

Iowa Fiscal Partnership *news release*

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FOR IMMEDIATE RELEASE THURSDAY, JULY 3, 2008

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Who Gets Held Harmless in ‘Fixing’ Tax Policy? Child Tax Credit Fix Would Apply Fairness Equitably

IOWA CITY, Iowa (July 3, 2008) — Almost 100,000 Iowa children would benefit from House-passed improvements in the federal Child Tax Credit if adopted in legislation to keep expiring tax breaks in place.

“This legislation is designed to hold people harmless, and no one needs that help more than low-income working families,” said Victor Elias, senior associate at the nonpartisan Child & Family Policy Center.

“There is considerable pressure to hold harmless some middle-income, and upper-middle-income, families from the effects of the Alternative Minimum Tax (AMT),” Elias said. “While there are merits to the argument, it falls short if Congress were to patch the AMT but ignore what’s happening to low-income working families on the Child Tax Credit (CTC).”

The AMT is designed to assure that wealthy individuals pay some amount of income tax, but because it was not indexed to inflation, it is beginning to affect individuals in upper-middle-income levels. The AMT provision in what is known as “tax extenders” legislation would lessen that impact.

At the same time, an indexing provision in the CTC restricts access to the refundable portion of the credit by raising the income level for eligibility (from \$10,000 in 2001 to \$12,050 in 2008). Thus, if a family’s income doesn’t also keep pace with inflation, the household could lose eligibility for some or all of the credit, Iowa Fiscal Partnership analysts noted.

“This could easily happen in Iowa,” said one of those analysts, Peter Fisher, who is research director for the nonpartisan Iowa Policy Project. He noted at the 20th percentile, Iowa wages have fallen in 2007 dollars from \$9.83 per hour to \$9.28 in four years. “Low-income workers in Iowa saw their real wages drop 55 cents from 2003 to 2007.”

The House version of the “extenders” legislation also would improve the CTC to reach more low-income working families by lowering the earnings threshold to \$8,500. Currently, 6 million kids are in working-poor families who do not benefit from the \$1,000-per child credit, and another 10 million are in families receiving only a partial credit, the size determined by the amount family earnings exceed the threshold.

The legislation is stalled in the Senate.

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Elias and Fisher noted the CTC is part of a network of policies that support low-income families who have parents working, and is designed to recognize the cost of raising children. However, families must earn well above the poverty line to be eligible for the full benefit.

“That support network is failing when families with the greatest financial challenges do not benefit,” Fisher said. “The CTC is in sorry shape for the most vulnerable. So why would Congress look only at fixing the AMT for people with means to cope in this economy?”

“Put another way, we protect upper middle-income taxpayers when rising incomes push them into higher tax brackets — and at least they have more income to start with. But when lower-income households’ wages don’t rise with inflation — or even decline — we deny them protection unless we change the current law.”

According to analysis by the Urban/Brookings Tax Policy Center and the Center on Budget and Policy Priorities, about 2.9 million children — 22,300 in Iowa — would be newly eligible for the CTC under the House plan. Another 10.1 million children would have a larger credit, including about 77,100 in Iowa.

“In this year especially, with new economic hardships being caused by disastrous flooding in Iowa, helping over 99,000 children is not only a fairness issue for working families but one of economic importance as well,” Elias said.

Both Fisher and Elias noted the dispute in Congress over how — or whether — to pay for the tax changes that are extended in the so-called “extenders” bill.

“It’s important to keep in mind the long-term effects of the policy decisions being made now,” Fisher said. “If you don’t pay for tax cuts — in the current federal deficit situation — you are borrowing money to make them. Sooner or later, it will have to be paid, and the more we pay in interest for borrowing now means it will be more difficult to meet our obligations in the future.

“The same children whose parents benefit from the CTC and the AMT today may be less likely to benefit when they are parents themselves, because as adults they’ll be paying off today’s debt. Congress should not miss that point in deciding whether to offset these costs.”

The Iowa Fiscal Partnership (IFP) is a tax and budget policy analysis initiative of two nonpartisan, Iowa-based organizations — the IPP in Iowa City/Mount Vernon and CFPC in Des Moines. IFP reports are available at <http://www.iowafiscal.org>.

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