



# CENTER ON BUDGET AND POLICY PRIORITIES

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## **SENATE AND BUSH ADMINISTRATION STANDARD DEDUCTION PROPOSAL ADDRESSES BENEFIT EROSION IN THE FOOD STAMP PROGRAM**

*Background* – When calculating food stamp benefits, currently all households are permitted to deduct \$134 a month from their income to reflect the basic costs of housing, utilities, medical care, and other inescapable household expenses. This basic deduction is called the ‘standard deduction’. The Senate bill would set the food stamp standard deduction at ten percent of each year’s federal poverty line. In other words, a household’s income would have to exceed ten percent of the poverty line before its food stamps would start to be phased down. This would have the effect of varying the standard deduction by household size and recognizing that larger families – typically families with children – have more inescapable expenses than smaller households. The President’s fiscal year 2003 budget also proposes setting the standard deduction at ten percent of each year’s poverty line.

Half of the gains from this change would go to low-wage working households. In addition, over 99 percent of the benefit improvements would go to families with children, including many who must double up in housing because of high rents, high heating costs, or low wages and benefit levels in their states. Since the federal poverty line rises each year to adjust for increases in inflation, so too would the standard deduction. The current standard deduction has been frozen since 1995 when Congress eliminated annual indexation to achieve budgetary savings. Prior to 1995, the deduction increased each year with inflation. Since the deduction was frozen, the real value of food stamp benefits has eroded; the erosion will become larger each year without a legislative change. Tying the standard deduction to the poverty line would restore the fundamental principle that the food stamp benefit structure should adjust for inflation, and would make the benefit structure more responsive to the needs of families with children.

*Benefit Erosion is a Serious Problem* -- The freeze enacted in 1995 has already had a significant impact on the benefits of low-income families. A family of three in which the parent works 30 hours a week at the minimum wage is eligible for a monthly food stamp benefit of \$265. If the standard deduction had been indexed for inflation since 1995, the same family would be eligible for an additional \$12 in benefits each month. Unless it is addressed legislatively, this gap will continue to grow over time.

*Interest in Addressing Benefit Erosion is Bipartisan* -- Senator Lugar (R-IN) included an indexed standard deduction in his proposed farm bill, and Senators Cochran (R-MS) and Roberts (R-KS) included the same provision in their alternative farm bill. Two amendments that were approved on the Senate floor with strong bipartisan majorities — one proposed by Senators Grassley (R-IA) and Dorgan (D-ND) and the other proposed by Senator McConnell (R-KY) — added money to this provision and retained the index. The President’s standard deduction

proposal also ties the level of the standard deduction to each year’s poverty line, providing the necessary inflation adjustment.

Senator McConnell made a strong case for indexation when his amendment was considered on the Senate floor. He pointed out that “for the last several years, the standard deduction has been fixed at \$134 for every family, regardless of size and regardless of inflation and the fluctuating levels of the national poverty level.” Senator McConnell went on to praise the standard deduction proposal because “it links the income deduction for basic family living expenses to annual poverty levels. By doing so, the amount is indexed by family size and reflects annual economic changes.”

*The House Bill Does Not Address Benefit Erosion* -- The House bill, like the Senate bill and the Administration’s proposal, would set the standard deduction as a percentage of the poverty line. But unlike the Senate and Administration provisions, the House bill would set the standard deduction as a percentage of the *fiscal year 2002* poverty line and therefore would not allow the standard deduction to rise along with the poverty line each year. This results in a significant erosion of the value of the House provision over time.

Both the Senate provision and the President’s proposal would phase in an increase in the standard deduction. Under both proposals, the standard deduction would gradually increase until it reached ten percent of the poverty line in the tenth year of the phase-in (years 2011 and 2012, respectively). The House provision would set the standard deduction in all years at 9.7 percent of the 2002 poverty line.

Fiscal Year	Standard Deduction as Percentage of Annual Poverty Line		
	House Bill	Senate Bill	Administration
2002	9.7%	8%	NA
2003	9.4%	8%	7%
2004	9.3%	8%	7%
2005	9.0%	8.5%	7%
2006	8.8%	8.5%	8%
2007	8.6%	8.5%	8%
2008	8.4%	9%	8%
2009	8.2%	9%	9%
2010	8.0%	9%	9%
2011	7.8%	10%	9%
2012	7.6%	10%	10%

- Under the House bill, the dollar amount of the standard deduction would not change from year to year. Since the poverty level increases each year with inflation, the standard deduction would represent *diminishing* percentages of the poverty line, as shown in the table below.
- If the House bill were enacted, the standard deduction would equal just 7.8 percent of the poverty line in 2011, a figure that would continue to diminish in years after that. This also means that under the House bill, a family's food stamp benefits would begin being phased down in 2011 when its income exceeded just 7.8 percent of the poverty line.

*A Family of Four Would Receive Only One-Fifth as Much in Benefit Improvements Under the House Provision as Under the Administration and Senate Approaches* -- The deterioration over time in the real value of the standard deduction under the House provision would be significant. As shown below, for a typical family of four, the Senate and Administration proposals would provide more than five times the benefit improvement that the House bill would provide when the provisions are fully phased in.

As shown in the table below, the Senate and Administration proposals provide most of their benefit increases in the later years. This corresponds to the pattern of erosion in the current standard deduction. As mentioned above a working family of three would receive \$12 in additional food stamp benefits each month in 2002 if the standard deduction had not been frozen in 1996. By 2011, under current law, this working family's benefit will be \$30 lower than it would have been had the standard deduction not been frozen. Funding limitations preclude complete restoration of the lost value of the standard deduction, but the Senate and Administration proposals do more to mitigate the cut in the years in which it will otherwise be most damaging.

*The House Bill Does Not Provide Help for Smaller Households* -- None of the bills would affect small families at the outset; this is because for small households, the percentage of the poverty line that the standard deduction would equal does not currently exceed the \$134-a-month

Fiscal Year	Amount by Which Standard Deduction Proposals Increase Monthly Benefit for a Typical Family of Four		
	House Bill	Senate Bill	Administration*
2002	\$3	\$0	\$0
2011	\$3	\$16	\$16

\*The Administration's proposal, included in the President's fiscal year 2003 budget, actually begins in fiscal year 2003 and is not fully phased in until fiscal year 2012. For the sake of comparison, this table moves the Administration's proposal forward one year to align it with the timing of the House and Senate bills.

level of the existing standard deduction.<sup>1</sup> Under the Senate bill and the Administration proposal, however, the standard deduction would eventually exceed \$134 for smaller households since the poverty line rises with inflation. Consequently, smaller households eventually would benefit from the provision. By contrast, because the House bill would not tie the standard deduction to the current year's poverty line but instead would freeze the deduction permanently as a percentage of the 2002 poverty line, the House bill would not allow this to happen. No household with fewer than four members would *ever* benefit from the House provision. As a result, most elderly and disabled households would never benefit from the provision.

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<sup>1</sup> All proposals set a floor for the standard deduction at the current level of \$134, so the standard deduction would not be reduced for smaller households.