

Department of

IOWA  **REVENUE**

Earned Income Tax Credit

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Tax Expenditure Committee
November 16, 2011

Outline

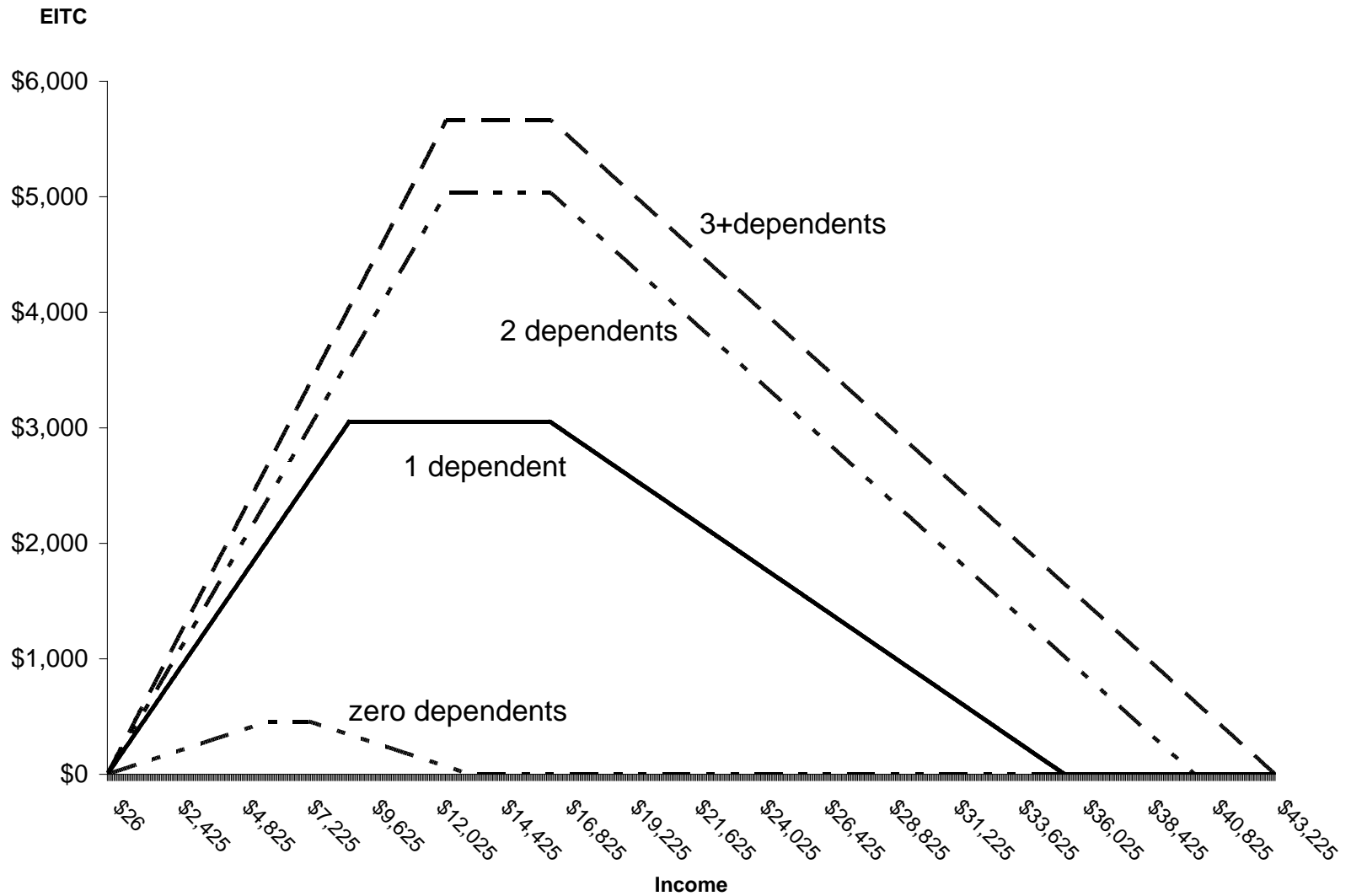
- Summarize Federal and Iowa EITC
- Discuss EITC in other states
- Present Iowa EITC claims data
- Examine impacts of 2007 law change
- Review effectiveness of EITC on reducing poverty

Federal EITC

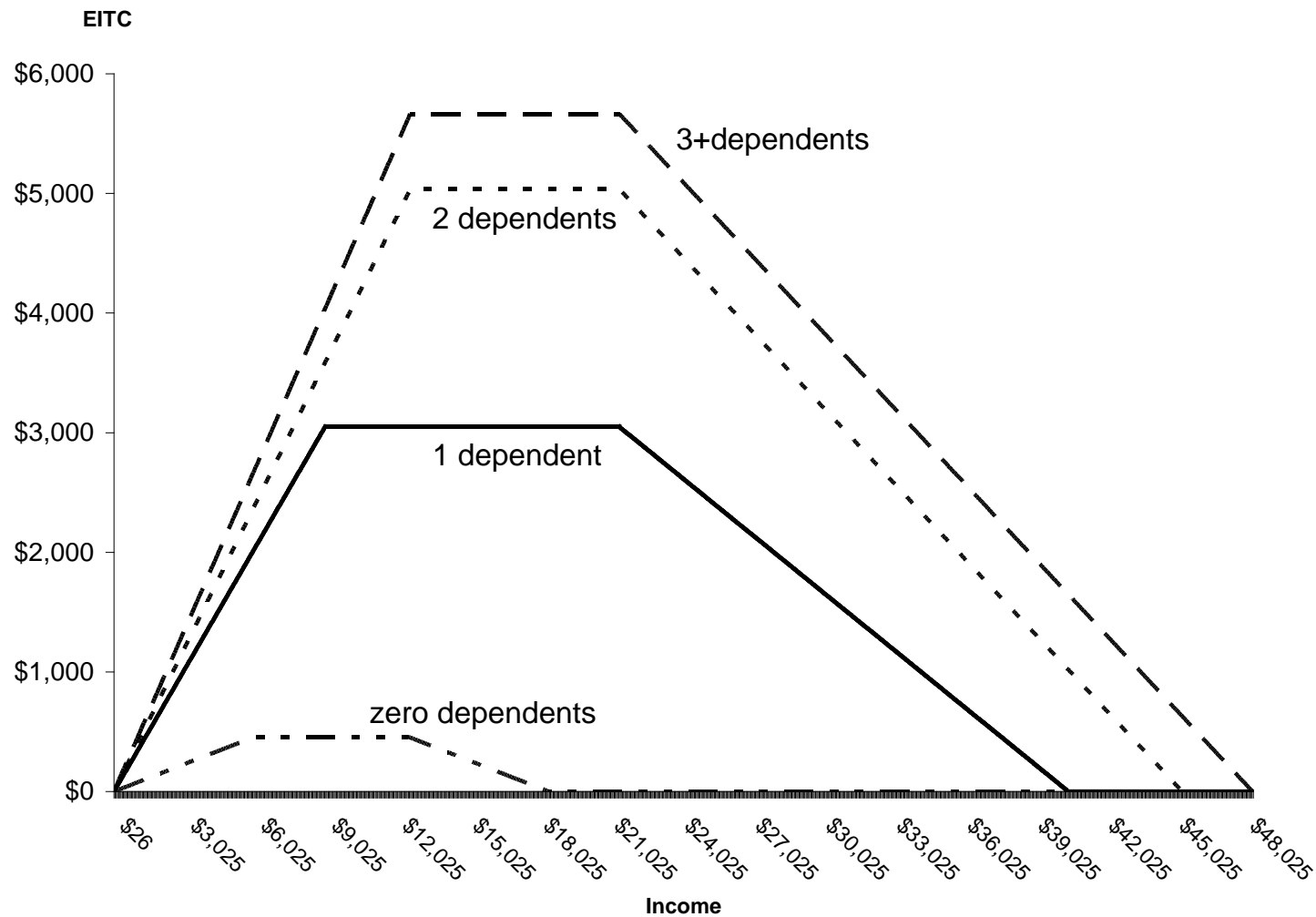
- Introduced in 1975 to offset the payroll tax for low income households
 - 10% of earned income up to \$4,000 with a maximum credit of \$400 and refundable
 - Made permanent and increased the income limit to \$5,000 in the Revenue Act of 1978
 - Increased the income limit to \$5,500 in 1984
 - Increased the rate to 14% and increased the income limit to \$6,080 in the Tax Reform Act of 1986
 - Indexed to inflation in 1987
 - The Omnibus Budget Reconciliation Act of 1990 added supplemental credits for families with two or more children
 - The Omnibus Budget Reconciliation Act of 1993 added small credits for certain childless workers
 - The Economic Growth and Tax Relief Reconciliation Act of 2001 raised the income level at which the EITC begins to phase out for married couples, reaching \$3,000 above that for single filers by 2008 ('marriage bonus')
 - The American Recovery and Reinvestment Act in 2009 added temporary credits for families with three or more children and raised 'marriage bonus' to \$5,000
 - The 2010 Tax Relief Act extended the 2009 changes through 2012

- 26.5 million households claiming EITC, \$59 billion in claims, TY 2009

Federal EITC Phase-In and Phase-Out Rates, Single Filers, 2010



Federal EITC Phase-In and Phase-Out Rates, Married Filers, 2010



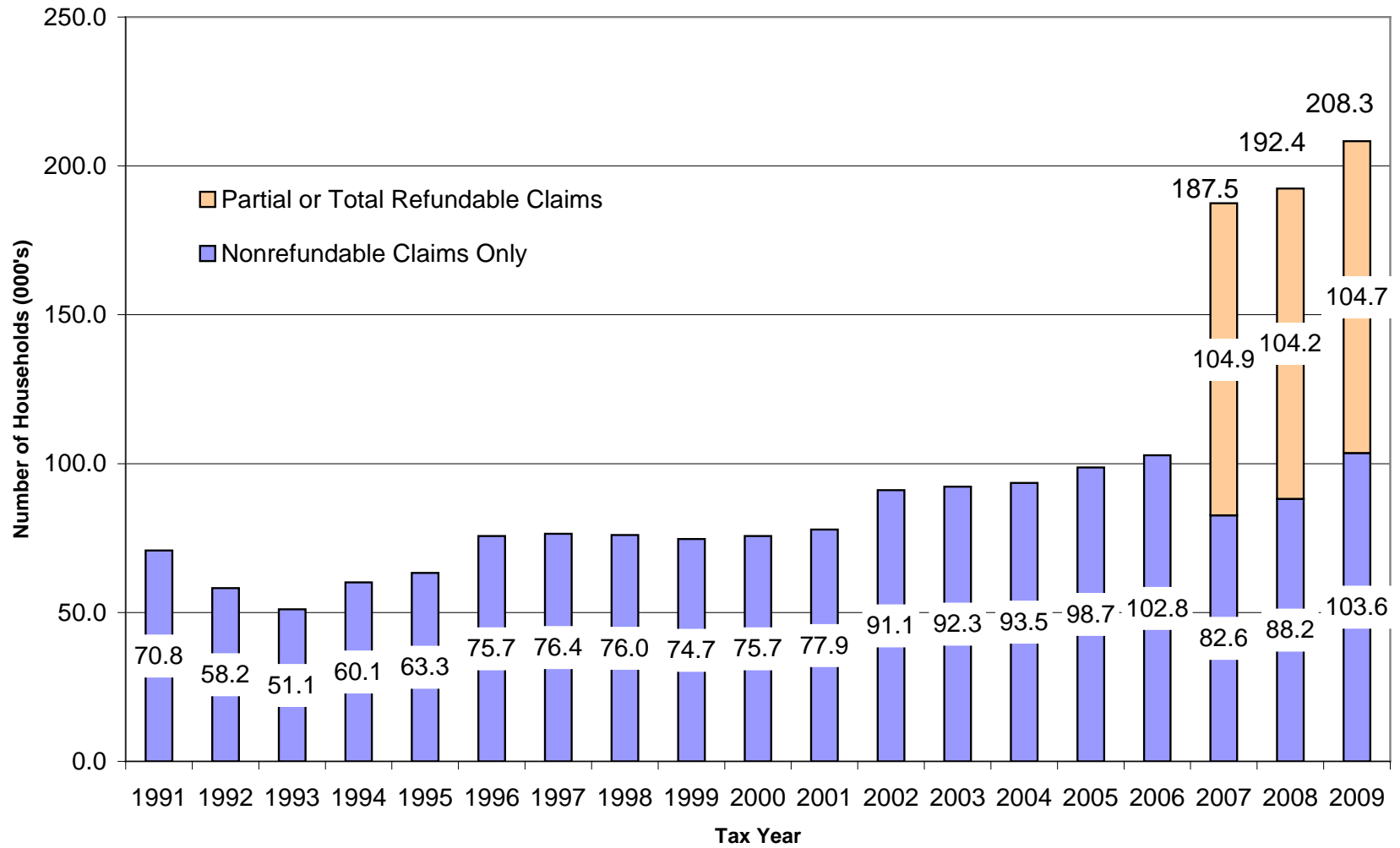
Iowa EITC

- Purpose: To supplement income for working families
- Introduced in 1989
 - Permanent
 - Nonrefundable
 - 5% of federal EITC
 - Increased to 6.5% of federal EITC in 1991
- 2007 Law Change
 - Increased to 7% of federal EITC
 - Became refundable
- 208,000 households claiming EITC and \$28.7 million in claims, TY 2009
 - Maximum EITC claim is \$397 in 2010

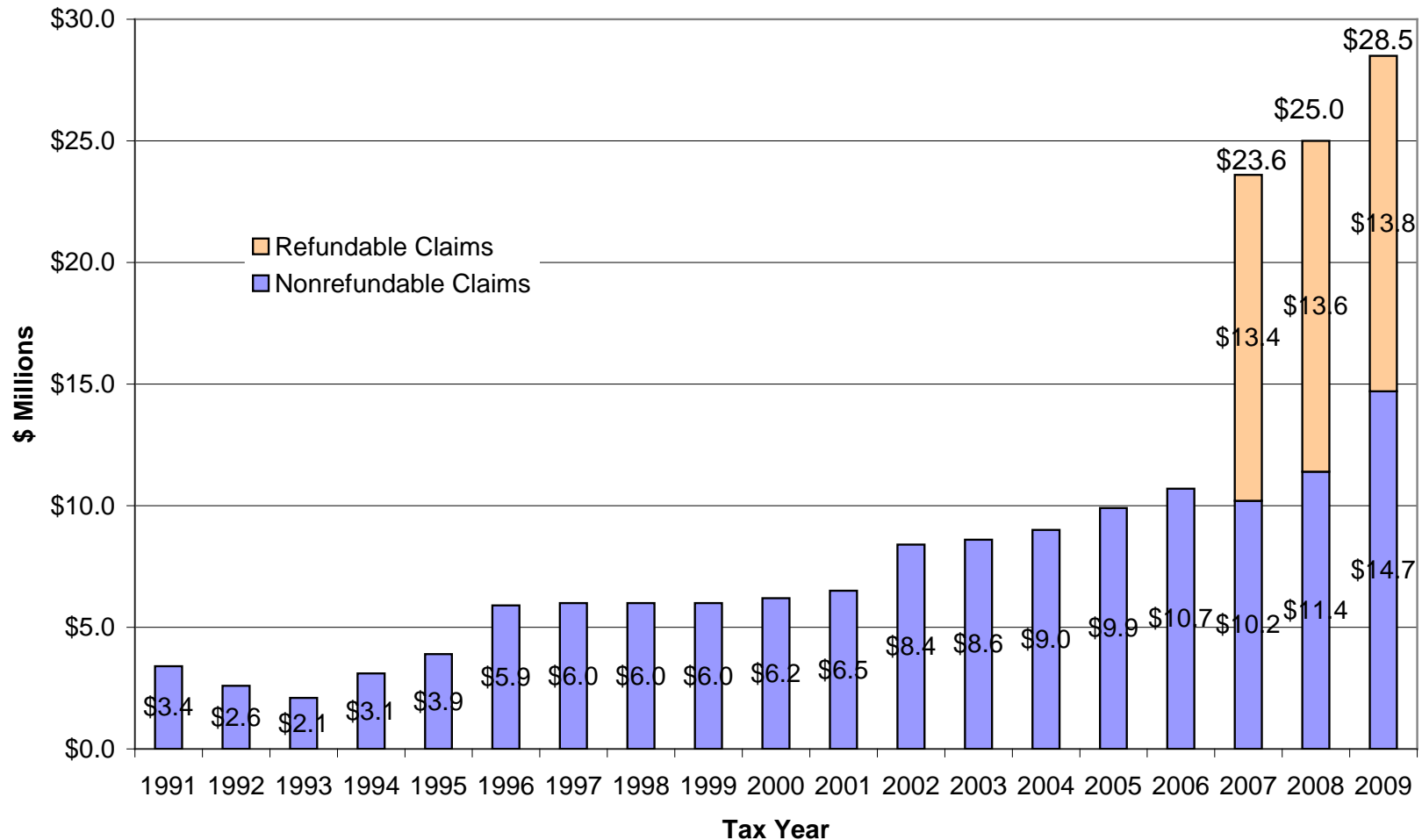
EITC Across the US

- In 2011, 22 states and District of Columbia offer EITC
- Range from 3.5% to 43%, Median rate 19%, median maximum tax credit \$1,048
- All but 3 states offer refundable credit
 - Nonrefundable states: Delaware, Maine, Virginia
- Four neighbors offer credits
 - Illinois (6%), Minnesota (33%), Nebraska (25%), and Wisconsin (4%-43%)

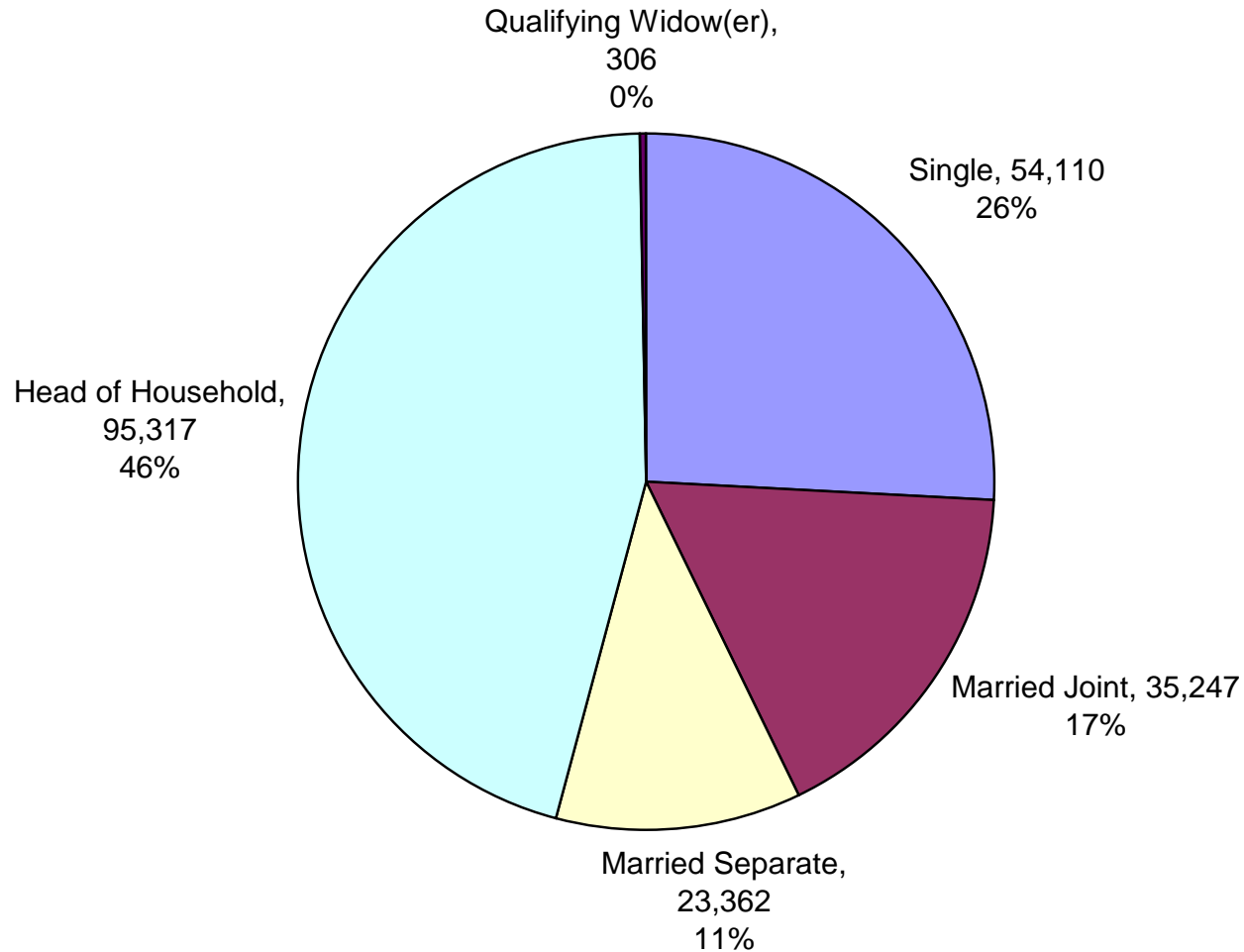
Number of Households Claiming Iowa EITC, 1991 - 2009



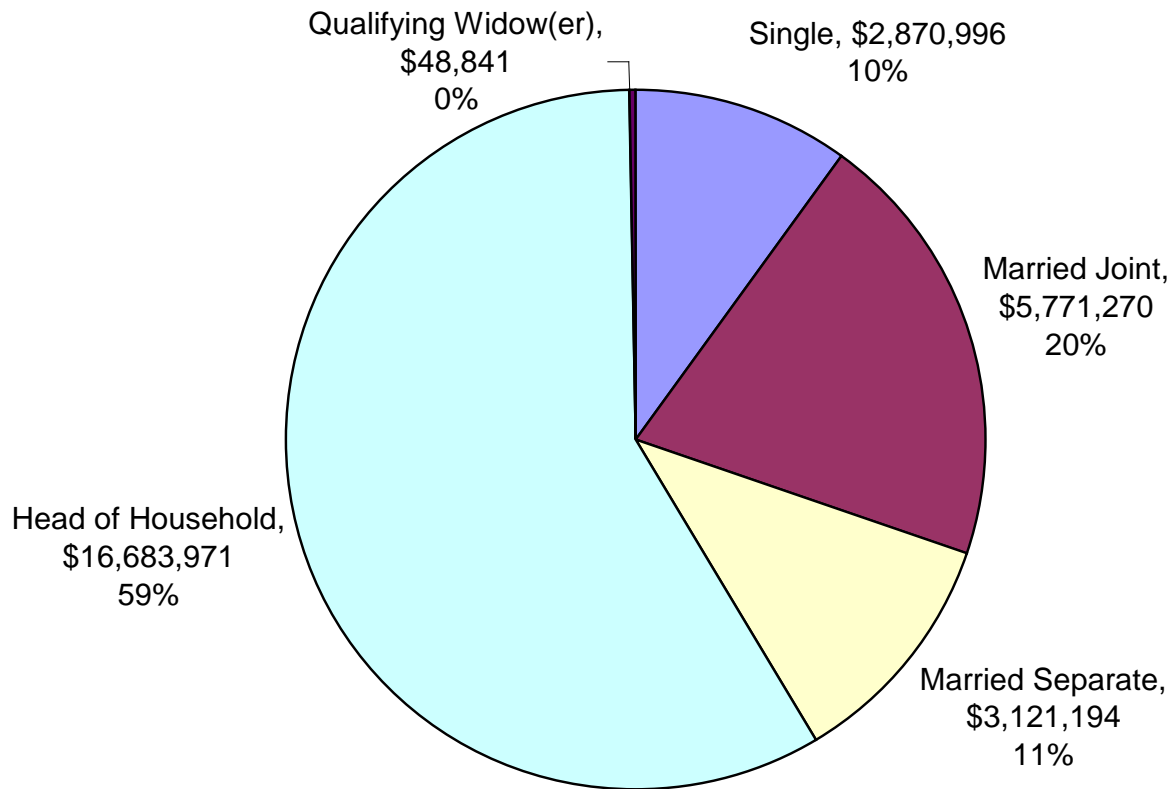
Amount of Iowa EITC Claims, 1991-2009



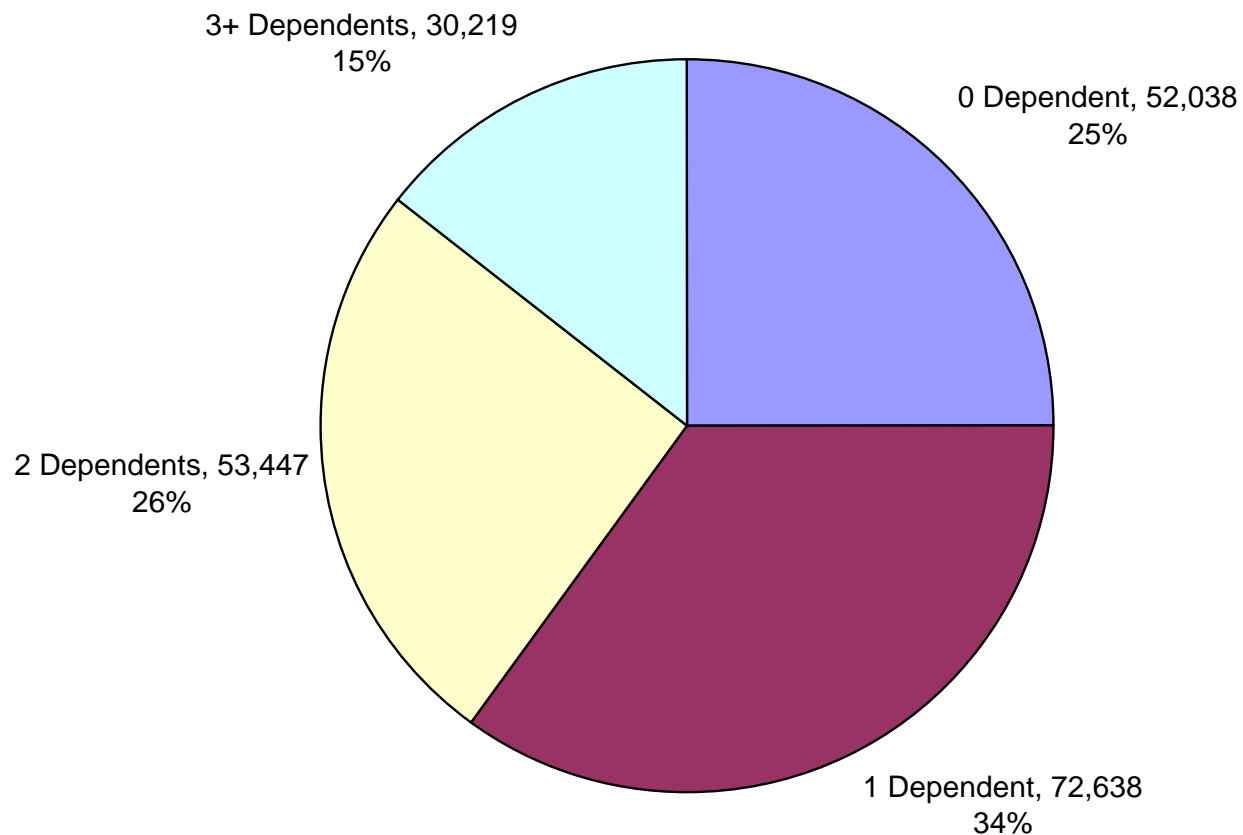
Number of Households Claiming EITC by Iowa Filing Status, 2009



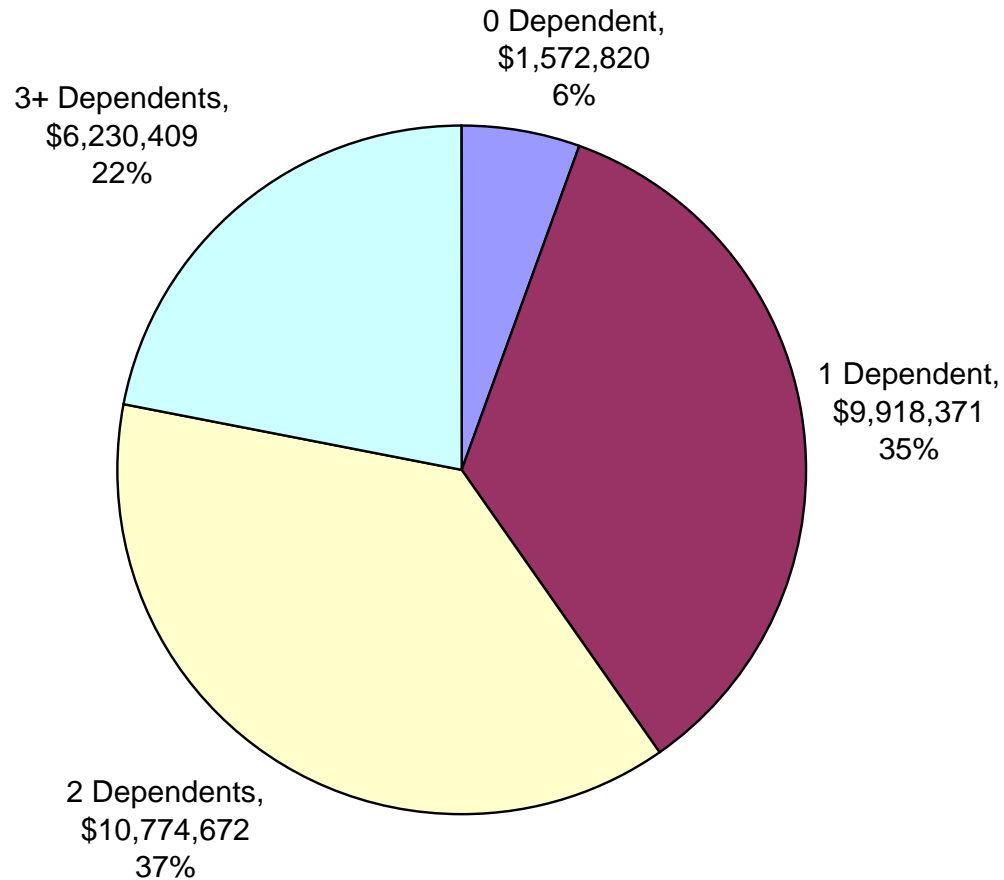
Amount of EITC Claims by Iowa Filing Status, 2009



Number of Households Claiming EITC by Dependents, 2009



Amount of EITC Claims by Dependents, 2009



Households Claiming EITC, 2009

- 208,342 households claimed EITC
 - 266,704 adults were in these households
 - 13.6% of Iowa population aged 18 to 64

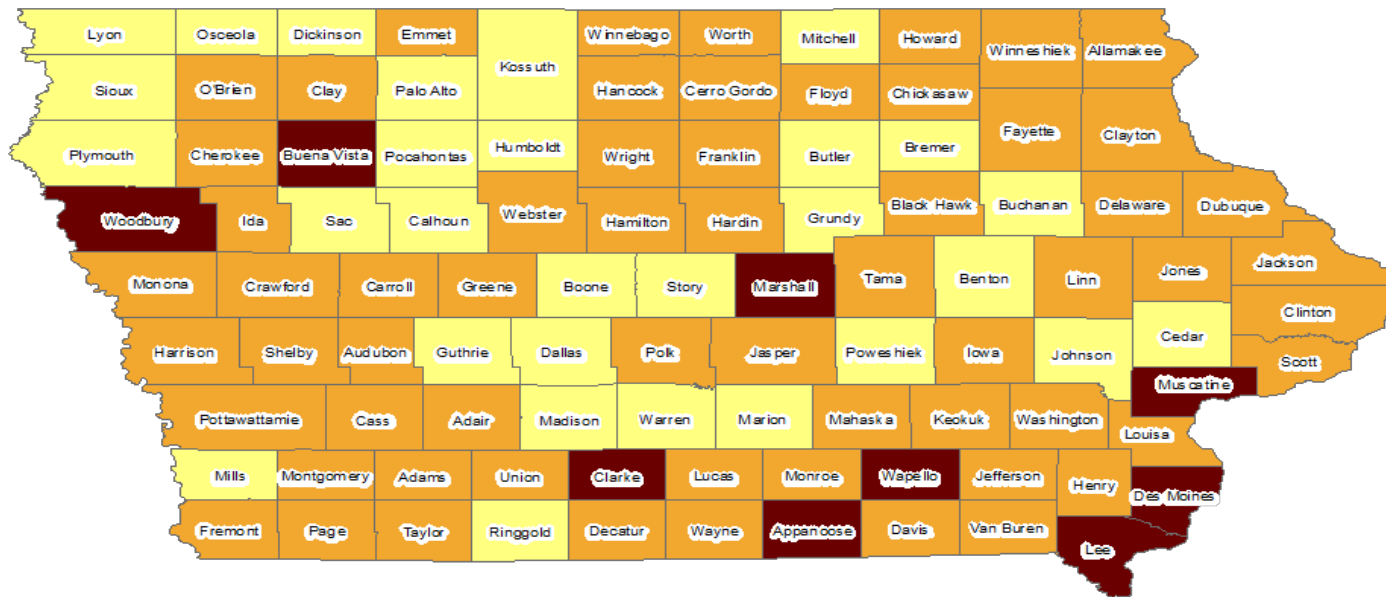
 - 282,152 dependents were in these households
 - 37.3% of Iowa population aged 0 to 17

 - In total, 548,856 individuals benefited from EITC

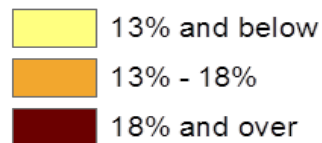
EITC Claims by Income Groups, 2009

Iowa Adjusted Gross Income	Number of Households	Distribution of Households	Percent of All Households	Amount Claimed	Percentage of Claims
\$ 0 or less	3,662	1.8%	8.4%	\$295,615	1.0%
\$ 1 - \$ 4,999	22,166	10.6%	20.5%	\$1,033,314	3.6%
\$ 5,000 - \$ 9,999	35,854	17.2%	28.2%	\$3,705,385	13.0%
\$ 10,000 - \$ 14,999	36,024	17.3%	33.3%	\$5,754,158	20.2%
\$ 15,000 - \$ 19,999	25,772	12.4%	25.0%	\$6,086,998	21.4%
\$ 20,000 - \$ 24,999	25,218	12.1%	25.3%	\$5,149,205	18.1%
\$ 25,000 - \$ 29,999	23,413	11.2%	25.5%	\$3,548,156	12.5%
\$ 30,000 - \$ 34,999	19,783	9.5%	24.2%	\$1,924,918	6.8%
\$ 35,000 - \$ 39,999	12,120	5.8%	16.9%	\$822,451	2.9%
\$ 40,000 and over	4,330	2.1%	0.7%	\$176,072	0.6%
Total	208,342	100.0%	14.3%	\$28,496,272	100.0%

EITC Claims by County, 2009



Percentage of All Households Claiming EITC



EITC and Other State Assistance Programs, 2009

Number of Households

Medicaid	302,283
EITC	208,342
Food Assistance	182,956
Iowa Care	61,697
FIPS	18,156
hawk-i	14,470

Impact of 2007 Law Change, 2009

Adjusted Gross Income Class	2009 Actual Amount Claimed	2009 Estimated Amount Under pre-2007 law	Benefit of full 2007 Law Change
\$0 or less	\$295,615	\$3,530	\$292,085
\$1 - \$4,999	\$1,033,314	\$11,627	\$1,021,687
\$5,000 - \$9,999	\$3,705,385	\$203,301	\$3,502,084
\$10,000 - \$14,999	\$5,754,158	\$807,845	\$4,946,313
\$15,000 - \$19,999	\$6,086,998	\$3,573,486	\$2,513,512
\$20,000 - \$24,999	\$5,149,205	\$4,194,088	\$955,117
\$25,000 - \$29,999	\$3,548,156	\$2,890,830	\$657,326
\$30,000 - \$34,999	\$1,924,918	\$1,540,612	\$384,306
\$35,000 - \$39,999	\$822,451	\$571,066	\$251,385
\$40,000 and over	\$176,072	\$72,182	\$103,890
Totals	\$28,496,272	\$13,868,567	\$14,627,705

Impacts of EITC on Poverty, 2009

Income and Poverty Thresholds for Households Eligible for EITC and Below Poverty

Federal Adjusted Gross Income	Number of Households eligible for EITC and in Poverty	Federal Average Gross Income	Average Poverty Threshold	Average Amount Below Poverty
\$ 0 or less	2,545	-\$34,872	\$15,563	\$50,435
\$ 1 - \$ 4,999	22,067	\$3,244	\$13,719	\$10,475
\$ 5,000 - \$ 9,999	35,918	\$7,879	\$14,207	\$6,328
\$10,000 - \$14,999	25,429	\$12,460	\$17,247	\$4,787
\$15,000 - \$19,999	11,443	\$17,410	\$21,617	\$4,207
\$20,000 - \$24,999	4,537	\$22,195	\$25,649	\$3,454
\$25,000 - \$29,999	1,368	\$27,086	\$30,607	\$3,521
\$30,000 - \$34,999	318	\$32,141	\$36,175	\$4,034
\$35,000 - \$39,999	96	\$37,065	\$40,244	\$3,179
\$40,000 and over	31	\$43,582	\$47,868	\$4,286
Total	103,752			

Impacts of EITC on Poverty, 2009

Average lowan Eligible for EITC and Below Poverty by AGI

Federal Adjusted Gross Income	Average Amount Below Poverty	Average Federal EITC	Average lowa EITC	Average Remaining Amount Below Poverty
\$ 0 or less	\$50,435	\$991	\$63	\$49,381
\$ 1 - \$ 4,999	\$10,475	\$602	\$44	\$9,829
\$ 5,000 - \$ 9,999	\$6,328	\$1,435	\$99	\$4,794
\$10,000 - \$14,999	\$4,787	\$3,017	\$203	\$1,567
\$15,000 - \$19,999	\$4,207	\$4,086	\$269	-\$148
\$20,000 - \$24,999	\$3,454	\$3,841	\$232	-\$619
\$25,000 - \$29,999	\$3,521	\$3,002	\$166	\$353
\$30,000 - \$34,999	\$4,034	\$2,050	\$106	\$1,878
\$35,000 - \$39,999	\$3,179	\$1,285	\$60	\$1,834
\$40,000 and over	\$4,286	\$633	\$10	\$3,643

Reasons for Entering EITC

Major Reasons	2007-2009
Earned Income Drops	67.1%
Add Dependents	27.9%
Changes in Marital Status	22.9%
Investment Income Drops	6.2%
Enter Workforce	2.2%

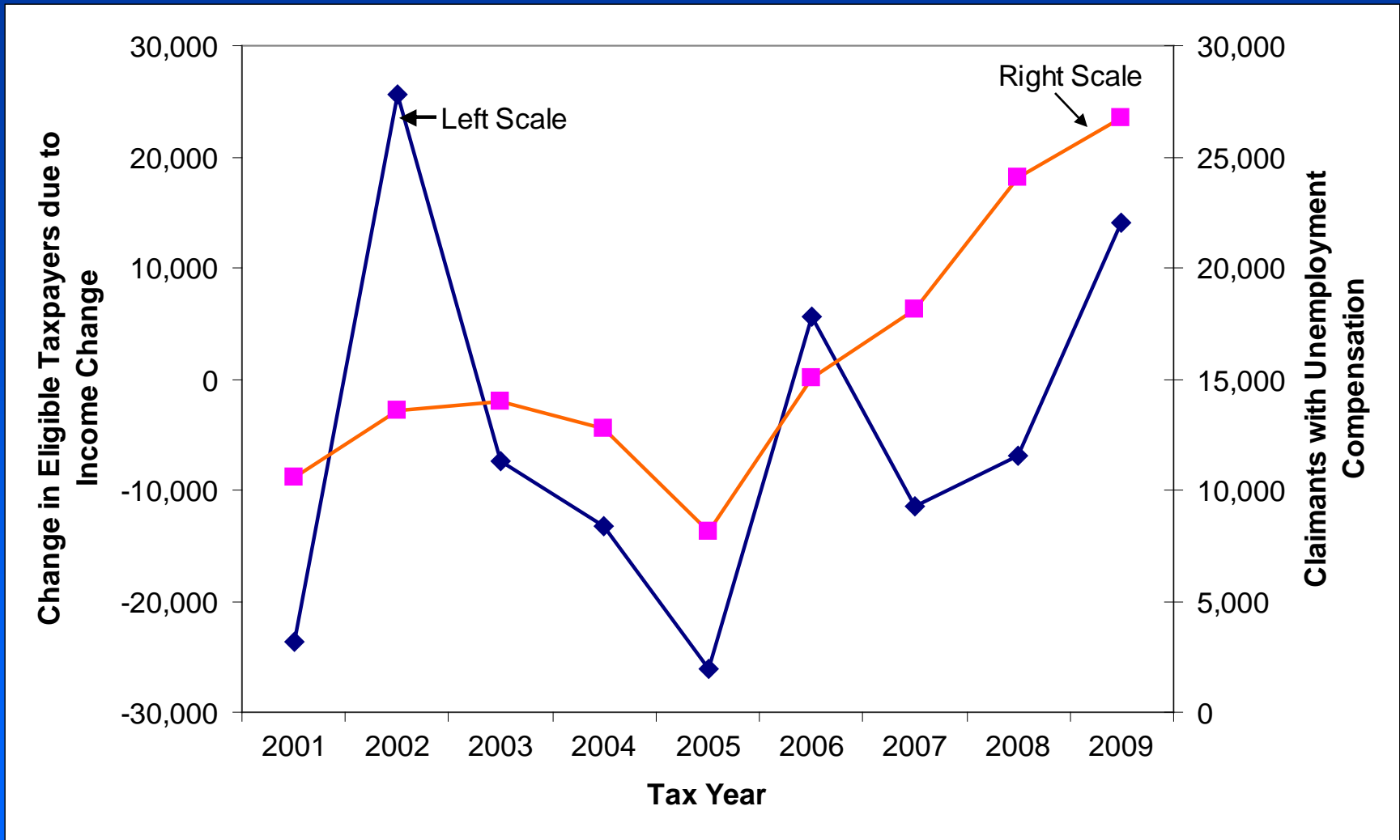
Shares of different reasons are not mutually exclusive.

Reasons for Exiting EITC

Major Reasons	2007-2009
Earned Income Increases	76.3%
Changes in Marital Status	19.1%
Investment Income Increases	4.9%
Exit Workforce	4.5%
Fewer Dependents	0.8%

Shares of different reasons are not mutually exclusive.

New EITC Eligible Taxpayers in Business Cycle



Final Thoughts

- 2007 law change doubled claims and the number of claimants
- EITC helps Iowa working families and reduces poverty
- EITC has a bigger impact during economic slowdowns
- Evaluation study should be released in January, 2012
- Questions?