Iowa Fiscal Partnership

GUEST OPINION

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Raising EITC would benefit working families

By Andrew Cannon

If passed by the Iowa House and signed by the governor, a Senate-passed bill to raise the state's Earned Income Tax Credit would provide a significant boost to thousands of working families.

The recent 48-0 vote was the latest example of the wide bipartisan support for the EITC. Even in 2011 — when common ground was hard to find at the Statehouse — legislative Republicans and Democrats agreed twice to increase the value of the EITC.

Both times, the plan fell to maneuvering on other issues, the governor vetoing both attempts. That has not deterred Iowa lawmakers from trying again in 2012 — with gusto.

Since 1989, Iowa has offered an EITC as a percentage of the federal credit. Last increased in 2007, to 7 percent, the 2011 proposals would have raised the state credit to 10 percent. Under the Senate bill, Iowa's EITC would rise to 13 percent for this year, 15 percent in 2013 and 20 percent by 2014.

As with any tax credit increase, there is a cost — $26.4 million this year, $50.2 million in Fiscal 2015, when the 20 percent rate is fully phased in.

The difference between this cost and that of many tax credits is that the benefits of the EITC are well-documented.

This increase would put hundreds more dollars in the hands of Iowans most in need.

Because the EITC goes to families with low and moderate incomes, it is typically spent to meet basic needs, such as food, fuel, clothes and child care. That type of spending boosts local economies.

As a precisely targeted and well-structured credit, the EITC accomplishes three goals, all while increasing economic activity: It encourages and rewards work; it reduces poverty among families with children; and it improves tax equity.

Because its value increases as earnings increase, the EITC encourages, rewards and promotes work. As a family's earnings approach self-sufficiency, the credit gradually phases out. The gradual phaseout ensures that work is always rewarded — families do not lose the EITC benefit in one fell swoop, so there is no incentive to reduce work just to remain eligible.

For instance, in tax year 2011, a two-parent family with two children would have qualified for the maximum credit ($358) if their adjusted gross income fell between about $12,800 and $21,800. As that family's earnings increase, the value of the credit eventually phases out at earnings of $46,000. The proposed EITC improvement would raise the maximum credit for this family to $665 in 2012 and $1,022 in 2015.

A recent Department of Revenue study confirms that the Iowa EITC, working with the federal credit, lifts Iowa families out of poverty. Families with children are the primary beneficiaries: 94 percent of EITC households had at least one dependent child; it reached more than 266,000 Iowa kids, about a third of all children in Iowa.

Tax treatment of families with children is also a benefit of the EITC. Iowa offers no personal exemption under the income tax and a paltry child credit. This means some Iowa families with children pay income taxes — on top of sales tax and property tax — even if their income falls below the federal poverty line ($22,350 for a family of four).

The EITC mitigates that problem, returning money to families needing it most.

Expanding the credit would be a good investment in Iowa families, and the state and local economy.

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