

What is the EITC?

The Iowa earned income tax credit (EITC) recognizes the special financial responsibilities of raising children. The EITC is a credit based on “earned income,” meaning *filers must work to receive it*.

Iowa’s credit is tied to the federal EITC, meaning that Iowans who claim the federal credit are eligible for a state EITC worth 7 percent of the federal one.

How many Iowans benefit?

Over 500,000 Iowans claimed the state EITC in 2009, according to the Iowa Department of Revenue. Of these, 266,557 were children—*37 percent of all children in Iowa*.

Why is the EITC good policy?

The EITC is recognized across the political spectrum as a successful antipoverty program that insures that people who work are able to provide for their families.

How can we make it stronger?

Raise the EITC to 20 percent of the federal rate. This will help Iowa parents who work full time meet the basic needs of their families.

It also means Iowa also will join the majority of states that do not tax working families earning below the poverty line.

To learn more about how the EITC benefits Iowa, contact Danielle Oswald-Thole at 515-778-8187 or danielleot@cfpciowa.org



Iowa Human Needs Advocates

RAISE IOWA’S EARNED INCOME TAX CREDIT (EITC)

THE FIRST PRIORITY FOR TAX REFORM

Today, Iowa’s tax code penalizes low-income working families

Working Iowa families with children pay taxes. They pay federal payroll tax, sales tax, gasoline tax and property tax (either with a mortgage or as a share of rent). Families with children actually pay a greater share of their income in these taxes than other families because they spend a greater share of their income on basic needs, including housing.

Many of these Iowa families—families with incomes so low they owe no federal income tax—also pay state income tax.

Take a married Iowa couple with two kids. Because of the earned income tax and child tax credits, the federal government does not begin taxing this family until its paychecks exceed \$45,400. But Iowa begins taxing this family when its paychecks reach \$19,100—well below the poverty line.

Iowa is one of only a handful of states that impose income taxes on working families with incomes below the poverty level.

Raising the EITC supports working families

Iowa’s earned income tax credit is one of the only provisions in state tax code that recognizes the additional expenses facing working families with children.

But Iowa’s EITC—set at 7 percent of the federal credit—comes nowhere close to offsetting those expenses. Iowa can narrow the gap for low-income working families by raising the state EITC to 20 percent of the federal credit.

That will help people who work hard meet basic needs to support their families and stay off welfare. It will also allow Iowa to join the majority of states that do not tax working families earning below the poverty line.

The earned income tax credit supports work and places value on raising children. It is a relatively small state investment that can make a very large difference in the lives of working Iowa families.