



The Iowa Policy Project

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EXECUTIVE SUMMARY

Expanding Iowa's Earned Income Tax Credit

The Long-Term Benefits to the State

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The Earned Income Tax Credit (EITC) has garnered broad, bipartisan support in its 34 years of existence at the federal level, and in its 18-year history in Iowa. It is widely seen as a successful strategy to make low-wage work pay, and to move working families (especially those with children) out of poverty. It operates by providing an income tax credit that is a certain percent of wages, thus effectively increasing the take-home hourly wage. It is important to continue to boost Iowa's relatively low average wages through the state EITC to reward work and help families meet basic needs.

An increase in the credit from its current level of 7 percent of the federal credit to 15 percent would lift an estimated 1,300 Iowa families out of poverty, including about 4,000 children. In addition, many more families would benefit from higher incomes that move them closer to, but not over, the poverty line. An increase in the credit to 30 percent of the federal would lift an estimated 3,100 families above the poverty line, including 10,500 children.

Expansion of the EITC is important because it supports family self-sufficiency. At the same time, the program is not as costly as it appears because program beneficiaries end up paying more state taxes and relying less on public assistance. Expansion of the EITC would increase the work hours and earnings of single-parent recipients, which in turn results in higher state income and sales tax payments. We estimate that adult recipients would end up returning to the state approximately \$1 million in annual revenue with an expansion of the credit to 15 percent, or \$2.7 million with an expansion to 30 percent.

Expansion of the EITC also reduces child poverty rates, which in turn improves outcomes for those children as they grow into adulthood. Children who are raised in poverty tend to earn less, and to rely more on public assistance. In future years, as the children of current EITC recipients become adults, they will end up returning \$2.5 million more each year to the state treasury in higher taxes, if Iowa increased the credit to 15 percent of the federal. Increasing it to 30 percent would provide a \$6.5 million annual

budget savings. All told, the state can expect that the annual cost of an increase in the EITC to 15 percent of the federal credit will be offset in the long run by about \$3.5 million in additional revenue and cost savings each year. With an increase to 30 percent, the fiscal offset would rise eventually to about \$9.3 million each year.

State Fiscal Offsets from Expansion of the EITC

	Raise EITC to:	
	15%	30%
Additional tax revenue from greater labor force participation of single parents	\$1.0	\$2.7
Long-term benefits from reduction in child poverty		
Annual gain in state tax revenue	\$2.0	\$5.3
Annual savings in TANF costs	\$0.5	\$1.3
Total long-term annual fiscal gain to the state	\$3.4	\$9.3

Numbers may not add to total due to rounding.