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Federal Individual Income Tax Thresholds for 2004

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Abstract. One commonly accepted principle of tax fairness reflected in the U.S. tax code is that families at the low end of the income spectrum, especially those near the poverty threshold, should not be subject to the federal income tax. Since the major components of the federal income tax that govern these tax thresholds are indexed for inflation, nominal dollar federal individual income tax thresholds change every year. This report presents the tax thresholds for various family income levels for the tax year 2004.

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Summary

One commonly accepted principle of tax fairness reflected in the U.S. tax code is that families at the low end of the income spectrum, especially those near the poverty threshold, should not be subject to the federal income tax. Since the major components of the federal income tax that govern these tax thresholds are indexed for inflation, nominal dollar federal individual income tax thresholds change every year.[1] This report presents the tax thresholds for various family income levels for tax year 2004. This report will not be updated.

The major structural components of the tax code that influence the income levels at which various households become subject to the federal income tax include the standard deduction, the personal exemption, the child tax credit, and the earned income tax credit (EITC); each of these items increases the level at which a family's income becomes subject to the federal income tax.[2] (In contrast to the federal income tax, all earned income is subject to the social security tax.)

Consider the case of a married couple with one dependent child under the age of 17. In 2004, the standard deduction for a married couple filing a joint return is $9,700, each personal exemption is worth $3,100, and the child tax credit is $1,000 for each qualifying child. This family would reach the basic income tax threshold for their filing status and family size at an income level of $19,000 (standard deduction of $9,700 plus three personal exemptions of $3,100 each). Income under this amount would not be subject to tax while any income over this amount would be taxed starting at a 10% rate.

Although income over this amount is subject to tax, the child tax credit would offset this couple's first $1,000 of income tax liability. Hence, this couple could earn an

[1] For more information on the structural components of the federal income tax and indexation, see CRS Report RL30007, *Individual Income Tax Rates: 2004*, by Gregg A. Esenwein.

[2] The child and dependent care tax credit might also influence a household's federal income tax threshold, but it is not addressed in this report.

additional $10,000 of income and still have no net income tax liability ($10,000 of income at a 10% tax rate results in a tax liability of $1,000 that is exactly offset by the $1,000 child tax credit).

At this point the EITC would come into play. The maximum EITC for 2004 for families with one child is $2,604. The maximum credit begins to phase out for families filing joint returns with incomes above $15,040 and is reduced to zero for families whose incomes exceed $31,338. The income tax threshold for the family in this example is the point at which the EITC is just enough to offset any pre-EITC income tax liability so that the net tax liability of the family is still zero. In the case of a couple with one dependent child filing a joint return the income level is $30,435. At this income level, the family's pre-EITC and post-child tax credit income tax liability is $144 and the family's EITC is also $144. The two offset each other and the family does not have any net income tax liability.

At incomes below the income tax threshold, the EITC is large enough that it more than offsets income tax liability and the family gets a refund for the excess (subject to certain restrictions). At income levels above the income tax threshold, the EITC has been reduced to the point that it no longer fully offsets the entire income tax liability and the family ends up with a net income tax liability. The income tax thresholds for selected households in 2004 are shown in the **Table 1**.

Table 1. Federal Individual Income Tax Thresholds for 2004

Single Individuals (no children)	
Not eligible for the EITC	$7,950
Eligible for EITC	$9,484
Married Couples	
No children (not eligible for the EITC)	$15,900
One child	$30,435
Two children	$40,200
Three children	$49,967
Four children	$59,733
Heads of Households	
One child	$26,988
Two children	$33,930
Three children	$42,953
Four children	$52,713

Source: CRS.
Note: Table assumes all children are eligible for the child tax credit.