Center on Budget and Policy Priorities

Iowa

Fact Sheet: Tax Credits Promote Work and Fight Poverty

The Earned Income Tax Credit (EITC) for low- and moderate-income workers encourages and rewards work, offsets federal payroll and income taxes, and raises living standards. The Child Tax Credit (CTC) also helps low-income working families by offsetting part of the cost of child-rearing. The EITC is refundable, meaning that recipients whose credit exceeds their federal income tax liability can receive the difference as a refund. Part of the CTC is refundable.

Reducing Poverty and Encouraging Work

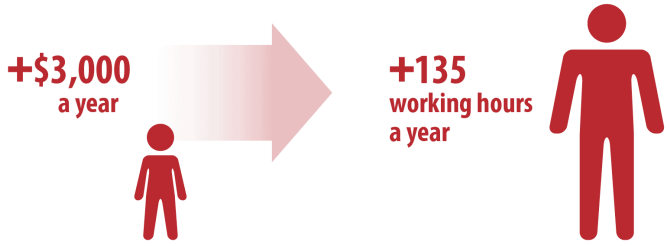
- 187,000 Iowa households received the EITC in 2012.
- 149,000 Iowa households received the refundable part of the CTC in 2012.
- 70,000 Iowans were lifted out of poverty by the EITC and CTC, including 39,000 children, each year, on average, during 2011 to 2013.
- The EITC put about $405 million into Iowa's economy in 2012.

Research has found that lifting low-income families' income when a child is young – as both the CTC and EITC do – not only improves a child's immediate well-being but also is associated with better health, more schooling, more hours worked, and higher earnings in adulthood (see first chart).

Extensive research also finds that the EITC encourages work, especially in a strong labor market. Research has found that during the 1990s, EITC expansions did more to raise employment among single mothers with children than either welfare reform or the strong economy (see second chart.)

Higher EITC* or Other Income for Poor Children Expected to Boost Work Hours and Earnings Later in Life

Change in annual adult work hours associated with $3,000 annual increase in income to poor children before age 6.



For each $3,000 a year in added income that children in a poor family receive before age 6...

...their working hours rise by 135 hours a year between ages 25 and 37, and their annual earnings rise by 17%.

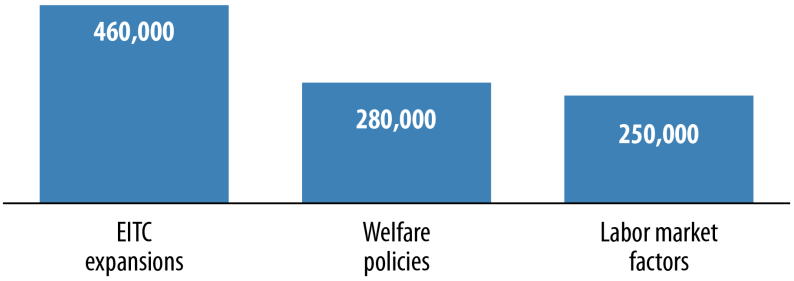
*Earned Income Tax Credit

Source: Greg J. Duncan, Kathleen M. Ziol-Guest, and Ariel Kalil, "Early-Childhood Poverty and Adult Attainment, Behavior, and Health," *Child Development*, January/February 2010, pp. 306-325

Center on Budget and Policy Priorities | cbpp.org

EITC Biggest Factor Boosting Single Mothers' Employment, Research Finds

Increase in employed female heads of households in 1999 due to changes since 1993



Note: Categories from study were combined for simplicity. Categories "time limits," "other reforms," and "maximum benefits" were combined into "welfare policies." Categories "minimum wage" and "unemployment rate" were combined into "labor market factors."

Source: CBPP analysis of results from Jeffrey Grogger, "The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work, and Income among Female-Headed Families," 2003, and data from March 1999 Current Population Survey.

Center on Budget and Policy Priorities | cbpp.org

Helping Veteran and Armed-Forces Families

In 2012, 11,000 Iowa veteran and armed-forces families received the EITC or the refundable part of the CTC.

Helping Working Mothers and Fathers

About 155,000 Iowa mothers and 93,000 fathers in low- and moderate-income working families received the EITC, the refundable part of the CTC, or both in 2012.

States Can Supplement the Federal Credit

Iowa is one of 25 states that offer a supplemental state credit; Iowa's credit is refundable and is set at 15% of the federal EITC.

Congress Should Make Key Provisions of the CTC and EITC Permanent

Reforms first enacted in 2009 and subsequently extended, strengthened the CTC to reach more low-income working families and boost the credit for many families who received only a partial credit. The changes also boosted the EITC for families raising more than two children and expanded marriage penalty relief. These critical provisions will expire at the end of 2017 unless lawmakers act. Inaction would mean that about

- 179,000 children in 84,000 Iowa families will lose some or all of their working-family tax credits
- 41,000 children, and 84,000 Iowans overall, will be pushed into -- or deeper into -- poverty.

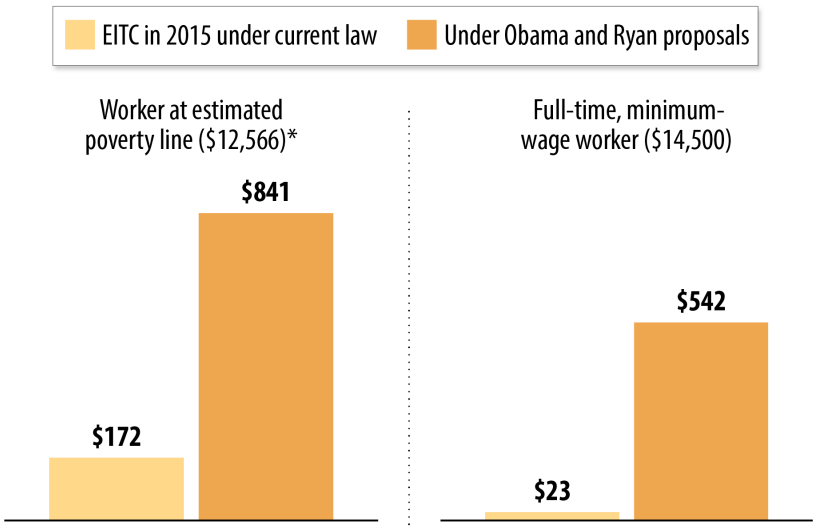
Congress Should Also Expand EITC for Childless Workers

Low-income "childless workers" – workers not living with and raising minor children - receive little or nothing from the current EITC. As a result, childless workers are the sole group that the federal tax system taxes deeper into poverty.

The President, House Ways and Means Committee Chairman Paul Ryan, and other members of Congress have proposed making more childless workers eligible for the EITC and expanding the credit for those already eligible. These changes could boost employment and reduce poverty among childless workers, while easing their tax burdens.

Under the President's proposal, the credit for a childless adult with wages right at the poverty line would rise from just $171 to $841 in 2015. For a childless adult working full time at the minimum wage, the credit would jump from just $22 to $542 in 2015.

Obama and Ryan Proposals Would Boost Earned Income Tax Credit (EITC) for Childless Workers



*CBPP estimate based on 2014 official poverty line

Source: President's FY2016 budget, Chairman Ryan's "Expanding Opportunity in America" discussion draft, Internal Revenue Code

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

Some 122,000 childless workers in Iowa would become eligible for an EITC or receive a larger EITC in 2015 under the President's proposal.

Figures on number of recipients and dollars per state are from IRS.Antipoverty impact of EITC/CTC is from Elizabeth Kneebone and Natalie Holmes, "Fighting Poverty at Tax Time through the EITC" http://www.brookings.edu/blogs/the-avenue/posts/2014/12/16-poverty-tax-eitc-kneebone-holmes. Number benefiting from 2009 improvements is from "Making the EITC and CTC Expansions Permanent Would Benefit 13 Million Working Families," http://ctj.org/pdf/ctceitcreport2015.pdf. Number benefiting from President's EITC proposal from U.S. Treasury Department, http://www.whitehouse.gov/sites/default/files/docs/eitc_report_0.pdf. Other figures are from CBPP. Antipoverty effects of the EITC and CTC improvements, as well as figures for mothers, fathers, and veteran and armed-forces families, are from CBPP analysis of the Census Bureau's March 2010-March 2014 Current Population Survey and Supplemental Poverty Measure public use files for 2009-2013.

For more information on the EITC and CTC, see:
Policy Basics on the EITC and Child Tax Credit.