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EITC Boost Could Lift Thousands from Poverty Report: Long-Term Benefits to Iowa from EITC Expansion

IOWA CITY, Iowa (June 30, 2009) — Expanding Iowa’s Earned Income Tax Credit (EITC) could lift more than 3,000 Iowa families out of poverty while improving tax fairness and lessening demands on public services, a new report finds.

“The EITC has broad support and rightly so,” said Peter Fisher, research director of the nonpartisan Iowa Policy Project (IPP) and co-author of a report on the long-term benefits of expanding Iowa’s credit, which is tied to the federal EITC. “It makes work pay for low-income working families, and is shown to work.”

Iowa lawmakers expanded the EITC from 6.5 percent of the federal credit to 7 percent in 2007, and made the credit refundable, which made more low-income families eligible to receive its full value, effectively increasing their take-home pay.

In 2009, the Legislature included a further expansion in an income-tax-reform package that was unable to gather enough support to come to a floor vote in either chamber.

The new IPP report found that an increase in the state EITC from 7 percent to 15 percent would provide \$233 more per year to families with a child who are near, but below, the poverty line. Raising the state credit even higher, to 30 percent of the federal credit, would provide an additional \$671 per year for those families.

Benefits to families with two to four children would be greater.

“This kind of change in the EITC would make an important dent in poverty in Iowa,” said Fisher, whose report estimated a boost from poverty for 1.5 percent of poor single-parent families and 3.7 percent of married-couple families in Iowa with an EITC at 15 percent.

Increasing the EITC to 30 percent would lift between 5 percent and 7 percent of poor families out of poverty — or about 3,100 families, added Fisher, who authored the report with IPP Research Associate Lily French.

“The most significant impact is on children,” Fisher said. “Those figures mean that a 15 percent state EITC would lift about 4,000 children from poverty — and a 30 percent EITC would raise 10,500 out of poverty.”

“This matters not just for their immediate situation, but it can help them, their families and the economic future of the state over the long term,” he said.

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The report noted that while supporting family self-sufficiency, an EITC expansion is not as costly as it might appear because beneficiaries pay more state taxes and rely less on public assistance. With higher take-home pay, workers are encouraged to work more hours, and their higher income will translate to greater sales-tax payments.

“We estimate that adult recipients would end up returning to the state approximately \$1 million in annual revenue with an expansion of the credit to 15 percent, or \$2.7 million with an expansion to 30 percent,” Fisher said.

The report noted the long-term benefits include better earnings prospects for children when they become adults.

“Children who are raised in poverty tend to earn less, and to rely more on public assistance,” according to the one-page executive summary of the report. “In future years, as the children of current EITC recipients become adults, they will end up returning \$2.5 million more each year to the state treasury in higher taxes, if Iowa increased the credit to 15 percent of the federal. Increasing it to 30 percent would provide a \$6.5 million annual budget savings.

“All told, the state can expect that the annual cost of an increase in the EITC to 15 percent of the federal credit will be offset in the long run by about \$3.5 million in additional revenue and cost savings each year. With an increase to 30 percent, the fiscal offset would rise eventually to about \$9.3 million each year.”

This report is the fourth in a series of reports by the Iowa Policy Project estimating the public benefits of investments in work supports. The first report examined child care subsidies, the second analyzed workforce education, and the third considered the effects of Medicaid expansions.

The Iowa Policy Project is a nonpartisan, nonprofit research and policy analysis organization based in Mount Vernon, with its principal research office in Iowa City. IPP reports on economic opportunity, budget and tax policy, and energy and environmental issues are on the web at www.iowapolicyproject.org.

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