free provision of childcare through the Head Start Program (as applicable), as well as the reduction through the CCDF subsidy (as applicable).

Source: Calculations based on the OECD tax-benefit model, 2023; rules for State of Michigan.

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[44] CCDF Policies Database Book of Tables: Key Cross-State Variations in CCDF Policies as of October 1, 2020, The Urban Institute:https://ccdf.urban.org/sites/default/files/ccdf_policies_database_2020_book_of_tables_jan2023.pdf

[45] With the exception of SSI (not modelled in TaxBEN): Although the SSI benefits received by the child under consideration for CCDF benefits is not considered, SSI received by another household member (e.g., a sibling), is counted.

5.4. *Childcare benefit for formal centre-based care*

Variable names: **[cc_benefit]**

None.

5.5. *Childcare allowance for children not using childcare centres*

None.

5.6. *Tax concessions for childcare expenditures (Child and Dependent Care Tax Credit, CDCTC)*

Variable names: **[ActualCDCC_1; ActualCDCC_2]**

The federal Child and Dependent Care Tax Credit (CDCTC) 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 childcare expenses. In 2023, families with adjusted gross income of less than or equal to USD 15 000 are eligible to receive a childcare credit for 35 percent of qualifying childcare expenses; however, note that because the credit is non-refundable, families that owe no federal income tax will not receive the credit for which they are technically eligible. Families with higher income receive a lower credit, with the rate falling to 20 percent for individuals and couples with adjusted gross incomes above USD 43 000. In 2023, qualifying child care expenses were capped at USD 3 000 for one child and USD 6 000 for two or more children. Thus the maximum theoretical value of the credit was USD 1 050 for an individual or couple with one child and adjusted gross income below USD 15 000 and USD 2100 for a low-income family with two or more children. The credit is not refundable and so families that do not pay federal income tax (e.g., all families with married partners and incomes below USD 15 000) do not benefit from the credit at all.

Some states also have a state credit that adds to the federal credit. Michigan at this time does not have a state CDCTC.

6. In-work benefits

6.1. *Earned Income Tax Credit (EITC)*

Variable names: **[IW; EIC_1; EIC_2; local_EIC_1; local_EIC_2]**

The 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)[46]. Childless working persons aged 25 and older may also be eligible. As shown in the tables below, the credit phases in at a certain rate (a certain percent of income) until a maximum credit amount is reached. The credit then remains at that maximum amount until it begins to phase out at a certain rate, reaching zero dollars at a certain income amount.[47]

[46] https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/qualifying-child-rules

[47] https://www.irs.gov/credits-deductions/individuals/earned-income-tax-credit/earned-income-and-earned-income-tax-credit-eitc-tables

Taxes are automatically adjusted for inflation each year using the chained CPI (C-CPI-U), as per the Tax Cuts and Jobs Act of 2017. This update occurs for each new tax filing deadline (April 15th or shortly after of each year).[48]

Filing Status Single

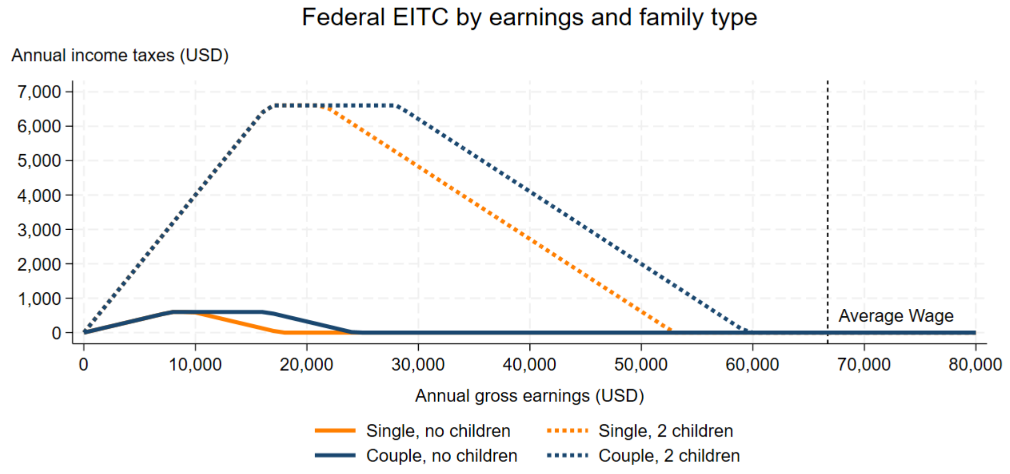
	Phase-in rate	Phase-in ends	**Maximum credit amount**	Phase-out begins	Phase-out rate	**Phase-out ends (EITC = $0)**
Childless	7.65%	$7,840	**$600**	$9,800	7.65%	$ 17,640
1 Child	34%	$11,750	**$3,995**	$21,560	15.98%	$ 46,560
2 Children	40%	$16,510	**$6,604**	$21,560	21.06%	$ 52,918
3+ Children	45%	$16,510	**$7,430**	$21,558	21.06%	$ 56,838

Filing Status married filing jointly

	Phase-in rate	Phase-in ends	**Maximum credit amount**	Phase-out begins	Phase-out rate	**Phase-out ends (EITC = $0)**
Childless	7.65%	$7,843	**$600**	$16,367	7.65%	$ 24,210
1 Child	34%	$11,750	**$3,995**	$28,120	15.98%	$ 53,120
2 Children	40%	$16,510	**$6,604**	$28,120	21.06%	$ 59,478
3+ Children	45%	$16,510	**$7,430**	$28,418	21.06%	$ 63,698

Michigan and California (but not Texas) additionally apply a local EITC, see Section 8.2.

Figure 5. Federal EITC by family type



Note: Results for a single (one-earner couple) without children/with 2 children aged 4 and 6; adults are aged 40. The spouse in the one-earner couple is without work but available to the labour market (i.e. assumed to meet any behavioural eligibility requirements as applicable).

Source: Calculations based on the OECD tax-benefit model, 2023; rules for State of Michigan.

[48] https://www.taxpolicycenter.org/taxvox/what-inflation-adjustment-taxes-2023; https://www.brookings.edu/blog/up-front/2017/12/07/the-hutchins-center-explains-the-chained-cpi/

7. Social security contributions and payroll taxes

7.1. *Employee's social security contributions*

Variable names: **[SC; SOCSEC_p; SOCSEC_s]**

In 2023, the rate for employee contributions is 7.65% (6.2% for old age, survivors, and disability insurance, and 1.45% for Medicare (hospital insurance)). The 6.2% rate applies to earnings up to USD 160,200. Beginning in 1994, there is no limit on the amount of earnings subject to the 1.45% rate. Monetary values are automatically adjusted using the CPI, and effective in December of each year.[49]

There is an additional 0.9% tax on employee wages and salaries that exceed USD 200 000 (USD 250 000 for joint returns) as the Additional Medicare Tax on high-income taxpayers.[50] These thresholds are not indexed for inflation.

In California: The State Disability Insurance (SDI) withholding rate for 2023 is 0.9 percent. The taxable wage limit is USD 153,164 for each employee per calendar year.[51]

7.2. *Employer's social security contributions*

Variable names: **[SSCR; SSCR_p; SSCR_s]**

Pensions: The rate for employers' contributions is 6.2% on earnings up to USD 160,200 and 1.45% of all earnings (without limit). Monetary values are automatically adjusted using the CPI, and effective in December of each year.

Unemployment: Employers are required by the federal government to pay unemployment tax (per the Federal Unemployment Tax Act, or FUTA) of 6% on earnings up to USD 7 000.[52] Taxes are also paid to various state-sponsored unemployment plans which may generally be credited against the required federal percentage. In 2022 (latest data available) the estimated average unemployment insurance tax rate was[53]:

- *Michigan*: 2.94% of the first USD 9 500 of wages.
- *California*: 3.7% of the first USD 7000 of wages.
- *Texas*: 3.07% of the first USD 9 000 of wages.

The model considers that the Federal government allows employers to take a credit for state unemployment taxes of up to 5.4%, resulting in a net Federal tax of 0.6% (6% minus 5.4%) on earnings up to USD 7 000.

[49] https://www.ssa.gov/oact/cola/colasummary.html; https://www.ssa.gov/oact/cola/autoAdj.html

[50] https://www.irs.gov/businesses/small-businesses-self-employed/questions-and-answers-for-the-additional-medicare-tax

[51] https://edd.ca.gov/en/payroll_taxes/rates_and_withholding/

[52] https://oui.doleta.gov/unemploy/uitaxtopic.asp

[53] https://oui.doleta.gov/unemploy/docs/aetr-2022-Est.pdf (*OECD Note:* The unemployment insurance tax rates reported in this document differ from those presented above; the reference will be updated in the 2024 version of the report).

California's Employment Training Tax (ETT) rate for 2023 is 0.1%, with a taxable wage limit at USD 7 000 per employee[54].

7.3. Payroll taxes

See Section 7.1.

8. Taxes

8.1. Personal income tax

Variable names: **[IT; INCTAX_1; INCTAX_2]**

Taxation period is the calendar year.

Households in the United States are generally taxed in one of four ways:

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

Married couples generally benefit from a more favourable schedule of tax rates for joint returns of spouses (see Section 8.1.2). Therefore, TaxBEN assumes that couples always file jointly.

8.1.1. Tax allowances and reliefs

Variable names: **[ALLOW_1; ALLOW_2; basic_1; basic_2; CH_CRED_TOT_1; CH_CRED_TOT_2]**

Basic allowances: For the 2023 tax year a married couple filing a joint tax return is entitled to a standard deduction of USD 27,700.[55] The standard deduction is USD 20,800 for single heads of households (e.g. lone parents), and USD 13,850 for single individuals and for married filing separately.[56]

These values are automatically adjusted for inflation each year using the chained CPI (C-CPI-U), as per the Tax Cuts and Jobs Act of 2017. This update occurs for each new tax filing deadline (April 15th or shortly after of each year).[57]

Earned Income Tax Credit (EITC): see Section 6.

Child tax credit: Taxpayers are permitted a tax credit for each qualifying child under the age of 17. In 2023 the maximum credit is USD 2 000 per child. The refundable (non-wastable) child credit is 15% of earned income in excess of USD 2 500, up to a maximum of USD 1,600 per child. For qualifying dependents other than qualifying

[54]https://edd.ca.gov/en/payroll_taxes/rates_and_withholding/

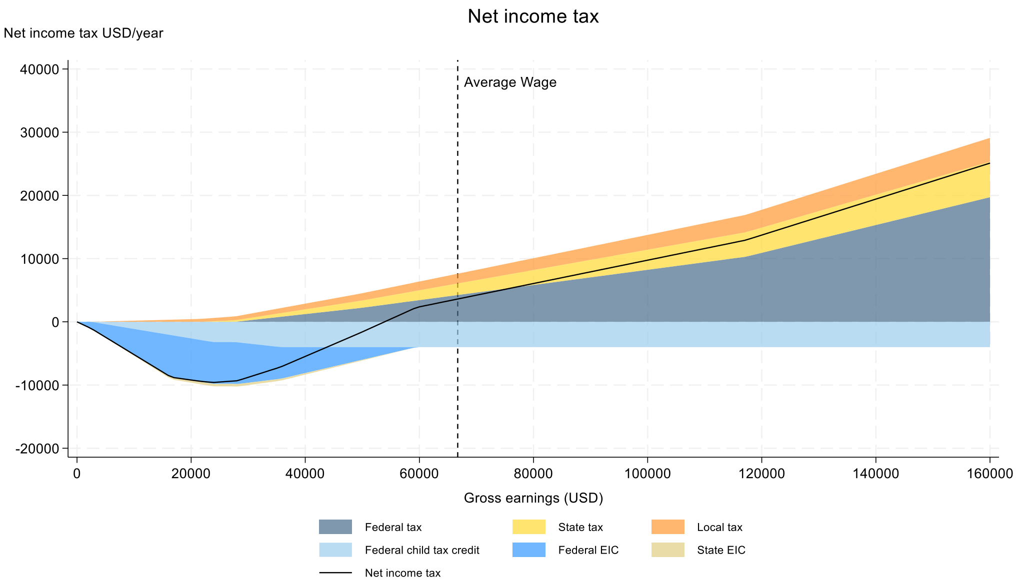
[55] https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023

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

[57] https://www.taxpolicycenter.org/taxvox/what-inflation-adjustment-taxes-2023; https://www.brookings.edu/blog/up-front/2017/12/07/the-hutchins-center-explains-the-chained-cpi/

children for whom a child tax credit was claimed, there is a USD 500 non-refundable credit (**other dependent tax credit**; not modelled in TaxBEN). Phase-out of child tax credit and other dependent tax credit: the maximum credit is reduced for taxpayers with income in excess of certain thresholds. The total of the child tax credit and other dependent tax credit is reduced by USD 50 for each USD 1 000 by which modified aggregate gross income exceeds USD 400 000 for married taxpayers filing jointly (USD 200 000 for single and head of household – e.g. lone parent – taxpayers). The Child Tax Credit is not indexed to inflation.

Figure 6. State (Michigan) and Federal income tax by earnings



Source: Calculations based on the OECD tax-benefit model, 2023. Results are presented for a one-earner couple with 2 children aged 4 and 6; adults are aged 40. The spouse is without work but available to the labour market (i.e. assumed to meet any behavioural eligibility requirements as applicable). The chart includes the Earned Income Tax Credit, which is classified as an In-work benefit in TaxBEN.

8.1.2. Definition of the tax base

Gross income minus the above tax exemptions.

8.1.3. Income tax schedule

Taxable Income Bracket (USD):

	Taxable Income		
Marginal Tax Rate	**(Single)**	**(Married Filing Jointly)**	**(Head of Household)**
10%	$0 to $11,000	$0 to $22,000	$0 to $15,700
12%	$11,000 to $44,725	$22,000 to $89,450	$15,700 to $59,850
22%	$44,725 to $95,375	$89,450 to $190,750	$59,850 to $95,350
24%	$95,375 to $182,100	$190,750 to $364,200	$95,350 to $182,100
32%	$182,100 to $231,250	$364,200 to $462,500	$182,100 to $231,250
35%	$231,250 to $578,125	$462,500 to $693,750	$231,250 to $578,100
37%	$578,125 or more	$693,750 or more	$578,100 or more

These values are automatically adjusted for inflation each year using the chained CPI (C-CPI-U), as per the Tax Cuts and Jobs Act of 2017. This update occurs for each new tax filing deadline (April 15th or shortly after of each year).[58]

8.2. Local income taxes

Variable names: `[ST_LOC_TAX_1; ST_LOC_TAX_2]`

Most states impose some form of individual income tax. In addition, some local governments impose an individual income tax, although this is not generally the case (TaxBEN simulates the following local tax instruments for Michigan only):

Michigan

- The state of Michigan permits a personal exemption of USD 5,400 for the taxpayer and taxes income at the rate of 4.05 percent.
- Michigan allows taxpayers who are eligible to claim the federal earned income tax credit (EITC; see also Section 6) to claim a Michigan EITC. The Michigan EITC is a refundable (non-wastable) credit equal to 6 percent of the federal EITC (the Michigan EITC was supposed to be increased to 30 percent but the

[58] https://www.taxpolicycenter.org/taxvox/what-inflation-adjustment-taxes-2023; https://www.brookings.edu/blog/up-front/2017/12/07/the-hutchins-center-explains-the-chained-cpi/

new legislation was not enacted yet on 1 January 2023, so this is not yet taken into account in TaxBEN).

- The city of Detroit permits a personal exemption of USD 600, 1200 for joint filers, and USD 600 for each child or other eligible dependent. Income is taxed at the rate of 2.4 percent.[59]

California

- In 2022 (most recent available), the state of California permits a standardized deduction of USD 5,202 for single or separate taxpayers, and USD 10,404 for couples filing jointly, qualifying widower or head of household taxpayers[60].
- The 2022 (most recent available) California income tax schedule is as follows:[61]

Taxable Income Bracket (USD)			Marginal Tax Rate (%)
Single Individual, income over:	Joint Return of Married Couple, income over:	Head of Household, income over:	
$ -	$ -	$ -	1
$ 10,099	$ 20,198	$ 20,212	2
$ 23,942	$ 47,884	$ 47,887	4
$ 37,788	$ 75,576	$ 61,730	6
$ 52,455	$ 104,910	$ 76,397	8
$ 66,295	$ 132,590	$ 90,240	9.3
$ 338,639	$ 677,278	$ 460,547	10.3
$ 406,364	$ 812,728	$ 552,658	11.3
$ 677,275	$ 1,354,550	$ 921,095	12.3

- California provides a non-refundable tax credit to renters (those who paid rent in California for at least half the year) whose California income is less than or equal to an income limit.
- In 2022 (most recently year available), low-income earners in California may qualify for the California Earned Income Tax Credit (CalEITC). If they qualify for the CalEITC and have a child under the age of 6 they may also qualify for the Young Child Tax Credit (YCTC).

  The CalEITC[62,63] is calculated as:

  - The **phase-in** rate multiplied by qualified income, multiplied by the CalEITC adjustment factor (.85), until the **maximum credit** is reached

[59] https://www.michigan.gov/taxes/-/media/Project/Websites/taxes/Forms/2022/2022-City-IIT-Forms/5123.pdf?rev=b1cfe1656855453c81af139eda7b4955&hash=4690864772CF7BA3CCB4D1551798B104

[60] https://www.ftb.ca.gov/file/personal/deductions/index.html

[61] https://www.ftb.ca.gov/forms/2022/2022-540-tax-rate-schedules.pdf

[62] https://www.ftb.ca.gov/about-ftb/newsroom/caleitc/eligibility-and-credit-information.html

[63] https://www.ftb.ca.gov/about-ftb/data-reports-plans/California-Earned-Income-Tax-Credit-and-Young-Child-Tax-credit-Report.pdf

- After the maximum credit is reached, the credit is withdrawn at the **phase-out** rate until the credit reaches (in 2020) USD 512 for taxpayers with children or USD 203 for taxpayers without children.
- After the credit reaches USD 512/USD 203 (in 2020), the credit is withdrawn more slowly so that the credit is zero at an income of USD 30 000.

The YCTC[64] is USD 1,083 while taxpayer income is less than USD 25 000. Over this threshold, the credit is reduced until it reaches $0 at $30,000. No earned income is required; persons who meet all requirements of the CalEITC except the earnings requirement would qualify for the YCTC. Both the CalEITC and the YCTC are refundable.

Number of children	**Phase-in rate**	**Maximum credit (USD)**	**Phase-out rate**	**Credit when phase-out rate changes (USD) (2020 values, most recent available)**	**Income at which credit is no longer paid (USD)**
No dependents	7.65%	275	7.65%	203	30 000
1 dependent	34%	1,843	34%	512	30 000
2 dependents	40%	3,037	40%	512	30 000
3 or more dependents	45%	3,417	45%	512	30 000

- The city of San Francisco has a flat tax of 0.38% in 2021. No other cities or counties in California have a local tax.[65]

Texas

Texas does not have a state income tax or any applicable credits.

[64] https://www.ftb.ca.gov/file/personal/credits/young-child-tax-credit.html

[65] https://www.thebalance.com/cities-that-levy-income-taxes-3193246

9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for the United States in 2023 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the project website. The figure below shows output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

By percentage of the average wage (**Panel A**);

By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);

By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);

By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT**= income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

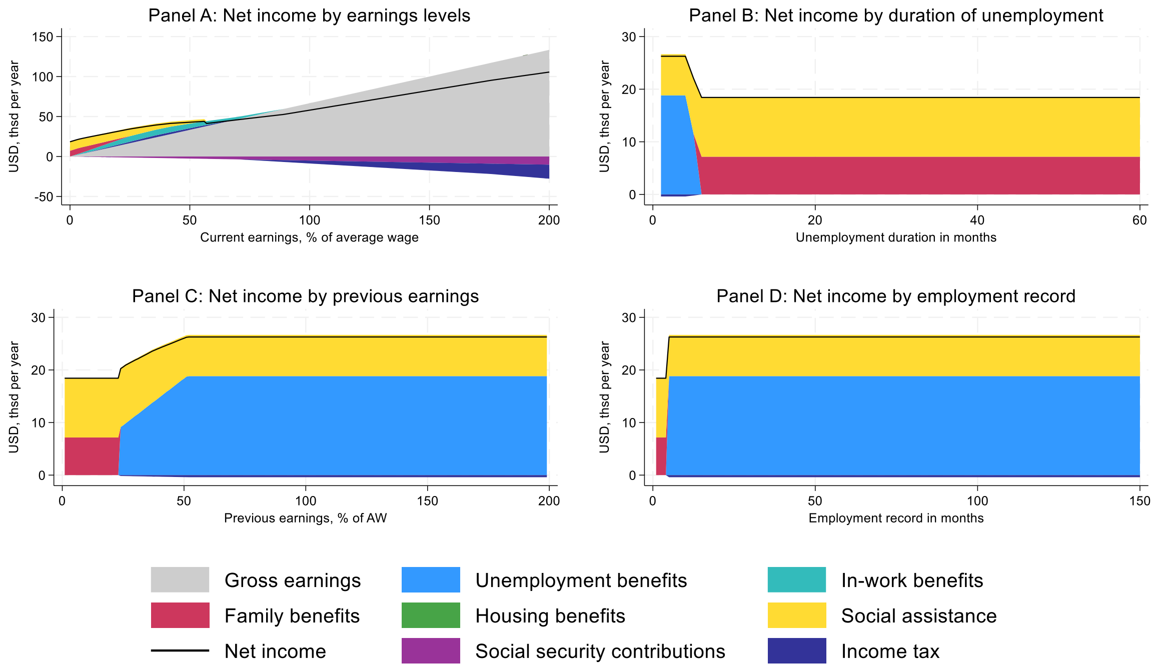
Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

Panel A assumes that one adult family member (the so-called 'second adult' using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called 'first adult') is employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a 'long' employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2nd month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

Figure 7. Selected output from the OECD tax-benefit model

Couple with two children; USD per year



Source: Calculations based on the OECD tax-benefit model, 2023; rules for State of Michigan. Average wage used is USD 66,716.

Annex I: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in the United States that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Supplemental Security Income (SSI)

SSI is a means-tested, federally administered income assistance programme that provides monthly cash payments in accordance with uniform, nation-wide eligibility requirements to needy aged, blind and disabled persons.

General Assistance programme (GA)

GA is a subsidy provided by local governments to needy individuals or families who do not qualify for the other major assistance programmes and to those whose benefits from other assistance programmes are insufficient to meet basic needs. Help may either be in cash or in kind, including such assistance as groceries and rent. Eligibility requirements and benefit amounts vary from state to state, and often within a state. Payments are usually at lower levels and of shorter duration than those provided by federally financed programmes. GA is administered and financed by state and local governments under their own guidelines.

Housing benefits

In the US, there are three primary federal rental assistance programs administered by the U.S. Department of Housing and Urban Development that provide support for tenants subject to eligibility based on income: 1) public housing; 2) project-based Section 8 programs; 3) tenant-based Section 8 Housing Choice Vouchers. Eligible income limits are based on a percentage of the local Area Median Income (AMI): no greater than 80 percent of AMI for both public housing and project-based Section 8 programs, and no greater than 50 percent of AMI for Section 8 vouchers, with adjustments for family size.

In practice, the three rental assistance programs serve tenants with much lower incomes - primarily below 30 percent of AMI. Local housing providers determine eligibility and admit tenants. Public housing authorities (PHAs) administer the public housing and tenant-based Section 8 programs, and private owners of assisted multifamily developments administer the project-based Section 8 program. Admission priorities are usually based on time on the local waiting list, but localities are allowed to establish local preferences (for example, for families transitioning to work from welfare, individuals with disabilities, and senior households).

The Department of Housing and Urban Development (HUD) calculates median incomes for the purpose of determining eligibility for federal rental assistance programs. For fiscal year 2022, HUD estimated the national median income for a family of 4 at $90,000 with 80 percent of the median being $72,000 and 30 percent being $27,000. Using the example of the State of Michigan, the median income for the Detroit Metro Area for a family of four was $89,800 per year, with 80 percent being $71,600 and 30 percent being $27,750.[66]

For these programs, in general, tenants are required to pay 30 percent of their income for rent. Tenants in the Section 8 voucher programme are also allowed to pay more than that amount to access higher priced housing. There are often a series of deductions for rental payments for elderly and disabled persons, youth and families with specific expenses (e.g. child care).[67] In the public housing and tenant-based Section 8 programs, local PHAs are authorized to charge a "minimum rent" up to $50 for families with very small incomes with hardship exceptions for some households.

In the public housing and project-based Section 8 programs, the benefit is the value of the housing provided. In the Section 8 voucher program, the subsidy makes up the difference between the tenant's rent contribution and a locally determined Fair Market Rent. Again, using this Chapter's example of the State of Michigan, the Fair Market Rent for the Detroit-Warren-Livonia metro area for a 2 bedroom apartment in 2023 was $1.213 per month.[68]

There is no statutory limit on duration of assistance. Families may lose assistance due to failure to comply with lease obligations, or through fraud or other criminal activity. Housing assistance is not taxable.

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[66] For more information on HUD Income Limits, see https://www.huduser.gov/portal/datasets/il.html. For FY 2022 figures, see "Methodology for Calculating FY 2022 Medians," available at: https://www.huduser.gov/portal/datasets/il/il22/Medians-Methodology-FY22.pdf
For national median income estimates, in particular, see Attachment 2 "FY 2022 Median Family Incomes for States, Metropolitan and Nonmetropolitan Portions of States".
For income limits for the state of Michigan, see Income Limit tool at https://www.huduser.gov/portal/datasets/il/il2022/select_Geography.odn. For this example, the Metropolitan Statistical Area of Detroit-Warren-Livonia, MI was used.

[67] Several types of income deductions reduce the required tenant rent contributions for families with a head of household who is elderly or disabled, medical expenses that exceed 3 percent of income per year, "reasonable" child care expenses, minors, and adults who are full-time students (or attending vocational training, disabled family members). In addition, child support, spousal support and income earned by minors are not counted toward income (with some limits) for purposes of calculating rent.

[68] More information on calculation of Fair Market Rents can be found at https://www.huduser.gov/portal/datasets/fmr.html. The specific FMRs for individual areas can be found using the Query Tool.