

SEATS INSIDE THE ARENA

Child Tax Credit Fix Would Help Stadiums Full of Iowa Kids



The University of Iowa's Kinnick Stadium holds over 70,000 people on selected Saturdays every fall. Fill it up with kids — and also fill up nearby Carver Hawkeye Arena and Hilton Coliseum in Ames — and you'd have an idea of how many children in Iowa would be helped by legislation to protect eligibility to the refundable child tax credit for low-income working families, and to expand it.

These kids' families have jobs — but don't earn enough to qualify for some or all of the credit. In other words, these families wind up paying more in tax than families whose jobs meet the income "threshold" for the tax help. A House-passed "tax extenders" bill would temporarily treat the lower-paid families better than they are treated now — but it's stalled in the Senate.

Overall, nearly 100,000 Iowa kids would benefit for 2008 — including over 22,000 in families newly eligible for the benefit. Without the change, their families lose ground. The child tax credit is an important piece of the puzzle of how to make work pay for low-income families. When jobs offer lower wages than needed for basic household budget needs, families struggle. Policy makers have options available to them.

IOWANS AFFECTED BY THE CHILD TAX CREDIT

In 2005, more than 265,000 Iowa tax filers saw their federal income tax reduced or eliminated by the federal child tax credit.¹ Their tax savings totaled \$371 million. For nearly 113,000 of these filers, the benefits of

the child tax credit (CTC) went beyond tax savings due to the so-called "refundability" of the credit. (See box.) They received refund checks totaling \$121.5 million.

The tax "extenders" bill as passed by the U.S. House would, for 2008, expand the "refundability" of the credit to households earning \$8,500 or more — compared with the \$12,050 level in the current law.

HOW THE CHILD TAX CREDIT WORKS

The CTC is a partially refundable tax credit of \$1,000 per child, which acknowledges the costs to families of raising children. Current law has an earnings "floor" requirement; families must have at least \$12,050 in 2008 earnings to qualify. That figure is indexed to inflation, and is projected to rise to \$12,650 by 2010.²

"Refundable" tax credits provide a check to the filer in the amount by which the credit exceeds tax responsibility. The federal CTC is only partially refundable, based on the earnings test noted above. Refund checks cannot be more than 15 percent of earnings above the threshold amount. A family making \$14,500 (50-week full-time earnings at the new Iowa minimum wage) would be eligible for a \$368 credit in 2008 but — because the threshold is indexed to inflation — only a \$278 credit by 2010. (See calculation, Page 2.)

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INFLATION: EQUAL OPPORTUNITY FAMILY HAZARD

Much concern is voiced about the unfairness to individuals who become subject to the Alternative Minimum Tax (AMT) because their income keeps pace with inflation, rising to the AMT threshold, which does not rise with inflation. That tax was designed to assure that high-income individuals pay some tax — that credits and other adjustments do not absolve them of all responsibility to pay tax. The “tax extenders” legislation makes some adjustment for those taxpayers, attempting to hold them harmless — temporarily — from inflation.

Inflation, however, is an equal-opportunity hazard for working families. Unlike the AMT, the child tax credit (CTC) has an inflation adjustment — but that adjustment works to the detriment of working families whose incomes not only are low, but stagnant or declining. The new legislation would lower the threshold for eligibility for the credit, reaching families at lower incomes (\$8,500-plus). This would increase benefits to families of 13 million kids nationally — 2.9 million newly eligible.

If legislation holds upper-income people harmless who would be affected by the AMT because of inflation, it should certainly do the same for lower-income people who are struggling to get by.

CALCULATION OF REFUNDABLE CTC

Current Formula Penalizes Workers Whose Earnings Don't Keep Pace With Inflation

A family making \$14,500 in 2008 would be eligible for a \$368 credit but — because the threshold is indexed to inflation — it would fall to a \$278 credit by 2010:

2008 — Income Threshold \$12,050

\$14,500 Earnings - \$12,050 Threshold = \$2,450
\$2,450 Difference X 15 % = \$368 refundable credit

2010 — Income Threshold \$12,650 (projected)

\$14,500 Earnings - \$12,650 Threshold = \$1,850
\$1,850 Difference X 15 % = \$278 refundable credit

Net Impact of Indexing Plus Stagnant Wage

\$90 lower credit

Proposed Formula Provides More Help

A family making \$14,500 in 2008 would be eligible for a \$900 credit at the proposed eligibility threshold:

2008 — Income Threshold \$12,050

\$14,500 Earnings - \$8,500 Threshold = \$6,000
\$6,000 Difference X 15 % = \$900 refundable credit

¹ Brookings Institution.

² Aron-Dine, Aviva, “Improving the Refundable Child Tax Credit,” Center on Budget and Policy Priorities, Revised May 19, 2008, p.3; accessed July 3, 2008, at <<http://www.cbpp.org/10-24-07tax.pdf>>.

Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available on the web at <http://www.iowafiscal.org>.

The Iowa Fiscal Partnership is part of the State Fiscal Analysis Initiative, a network of state-level organizations and the Center on Budget and Policy Priorities to promote sound fiscal policy analysis. IFP work is supported by the Stoneman Family Foundation and the Annie E. Casey Foundation.

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