

GUEST COLUMN: MARCH 26, 2007 (SPECIAL TO THE IOWA CITY PRESS-CITIZEN)
CONTACT: Mike Owen, (319) 338-0773 or ipp@Lcom.net

‘Enhance’ Make Work Pay

By Mike Owen

Making work pay is a goal we all can share. Achieving that goal requires a variety of policies that fit together like pieces of a puzzle. When Iowa’s new minimum wage takes effect Sunday, we will see one piece of that puzzle put in place.

A bipartisan effort is under way at the State Capitol to craft the next piece: an expanded Earned Income Tax Credit, or EITC.

The federal EITC is a tax credit available to many working people with earned income of less than \$38,348. The size of the credit depends on a tax filer’s earnings and marital or dependent status. The maximum credit is \$4,536 for a married couple with two children, or \$412 for a single person or couple without children.

Like a higher wage, the EITC has been shown to be an effective tool to encourage work. To ensure that every family receives the full benefit earned, the federal credit is refundable. This means the filer receives a check if the credit is more than taxes owed.

At the state level, Iowa’s EITC is downright stingy. At only 6.5 percent of the federal credit, it is one of the least generous among the 20 states with an EITC. Moreover, Iowa’s credit, unlike the federal credit and most state credits, is not refundable.

To illustrate both the importance of the federal credit in Iowa and the deficiency in the state credit, just look at one set of numbers: In 2004, about 13 percent of Iowa’s nearly 1.3 million tax-filing households claimed the federal credit. But nearly half of these households did not also receive the state credit. It did not benefit them.

Iowa’s tax policies tend to take a greater share of the income of lower-income households than of those with the means to pay. In fact, Iowa’s income tax applies to households even below the poverty level: You can be too poor to pay federal tax yet still owe the state of Iowa.

Despite this, low-income families have been largely left out in the prolific tax-cutting by Iowa policy makers over the last decade or so. Even the Social Security tax break last year affects only those couples making over \$41,000; below that, such benefits were already tax-free.

This new effort to improve Iowa’s EITC is a marked departure from the policies of the past 10 years. But as long as we’re at it, we may as well do it right.

If the goal is to reach the lowest-income working households, refundability is the key. Simply expanding the EITC helps lower-income earners who now benefit, but the credit would reach more Iowans at the lowest income tiers if the credit were refundable.

-- more --

In addition, the EITC is a boost to local economies. It goes to the folks who are struggling to pay their bills, to local businesses that want those bills paid. The money will be churned over in the local economy.

There are good signs coming from the Legislature. Last week, a 7 percent refundable credit passed the Iowa House Ways and Means Committee – unanimously.

Whatever form it ultimately takes, an expanded and refundable credit can provide meaningful help to people working at low incomes. It would enhance the “make work pay” policy statement Iowa already has made with a new minimum wage.

MIKE OWEN of West Branch is assistant director of the Iowa Policy Project (IPP), a nonpartisan policy research and analysis organization based in Mount Vernon. For more information about the EITC and Iowa tax policy, see the Iowa Fiscal Partnership website <http://www.iowafiscal.org>.