

# Pennsylvania's TAX BACK: Helping Families Save

## Briefing Paper

November 2003

### Tax forgiveness works for children

Pennsylvania's TAX BACK program relieves low- and moderate-income families from paying all or part of their state personal income tax. It is one of the most generous tax benefits offered by a state anywhere in the nation.<sup>1</sup> TAX BACK extends to families of four earning up to \$31,000 a year, saving them as much as \$868.

TAX BACK keeps more than a quarter of a billion dollars in the hands of Pennsylvania families and individuals — money spent in the community, bolstering the economy, and alleviating family financial pressures. Children win through TAX BACK, because their families preserve more income to devote to children's needs. TAX BACK helps kids because:

- More than one Pennsylvania child in four benefits from TAX BACK.<sup>2</sup>
- Families with children receiving TAX BACK saved an average of \$406 in state taxes, benefiting 934,814 children in 2001.
- Across the state, 70 percent of all TAX BACK benefits went to low- and moderate-income families with dependent children. They received \$189.1 million in tax forgiveness.
- The dependent allowance is at an all-time high of \$9,000, after increases of

\$500 for tax year 2002 and \$1,000 for 2001. By raising the dependent allowance, Pennsylvania heightened the benefit's focus on kids. The 2001 increase helped 77,000 more families keep \$31.5 million for their homes and their children.

Still, many taxpayers don't know about TAX BACK or a companion provision allowing non-withholding of the state income tax. This briefing explains TAX BACK and outlines policies that would expand outreach and tell more families they could qualify for tax forgiveness.

#### Paying the bills

For a low-income family of four, the hundreds of dollars saved through TAX BACK can stretch a limited budget a little farther. Consider the average amounts that low-income families spend on basic necessities for each child:<sup>3</sup>

- \$7,060 annually for food, clothing, housing, transportation, child care and education, health care, and other expenses.
- \$2,357 a year for housing.
- \$1,393 a year for food.
- \$972 a year for transportation.
- \$950 a year for child care and education for children under age 6.
- \$486 a year for clothes.

Pennsylvania Partnerships for Children is a strong, effective, and trusted voice to improve the health, education, and well-being of the Commonwealth's children. Joan L. Benso, President and CEO.

## What is TAX BACK?

TAX BACK forgives eligible filers from paying all or part of Pennsylvania's 2.8 percent personal income tax, or PIT.

The extent of tax forgiveness depends on income and the number of dependents. In 2003, single filers with eligible income up to \$6,500, and married couples with eligible income up to \$13,000, qualified for full tax forgiveness. For each additional dependent, the eligible income threshold rose by \$9,000, a figure known as the dependent allowance. Taxpayers with eligible income within \$2,250 above the full TAX BACK income level could still have earned partial tax forgiveness.

*The table at the right, "TAX BACK eligible incomes," shows how filers' incomes and the number of dependents combine for full and partial tax forgiveness.*

<b>TAX BACK eligible incomes, 2003: Samples</b>			
<b>Dependents</b>	<b>Single filers</b>		
	<b>Percent of TAX BACK:</b>		
	<b>100%</b>	<b>50%</b>	<b>10%</b>
0	\$6,500	\$7,750	\$8,750
1	\$15,500	\$16,750	\$17,750
2	\$24,500	\$25,750	\$26,750
3	\$33,500	\$34,750	\$35,750
4	\$42,500	\$43,750	\$44,750
<b>Dependents</b>	<b>Married filers</b>		
	<b>Percent of TAX BACK:</b>		
	<b>100%</b>	<b>50%</b>	<b>10%</b>
0	\$13,000	\$14,250	\$15,250
1	\$22,000	\$23,250	\$24,250
2	\$31,000	\$32,250	\$33,250
3	\$40,000	\$41,250	\$42,250
4	\$49,000	\$50,250	\$51,250

## How does TAX BACK work?

TAX BACK works through the regular tax-filing process. To earn forgiveness for the previous year, potential TAX BACK beneficiaries must file an additional form with the state income tax form PA-40: the PA Schedule SP. The form is available wherever tax forms can be found. Filed together, the forms show eligibility, and qualified taxpayers get a check reflecting all or part of the PIT that was withheld from their paychecks for the tax year.

After they've qualified for full tax forgiveness in one year, Pennsylvanians can file in the next year for non-withholding, to keep the PIT in their paychecks in the first place. To qualify, the beneficiary and employer must fill out tax form REV-419. However, the benefit is little-known and barely publicized, and the Pennsylvania Department of Revenue estimates it received only 66 requests for non-withholding in 2002.

### Returns receiving forgiveness

*For 2001, more than one state tax return in five received some tax forgiveness:<sup>4</sup>*

<b>Taxable income range</b>	<b>Number of returns receiving forgiveness</b>	<b>Total number of returns</b>	<b>Percent receiving forgiveness</b>
Below \$7,000	785,789	1,437,063	54.7%
\$7,000 - \$13,000	259,456	595,895	43.5%
\$13,000 - \$22,000	168,554	708,388	23.8%
\$22,000 - \$30,000	68,826	531,859	12.9%
\$30,000 - \$40,000	32,495	523,381	6.2%
\$40,000 - \$50,000	7,635	410,785	1.9%
\$50,000 - \$75,000	2,055	683,437	.3%
\$75,000 - \$100,000	91	337,050	Under .1%
<b>Overall</b>	<b>1,324,901</b>	<b>5,227,858</b>	<b>25.3%</b>

## TAX BACK policy: Informing more taxpayers

Tax forgiveness eligibility levels remain the same for 2003. In March 2003, Governor Rendell proposed raising the dependent allowance to \$9,250 in 2003 and to \$9,500 in 2004. His full proposal has not moved, but in October 2003, the state House of Representatives passed a bill that would raise the dependent allowance to \$9,500 for the 2004 tax year. If implemented, a family of four with \$32,000 in eligible income in 2004 would owe no PIT, saving \$896.

TAX BACK outreach has been limited to pilot efforts. In 2000, the state Revenue Department identified Harrisburg-area taxpayers potentially eligible for TAX BACK but who did not receive it. The Revenue Department mailed them a letter, and the year's claims increased in the area. The state also offered free TAX BACK phone assistance, but it, too, was limited to the Harrisburg area. In large part, only those who see the notice on their tax instruction book would know that they might qualify.

Non-withholding, TAX BACK's companion benefit, is also under-publicized and underutilized. The benefit is not listed in the instructions with

Pennsylvania tax booklets and not posted on the Revenue Department's Web site.

To continue TAX BACK's child-friendly orientation, lawmakers should enact the proposed increase in the dependent allowance. And to make more families aware of TAX BACK, the state should step up its outreach efforts:

- The Pennsylvania Revenue Department should identify Pennsylvanians who potentially qualify for TAX BACK but don't file. Those non-filers should get an informational letter, information about employer withholding, and a TAX BACK form.
- The state could expand the Revenue Department's existing toll-free phone assistance statewide, adding the option of speaking with a live tax expert who could introduce callers to TAX BACK.
- The Revenue Department should distribute information on non-withholding through Web postings, outreach materials, tax return booklets, its tax hotline, and in tax information for employers.

### Notes

<sup>1</sup> Center on Budget and Policy Priorities, *State Income Tax Burdens on Low-Income Families in 2000*, 2000.

<sup>2</sup> There were at least 934,814 exemptions claimed and a child population of 3,095,162 in 2000. The number of exemptions may not equal the number of child dependents because the available data combines returns of 10 or more exemptions in one category, and some dependents could be over age 18.

<sup>3</sup> Based on two parents with two children, annual income in the \$0 to \$39,700 range, averaging \$24,800.

<sup>4</sup> Analysis is based on actual returns receiving forgiveness, for the latest year in which figures are available. Filers who are eligible to receive tax forgiveness but do not file for tax forgiveness are not included. To the degree that there are these missed opportunities, these figures understate the true number of eligible filers. Utilization rate is unknown. One return greater than \$100,000 received tax forgiveness, and it was included in the \$75,000 - \$100,000 calculation. Does not include 65,637 returns with zero taxable income. Only includes returns up to \$100,000 plus the one return greater than \$100,000 receiving tax forgiveness. Total PIT

returns were 5,700,272.

### References

Pennsylvania Department of Revenue, *2000 Personal Income Tax Statistics*, 2002.

Pennsylvania Department of Revenue, *2001 Personal Income Tax Statistics*, 2003.

Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 2003.

U.S. Census Bureau, 2000 Census.

U.S. Department of Agriculture, *Expenditures on Children by Families, 2002 Annual Report*, May 2003.



**Pennsylvania  
Partnerships for Children**

Published by Pennsylvania Partnerships for Children, a strong, effective, and trusted voice for improving the health, early education, and well-being of the Commonwealth's children. Joan L. Benso, President and CEO. *Pennsylvania's TAX BACK: Helping Families Save* is funded by the Annie E. Casey Foundation for the State Fiscal Analysis Initiative, the Howard Heinz Endowment, and the William Penn Foundation.

**Pennsylvania Partnerships for Children**

**20 N. Market Square, Suite 300**

**Harrisburg, PA 17101-1632**

**717-236-5680 800-257-2030**

**[www.papartnerships.org](http://www.papartnerships.org); [info@papartnerships.org](mailto:info@papartnerships.org)**