
Iowa Fiscal Partnership

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FOR IMMEDIATE RELEASE TUESDAY, MARCH 27, 2007
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Taxing the Poor in Iowa Report Shows Need for Low-Income Tax Reform

IOWA CITY, Iowa (March 27, 2007) — Income taxes for families at the poverty level increased more in Iowa than in any other state in recent years, according to a new national study.

In response, Iowa analysts noted policy options are available to lessen or eliminate the income-tax impact on low-income families – including a proposal being considered in the Iowa Legislature to expand the Earned Income Tax Credit (EITC).

“We have options to help make work pay for these families and to find tax savings that will help offset higher costs of child care, health care and energy,” said Charles Bruner, executive director of the nonpartisan Child & Family Policy Center (CFPC) in Des Moines. “This report shows these options deserve examination now.”

The new report from the Center on Budget and Policy Priorities <http://www.cbpp.org/3-27-07sfp.htm> shows that for a two-parent family of four at the poverty line (\$20,615):

- Iowa is one of 19 states that tax families in poverty, and is eighth highest at \$236.
- Iowa is among eight states where taxes owed have increased since 1994. The increase, from zero in 1994 to \$236 in 2006, is the largest dollar increase of any state.
- In Iowa these families start paying state income taxes when earnings reach \$18,300, well below the poverty line of \$20,615. In 1998, families would not have paid taxes until their income rose 3 percent above the poverty line.

“The level where Iowans begin paying income tax is not adjusted for inflation, while the poverty line does keep rising in recognition of higher costs of living,” said David Osterberg, executive director of the nonpartisan Iowa Policy Project.

One measure often promoted to reduce tax liability for a low-income working household is the EITC. The federal EITC benefits some 168,000 Iowa households – about 13 percent of tax-filing households.

There also is a state EITC, but Bruner noted the Iowa credit is only 6.5 percent of the federal credit, and benefits only a little over half of the 168,000 households. In addition, the Iowa credit is not refundable, meaning families do not receive the full value of the credit unless their tax obligation is at least as great as the credit.

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“If we were to raise Iowa’s EITC to 15 percent of the federal EITC, it would reduce the state income tax to nothing for the working family of four cited by the Center on Budget and Policy Priorities report,” Bruner said.

Bruner, who as a state legislator helped pass Iowa’s EITC in 1989, noted CFPC has pushed for both earned income credit reform and an expanded child-care credit to help low-income families. The EITC has enjoyed strong bipartisan support at the federal level.

Osterberg pointed out that Iowa has done little in the tax code for low-income families over the last 10 years, despite very significant cuts for wealthier Iowans and corporations.

“Ironically, the income tax has been the fairest of Iowa taxes, because it is based more on ability to pay than either the sales tax or local property taxes. But as this report shows, even the income tax needs to be reformed,” Osterberg said.

“The Legislature and Governor seem poised to take a first step this year in making the EITC refundable, but the EITC also needs to be raised to at least 15 percent of the federal level to provide significant help to working families at or just above the federal poverty level and to make Iowa’s overall tax system more fair.”

The report is available on the Center on Budget and Policy Priorities website <<http://www.cbpp.org>>. Find the Iowa fact sheet for this report at <<http://www.cbpp.org/3-27-07sfp-states.htm>>

Both the IPP and CFPC have produced several reports and analyses on Iowa tax policy including the EITC. Their reports are available at the website of the Iowa Fiscal Partnership <<http://www.iowafiscal.org>>.

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