

Timely review for Earned Income Tax Credit

As panel meets, new evidence shows Iowa could do better by poor families

DES MOINES, Iowa (November 15, 2011) — A day before a legislative panel reviews four state tax-credit programs, a new national report puts a spotlight on Iowa's poor treatment of low-income working families.

The report by the Center on Budget and Policy Priorities shows that Iowa is one of 15 states that still impose an income tax on two-parent working families of four with incomes at or below the poverty line.

"It is noteworthy that, as lawmakers consider the Earned Income Tax Credit in this review, their recent but unsuccessful efforts to improve it are justified by this new report," said Charles Bruner, executive director of the nonpartisan Child & Family Policy Center, part of the Iowa Fiscal Partnership (IFP).

"The EITC offsets Iowa's regressive tax system and helps to make work pay for thousands of low- and moderate-income families in the state."

IFP reports have illustrated the way improvements in Iowa's EITC could help more families cope with economic hardship despite low or moderate incomes, and help their local economy at the same time.

Among findings of the CBPP report:

- In eight states, a family of four at the poverty line owes more than \$150 in income taxes: **Alabama, Georgia, Hawaii, Illinois, Iowa, Montana, Ohio, and Oregon.**
- Twenty-three states tax two-parent families of four earning 125 percent of the poverty level, and the bill exceeds \$500 in eight states: **Alabama, Arkansas, Georgia, Hawaii, Iowa, Kentucky, Oregon, and West Virginia.**
- In four states — **Georgia, Iowa, Mississippi, and Ohio** — the income tax on families of four with poverty-level incomes has risen since 1994 even after faster than inflation.

"Raising taxes on the working poor not only increases poverty, but is more harmful to states' economies than other budget-balancing measures. This is, in part, because lower-income people spend nearly all of the money they make, mainly on necessities, so for every dollar they lose due to a tax increase, the total spending in the economy drops by around a dollar.

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Find the report

The Center on Budget and Policy Priorities (CBPP) today released a new report examining the issue of state income taxes on working-poor families.

In "The Impact of State Income Taxes on Low-Income Families in 2010," CBPP noted:

"Taxing the incomes of working-poor families runs counter to decades of efforts by policymakers across the political spectrum to help families work their way out of poverty. The federal government has exempted such families from the income tax since the mid-1980s, and a majority of states now do so as well."

Report:

<http://www.cbpp.org/cms/index.cfm?fa=view&id=3620>.

Attend the meeting

The Legislative Tax Expenditure Committee will meet at 10 a.m. on Wednesday, Nov. 16, in Room 116 of the State Capitol.

Agenda:

<http://www.legis.iowa.gov/DOCS/LSA/IntComAgen/2012/IAMJD001.PDF>

“High-income people are likely to save a larger part of any extra income they receive, so for every dollar they lose due to a tax increase, total spending drops by less than a dollar, say, 90 cents. Thus, tax increases that mostly affect higher-income families and corporations have less of an impact on overall demand and are preferable for economic and job growth.”

The CBPP report found that while some states are taxing the incomes of working-poor families, other states take a different approach. Of the states with income taxes in 2010, 19 taxed “neither the incomes of the poor or near poor, and a substantial number offered significant refunds to low-income working families, primarily through Earned Income Tax Credits.”

“Iowa already has a structure in place to correct this problem, because Iowa has a refundable EITC,” Bruner said. “It’s just too small. Iowa’s credit is only 7 percent of the federal credit; increasing Iowa’s Earned Income Tax Credit to 20 percent would take Iowa out of the ranks of the states with the highest taxes on working families with children. Further, it would be much fairer to Iowa families in recognizing the costs associated with raising the next generation.”

The Iowa General Assembly — on two occasions in 2011 — passed an improvement in the state EITC from 7 percent of the federal credit to 10 percent. Both times, Governor Terry Branstad item-vetoed the improvements, which had passed as part of larger bills.

The Legislative Tax Expenditure Committee, set up as a result of 2010 legislation that called for a periodic review of Iowa tax credits and other spending through the tax code, is scheduled on Wednesday to review four specific credits: the state EITC, the franchise tax credit, the High Quality Jobs program, and the Research Activities Credit (RAC).

Iowa Department of Revenue reports have shown how the RAC has resulted in many millions of dollars spent in subsidies to large corporations, outside the normal appropriations process. Legislation passed in 2009 requires the department to make a report about RAC use each February.

The [latest report](#) showed that in 2010, 133 companies paid no income tax and received a combined \$43 million in checks from the state based on research activities credits not needed to pay taxes. The report identified nine companies that had RAC claims above \$500,000.

Of those, Rockwell Collins, Deere & Co., and Dupont accounted for almost \$33 million — or nearly three-fourths — of all RAC claims. Those three firms together received over \$30 million in so-called “refund” checks for taxes never paid. That same \$30 million would be sufficient to raise the state Earned Income Tax Credit to approximately 14 percent of the federal credit and benefit over 200,000 Iowa tax filers.

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