

# Poverty Measures and the Personal Income Tax

Senate Interim Committee on Finance and Revenue

LRO | 11/7/2023



# Discussion Topics

- Overview of Census produced Official and Supplemental Poverty Measures
  - Compare / contrast two measures
- Recent poverty rate trends
- Poverty thresholds
- Example of poverty level used for tax credit qualification purpose





# Federal Poverty Measures

- U.S. Census Bureau estimates two measures of poverty
  - Official Poverty Measure (OPM) 1960's
  - Supplemental Poverty Measure (SPM) 2011
- Poverty level / rate concept
  - Define measurement unit (e.g. individual, family)
  - Determine poverty threshold amount
  - Compare resources to threshold, below threshold are 'in poverty'
  - Poverty rate = 
$$\frac{\# \text{ in Poverty}}{\text{Total Population}}$$

*"If it is not possible to state unequivocally how much is enough, it should be possible to assert with confidence how much, on an average, is too little" – Mollie Orshansky, 1965*





# Official and Supplemental Poverty Measures

Differences in Poverty Measures		
	Official Poverty Measure	Supplemental Poverty Measure
Measurement unit	Families (related by birth, marriage or adoption) or unrelated individuals < 15	Resource units (family plus coresident unrelated children, unmarried partners and their relatives), unrelated individuals
Poverty threshold	Three times cost of min. food diet in 1963	Based on recent expenditures for food, clothing, shelter, utilities, telephone & internet
Threshold adjustment	Adjusted by family size, composition, age of householder	Adjusted by family size, composition, housing (own/rent, mortgage), geographic adjustment of housing costs
Threshold updates	Adjusted using CPI (All urban consumers, all items)	Most recent 5-year moving average of expenditures
Resources (income)	Gross pretax cash income	Cash income + noncash benefits $\pm$ taxes – work expenses – medical expenses
Time period available	1959 - current	2009 - current



# OPM & SPM Poverty Thresholds

Differences in Poverty Measures		
	Official Poverty Measure	Supplemental Poverty Measure
Poverty threshold	Three times cost of minimum food diet in 1963	Based on recent expenditures for food, clothing, shelter, utilities, telephone & internet
Threshold calculation	<ul style="list-style-type: none"><li>Threshold values depend on unit size (i.e. family), number of children, age of unit head</li><li><i>Threshold = Cost of minimum food diet * 3</i></li><li>In mid 1950's, about 1/3<sup>rd</sup> of a family's spending was on food</li><li>Threshold subsequently adjusted using Consumer Price Index for All Urban Consumers</li></ul>	<ul style="list-style-type: none"><li>Adjust thresholds by family size and composition</li><li>Based on consumer expenditures for food, clothing, shelter, and utilities (FCSU) + 20% of FCSU amount to account for other misc. expenses</li><li><i>Median FCSU * 83% * 120%</i></li><li>Amount then adjusted for 1) homeowner without mortgage, 2) homeowner with mortgage, 3) renter</li><li>Amount adjusted by geographic variation in housing costs (by state, in and outside metropolitan areas)</li><li>Subsequent adjustments using 5-year moving average of FCSU expenditures</li></ul>



# Measuring Poverty: Resources

Differences in Poverty Measures		
	Official Poverty Measure	Supplemental Poverty Measure
Resources	Gross pretax cash income	Cash income + noncash benefits $\pm$ taxes – work expenses – medical expenses
Resources calculation	<p>Includes income sources such as:</p> <ul style="list-style-type: none"><li>Earnings</li><li>Unemployment</li><li>Workers comp.</li><li>Social Security</li><li>Supp. Sec. Income (SSI)</li><li>Public assistance (TANF)</li><li>Veterans' payments</li><li>Disability benefits</li><li>Pension/retirement</li><li>Interest/dividends</li><li>Rents/royalties</li><li>Alimony/child support</li></ul>	<p><u>Noncash benefits</u>: SNAP, WIC, school lunch, subsidized housing, energy assistance</p> <p><u>Taxes</u>: Federal/state income taxes, payroll taxes</p> <p><u>Work expenses</u>: Commuting, childcare</p> <p><u>Medical expenses</u>: Out-of-pocket expenses</p>

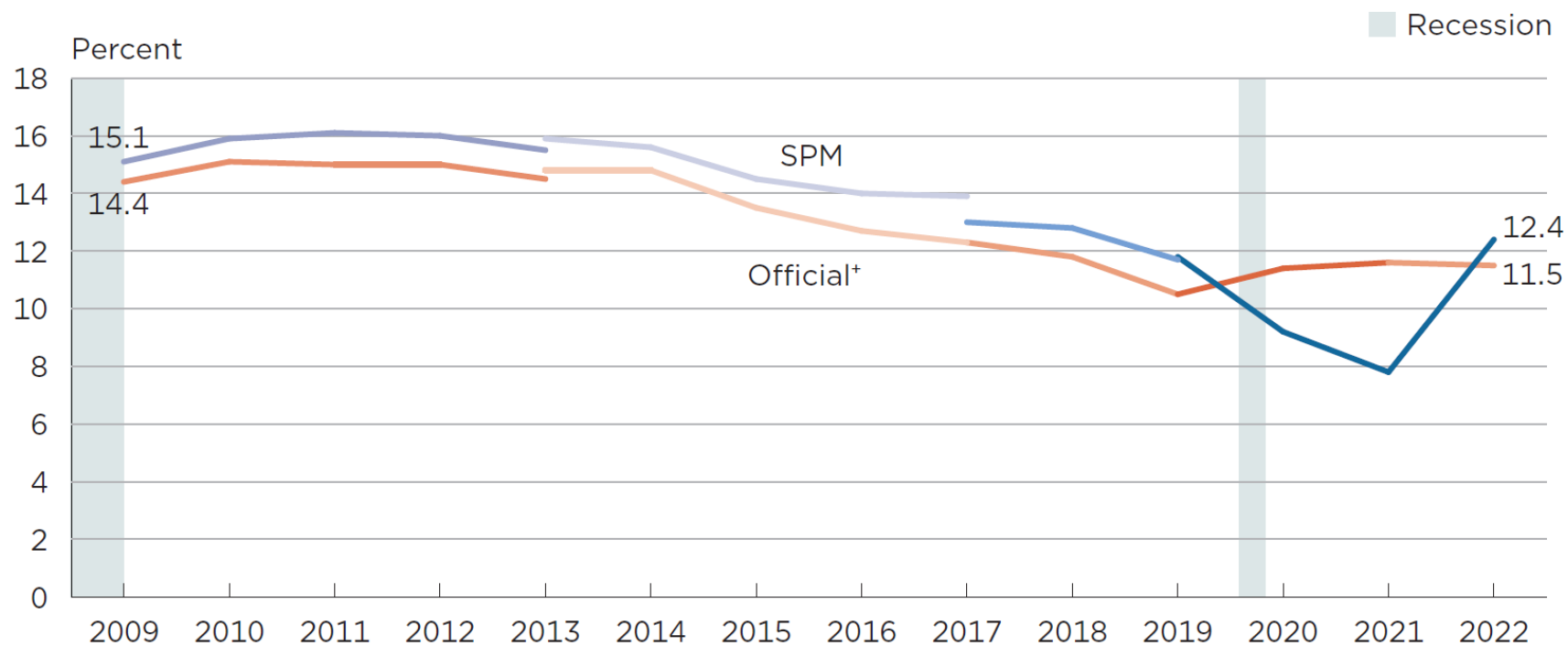




# Poverty Rates: 2009 to 2022

Figure 6.

## Poverty Rates Using the Official<sup>+</sup> and Supplemental Poverty Measures: 2009 to 2022



Note: Official<sup>+</sup> includes unrelated individuals under the age of 15. Population as of March of the following year. The Supplemental Poverty Measure (SPM) estimates for 2019 and beyond reflect the implementation of revised SPM methodology. More information is provided in the SPM technical documentation available at [https://www2.census.gov/programs-surveys/supplemental-poverty-measure/datasets/spm/spm\\_techdoc.pdf](https://www2.census.gov/programs-surveys/supplemental-poverty-measure/datasets/spm/spm_techdoc.pdf). The data for 2017 and beyond reflect the implementation of an updated processing system. The data for 2013 and beyond reflect the implementation of the redesigned income questions. The data points are placed at the midpoints of the respective years. Information on recessions is available in Appendix C. More information on confidentiality protection, sampling error, nonsampling error, and definitions is available at <https://www2.census.gov/programs-surveys/cps/techdocs/cpsmar23.pdf>.

Source: U.S. Census Bureau, Current Population Survey, 2010 to 2023 Annual Social and Economic Supplements (CPS ASEC).





# Outcome Differences of Note Between Measures

- Under 18 & 65+
  - SPM lower for children due to greater benefits (excluded from official measure) directed toward children
- Cohabiting partners
  - Poverty rate nearly half using SPM
- Regional differences
  - Accounting for regional housing cost differences can change poverty rate by state (2017-2019, 3 yr. average)
  - Oregon: 9.8% (OPM) → 11.0% (SPM)
  - California: 11.4% (OPM) → 17.2% (SPM)







# Poverty Thresholds

- SPM is considered a research measure
  - Not intended to replace official poverty measure or eligibility criteria for anti-poverty assistance programs
- Poverty Guidelines (Dept. of Health and Human Services)
  - Simplified version of official federal poverty thresholds
  - Guidelines vary by family size, Alaska & Hawaii receive individual regional adjustment, other 48 states & DC grouped together
  - Examples of programs using poverty guidelines
    - Head start, Children's Health Insurance Program (CHIP), SNAP, Medicaid
    - Oregon's working family household and dependent care credit





# 2023 Poverty Guidelines

- Program qualification can link to different Federal Poverty percentages

## 2023 HHS Poverty Guidelines (Lower 48 states)

Household Size	Percent of Federal Poverty Level				
	50%	100%	150%	200%	300%
1	\$7,290	\$14,580	\$21,870	\$29,160	\$43,740
2	\$9,860	\$19,720	\$29,580	\$39,440	\$59,160
3	\$12,430	\$24,860	\$37,290	\$49,720	\$74,580
4	\$15,000	\$30,000	\$45,000	\$60,000	\$90,000
5	\$17,570	\$35,140	\$52,710	\$70,280	\$105,420
6	\$20,140	\$40,280	\$60,420	\$80,560	\$120,840

Additional household member equal to \$5,140 at 100%

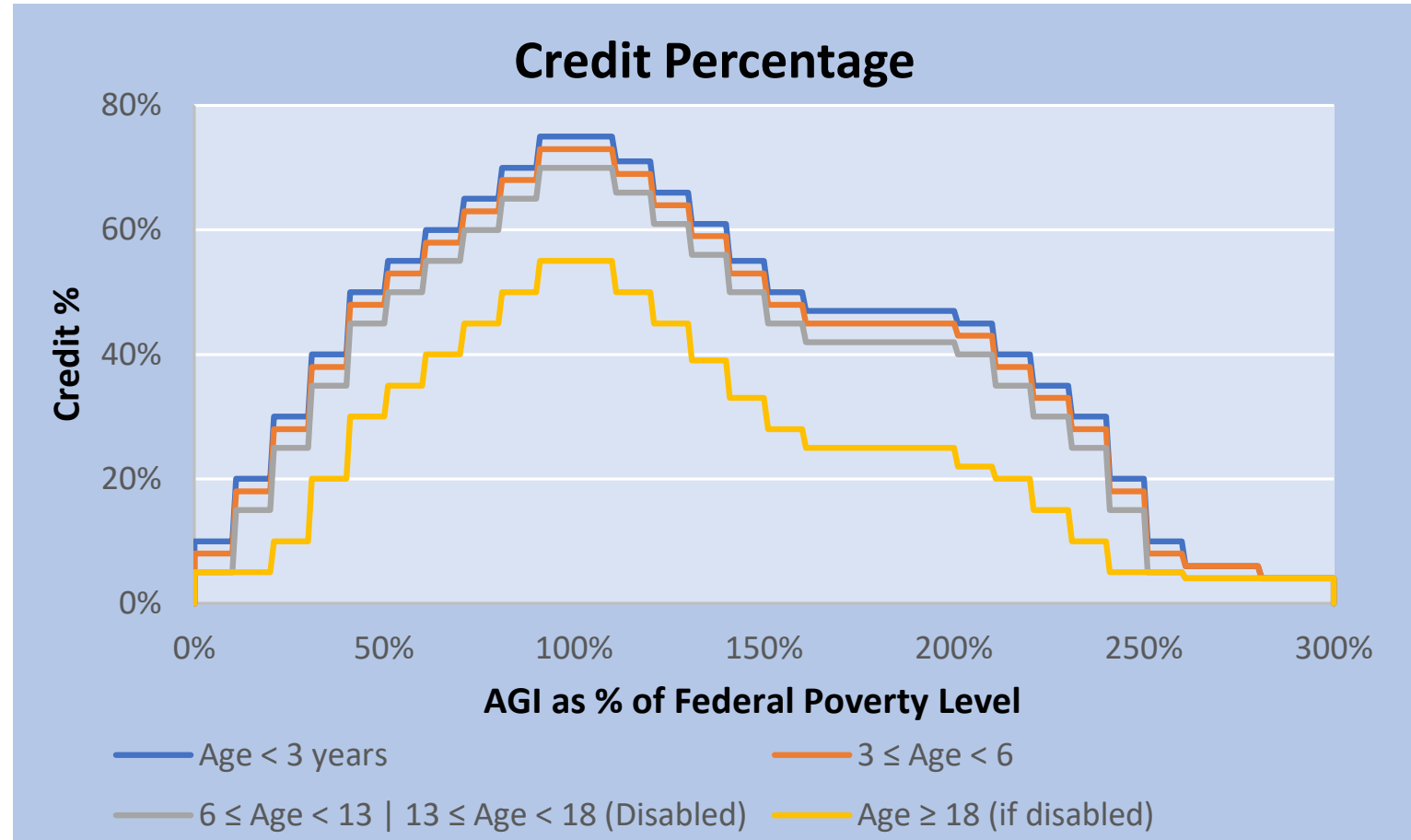
Source: U.S. Dept. of Health and Human Services





# Oregon's Working Family Household and Dependent Care Credit

- Credit qualification determined using Adjusted gross income (AGI) as percentage of Federal Poverty Guideline level
- Household size largely a component of taxpayer + dependents





# Other Measures

- Measures based on household costs
  - Different ways in measuring minimum costs
- Distribution measures
  - Income as percentage of area median income
  - Below certain AGI threshold



# Legislative Revenue Office

<https://www.oregonlegislature.gov/lro>

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