



## Tax Credit: Earned Income Tax Credit

The Iowa Earned Income Tax Credit (EITC) was modeled after the federal Earned Income Tax Credit, which was created to provide financial support to low-income households. Legislation creating Iowa's EITC was passed during the 1989 Legislative Session, and became available during the 1990 tax period at 5.0% of the federal credit and nonrefundable. As of the 2015 tax year, the Iowa EITC is 15.0% of the federal credit and remains nonrefundable. Iowa is one of 26 states offering a supplemental state earned income tax credit.

To qualify for the federal EITC, a taxpayer must have earned income and cannot have investment income above a given threshold. The taxpayer, spouse (if filing jointly), and any qualifying children must have a social security number. In addition, the taxpayer or spouse cannot be the dependent of another taxpayer. The taxpayer must be a U.S. citizen or resident alien for the full tax year and can file any status besides married filing separately. Taxpayers without a qualifying child must be between the ages of 25 and 65 at the end of the tax year.

### Tax Credit Review, Usage, and Future Liability

Between 1991 and 2009, the number of Iowa EITC claims increased from 70,755 to 208,342 while the amount of claims increased from \$3.4 million to \$28.5 million. The most significant increase in claims occurred between 2006 and 2007, when the EITC rose to 7.0% of the federal credit and became a refundable tax credit, meaning eligible households without a tax liability would be able to claim the credit as a refund.

Among the Iowa income tax credits that target Iowa families, the EITC had the most claimants and claims in tax year 2009. Only 3.9% of long-term EITC claimants had no dependents, while 62.2% of one-year claimants had no dependents. Approximately 220,000 Iowa households received the EITC in 2013. In tax year 2009, 208,342 households claimed \$28.5 million of EITC. Among the households claiming EITC, 104,790 households received some portion of their EITC as a refundable credit (the portion of the credit which exceeds a claimant's Iowa individual income tax liability), totaling \$13.8 million.

Under the refundable EITC, there are three conditions a claimant may experience:

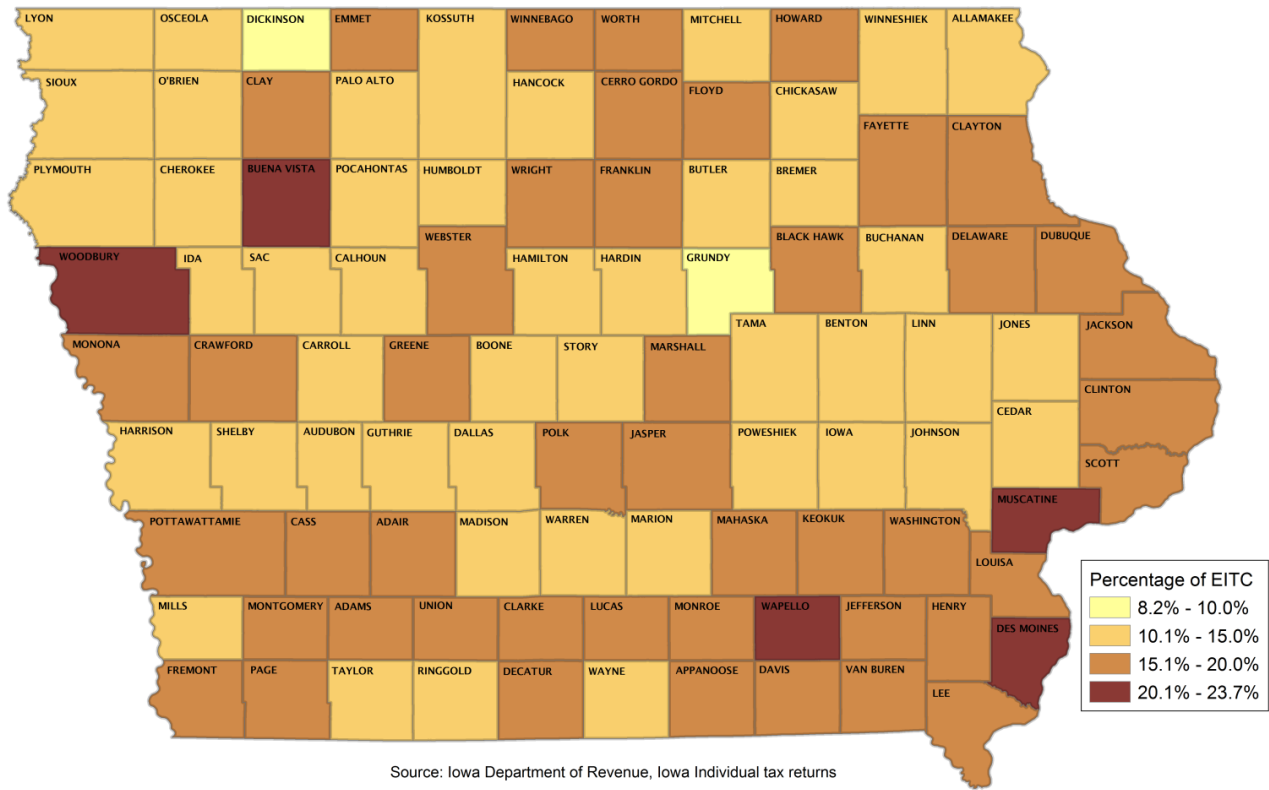
- The credit offsets part of the State tax liability.
- The credit offsets all tax liability and results in a refund.
- The credit is fully refundable.

If the Iowa EITC had been refundable in tax year 2009, 117,904 Iowa households would have had an effective tax increase, either owing the state more, or ineligible for a refund. While 53.9% of all claims are made by households with Iowa Adjusted Gross Income (AGI) below \$20,000, 89.4% of the households who would have experienced tax increases under a nonrefundable credit had an AGI below \$20,000 in tax year 2009.

### Iowa's Earned Income Tax Credit and the Federal Temporary Assistance for Needy Families Block Grant

The state's refundable EITC plays a key role in helping Iowa meet its responsibilities under the federal Temporary Assistance for Needy Families (TANF) Block Grant. Under TANF, states are required to expend a minimum amount of state funds for services that meet TANF purposes, otherwise known as the state's maintenance-of-effort (MOE) requirement. The refundable portion of state earned income tax credits can be considered to be a MOE expenditure if it meets specified TANF purposes. Since the Iowa EITC became refundable in 2007, expenditures eligible for TANF MOE have averaged approximately \$12.0 million each year. Only the refundable credit claimed by households with at least one dependent counts as MOE. In addition to meeting the required maintenance-of-effort requirement, Iowa's refundable EITC also enabled the State to qualify for over \$19.0 million in TANF emergency funds under the American Recovery and Reinvestment Act (ARRA) of 2009. These funds were used to support the Family Investment Program (FIP) in fiscal years 2010 through 2012, reducing the amount of state funds that would have been needed to support the Program.

Percentage of Households Claiming EITC By County - 2009



**Tax Credit Background**

Code Citation:

Iowa Code section [422.12B](#) - Individual Income Tax

Administrative Rules Citation:

[701 IAC 42.13](#)

**More Information**

Department of Revenue Contingent Liabilities Report: [Contingent Liabilities Report](#)

Department of Revenue Tax Credits Users' Manual: [Tax Credits Users' Manual](#)

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