

## What is the EITC?

The Iowa earned income tax credit (EITC) recognizes the special financial obligations of child-rearing. Iowa's EITC is tied to the federal earned income tax credit, meaning that Iowans who claim the federal credit can claim a state EITC worth 7 percent of the federal one.

The EITC is a credit based on "earned income," meaning filers must work to receive it.

## How many Iowans benefit?

Over 500,000 Iowans claimed the state EITC in 2009, according to the Iowa Department of Revenue. Of these, 266,557 were children—37 percent of all children in Iowa.

## Why is the EITC good policy?

The EITC is already recognized across the political spectrum as an effective strategy for preventing thousands of working Iowans from falling into poverty.

## How can we make it stronger?

Raise the EITC to 20 percent of the federal rate.

With that increase, Iowa would join the majority of states that do not tax working families earning below the poverty line.

Raising the EITC is also one of the most effective ways to stimulate the Iowa economy. It offers a financial boost to individuals who, in turn, use it locally to purchase necessities for their families.

To learn more about how the EITC benefits Iowa, contact Danielle Oswald-Thole, 515-778-8187 (c) or [danielleot@cfpciowa.org](mailto:danielleot@cfpciowa.org)



Iowa Human Needs Advocates

# RAISE IOWA'S EARNED INCOME TAX CREDIT THE FIRST IMPERATIVE FOR TAX REFORM

## Today, Iowa's tax code penalizes low-income working families

Working Iowa families with children pay taxes. They pay federal payroll tax, sales tax, gasoline tax and property tax (either with a mortgage or as a share of rent). Families with children actually pay a greater share of their income in these taxes than other families because they spend a greater share of their income on basic needs, including housing.

Many of these Iowa families—families with incomes so low they owe no federal income tax—also pay state income tax.

Take a married Iowa couple with two kids. Because of the earned income tax and child tax credits, the federal government does not begin taxing this family until its paychecks exceed \$45,400. But Iowa begins taxing this family when its paychecks reach \$19,100—well below the poverty line.

***Iowa is one of only a handful of states that impose income taxes on working families with incomes below the poverty level.***

## Raising the EITC supports families *and* communities

Iowa's earned income tax credit is one of the only provisions in state tax code that recognizes the additional expenses facing families with children.

But Iowa's EITC—set at 7 percent of the federal credit—comes nowhere close to offsetting those expenses. Iowa can narrow that gap for low-income working families by raising the state EITC to 20 percent of the federal credit.

Here's an example. An Iowa family—two working parents making \$30,000 and two children—is eligible for a federal EITC of \$3,373. Since they owe no federal income tax, they receive the entire credit in the form of a refund check, which they, in turn, are able to spend in their community.

But this family will owe the state of Iowa \$527 in taxes—even after their \$223 state EITC is taken out. Raising the EITC to 20 percent of the federal rate will not eliminate the family's state income tax liability, but it will reduce it from \$527 to \$89. That's a noticeable break for a family struggling to meet basic needs.

***The earned income tax credit supports work, places value on raising children and puts money into local economies. Raising the Iowa EITC to 20 percent should be the first priority for tax reform in Iowa.***