

## **EITC: A Hand Up to Working Families, Local Economy** *Senate-Passed Bill Would Significantly Expand Impact of Benefit*

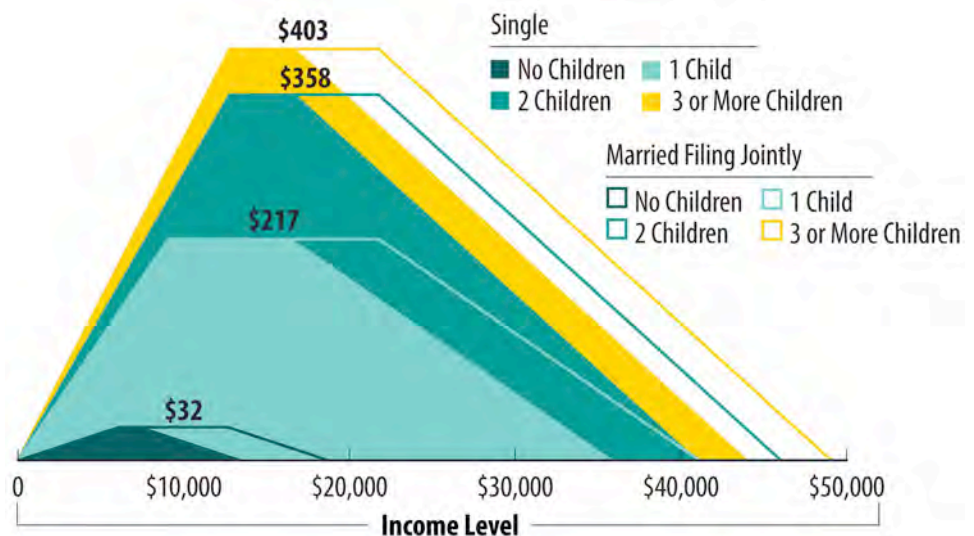
An Iowa Senate proposal provides a significant increase in the value of Iowa’s Earned Income Tax Credit (EITC) to working Iowans and their families. Iowa’s EITC is valued at 7 percent of the federal credit; A proposal in Iowa’s General Assembly (Senate File 2161) would increase it to 13 percent in tax year 2012, 15 percent in tax year 2013, and 20 percent in tax year 2014 and years thereafter.

The increase in the first year of the proposed plan — from 7 percent to 13 percent of the federal credit — could put as much as \$345 more, depending on family size and earnings, in the hands of low- and moderate-income Iowa families with children. Families would likely spend the increase benefit on goods and services in their area. To understand the EITC is to recognize that this tax measure benefits not just families directly, but also the local and state economy, something that cannot be said for all tax credits offered by the state of Iowa.

### **Today’s EITC**

Iowa families who are eligible for the federal EITC also qualify for the state EITC. Figure 1 shows how the EITC is designed to help lower-income families and to encourage work. As a family earns more income, they become eligible for a larger EITC. As a family’s income approaches self-sufficiency, the EITC gradually decreases in value. The value of the EITC is predicated on family earnings, tax filing status (married filing jointly, single filers, or individuals filing as heads of households) and the number of dependents claimed.

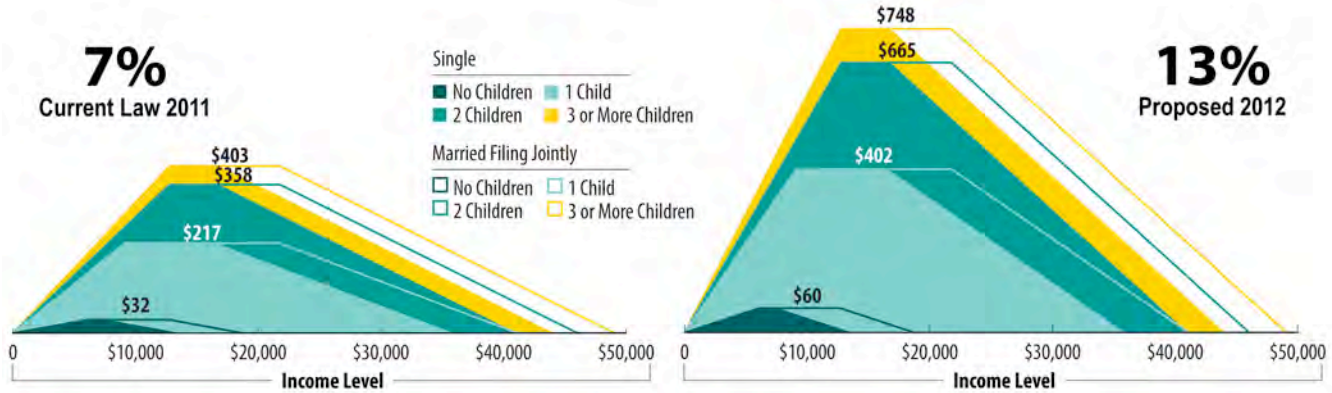
**Figure 1. Iowa’s EITC Rises with Earnings, Then Phases Out as Earnings Increase**  
*Value of Iowa Earned Income Tax Credit, 2011 (at 7 Percent of Federal Credit)*



Source: Center on Budget and Policy Priorities • cbpp.org

In Iowa, the EITC benefits families with children and low or moderate levels of income. More than 510,000 Iowans benefited from the EITC in tax year 2009, including more than 266,000 Iowa children. That year, households with at least one dependent accounted for over 94 percent of all EITC claims, and nearly 60 percent of households claiming the EITC had Iowa adjusted gross income under \$20,000.<sup>1</sup>

**Figure 2. Proposed EITC Increase Would Raise Value of Credit Significantly in First Year**



Note: Uses Tax Year 2011 EITC schedule. Source: Center on Budget and Policy Priorities • cbpp.org

Moreover, Iowa’s EITC lessens the overall regressivity of the current state tax structure.<sup>2</sup> Iowa already imposes income tax on families with children below the federal poverty level; the EITC permits low-income Iowans to earn more before owing state taxes.<sup>3</sup> As the Iowa Fiscal Partnership has noted before, an important principle for tax policy is to shield from income tax any income required to meet basic needs; an increased state EITC would make overall Iowa taxes less regressive.<sup>4</sup>

A number of studies have confirmed that the EITC lifts families out of poverty.<sup>5</sup> In 2009, at the height of the Great Recession, the EITC lifted about 6 million Americans out of poverty.<sup>6</sup> The Iowa Department of Revenue has found that the federal and state EITC lifts out of poverty more than 62 percent of taxpayers whose income falls between \$15,000 and \$24,999.<sup>7</sup>

### Expanding the State EITC

SF2161 would put hundreds more dollars into the pocketbooks of low-income working families with children in Iowa. Figure 2 above compares the value of the proposed 2012 EITC expansion for single- and two-parent families with varying levels of income. Table 1 illustrates how SF2161 would raise the maximum value of the state credit year by year.

**Table 1. State EITC Expansion Would Put Hundreds More Dollars Into The Hands Of Working Families**

	No Dependents	One child	Two children	Three children
Maximum Federal Credit	\$464	\$3,094	\$5,112	\$5,751
Maximum State Credit	\$32	\$217	\$358	\$403
Proposed Maximum State Credit 2012	\$60	\$402	\$665	\$748
Proposed Maximum State Credit 2013	\$70	\$464	\$767	\$863
Proposed Maximum State Credit 2014	\$93	\$619	\$1,022	\$1,150

Note: Uses Tax Year 2011 EITC schedule. Source: Author’s calculations.

An increase in Iowa’s EITC would enhance the ability of working families to make ends meet.

<sup>1</sup> Zhong Jin and Bob Rogers, “Iowa’s Earned Income Tax Credit: Tax Credits Program Evaluation Study,” Iowa Department of Revenue, December 2011. <<http://iowa.gov/tax/taxlaw/EITC2011.pdf>>.

<sup>2</sup> Carl Davis, Kelly Davis, Matthew Gardner, Robert S. McIntyre, Jeff McLynch, and Alla Sapozhnikova, “Who Pays? A Distributional Analysis of the Tax Systems in All 50 States,” Iowa Fact Sheet. November 2009. <[http://www.itpnet.org/wp2009/ia\\_whopays\\_factsheet.pdf](http://www.itpnet.org/wp2009/ia_whopays_factsheet.pdf)>.

<sup>3</sup> Jin and Rogers.

<sup>4</sup> Charles Bruner, “Support for Working Families: Iowa’s Earned Income Tax Credit: Expansion is in Order in 2012,” Iowa Fiscal Partnership, December 29, 2011. <<http://www.iowafiscal.org/2011research/111229-IFP-EITC.html>>.

<sup>5</sup> A broader survey of the literature can be found in Peter S. Fisher and Lily French, “Expanding Iowa’s Earned Income Tax Credit: The Long-Term Benefits to the State,” Iowa Policy Project, June 2009. <<http://www.iowapolicyproject.org/2009docs/090630-EITC.pdf>>.

<sup>6</sup> “Policy Basics: The Earned Income Tax Credit,” Center on Budget and Policy Priorities, September 6, 2011.

<<http://www.cbpp.org/cms/index.cfm?fa=view&id=2505>>. For the combined impact of the EITC and other tax credits, see Arloc Sherman, “Poverty and Financial Distress Would Have Been Substantially Worse in 2010 Without Government Action,” Center on Budget and Policy Priorities, November 7, 2011. <<http://www.cbpp.org/cms/index.cfm?fa=view&id=3610>>.

<sup>7</sup> Jin and Rogers.