



## Iowa Earned Income Tax Credit

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John Good  
Fiscal and Policy Analyst, Sr.

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## Outline

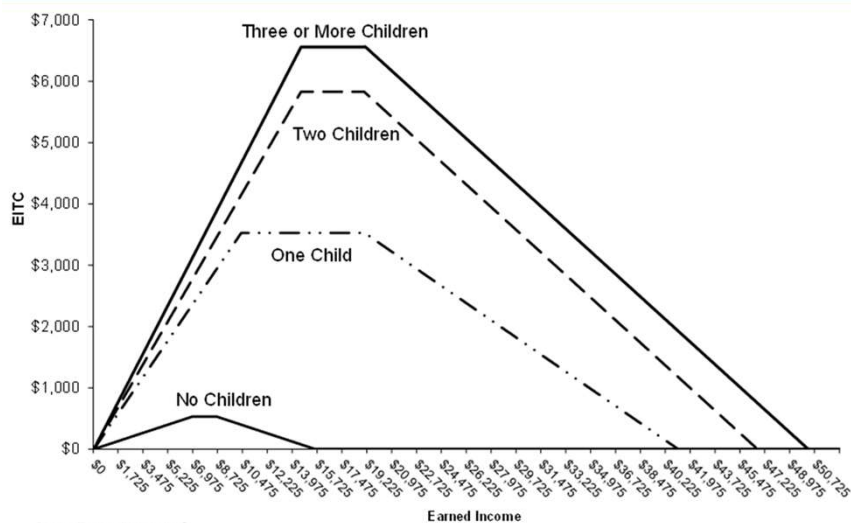
- Review the Federal and Iowa Earned Income Tax Credit
- Earned Income Tax Credits across states
- Iowa Earned Income Tax Credit claims and characteristics of claimants
- Continued Earned Income Tax Credit claims
- Earned Income Tax Credit and poverty

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## Federal EITC Claimant Criteria

- Must have earned income
  - Wages, salaries, tips, farm income, net self-employment earnings, and other employee compensation, such as union strike benefits
- Investment income below \$3,650 in tax year 2019 (amount is indexed)
- Taxpayers and dependents must have Social Security Numbers
- Taxpayers and dependents must be U.S. citizens or resident aliens for the entire tax year

## Federal EITC by Earned Income for Single Filers, TY 2019 (Indexed)



## Federal EITC by Earned Income for Married Filers, TY 2019 (Indexed)



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Source: Internal Revenue Services, Publications 596

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## Iowa EITC History

- 1990: allowed taxpayers who claimed the federal EITC to claim a nonrefundable credit equal to 5% of the federal EITC
- 1991: increased the credit rate to 6.5% of the federal EITC
- 2007: tax credit rate was raised to 7% of the federal EITC and made refundable
- 2013: tax credit rate was increased to 14% of the federal EITC
- 2014: tax credit rate was increased to 15% of the federal EITC

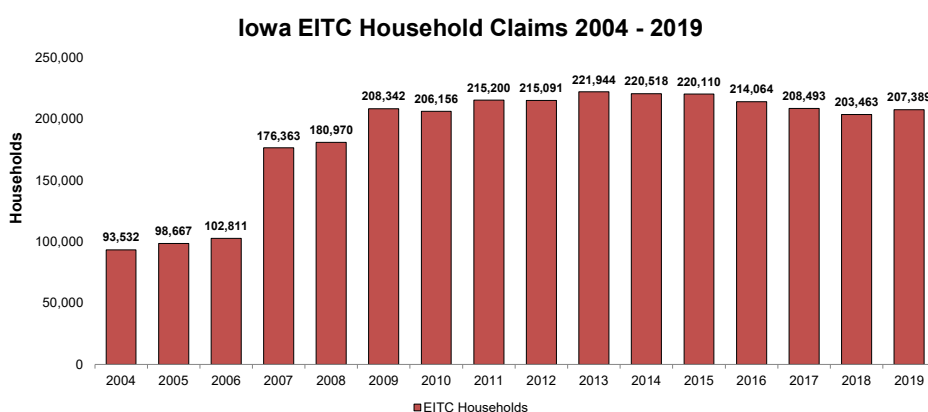
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## EITC Across the States

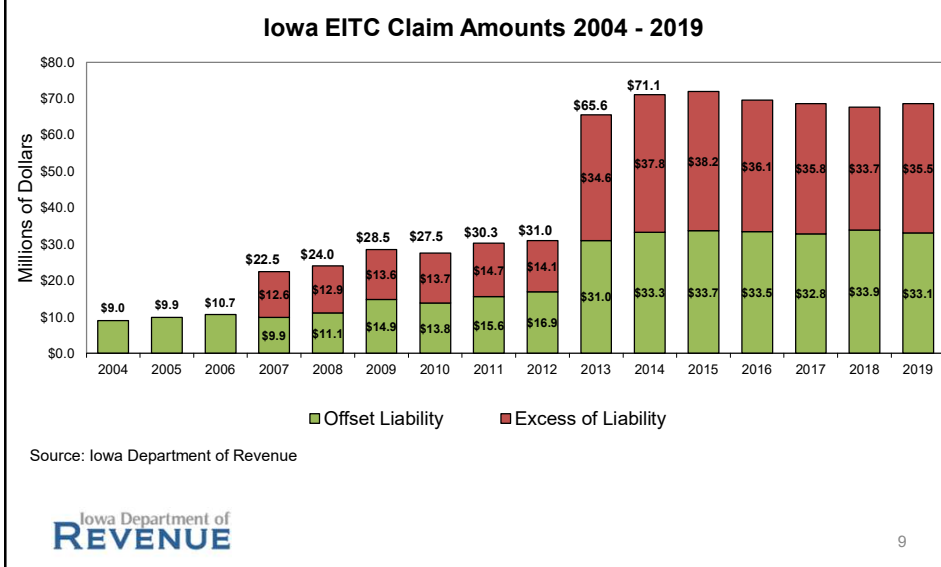
- In 2019, 30 states, the District of Columbia, New York City, Guam, and Puerto Rico offered the EITC
- Range from 3.5% to 50%
- All but 6 states offer a refundable credit
  - Nonrefundable states: Delaware, Hawaii, Maryland, Ohio, Oklahoma, and Virginia
- Four neighboring states offer credits
  - Illinois (18%), Minnesota (not based on federal EITC), Nebraska (10%), and Wisconsin (4%-34%)

## Historical Iowa EITC Claims by Tax Year



Source: Iowa Department of Revenue

## Historical Iowa EITC Claim Amounts by Tax Year



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## EITC Claims in Excess of Tax Liability


- Refundable tax credit means any credit in excess of Iowa tax liability paid as a refund
  - 56.0% of 2007 claims in excess of tax liability (\$12.6 million)
  - 52.7% of 2013 claims in excess of tax liability (\$34.6 million)
  - 51.8% of 2019 claims in excess of tax liability (\$35.5 million)

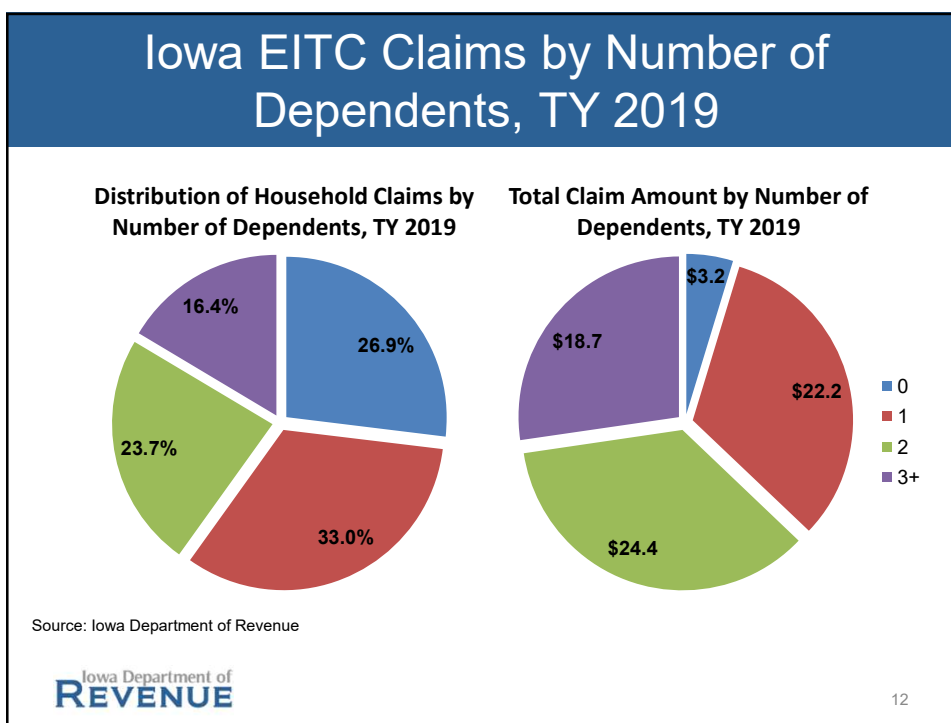
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### Iowa EITC Claims by State Filing Status, TY 2019

Filing Status	Number of Households	Distribution of Households	Total Amount of Claims	Distribution of Total Claims	Average Claim
Single	60,347	29.1%	\$7,491,650	10.9%	\$124
Married Joint	31,530	15.2%	\$12,451,689	18.1%	\$395
Married Separate	15,334	7.4%	\$5,111,447	7.4%	\$333
Head of Household	99,928	48.2%	\$43,488,248	63.4%	\$435
Qualifying Widow(er)	250	0.1%	\$94,986	0.1%	\$380
<b>Total</b>	<b>207,389</b>	<b>100.0%</b>	<b>\$68,638,020</b>	<b>100.0%</b>	<b>\$330.96</b>

Source: Iowa individual income tax returns


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## Iowa EITC Claims by Household Adjusted Gross Income, TY 2019

Income Range	Number of Households	Distribution of Households	Total Amount of Claims	Distribution of Total Claims	Average Claim
\$0 or less	3,414	1.6%	\$749,559	1.1%	\$220
\$1 - \$4,999	19,328	9.3%	\$1,514,915	2.2%	\$78
\$5,000 - \$9,999	28,624	13.8%	\$5,682,064	8.3%	\$199
\$10,000 - \$14,999	34,974	16.9%	\$10,958,537	16.0%	\$313
\$15,000 - \$19,999	21,710	10.5%	\$12,857,201	18.7%	\$592
\$20,000 - \$24,999	19,910	9.6%	\$11,826,298	17.2%	\$594
\$25,000 - \$29,999	20,686	10.0%	\$10,059,834	14.7%	\$486
\$30,000 - \$34,999	20,080	9.7%	\$7,285,148	10.6%	\$363
\$35,000 - \$39,999	17,843	8.6%	\$4,337,881	6.3%	\$243
\$40,000 - \$44,999	10,984	5.3%	\$2,180,367	3.2%	\$199
\$45,000 - \$49,999	6,414	3.1%	\$925,730	1.3%	\$144
\$50,000 and over	3,422	1.7%	\$260,486	0.4%	\$76
<b>Total</b>	<b>207,389</b>	<b>100%</b>	<b>\$68,638,020</b>	<b>100%</b>	<b>\$330.96</b>

Source: Iowa individual income tax returns

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## Major Reasons for Taxpayers Moving In and Out of EITC, TY 2010 – TY 2019

Major Reasons for Entering EITC	Average
No Tax Return Filed Previous Year	48.0%
Earned Income Drops	36.8%
Change in Marital Status	17.2%
Add Dependents	14.5%
Major Reasons for Leaving EITC	Average
No Tax Return Filed Following Year	45.8%
Earned Income Increases	44.6%
Change in Marital Status	15.4%
Fewer Dependents	11.7%

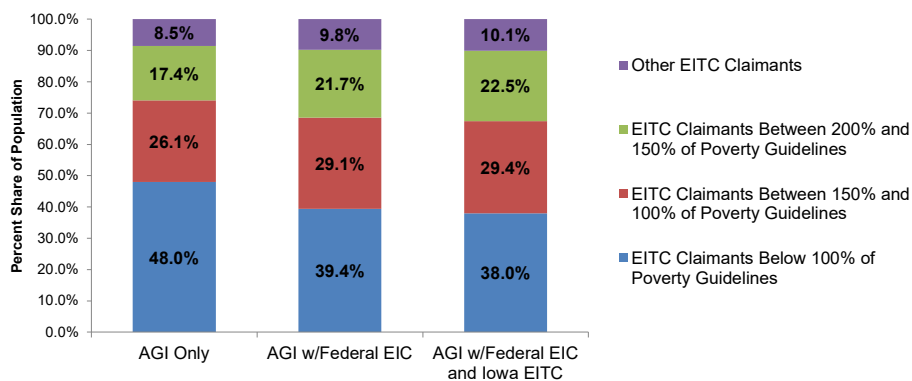
Source: Iowa Individual Income Tax Returns

Note: Shares of different reasons are not mutually exclusive.

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## Poverty Status of TY 2019 Iowa EITC Claimants with and without EITC



Source: Iowa Department of Revenue

## Conclusion

- 74,000 New EITC Claimants per Tax Year, 74,000 EITC Claimants conclude claiming the EITC per Tax Year, 139,000 continued claims per Tax Year
- Nearly \$750 million in claims since 1990
  - \$333.3 million in refundable claims since 2007
- Majority of Claimants and Claim Amounts are by Single or Head of Household
- Federal EITC and Iowa EITC help improve low income employed taxpayers move up or out of poverty



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**Thank you!**