IOWA Department of REVENUE

Iowa's Earned Income Tax Credit
Tax Credits Program Evaluation Study

December 2011
Revised February 2012

By
Zhong Jin
Bob Rogers

Tax Research and Program Analysis Section
Iowa Department of Revenue

Preface

During the 2005 Legislative Session the Iowa Department of Revenue received an appropriation to establish the Tax Credits Tracking and Analysis Program to track tax credit awards and claims. In addition, the Department was directed to perform periodic evaluations of tax credit programs. An initial evaluation of the State's Earned Income Tax Credit was released in 2007. This study updates and expands the evaluation of that credit.

As part of the evaluation, an advisory panel was convened to provide input and advice on the study's scope and analysis. We wish to thank the members of the panel: Charles Bruner of the Child & Family Policy Center, Robert Krebs of the Iowa Department of Human Services, Dr. Peter Orazem of Iowa State University, and Jason M. Stone of the Taxation Section Council at the Iowa State Bar Association and representing the Iowa Taxpayers Association. (The assistance of an advisory panel implies no responsibility for the final product.) We would also like to thank Grinnell College student intern Kunal Bansal for his help with the study.

This report was revised on February 27, 2012. The numbers in Table 8 (page 41) were changed. The income tax threshold for a single filer was reduced to reflect the tax reduction rule for single filers (which allows a single filer to retain $9,000 in income after tax liability) rather than the alternate tax which single filers cannot use. In addition, the Iowa EITC calculations were reduced for some taxpayers to reflect that Iowa did not couple with the federal increase in the marriage bonus or the federal increases in the credit for three or more dependents in tax year 2009. The corresponding text was also revised (page 16).

This study and other evaluations of Iowa tax credits can be found on the Tax Credits Tracking and Analysis Program Web page on the Iowa Department of Revenue Web site located at:
http://www.state.ia.us/tax/taxlaw/creditstudy.html

Table of Contents

Executive Summary

The Iowa Earned Income Tax Credit (EITC), introduced in 1989, allowed taxpayers who claimed the federal EITC to claim a nonrefundable credit equal to 5 percent of the federal EITC. In 1991, the Legislature increased the credit rate to 6.5 percent of the federal EITC. In 2007, the credit rate was raised to 7 percent of the federal EITC and was made refundable.

The major findings of the study are these:

Earned Income Tax Credit in the United States

- Twenty-two states and the District of Columbia currently offer an EITC. Along with 18 other states, Iowa's EITC is refundable. Four of Iowa's neighbors, Illinois, Minnesota, Nebraska, and Wisconsin, also offer a refundable EITC.

- Wisconsin has the highest tax credit rate among the states, 43 percent for families with three or more children. The maximum tax credit in Wisconsin ($2,436) is also the highest among the states in 2011. Louisiana and North Carolina have the smallest percentage of the federal credit at 3.5 percent, resulting in a maximum credit of $198. Iowa's maximum tax credit for 2011 is $397.

Analysis of Iowa Earned Income Tax Credit Claims

- 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, totaling $13.8 million. A refundable EITC is that portion of the credit which exceeds a claimant's Iowa individual income tax liability.

- In tax year 2009, single filers accounted for 26.0 percent of households claiming the Iowa EITC and made 10.1 percent ($2.8 million) of total claims. Head of household filers accounted for 45.8 percent of households claiming the EITC and made 58.5 percent of total claims ($16.7 million). Married filers accounted for 28.1 percent of households claiming the EITC and made 31.3 percent of claims ($8.9 million).

- In tax year 2009, households with at least one dependent accounted for 75.0 percent of households claiming the EITC and made 94.5 percent of total claims ($26.9 million).

- Households making an EITC claim in tax year 2009 accounted for 37.3 percent of Iowa's population aged 0 to 17.

- Iowa EITC claimants are concentrated among lower income families. In tax year 2009, 59.3 percent of households claiming EITC had Iowa adjusted gross income (AGI) of less than $20,000, which is income reported on the Iowa tax return before any federal or Iowa in-kind benefits. In terms of the amount of credits claimed, 59.2 percent ($16.9 million) of the total amount of EITC was claimed by taxpayers with Iowa AGI less than $20,000.

- Among the four Iowa income tax credits that target Iowa families, the EITC had the most claimants and claims in tax year 2009. The next largest family credit was the Tuition and Textbook Tax Credit with 121,446 claimants and $15.2 million in claims. While 40.7 percent of EITC claimants had Iowa AGI above $20,000, 98.2 percent of Tuition Textbook Tax Credit claimants had AGI above $20,000. With eligibility caps of $45,000, 70.6 percent of households claiming the Child and Dependent Care Tax Credit and 68.1 percent of households claiming the Early Childhood Development Tax Credit had gross income above $20,000.

- Without the Iowa EITC the income tax liability threshold would fall below the federal poverty threshold for all households with children. The EITC raises the income tax liability threshold above the poverty threshold for head of household families with one or two children, but is not adequate to raise the income tax liability threshold above poverty for married households with children.

- In tax year 2009, 49.7 percent of households claiming the EITC received a fully nonrefundable credit totaling $12.4 million, which offset their Iowa tax liabilities. For 8.6 percent of households claiming $4.6 million of credits, positive State tax liabilities were reduced to zero or made negative, resulting in refunds, because of the EITC. The remaining 41.7 percent of households had no positive Iowa tax liability, so received fully refundable credits totaling $11.5 million.

- Iowa EITC claimants with AGI below $25,000 have a lower average Iowa tax liability than Social Security recipients. However, at higher income levels, the preferential tax treatment of retirement income results in a lower average tax liability for Social Security recipients than for EITC claimants.

- In 2009, 11.8 percent of Iowa households were in poverty while 14.7 percent claimed an Iowa EITC. In that same year, 16.1 percent of Iowa households participated in the Medicaid program and 13.6 percent received Food Assistance (food stamps).

- In tax year 2009, 28,534 taxpayers were eligible for an Iowa EITC but did not claim the credit. Among these taxpayers, 82.8 percent of taxpayers did not claim either the federal or Iowa EITC, while 17.2 percent of taxpayers claimed the federal EITC but not an Iowa EITC. Forty percent are single filers eligible for a very small Iowa credit.

Impacts of the 2007 Law Change

- In tax year 2006, when the Iowa EITC was nonrefundable but the federal credit was refundable, 72,157 Iowa households claimed only a federal EITC while 102,811 claimed both a federal and Iowa EITC. In 2007, when the Iowa EITC was also refundable, only 7,728 households claimed only a federal EITC while 187,450 households claimed both.

- The 2007 law change increased EITC claims by an estimated $14.6 million in tax year 2009. Making the credit refundable accounted for $13.7 million of new claims. Increasing the credit rate from 6.5 percent to 7 percent accounted for $0.9 million of additional claims in 2009.

- Most of the impact of the law change benefited low income families because these households were less likely to have Iowa tax liability. Households with Iowa AGI below $20,000 received 89.2 percent of the benefit.

Earned Income Tax Credit and Poverty

- In tax year 2009, 271,956 households filing Iowa tax returns had income that fell below the 2009 federal poverty threshold. Of those households in poverty, 104,787 households were eligible for the Iowa EITC.

- For 19.8 percent of households claiming the EITC who had income below the federal poverty threshold, the federal and Iowa EITC were sufficient to raise household income above the poverty threshold. For households with federal AGI between $15,000 and $30,000, the federal and Iowa EITC lifted the income of more than 50 percent of households above the poverty threshold.

- Only 2.8 percent of single taxpayers were moved out of poverty by the EITC in 2009. Nearly 40 percent of head of household filers and married filers were moved out of poverty by the EITC.

- In 2009, 49.7 percent of EITC claimants had AGI above the federal poverty threshold. Average credits are higher for those households who are in poverty in comparison to those households who are above the poverty threshold with similar filing statuses and number of dependents.

Earned Income Tax Credit, Persistence, and the Business Cycle

- In tax year 2009, 38.2 percent of households claiming the EITC made claims in tax year 2009 but not in 2008, and 18.2 percent claimed the EITC in tax years 2008 and 2009, but not 2007.

- In tax year 2009, 4,140 households had claimed the EITC every year between 2000 and 2009 (long-term claimants). As a comparison, 13,143 households only claimed in tax year 2008 but not in any other year between 2000 and 2009 (one-year claimants). Over seventy percent of the long-term EITC claimants had a filing status of head of household, while 8.6 percent of one-year claimants filed head of household. Fewer than three percent of long-term claimants filed single, while 47.8 percent of one-year claimants filed as single taxpayers. Only 3.9 percent of long-term EITC claimants had no dependents, while 62.2 percent of one-year claimants had no dependents.

- Only 25.8 percent of tax year 2009 claimants made only that one claim since tax year 2000. Thus one-third of “new” EITC claimants in 2009 (but not in 2008) had actually made a claim in at least one prior year during the last decade. One-fifth claimed the EITC in tax year 2009 and only one other year, while 21.5 percent claimed the credit in three years during the ten year period. Only 2.0 percent of 2009 claimants had made a claim in all ten years.

- Between tax years 2007 and 2009, 22.7 percent of all Iowa households made at least one claim to the Iowa EITC.

- A change in earned income, which can be influenced by business cycles, is the most common reason for taxpayers to move in or out of EITC eligibility. Between 2007 and 2009, 67.1 percent of households were newly eligible for the EITC because of a drop in earned income. Conversely, an average of 76.3 percent of households moved out of EITC eligibility because of an increase in earned income.

- More taxpayers claimed the EITC during the most recent recession as a result of income drops. During the 2008-2009 recession, the net change in eligible households for the EITC due to changes in income rose above zero (14,069). The number of households claiming the EITC and receiving unemployment compensation also increased steadily from 2007 (18,109) to 2009 (26,709).

This page intentionally left blank.

I. Introduction

In 2007, the Iowa Department of Revenue (IDR) conducted a study to evaluate the Iowa Earned Income Tax Credit (EITC). The 2007 study reviewed the background and the history of the Iowa EITC, the federal EITC, and the EITCs of other states. Summary statistics for the Iowa EITC claims were analyzed. The study also compared impacts of various proposals to change the Iowa EITC and reduce the tax burden on low and moderate income families.

There are two main goals of this second evaluation of the Iowa EITC. The first is to update the data presented in the first evaluation study. The second is to examine the effectiveness of the Iowa EITC in aiding low and moderate income families with the expansion of the EITC in 2007. In Section II, federal, Iowa, and other states' EITC legislation are discussed. In Section III, recent literature on the EITC is reviewed. Section IV presents descriptive statistics on Iowa EITC claims, provides data on claims through the 2009 tax year, and summarizes other types of assistance administrated by other state agencies. Section V discusses various issues related to the EITC, such as impacts of the 2007 law change and the effectiveness of EITC in reducing poverty.

II. Earned Income Tax Credits in the United States

A. The Federal Earned Income Tax Credit

The federal Earned Income Tax Credit was first enacted as part of the Tax Reduction Act of 1975 to offset the Social Security payroll tax for low income workers with children. In 1975, the credit equaled 10 percent of earned income, up to $4,000. Therefore the maximum credit in 1975 was $400. The maximum $400 credit was reduced by $1 for every $10 earned over $4,000, so if a taxpayer earned more than $8,000, the credit was completely phased out. The Revenue Act of 1978 increased the maximum credit to $500 and made the credit permanent. The maximum credit was increased again to $550 by the Deficit Reduction Act of 1984. The Tax Reform Act of 1986 increased the tax credit rate from 10 percent to 14 percent which increased the maximum credit to $851. Starting in 1987, the credit was indexed for inflation. The Omnibus Budget Reconciliation Act of 1990 added a supplemental credit amount for families with two or more children. From 1991 to 1996, the phase-in credit rate was steadily increased from 17.3 percent for a family with two or more dependents to 40 percent. The Omnibus Budget Reconciliation Act of 1993 augmented the EITC by making a small credit available to low income 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 by $1,000 in 2002, reaching $3,000 above that for single filers by 2008. The American Recovery and Reinvestment Act (ARRA) in 2009 provided a two year increase in the "marriage bonus" to $5,000 and expanded the credit for workers with three or more qualifying children. Families with three or more children could receive an EITC benefit of up to 45 percent of their earned income, as compared to 40 percent before ARRA. These changes were extended through tax year 2012 by the 2010 Tax Relief Act.

The federal EITC equals a fixed percentage of earnings from the first dollar of earnings until the credit reaches a maximum; both the percentage and the maximum credit depend on the number of qualifying dependents in the family (see Figures 1 and 2). The credit remains at that maximum as earnings continue to rise, until earnings reach the phase-out range. From that point the credit falls with each additional dollar of earnings until it disappears entirely. In tax year 2011, the maximum credit for eligible households with one child was $3,094 and was $5,751 for households with three or more children (see Table 1). The phase-in rates are the same for single and married. However, starting in 2002 the income levels at which the credit begins to phase-out are different. The "marriage bonus" makes married filers eligible for credits at higher income.

In 2011, the federal credit was 7.65 percent of earnings up to $6,100 for households with zero dependents, 34 percent of earnings up to $9,100 for taxpayers with one dependent, 40 percent of earnings up to $12,750 for taxpayers with two dependents, and 45 percent of earnings not exceeding $12,750 for taxpayers with three or more children. The phase-out range began at $7,590 for singles with no dependents, and $16,690 for singles with one or more dependents. With a phase-out rate of 7.65 percent, the credits were completely phased out once earned income rose to $13,660 for single filers with zero children. The phase-out range for married couples started at income $5,080 higher than single filers. Head of household filers with one child face a phase-out rate of 15.98 percent, with credits phased-out at $36,052. Head of household filers with two or more children face a phase out rate of 21.06 percent, with credit phased out at $40,964 for head of household filers with two children, and $43,998 for head of household filers with three or more children. For tax year 2009, the most recently available data, 26.5 million households made over $59 billion in federal EITC claims.

In order to qualify for the federal EITC, a taxpayer must meet certain conditions. The taxpayer must have earned income. Earned income includes all wages, salaries, tips, farm income, and other employee compensation, such as union strike benefits, plus the amount of the taxpayer's net earnings from self employment.[1] Taxpayers cannot have investment income above $3,150 in tax year 2011. The taxpayer, spouse (if filing jointly), and any qualifying children must have Social Security Numbers. The taxpayer must be a U.S. citizen or resident alien for the entire tax year and use a filing status other than married filing separately.

A taxpayer must either have a qualifying child or meet three conditions to claim the credit. If a taxpayer does not have a qualifying child, then the taxpayer: 1) must be between the ages of 25 and 65 at the end of the year; 2) cannot be the dependent or a qualifying child of another taxpayer; and 3) must live in the United States for more than half of the tax year.

A qualifying child is defined as follows: 1) A child living with the taxpayer in the U.S. for more than half of the tax year; 2) A son, daughter, adopted child, grandchild, stepchild, foster child, brother, sister, stepbrother, stepsister, or any descendent the taxpayer cares for as his or her own child; and 3) A child under the age of 19 at the end of the year, under the age of 24 if the child is a full-time student, or any age if the child is permanently and totally disabled.

B. The Iowa Earned Income Tax Credit

Legislation creating Iowa's Earned Income Tax Credit was passed during the 1989 Legislative Session.[2] The credit rate was 5.0 percent of the federal EITC for which the taxpayer was eligible. The State EITC was nonrefundable, so the credit claim could not exceed the remaining income tax liability of the taxpayer after the personal exemption credits and other nonrefundable credits were deducted. During the 1990 Legislative Session the amount of the credit was increased to 6.5 percent in an effort to further help the working poor in Iowa. For the 1991 through 2006 tax years, the credit was 6.5 percent of the federal EITC and remained nonrefundable. On January 1, 2007, the amount of the credit increased to 7.0 percent and became refundable after the law change passed in the 2007 Legislative Session.

The Earned Income Tax Credit is designed to support work and recognize, within the income tax code, the basic financial needs low income workers have in providing for themselves and their dependents. In addition to the direct financial benefit to low income working Iowans, 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

[1] Unemployment benefits do not qualify as earned income.
[2] The State's EITC can be found in Section 422.12B, Code of Iowa.

expend a minimum amount of state funds for services that meet TANF purposes. This requirement is referred to as maintenance of effort (MOE).

The federal agency responsible for the TANF block grant has determined that the refundable portion of state earned income tax credits can be considered to be a MOE expenditure if it meets one or both of the following TANF purposes: 1) Provides assistance to needy families so that children may be cared for in their own homes or in the homes of relatives; and 2) Ends the dependence of needy parents on government benefits by promoting job preparation, work, and marriage. Since the Iowa EITC became refundable in 2007, expenditures eligible for TANF maintenance of effort have averaged approximately $12 million each year. Note that only the refundable credit claimed by households with at least one dependent counts as MOE.

In addition to meeting MOE for TANF, Iowa's refundable EITC also enabled the State to qualify for over $19 million in TANF emergency funds under the ARRA of 2009. Under the ARRA, states could qualify for TANF emergency funds in three different categories based on increased expenditures of TANF and maintenance of effort when comparing expenditures for federal fiscal years 2009 and 2010 to either federal fiscal year 2007 or 2008. Iowa's refundable EITC fell within the category of short-term benefits. Using the base fiscal year of 2007 when there was no refundable credit compared to the amount paid to families in federal fiscal years 2009 and 2010, the State received over $19 million more in TANF emergency funds than it would have without the credit. These funds have been used to support the State's Family Investment Program (FIP) in fiscal years 2010 through 2012, reducing the amount of State funds that would have otherwise been needed for the program.

C. Earned Income Tax Credits in Other States

In the 2011 tax year, 22 states (including Iowa) and the District of Columbia offered EITCs (see Table 2).[3] All the states offering a state EITC except for Minnesota determine the amount of their credit as a percentage of the federal EITC. Delaware, Maine, and Virginia are the only states that have a completely nonrefundable state EITC. Rhode Island has portions of the state credit that are refundable and non-refundable. Louisiana and North Carolina have the smallest percentage of the federal credit at 3.5 percent, resulting in a maximum credit of $198. Wisconsin has the highest rate at 43 percent for families with three or more children, resulting in a maximum credit of $2,436. Iowa's maximum tax credit in 2011 was $397.

Four of Iowa's neighbors offer an EITC: Illinois, Minnesota, Nebraska, and Wisconsin. Illinois provides a refundable tax credit equal to 6 percent of the federal credit. The maximum tax credit was $340 for Illinois in 2011. Nebraska offers a refundable tax credit equal to 25 percent of the federal credit. The maximum tax credit was $1,417 for Nebraska in 2011.

Wisconsin has the largest refundable state credit at 43 percent of the federal credit for a household with three or more children. For households with two dependents, the tax credit rate is 14 percent. For taxpayers with only one dependent, the tax credit rate is 4 percent. Wisconsin does not offer an EITC to taxpayers with no dependents.

Minnesota's credit for families with children used to be structured as a percentage of the federal credit. Since 1998, Minnesota's refundable tax credit equals a percentage of the earnings of low income households. In 2011, for households with only one child, the phase-in rate was 8.5 percent of earnings and the phase-out rate was 5.73 percent. The maximum tax credit was $914. For households with two or more children, the phase-in rate was 10 percent of the first $12,600 of earnings, and 20 percent of earnings between $19,260 and $21,770. The phase-out rate was 10.3 percent and the maximum credit was $1,762.

[3] Washington will implement an EITC at 10 percent of the federal credit or $50, whichever is higher, beginning in 2012.

III. Literature Review

Studies such as Eissa and Hoynes (2011) have focused on the characteristics of federal EITC claimants. In 2004, of the 22.1 million taxpayers claiming the $40.1 billion of federal EITC, the claims were about evenly split between households with one child (8.4 million) and those with two or more children (9.2 million). Filers with two or more children received 62 percent of total tax credits, while those with one child received 36 percent of the tax credits. Childless recipients represented 21 percent of all EITC recipients, numbering 4.7 million in 2004, but accounted for only two percent of the total tax credit claims.

Twenty-seven percent of EITC claimants were in the phase-in region and accounted for 23 percent of claims. Nineteen percent of recipients were in the flat region of the EITC and accounted for 29 percent of the total claims. Fifty-four percent of recipients, accounting for 48 percent of total claims, were in the phase-out region. Only five percent of tax credits went to filers in the very lowest income decile (below $5,301), where there were few eligible families.

To examine the effect of the EITC on labor supply, Eissa and Hoynes (2011) used the National Bureau of Economic Research's (NBER) TAXSIM model to calculate tax liabilities under federal and state EITCs. The study simulated the marginal tax rate of a single filer with two children, with only earned income, and taking only a standard deduction. When this taxpayer is in the phase-out region of the EITC, the credit decreases at a rate of 21 percent when earned income increases. In the same region, federal and states tax liabilities begin to rise. Therefore, the simulation results showed that this taxpayer falling in the phase-out range of the federal EITC is subject to higher marginal tax rates than those experienced by a taxpayer with much higher earnings, ignoring the alternative minimum tax and the payroll tax. Overall, the authors showed that the federal EITC has a positive effect on the labor force participation of unmarried taxpayers, but it has a negative effect on working hours of single taxpayers already in the labor force and falling in the phase-out region. The impacts of EITC are similar for married filers. The effect on labor force participation is positive, but the impact on working hours for taxpayers already in the labor force and in the phase-out region is negative.

Gunter (2011) examined how low income urban men and women in the U.S. altered their regular and informal labor supply in response to federal and state earned income tax credits. Gunter used variation in state EITCs between 1997 and 2005 to identify changes in informal and regular labor supply of unmarried men and women with children. Gunter defined the informal sector as both illegal activity and business activities that were not inherently unlawful but operated outside tax and regulatory systems. Estimates indicated that the magnitude of the informal economy in the U.S. was between seven and ten percent of official gross national product (GNP) during the late 1990s and early 2000s. Because EITCs subsidize regular work, they might induce low income workers to shift from informal to regular employment. The study found that increasing a state's refundable EITC by one percent of the federal credit decreases men's labor force participation in the informal sector by 0.60 percent and decreases hours worked per week in the informal sector by 0.27 percent. Expanding a state's EITC does not significantly affect men's regular labor force participation, but it increases average hours worked per week in the regular sector by 0.41 percent.

Both Horowitz (2002) and Dowd (2005) discuss the federal EITC, focusing on the dynamics of claims by low-income families. Horowitz found that half of EITC spells last just one year and only 9 percent last five years or more, with an average spell length of just 2.1 years. He also estimated that a drop in earnings explains over half (52.6 percent) of new EITC claims. Additional leading reasons for entries include an increase in earnings (18.9 percent) and presence of a new eligible child (11.8 percent).[1] Exits from the EITC were credited to higher earnings (43.1 percent), lower earnings (15.4), and loss of the last eligible child (15.3). Horowitz relied on the Panel Study of Income Dynamics (PSID) to carry out his analysis. The PSID, panel data collected via surveys starting in 1975, does not include actual

EITC claim information. Rather Horowitz calculated eligibility for the EITC using income and family composition relative to prevailing federal parameters, thus he assumed that eligibility for the credit was equivalent to claiming the credit.

Dowd (2005) used federal tax data to carry out his analysis of EITC dynamics, focusing on the effects of state-level economic conditions and changes in state welfare policies in driving EITC claims. He found that around half of EITC spells last just one or two years and are instigated by temporary shocks to income or the number of children in the household. The author identified persistence for those with claims in more than two consecutive years and an impact of higher unemployment rates in increasing EITC claims across the country.

Several studies have focused on state EITCs. The Center on Budget Policy and Priorities (2011) provides background information on state EITCs, such as how many states had implemented EITCs, and how people qualify for the credit. The report then explored why state EITCs had enjoyed broad, bipartisan support over the years, noting facts such as: millions of children are still in poverty, wage growth is slow, states rely heavily on regressive sales tax, evidence show that EITC encourages work and investment, and the administrative cost of EITC is low.

Johnson and Williams (2011) asserted that there were three main reasons why nearly half the states had implemented their own EITCs. First, state EITCs play an important role in providing relief from state and local taxes paid by low income working families, just as the federal EITC offsets federal income and payroll taxes. Without state EITCs, the number of states taxing the income of single parents below the poverty line would increase from 11 to 21 states, and the number of states taxing the income of married parents below the poverty line would double from 13 to 26. Creating or expanding state EITCs has helped states offset tax increases that disproportionately affect the poor, such as sales and excise taxes. Second, a state EITC complements efforts to encourage welfare recipients to enter and remain in the workforce. EITCs help families meet the ongoing expenses associated with working, such as transportation, and the credits might allow families to better cope with unforeseen costs that otherwise might drive them onto public assistance. The federal rules for the Temporary Assistance for Needy Families program (TANF) allows the refundable portion of state EITCs to be financed with federal TANF funds or with “maintenance of efforts” funds that states must spend to access federal TANF funds. Third, state-level credits lift families out of poverty and boost living standards. The wages of low-earning U.S. workers have been stagnant for some time; in fact, the wages of workers at the 20th percentile grew at an annual rate of only 0.5 percent from 1979 to 2007, after adjusting for inflation.

IV. Analysis of Iowa Earned Income Tax Credit Claims

A. Historical Earned Income Tax Credit Claims

Between 1991 and 2009, the number of EITC claims increased from 70,755 to 208,342 while the amount of claims increased from $3.4 million to $28.5 million (see Figures 3 and 4).[4] The most significant increase in claims occurred between 2006 and 2007 when the Iowa EITC rose to seven percent of the federal credit and was made refundable. The number of claims increased from 102,811 to 187,450 (82.3%) between 2006 and 2007 because eligible households with no tax liability could now claim the credit as a refund. In 2007, 104,864 households received at least one dollar of the EITC as a refund totaling $13.4 million. The amount of claims increased from $10.7 million to $23.6 million (120.6%) while the average credit increased by 20.9 percent. The large increase in the number of claims compared with the relatively smaller change in the average claim suggests claims by newly eligible taxpayers drove the more than doubling of total claims.

[4] Claim data for 1990 are unavailable.

Iowa EITC claims rise and fall counter to the business cycle. Iowa EITC claims also change with State law changes including the credit rate increase from 5.0 percent to 6.5 percent in 1991, and the aforementioned 2007 change. Because the Iowa credit is a percentage of the federal credit, federal law expansions also impact claims for the Iowa credit as long as Iowa couples with those changes.[5] At the federal level, the EITC has been indexed for inflation since 1987. From 1991 to 1996, the phase-in credit rate was steadily increased from 17.3 percent for a family with two or more dependents to 40 percent. In 2002, married taxpayers were allowed earnings of $1,000 more than unmarried filers before the phase-out began. Iowa claimants increased by 13,225 and claims rose by $1.9 million in 2002. In 2005 the gap between married taxpayers and unmarried taxpayers increased to $2,000, and then to $3,000 beginning in 2008. Although in 2009 Iowa did not couple with the federal increase in that gap to $5,000, the recession drove up both the number of claimants by 15,944 and total dollars claimed by $3.5 million.

B. Earned Income Tax Credit Claimant Characteristics

Tables 3 through 5 present demographic characteristics, such as filing status, number of dependents, and age, for households who claimed the Iowa EITC in tax year 2009, the most recent complete tax year. Head of household filers made up the largest share of Iowa EITC claims by filing status (45.8%), followed by single filers (26.0%), married joint filers (16.9%), married filing separately on the same return (11.2%), and qualifying widow(er) filers (0.1%) (see Table 3). Unmarried taxpayers (single, head of household, or qualifying widow(er)) comprised 71.9 percent of all Iowa EITC claimants, while married filers accounted for 28.1 percent of EITC claims. When viewed by amount of credits claimed by filing status, heads of households claimed the largest share (58.5%). Single filers, who had the second largest share of claims, had only the fourth largest share in terms of the amount of credits claimed (10.1%), behind married joint filers (20.3%) and married separate filers (11.0%). The reason for the difference between the share of filers and the share of claims is that households without children are eligible for smaller credits than households with children. This is also confirmed by the fact that the average EITC claim for singles ($53.06) is significantly lower than the average credit among the other four filing statuses, which range from $133.60 for married separate filing to $175.04 for head of household.

The majority of Iowa EITC claimants had either one or two dependents in the household (34.9% and 25.7%), although households with zero dependents or three dependents also made significant shares of claims (25.0% and 10.4%) (see Table 4). In terms of amount of credits claimed, households with one or two dependents claimed the largest shares of credit dollars (34.8% and 37.8%). Although the claimants with no dependents accounted for one-fourth of the number of claims, they claimed only 5.5 percent of the total amount of credits. This again reflects the structure of the EITC in which the credit increases as the number of dependents increases (up to three) assuming all other things are equal (marital status, earned income). In addition the average credit among claimants with no dependents ($30.22) is significantly less than all other dependent categories with average credits ranging from $136.55 to $234.58.

The majority of claims were made by households where the taxpayer was between the ages of 21 and 50, both in terms of the number of claims (81.8%) and in terms of the amount of credits claimed (87.4%) (see Table 5).[6] This is not surprising because taxpayers are most likely to have children at home between those ages. Nearly one-fifth of all claims (19.6%) and dollars claimed (19.7%) were made by households in which the taxpayer was between the ages of 26 and 30. In addition to having

---

[5] Coupling refers to when Iowa links its credit to current federal rules for the EITC credit base, calculations, and eligibility requirements. Iowa has always coupled with federal changes except in 2009. For 2010 and 2011, Iowa again coupled to the federal EITC.

[6] In married households, taxpayer age was based on the spouse indicated as the primary taxpayer.

children at home, these taxpayers may also be new to the labor force and more likely to have lower earnings.

The share of households with EITC claims in tax year 2009 ranged from 7.8 percent (Dickinson County) to 22.1 percent (Buena Vista County) with the statewide claim rate of 14.7 percent (see Figure 5). Of households making EITC claims, the Johnson County had the lowest average claim of $116 while Decatur County had the highest average claim of $159; the statewide average claim was $137 (see Figure 6).

In tax year 2009, in the 208,342 households that claimed the Iowa EITC, there were 266,704 adults and 282,152 dependents, totaling 548,856 individuals. The numbers include Iowa residents as well as nonresidents. Nonresidents may claim the Iowa EITC if they have Iowa-source income. Of the adults, 252,397 were Iowa residents (94.6%) and made up 13.6 percent of Iowa's population age 18 to 64. Among the children, 266,557 were Iowa residents (94.5%), equal to 37.3 percent of Iowa's population age 0 to 17 in 2009.

Iowa EITC filers are concentrated at lower income levels, with 59.3 percent of claimants earning less than $20,000 and 40.7 percent of claimants reporting $20,000 or more in Iowa AGI (see Table 6). In terms of the amount of credits claimed, 59.2 percent of EITC is claimed by taxpayers earning less than $20,000. The pattern of the average EITC claim by income group shows the structure of the EITC as it relates to income, with the average credit rising at lower income levels with taxpayers in the phase-in range, and then falling with taxpayers in the phase-out ranges. The $1 to $4,999 income group digresses from this pattern as the average credit for this group was $46.62 compared to an average credit of $80.73 in the $0 or less category. Factors other than income may influence the average credit as well. There are households with fewer dependents in the $1 - $4,999 group relative to the $0 or less group, which decreases the average credit for the $1 - $4,999 income group.

C. Earned Income Tax Credit and Other "Family" Credits

The EITC is one of four income tax credits that target families with children. Iowa also offers:

- Tuition and Textbook Tax Credit (TTC) – 25 percent of the first $1,000 of tuition and textbook expenditures per dependent in grades K-12 attending an Iowa school, for a maximum credit of $250 for each dependent. This credit is nonrefundable.
- Child and Dependent Care Tax Credit (CDC) – 75 percent to 30 percent of the federal child and dependent care credit for households with earnings and total income of less than $45,000, depending on AGI. The credit may not be taken if the Early Childhood Development Tax Credit is claimed. This credit is refundable.
- Early Childhood Development Tax Credit (ECD) – 25 percent of qualified early childhood development expenses for dependents age three to five. Household income must be less than $45,000. Eligible expenses for the credit include preschool expenses, books, instructional materials, lesson plans and curricula, and child development and educational activities outside the home. The credit may not be taken if the Child and Dependent Care Tax Credit is claimed. This credit is refundable.

In 2009, the EITC was claimed by 71.6 percent more households than the TTC (121,446 households). Only 28,324 households claimed the CDC and only 3,479 households claimed the ECD (see Table 7). While 40.7 percent of EITC claimants and 40.8 percent of EITC claims are made by households with AGI of $20,000 or more, the other three family credits have higher concentrations of claimants with AGI of $20,000 or more. In 2009, 98.2 percent of TTC claimants, 70.5 percent of CDC claimants, and 68.0 percent of ECD claimants had AGI of $20,000 or more. It also follows that taxpayers with AGI of $20,000 or more claim a higher share of the dollars of credits for the other three family credits than the EITC. Ninety-nine percent of the total amount of TTC claims, 63.6 percent of the total amount of

CDC claims, and 70.6 percent of the total amount of ECD claims are claimed by taxpayers with AGI of $20,000 or more.

It is possible that the higher concentration of low income filers with the Iowa EITC occurs because the other three credits are a function of expenditures on dependents while the Iowa EITC only requires earned income. Lower income taxpayers may not be able to spend as much money on tuition or child care. For 2009, the maximum income where an EITC may be claimed was $43,415, similar to the $45,000 income limits for claiming the CDC and the ECD. There are no income limits on eligibility for the TTC, allowing for taxpayers of all AGI levels to make claims. However, there are stark differences in the number of claimants between the Iowa EITC and the TTC at the lowest income levels. There were 123,478 households (59.3%) with AGI under $20,000 claiming the EITC. There were 2,186 households (1.8%) with AGI under $20,000 claiming the TTC. Clearly the EITC is used by lower income taxpayers, while the TTC is most utilized by moderate and high income filers.

D. Iowa Tax Liability and the Iowa Earned Income Tax Credit

Although much of the literature on the federal EITC has focused on measuring its impact on labor force participation and hours worked, it is not expected that the Iowa EITC, with a maximum credit of $397 in 2011 compared to the federal EITC maximum of $5,751, will change the labor supply of Iowans. However, the credit does play a role in reducing Iowa income tax liability for low income families and increasing their disposable income.

Without the Iowa EITC, most households would face State tax liability at income levels below the federal poverty threshold in tax year 2009 (see Table 8). Tax liability both without and with an Iowa EITC was estimated for households assuming only wage income with no net federal income tax deduction, a standard deduction, and the exemption credits. Taxpayers filing single have positive Iowa tax liability when their incomes exceed $9,025, which is below the poverty threshold for an individual of $10,830. The Iowa EITC raises the income level where taxes start above the poverty threshold for head of household families with one or two children. Married households first face Iowa income tax at an income level below the poverty threshold even with the Iowa EITC. However, the Iowa EITC significantly raised the Iowa income tax liability threshold for households with children.

Under the refundable EITC, a claimant experiences one of three cases: 1) the credit offsets part of State tax liability; 2) the credit offsets all tax liability and may result in the household receiving a refund; or 3) the credit is fully refundable. Under a purely nonrefundable credit, the household continues to incur a tax liability, although it is a reduced amount. In the second case, the household would incur a tax liability without the EITC; however when the EITC is applied the tax liability is eliminated (nonrefundable portion) and may result in a refund (refundable portion). These households are considered to be “removed from the tax roles” by the EITC. If the credit is fully refundable, the household had no tax liability and may also be in a refund situation even without consideration of the EITC. In tax year 2009 there were 103,552 households (49.7%) with a fully nonrefundable credit claiming $12.4 million (43.6%) (see Table 9). There were 17,969 households (8.6%) that went from positive tax liability to zero or negative tax liability, claiming $4.6 million (16.1%). Finally there were 86,821 households (41.7%) claiming $11.5 million in EITC (40.3%) that had fully refundable credits.

Not surprisingly, lower income claimants were more likely to have fully refundable credits as they would likely face no State tax liability. In the lowest two income groups, over 97 percent of those claimants had fully refundable credits. In the $15,000 to $19,999 income group, 41.7 percent of claimants were removed from the tax roles by the EITC. Also, not surprisingly, the higher income groups had large shares of nonrefundable credit claims. In the top three income groups, over 95 percent of claimants received nonrefundable credits. These taxpayers would tend to have higher tax liabilities, thus there would be more chance that the EITC would be less than total tax liability.

The same three cases that a taxpayer may experience under a refundable EITC (nonrefundable EITC, “removed from the tax roles”, and fully refundable) were also analyzed according to selected combinations of filing status and dependents including: (1) single filers with no dependents, (2) married filers with no dependents, one, two, and three or more dependents, and (3) head of household filers with one, two, and three or more dependents (see Table 10). Over 60 percent of single households had fully refundable credits as the EITC income eligibility is lower for households with no children; therefore they are more likely to have no Iowa tax liability. Conversely, between 48 and 56 percent of married and head of household claimants had nonrefundable credits. Married household’s income eligibility is higher than single households because of the “marriage bonus” while head of households with children also face higher income eligibility. Therefore these claimants would tend to have higher tax liabilities that would be offset by the EITC claims. Married households with one dependent stand out as 44.6 percent of EITC recipients were moved from a positive tax liability to a refund because of the EITC. That is a result of the income eligibility for that group coinciding with the point where Iowa tax liability is positive but less than the EITC.

E. Comparison of Earned Income Tax Credit Qualifiers to Social Security Recipients
In Iowa, retirees receive preferential tax treatment with the current phase-out on taxation of Social Security benefits and the Iowa pension exclusion.[7] These provisions could lead to retirees with no dependents facing lower state tax liabilities than working families. Average tax liabilities by adjusted gross income were calculated for EITC claimant households and Social Security recipients in tax year 2009 (see Table 10). In the lowest two income groups, the EITC claimants have lower average tax liabilities than the Social Security recipients on a pre-credit and post-credit basis. However, in all other income groups the average tax for EITC claimants on a pre-credit basis is higher than the average tax for Social Security recipients.

For EITC claimants with Iowa AGI between $5,000 and $24,999, average Iowa tax liability including the EITC is lower than average tax liability for the Social Security recipients. However, for households with AGI of $25,000 through $39,999, average Iowa tax liability for EITC claimants including the EITC exceeded average tax liability for taxpayers receiving Social Security benefits.

F. Earned Income Tax Credit Claims and Other State Assistance Programs
While the State offers the EITC to provide support for families in Iowa through the tax code, the State also offers other benefits to low income families administered by the Iowa Department of Human Services.[8] These programs include:

- Family Investment Program (FIP) - A temporary cash assistance program to help needy families with children work towards self-sufficiency. There is a five year lifetime limit for receiving FIP benefits, except in hardship cases. Recipients receive monthly benefits based on income and family size.
- Food Assistance (FA), or food stamps - Helps low income Iowans buy foods to meet nutrition needs. Eligibility and benefits are based on federal rules that consider things such as household size, income, and expenses. Recent state legislation expanded eligibility beginning in 2011. Previously, most households had to have gross income less than or equal to 130 percent of the federal poverty level to qualify. Under the new legislation, families with gross income up to 160 percent of the federal poverty level may qualify.

[7] In 2006 the Legislature passed a phase-out of the taxation of Social Security benefits beginning in 2007, with the taxation of Social Security benefits eliminated in 2014. In tax year 2009, 43% of taxable benefits were excluded from taxation. Iowa also has an exclusion on qualifying pension and retirement income up to $6,000 for singles, heads of households and qualifying widow(er)s, and up to $12,000 for married filers.

[8] The information can be accessed at http://www.dhs.iowa.gov/Partners/PublicInformation/AboutUs/OnePageSummaries.html

- Medicaid - Provides health care coverage to children in low income households, low income parents with children, people with disabilities, low income elderly people, and low income pregnant women.
- Iowa Care - A limited expansion of Medicaid to assist low income adults who do not qualify for Medicaid. Nearly all recipients are single persons or childless couples. Iowa Care covers people age 19 through 64 who are not eligible for Medicaid, do not have other health insurance, and have income below 200 percent of the federal poverty level. If their income is over 150 percent of the federal poverty level, they must pay an income-based premium with the exception of hardship cases, in which the premium may be waived.
- ***hawk-i*** (Healthy and Well Kids in Iowa) - Provides health insurance for children in families whose income is too high to qualify for Medicaid, but too low to afford individual or work-provided health care plans. A qualifying child must be under age 19 and in a family whose income is up to 300 percent of the federal poverty level. In March 2010, a dental-only plan was implemented for children in families who meet the regular program's income eligibility. Unlike the regular program, children who have private health or dental coverage may qualify for the dental-only plan.

In 2009, according to the U.S. Census Bureau, 11.8 percent of Iowa households were considered in poverty ranging from 21.1 percent in Decatur County to 6.3 percent in Grundy County (see Table 12). For 2009, 14.7 percent of Iowa households claimed the EITC which was exceeded only by the Medicaid program in which 16.1 percent of Iowa households participated. Participation rates in other assistance programs were 13.6 percent for the Food Assistance program, 2.5 percent in Iowa Care, 1.4 percent in FIP, and 1.1 percent in ***hawk-i***. Medicaid program participation was higher in rural counties than urban ones. There was a slight urban bias in participation in the Food Assistance and Iowa Care programs with fairly even participation between urban and rural taxpayers in the other assistance programs.[9] There were 15 counties in 2009 where the percent of households in poverty exceeded the percent of households claiming the EITC, including: Allamakee, Appanoose, Black Hawk, Davis, Decatur, Dickinson, Johnson, Lucas, Page, Poweshiek, Ringgold, Story, Taylor, Van Buren, and Wayne. However, numbers for Black Hawk, Johnson, and Story counties may be distorted as these are the counties where the state's largest universities are located. Many students may be considered in poverty, but could not claim the EITC because a childless household under age 25 is not eligible.

G. Taxpayers Eligible for the Iowa Earned Income Tax Credit Who Did Not Make a Claim

The IRS estimates that in 2011 only 80 percent of eligible people claimed the federal EITC (IRS, 2011). The 20 percent of eligible people who did not claim likely did not realize they were eligible because their earnings dropped, marital status changed or they became a parent in 2011. Similarly in Iowa, for tax year 2009, it is estimated an additional 13.7 percent of taxpayers could have claimed the Iowa EITC.

In tax year 2009, 28,534 taxpayers were eligible for an Iowa EITC but did not claim the credit. Among these taxpayers, 82.8 percent of taxpayers (23,637) did not claim either the federal or Iowa EITC, while 17.2 percent of taxpayers (4,897) claimed the federal EITC but not the Iowa EITC (see Table 13). Among taxpayers who did not claim any EITC, 39.8 percent (9,399) filed as single and 27.7 percent (6,548) filed as head of household; 19.8 percent (4,669) had no dependents, while 39.5 percent (9,325) had just one dependent. Among taxpayers who only claimed the federal EITC, 39.2 percent (1,920) filed as single and 15.9 percent (777) filed as head of household; 42.5 percent (2,082) had no dependents and 57.5 percent (2,815) had at least one dependent.

[9] The following counties are considered urban: Black Hawk, Dubuque, Johnson, Linn, Polk, Pottawattamie, Scott, Story, and Woodbury.

For taxpayers who were eligible but did not claim either the federal or Iowa EITC in 2009, the average credit that they could have received was $99. For taxpayers who were eligible but only claimed the federal EITC in 2009, the average credit that they could have received was $86. For all Iowa EITC claimants in 2009, the average credit was $137. Among eligible taxpayers who did not claim any EITC, 16.4 percent (3,875) claimed an Iowa EITC at least once in 2007 and 2008. For taxpayers who only claimed the federal EITC in 2009, 28.2 percent (1,381) claimed an Iowa EITC at least once in 2007 and 2008.

V. Impacts of the Iowa Earned Income Tax Credit

A. Impact of the 2007 Law Change

Making the EITC refundable in 2007 resulted in an increase in the number of EITC claims from 102,811 in 2006 to 187,450 in 2007 (82.3%) because eligible taxpayers with no tax liability could claim the credit as a refund. Refundability also dramatically reduced the number of Iowa taxpayers who claimed only a federal credit. From 2000 through 2006, the number of Iowa households who claimed only a federal credit ranged from 58,000 to 74,000, while the number of filers who claimed both a federal and an Iowa credit ranged from 76,000 to 103,000 (see Figure 7). Because the federal credit was refundable while the Iowa EITC was nonrefundable, taxpayers with no Iowa tax liability could claim a federal credit, but could not claim the Iowa EITC. After the Iowa credit was made refundable, the number of taxpayers who claimed only a federal credit fell to just over 7,000. In tax years 2007 and 2008, Iowa was coupled to the federal EITC, so there was no reason why any taxpayer eligible for a federal credit should not claim an Iowa credit unless the taxpayer was unaware of the Iowa credit or its refundability. In tax year 2009, Iowa did not couple with the federal increase in the "marriage bonus" or the higher credit for households with three or more children; therefore some taxpayers were again eligible for the federal credit but not the Iowa credit. In fact, 64.7 percent of the households that claimed a federal credit but not an Iowa credit were married filers. Among the married filers, 52.9 percent had income of $40,000 or more, which captures the households that would have benefited from the increase in the "marriage bonus" had Iowa coupled. In addition, 28.4 percent of all households that claimed a federal credit but not an Iowa credit had three or more dependents.

Along with raising the number of claimants, the 2007 EITC change increased the total dollars claimed. In tax year 2009, if the Iowa EITC were still at 6.5 percent and nonrefundable, claims would have been an estimated $13.9 million compared to actual claims of $28.5 million (see Table 14).[10] If the credit had been increased to 7.0 percent but remained nonrefundable, claims would have only increased $0.9 million. If the credit had been changed to refundable but remained at 6.5 percent, claims would have increased by $13.7 million. Total claims by households with AGI below $15,000 were increased by 600 to 9,000 percent under the refundability change compared to just four to six percent under the rate increase. Clearly, the refundability provision was the most significant factor for raising credit claims.

If the EITC had been nonrefundable in tax year 2009, 117,904 households would have had an effective tax increase; either they would have owed the State more, or they would not have received a refund. As expected, most of the impact occurs at low income levels because these households are less likely to have Iowa tax liability. While 53.9 percent of all claims are made by households with Iowa AGI below $20,000, 89.4 percent of the households who would experience tax increases under a nonrefundable credit have AGI below $20,000.

After the 2007 law change, the percentage of households claiming EITC on their tax returns increased in all counties in Iowa (see Figure 8). Between 2006 and 2009, the share of households claiming EITC

[10] Prior law claims were estimated using the Department individual income tax micro model.

in Woodbury County increased by 11.1 percentage points, the highest percentage increase among all counties. The share of households claiming EITC in Dickinson County increased by 3.8 percent, the lowest increase among all counties.

B. Recent Policy Proposal for an Expansion of the Earned Income Tax Credit
During the 2011 Iowa legislative session, Senate File 31 increased the EITC from 7.0 percent of the federal credit to 10.0 percent of the federal credit. The change was retroactive to January 1, 2011. Although this bill was considered by the Iowa Legislature, it was never enacted into Iowa tax law.

The proposed expansion of the EITC was estimated to reduce tax revenues on a fiscal year (FY) basis by the following amounts: $0.1 million in FY 2011, $14.7 million in FY 2012, $13.7 million in FY 2013, $11.5 million in FY 2014, and $11.6 million in FY 2015.[11] Since the bill would have taken effect on January 1, 2011, nearly all of the impact would have occurred on final returns filed in 2012. The FY 2011 impact would be from some taxpayers changing their withholding as a result of the law change. Full year impacts would begin in FY 2012. The drop in fiscal year impacts in 2014 reflects the reduction in the federal credit that will occur in tax year 2013 under current law. The Tax Relief Act of 2010 extended the "marriage bonus" and higher credit for three or more children for only two years.

C. The Earned Income Tax Credit and Poverty
With the EITC policy goal of providing support for low income working families, it is reasonable to consider the extent to which the EITC helps to lift the lowest income households out of poverty. For this analysis, both the federal EITC and the Iowa EITC are considered because (1) the Iowa EITC supplements the federal EITC and (2) the Iowa EITC is not large enough on its own to lift taxpayers out of poverty. However, all other federal and Iowa benefits are ignored.

In 2006, 12.5 percent of all Iowa households claimed an Iowa and federal or only federal EITC, 1.5 percent more than the share of households living in poverty (see Table 15). In 2009, the difference increased to 3.8 percent. More remarkably, in tax year 2006, only two counties had five percent or more households claiming the EITC than in poverty (Marshall and Buena Vista). In tax year 2009, 37 counties had EITC claiming rates that exceeded the poverty rates by five percent or more. These results are undoubtedly due to the refundability of the EITC expanding credit claims because the statewide poverty rate increased from 11.0 percent in 2006 to 11.8 percent in 2009. In 2006, 13 counties had poverty rates exceeding the EITC claim rate compared to nine in 2009.

In tax year 2009, 271,956 households filing Iowa tax returns had income that fell below the 2009 federal poverty thresholds (see Table 16). These thresholds are determined by the U.S. Department of Health and Human Services and vary based on family size. Of those 271,956 households, 104,787 households qualified for the Iowa EITC.

To determine the extent the EITC lifts these households out of poverty, the average federal EITC and the average Iowa EITC are summed and subtracted from the average amount by which the average household income falls below poverty. The relevant poverty threshold based on family size is identified for each household in the income group, summed, and divided by the number of households. For example, in the $15,000 - $19,999 income group, the average poverty level for the 11,459 households is $21,610. Next, average gross income is computed by dividing total gross income by the number of households to obtain the average.[12] For the $15,000 - $19,999 income group, total gross income (income before adjustments such as moving expenses) is divided by the 11,459 households to get average gross income of $17,408. Then, the average gross income

[11] Iowa fiscal years begin July 1 and end on June 30. For example, fiscal year 2011 began on July 1, 2010 and ended on June 30, 2011.
[12] Gross income does not include any in-kind federal and State benefits.

($17,408 for the $15,000 - $19,999) is subtracted from the average poverty threshold ($21,610) to obtain the average amount below poverty for each income group ($4,202). Finally, average federal and Iowa EITC claims are subtracted to determine the average amount of income remaining below poverty.

For all but two income groups, adding the average EITC to average household income does not raise the household above poverty. For the $15,000 - $19,999 income group the average federal EITC ($4,085) and the average Iowa EITC ($269) together exceed the average amount below poverty ($4,202) by $152. The same is true for the $20,000 - $24,999 income group. The calculations for these two income groups suggest that on average, these taxpayers are lifted out of poverty with the federal and Iowa EITC. Indeed over 62 percent of all taxpayers in those income groups are moved out of poverty. For the lower and higher income groups, the EITC is not adequate to raise incomes above poverty for the majority of households once again reflecting the structure of the EITC.

Similar methodology to measure the extent that the EITC removed households out of poverty was applied to EITC eligible taxpayers by selected combinations of filing status and dependents including: (1) single filers with no dependents, (2) married filers with no dependents, one, two, and three or more dependents, and (3) head of household filers with one, two, or three or more dependents (see Table 17).[13] Note that many single taxpayers and married households with no dependents considered to be in poverty are not eligible to claim the EITC. However, most households with children are eligible. Because these groups include households with income ranging from one dollar to the poverty thresholds, the combined federal and Iowa EITC lift less than 40 percent out of poverty. The average credit amounts reflect the structure of the EITC in that single taxpayers receive less benefit relevant to married filers and head of household filers, and the credit tends to increase as the number of dependents increase. This does not occur for the head of household filers because earnings, which also influence the amount of the credit, are not accounted for in this analysis.

Many households eligible for the EITC are not considered in poverty. Indeed, in 2009, 49.7 percent of EITC claimants had AGI above the federal poverty thresholds. Similar analysis was performed on the combinations of filing status and dependents for taxpayers eligible for the EITC with income above poverty (see Table 18). Again, the average credit amounts generally reflect the structure of the EITC in that the credit is more beneficial to married taxpayers and heads of households than it is to singles, and the credit rises with more dependents.

One important observation to note is that average credits are higher for those households who are in poverty in comparison to those households who are above the poverty threshold with similar filing statuses and number of dependents. This reflects that households who are not in poverty are likely to be in the phase-out range of the credit. However, the comparison shows that the EITC targets the households it is intended to reach: lower income households.

D. The Persistence of the Earned Income Tax Credit and its Relationship to the Business Cycle

Although it is interesting to consider trends in total credit claims and characteristics of those claiming the individual credits in any year, the goal of the EITC is not only to reduce the tax liability of low-income families with children in one year, but also to encourage work. To get a better sense of whether this goal is being met, it is necessary to focus on the behavior of taxpayers claiming these credits. Therefore, EITC claimants were tracked over time to assess the persistence of taxpayer claims and to gather information about why taxpayers start and stop claiming the credit over time.

[13] For this analysis, the number of dependents on the tax form is used. It is possible not all dependents are qualifying children for the EITC.

Persistence is first defined as the number of consecutive years a household claimed the EITC (see Table 19). In tax year 2009, 79,669 taxpayers (38.2%) claimed the EITC in tax year 2009 but not in 2008 “One year”, and 37,913 taxpayers (18.2%) claimed the EITC for tax years 2008 and 2009, but not 2007 “Two years”. Very consistent patterns emerged for tax years 2004 through 2006; between 46 percent and 47 percent who claimed the EITC had not claimed the credit in the prior tax year. Just under one-fifth had claimed the credit for two consecutive years while another 10 percent to 12 percent had three consecutive years of claims. This pattern changed with the law change in 2007. Between 2006 and 2007 the percentage of “One Year” claimants increased from 46.7 percent to 63.9 percent as taxpayers with no tax liability could claim the credit for the first time. All other categories had their shares decline. In 2008, the percentage of the “One Year” category declined to 37.2 percent, with the “Two Years” category increasing from 14.6 percent in 2007 to 36.9 percent in 2008. In 2009, there was only a slight increase in the “One Year” share (38.2%). The “Two Years” share fell from 36.9 percent to 18.2 percent, while the “Three Years” share increased from 9.8 percent to 24.5 percent. There will probably be continuing increases in the “Four Years” in 2010 and “Five Years” in 2011 as the some of the new filers in 2007 continue to make claims. Refundability caused a drop in the share of “One Year” claims from around 46 percent to around 37 percent. This is because having tax liability no longer drives the usage of the EITC.

To learn whether taxpayers with persistent EITC claims differ from taxpayers with a single claim,, households with EITC claims for all ten years between tax year 2000 and 2009 are compared with households that during the ten-year span only claimed the EITC in 2008 (see Table 20). Seventy percent of the long-term EITC claimants filed head of household, while 8.6 percent of one-year claimants filed head of household. Three percent of long-term claimants filed single, while 47.8 percent of one-year claimants filed as single taxpayers. Only 3.9 percent of long-term EITC claimants had no dependent, while 62.2 percent of one-year claimants had no dependent.

Another way to measure persistence is to look at the total number of claims over a period of time rather than the number of consecutive claims (see Table 21). Although 38.2 percent of tax year 2009 claimants claimed the credit in 2009 but not 2008, as reported in Table 19, only 25.8 percent of tax year 2009 claimants made only that one claim since tax year 2000. Thus one-third of “new” EITC claimants in 2009 had actually made a claim in at least one prior year during the last decade. One-fifth claimed the EITC in tax year 2009 and only one other year, while 21.5 percent claimed the credit in three years during the ten year period. Recall that in 2009 the credit had been refundable for only three years. This explains part of the significant decline in the share of households with four or more claims. Only 2.0 percent of 2009 claimants had made a claim during all ten years.

Since the EITC became refundable, the EITC has been widely utilized by low income Iowans. Between tax years 2007 and 2009, 303,992 households living in Iowa claimed the EITC at least once. With the average household population of Iowa over those three years of 1.3 million, this suggests that 22.7 percent of all Iowa households claimed the credit during this period.

The major reasons households move in or out of claiming the EITC include changes in marital status, the number of dependents, earned income, and investment income. Taxpayers who were eligible for the EITC in one year but were not eligible in the previous year are considered to move into eligibility for the EITC. Taxpayers who were eligible for the EITC in one year but were not eligible in the next year are considered to move out of eligibility for the EITC. A change in earned income, which can be influenced by business cycles, is the most common reason for taxpayers to move in or out of EITC eligibility (see Table 22). Between 2007 and 2009, an average of 67.1 percent of households were newly eligible for the EITC because of a drop in earned income. Conversely, an average of 76.3 percent of households moved out of EITC eligibility because of an increase in earned income.

Because the range of eligible income increases as a household moves from zero to three dependents, adding a dependent explains new eligibility for an average of 27.9 households. With the “marriage bonus” expanding eligibility for households, a change in marital status explained an average of 22.9 percent of households entering EITC (e.g., marriage) and 19.1 percent leaving (e.g., divorce).

The EITC has a countercyclical impact with respect to economic growth. During an economic expansion, when employment and personal income rise, more taxpayers should move out of EITC eligibility and fewer taxpayers should be newly eligible for the credit. During an economic downturn, when employment and personal income fall, more taxpayers should become eligible for the credit and fewer taxpayers should move out of the EITC eligibility.

Using individual income tax records between 2007 and 2009, the numbers of taxpayers who entered and exited federal EITC eligibility each year are calculated. The net change in eligible households due to changes in earned income equals the difference between the number of taxpayers moving into eligibility for the EITC due to drops in income and the number of taxpayers moving out of eligibility for the credit due to increases in income. When the economy is growing, the net change in eligible households due to changes in earned income (left scale) should be negative (see Figure 9). When the economy is weak, that net change should be positive. After controlling for federal law changes that expanded the eligibility for married filers, the largest net change in eligible households (23,580) occurred in 2002, a recession year. When the economy gradually recovered after 2002, the net change in eligible households also dropped. Between 2004 and 2005, that net change fell to -26,551, the lowest level in the ten year period. During the 2008-2009 recession, the net change in eligible households due to changes in income again rose above zero (15,641) in 2009.

During a recession, the unemployment rate always increases. Thus, the number of taxpayers moving into EITC eligibility as a result of unemployment should also increase. The number of households claiming EITC and receiving unemployment compensation (right scale in Figure 9) increased steadily from 2007 (18,109) to 2009 (26,709). Note that unemployment compensation does not count as earned income for the household.

VI. Conclusion

This evaluation of the EITC provided a complete picture of who claims the credit and how much had been claimed. In tax year 2009, the most recent complete tax year, $28.5 million in credits were claimed, resulting in $13.8 million paid in refunds. The number of households claiming the EITC during tax year 2009 was 208,342, with 104,695 receiving refunds.

A majority of claims were made by households with at least one dependent (94.5% of total claims in 2009). Head of household filers accounted for 45.8 percent of total households claiming the EITC and made 58.5 percent of claims. Households earning less than $20,000 accounted for 59.3 percent of households claiming the EITC. In terms of the amount of credits claimed, 59.2 percent of the total amount of EITC ($16.9 million) is claimed by taxpayers with earnings less than $20,000.

The law change in 2007 mostly benefited low income families who are less likely to have Iowa tax liability. Making the credit refundable accounted for $13.7 million of additional claims out of the total impact of $14.6 million in 2009. Increasing the credit rate from 6.5 percent to 7 percent expanded claims by $0.9 million. Among households benefiting from refundability, 89.4 percent had income below $20,000.

In tax year 2009, nearly half of households eligible for the EITC were considered to be in poverty. Of those households in poverty and eligible for the EITC, 19.8 percent had income raised above the poverty threshold as a result of the federal and Iowa EITC.

Between 2007 and 2009, 22.7 percent of all Iowa households made at least one claim for the Iowa EITC. In 2009, 33.7 percent of all Iowa children were in a household with an EITC claim. In tax year 2009, 4,140 taxpayers had claimed the EITC for at least ten consecutive years. These long-term claimants are compared with 13,143 taxpayers who only claimed in 2008 but not in any other year between 2000 and 2009. Over seventy percent of the long-term EITC claimants filed head of household, while 8.6 percent of one-year claimants filed head of household. Fewer than three percent of long-term claimants filed single, while 47.8 percent of one-year claimants filed as single taxpayers. Only 3.9 percent of long-term EITC claimants had no dependent, while 62.2 percent of one-year claimants had no dependent. More taxpayers claimed the EITC because of recession.

This evaluation study presents a large amount of information about the EITC claimed by taxpayers. Hopefully the study can inform future decisions about this credit for the State of Iowa.

References

Center on Budget Policy and Priorities, "Policy Basics: State Earned Income Tax Credit," Working paper, January 13, 2011.

Dowd, Timothy, "Distinguishing Between Short-Term and Long-Term Recipients of the Earned Income Tax Credit," *National Tax Journal*, Vol. 58, No. 4, December 2005, pp. 807-828.

Eissa, Nada and Hilary Hoynes, "Redistribution and Tax Expenditure: The Earned Income Tax Credit," *National Tax Journal*, Vol. 64, no. 2, part 2, 2011.

Gunter, Samara Potter, "State Earned Income Tax Credits and Participation in Regular and Informal Work," Working paper, Colby College, 2011.

Horowitz, John B. "Income Mobility and the Earned Income Tax Credit," *Economic Inquiry*, Vol. 40, No. 3, July 2002, pp.334-347.

IRS Congressional Update, December 2011, Vol.2, No. 12.

Johnson, Nicholas and Erica Williams, "A Hand Up: How State Earned Income Tax Credit Help Working Families Escape Poverty in 2011," Center on Budget Policy and Priorities, April 2011.

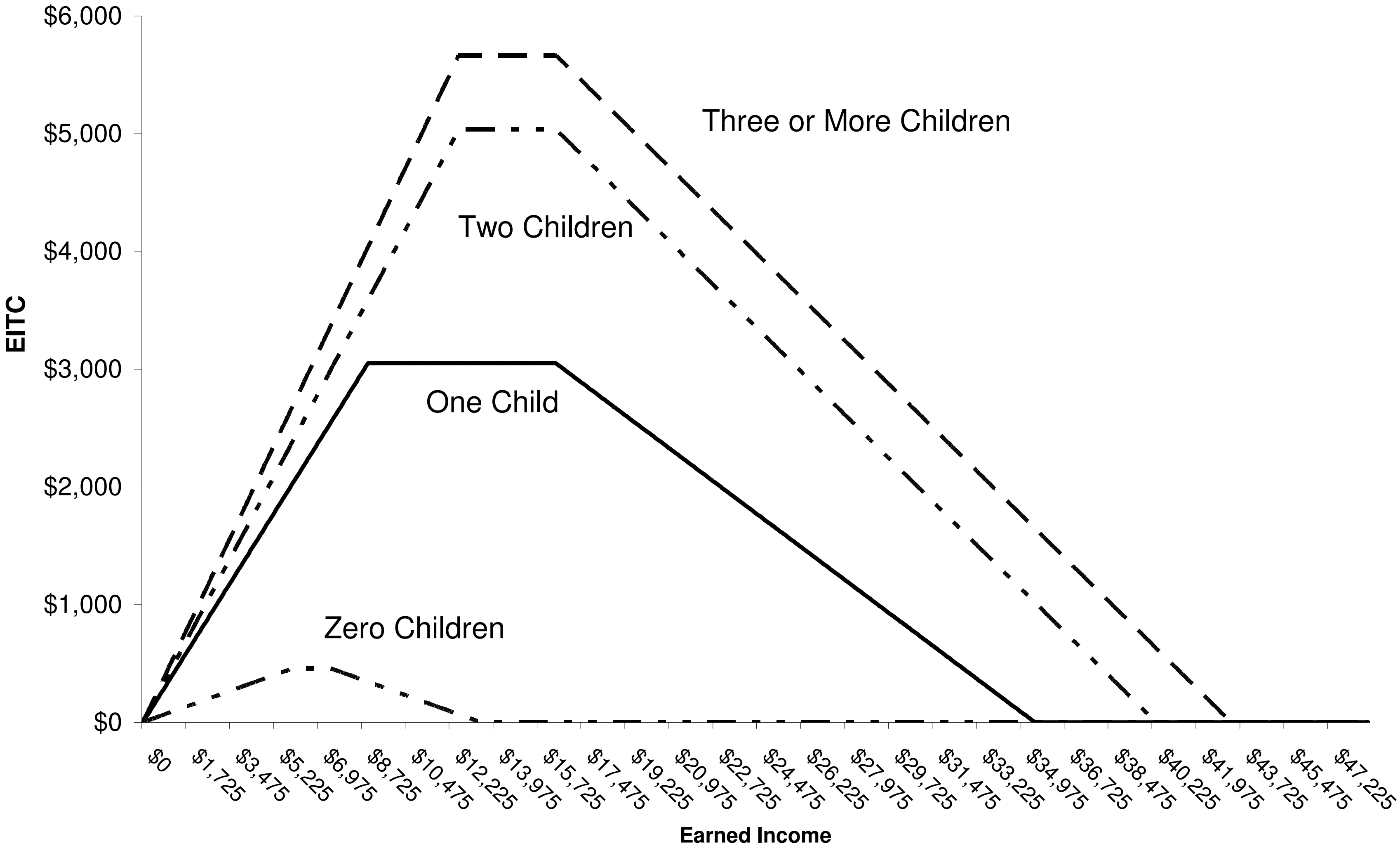
This page intentionally left blank.

Iowa's Earned Income Tax Credit
Tax Credits Program Evaluation Study

Tables and Figures

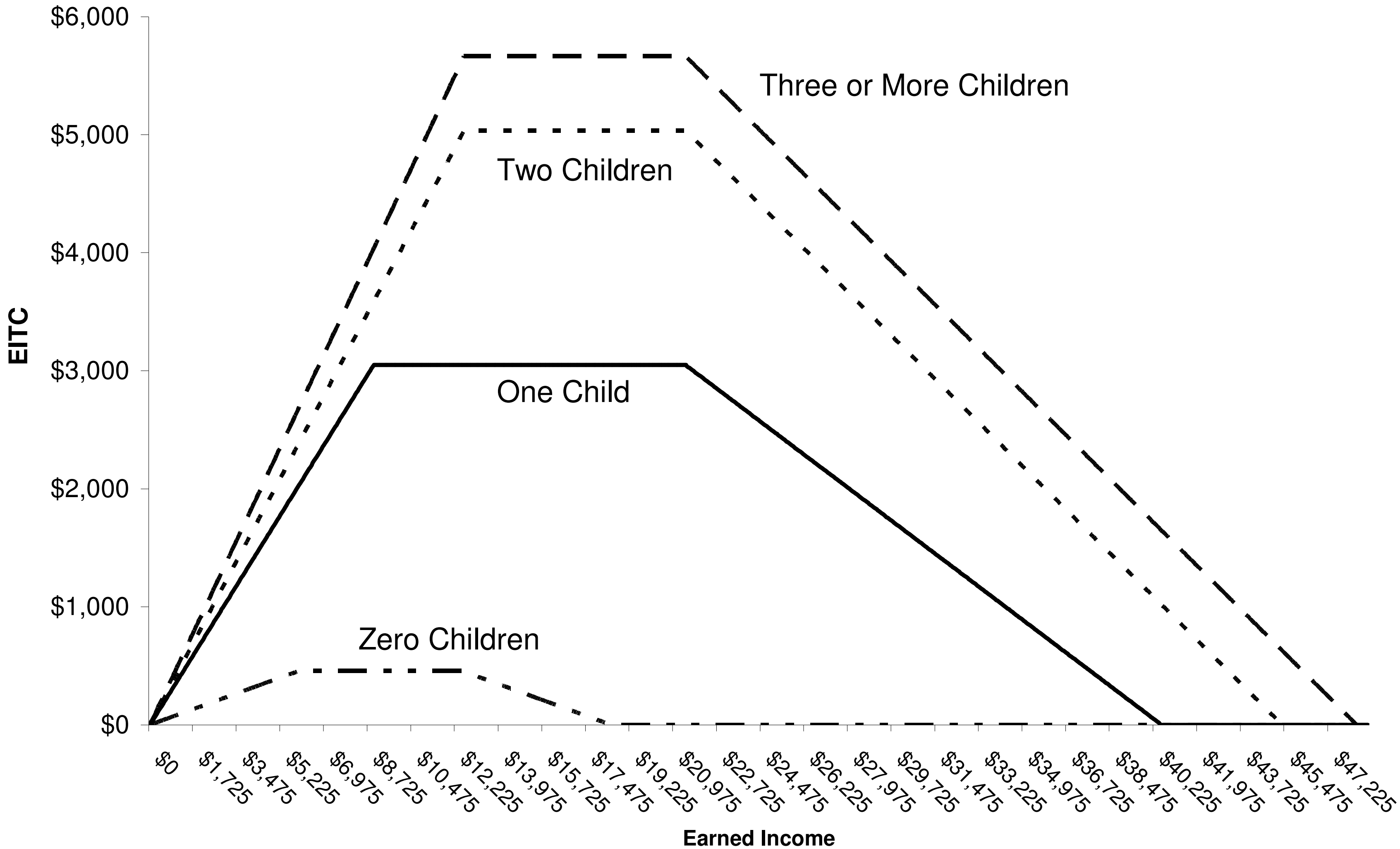
This page intentionally left blank.

Figure 1. Federal EITC by Earned Income for Single Filers, 2011



Source: Internal Revenue Service

Figure 2. Federal EITC by Earned Income for Married Filers, 2011



Source: Internal Revenue Service

Table 1. Federal Earned Income Tax Credit Income Thresholds, Rates, and Maximums for Single and Married Taxpayers by Number of Children for Tax Year 2011

Single Taxpayers	Phase-in Rate	Phase-in Income Threshold	Maximum Credit	Phase-out Income Start Level	Phase-out Rate	Phase-out Income Threshold
No Children	7.65%	$6,100	$464	$7,590	7.65%	$13,660
One Child	34.00%	$9,100	$3,094	$16,690	15.98%	$36,052
Two Children	40.00%	$12,750	$5,112	$16,690	21.06%	$40,964
Three or More Children	45.00%	$12,750	$5,751	$16,690	21.06%	$43,998

Married Taxpayers	Phase-in Rate	Phase-in Income Threshold	Maximum Credit	Phase-out Income Start Level	Phase-out Rate	Phase-out Income Threshold
No Children	7.65%	$6,100	$464	$12,670	7.65%	$18,740
One Child	34.00%	$9,100	$3,094	$21,770	15.98%	$41,132
Two Children	40.00%	$12,750	$5,112	$21,770	21.06%	$46,044
Three or More Children	45.00%	$12,750	$5,751	$21,770	21.06%	$49,078

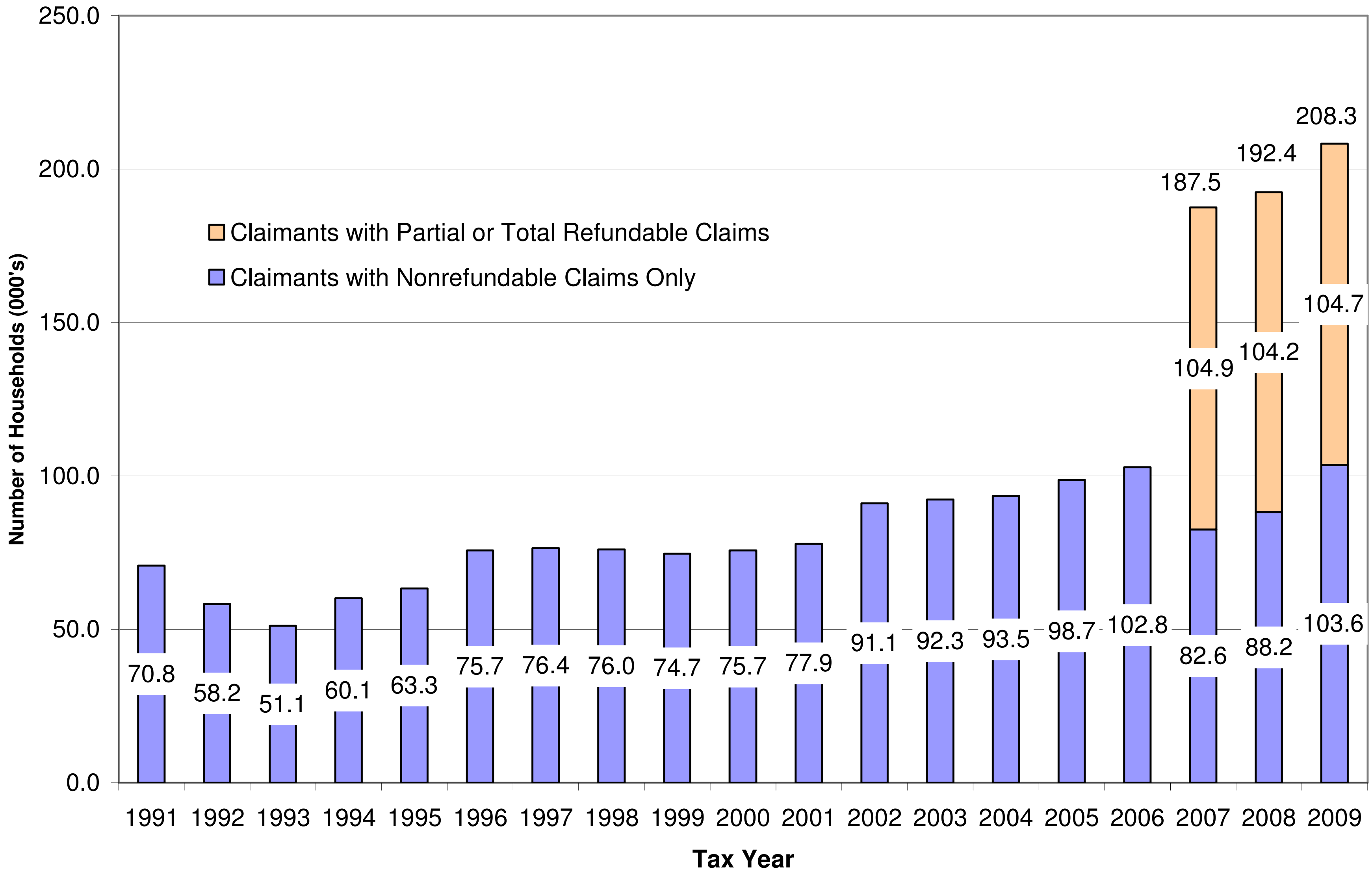
Source: Internal Revenue Service

Table 2. Summary of Earned Income Tax Credits by State for Tax Year 2011

State	Percentage	Refundable Credit	Maximum Credit	Note
Delaware	20%	No	$1,133	
District of Columbia	35%	Yes	$1,983	
Illinois	6%	Yes	$340	
Indiana	6%	Yes	$340	
Iowa	7%	Yes	$397	
Kansas	17%	Yes	$963	
Louisiana	3.5%	Yes	$198	
Maine	5%	No	$283	
Maryland	20%	Yes	$1,133	Maryland also offers a non-refundable EITC set at 50 percent of the federal credit. Taxpayers may claim either the refundable credit or the non-refundable credit, but not both
Massachusetts	15%	Yes	$850	
Michigan	20%	Yes	$1,133	
Minnesota	Average 33%	Yes	$1,762	Minnesota's credit for families with children is a percentage of family earnings. Depending on income level and family size, the credit may range from 5.73 percent to 20 percent of earnings. On average, Minnesota's credit is 33 percent of the federal EITC.
Nebraska	25%	Yes	$1,417	
New Jersey	25%	Yes	$1,417	
New Mexico	8%	Yes	$453	
New York	30%	Yes	$1,700	Should the federal government reduce New York's share of the TANF block grant, the New York credit would be reduced automatically to the 1999 level of 20 percent.
North Carolina	3.5%	Yes	$198	
Oklahoma	5%	Yes	$283	
Oregon	6%	Yes	$340	Oregon's EITC is scheduled to expire at the end of 2013.
Rhode Island	25%	Yes	$1,417	Rhode Island made a very small portion of its EITC refundable effective in TY 2003. In 2006, the refundable portion was increased from 10 percent to 15 percent of the nonrefundable credit (3.75 percent of the federal EITC).
Vermont	32%	Yes	$1,813	
Virginia	20%	No	$1,133	
Washington	Not yet implemented; scheduled to be 10% in 2012	Yes	$567	Washington's EITC will be 10 percent of the federal credit or $50, whichever is greater
Wisconsin	4%-1child, 14%-2 children, 43%-3+ children	Yes	$2,436	

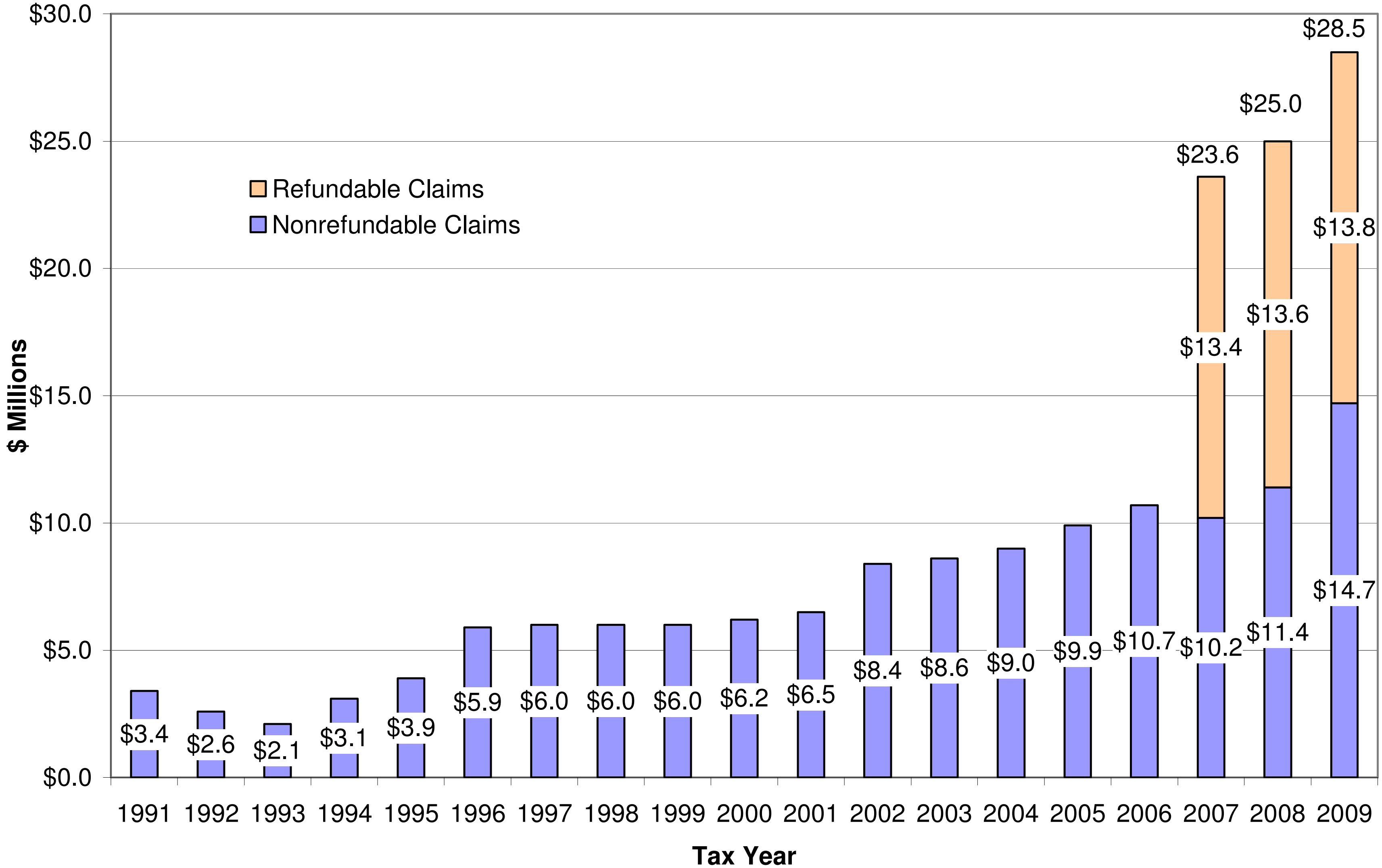
Source: Internal Revenue Service and state revenue departments

Figure 3. Number of Households Claiming Iowa EITC, 1991 - 2009



Source: Iowa individual income tax returns

Figure 4. Amount of Iowa EITC Claims, 1991 - 2009



Source: Iowa individual income tax returns

Table 3. EITC Claims by Iowa Filing Status, 2009

Filing Status	Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
Single	54,110	26.0%	$2,870,996	10.1%	$53.06
Married Joint	35,247	16.9%	$5,771,270	20.3%	$163.74
Married Separate	23,362	11.2%	$3,121,194	11.0%	$133.60
Head of Household	95,317	45.8%	$16,683,971	58.5%	$175.04
Qualifying Widow(er)	306	0.1%	$48,841	0.2%	$159.61
Total	208,342	100.0%	$28,496,272	100.0%	$136.78

Source: Iowa individual income tax returns

Table 4. EITC Claims by Dependents, 2009

Number of Dependents	Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
0	52,038	25.0%	$1,572,820	5.5%	$30.22
1	72,638	34.9%	$9,918,371	34.8%	$136.55
2	53,447	25.7%	$10,774,672	37.8%	$201.60
3	21,621	10.4%	$4,491,903	15.8%	$207.76
4	6,303	3.0%	$1,290,735	4.5%	$204.78
5	1,610	0.8%	$317,638	1.1%	$197.29
6	454	0.2%	$86,782	0.3%	$191.15
7	138	0.1%	$25,304	0.1%	$183.36
8	55	0.0%	$10,626	0.0%	$193.20
9	26	0.0%	$4,606	0.0%	$177.15
10 and over	12	0.0%	$2,815	0.0%	$234.58
Total	208,342	100.0%	$28,496,272	100.0%	$136.78

Source: Iowa individual income tax returns

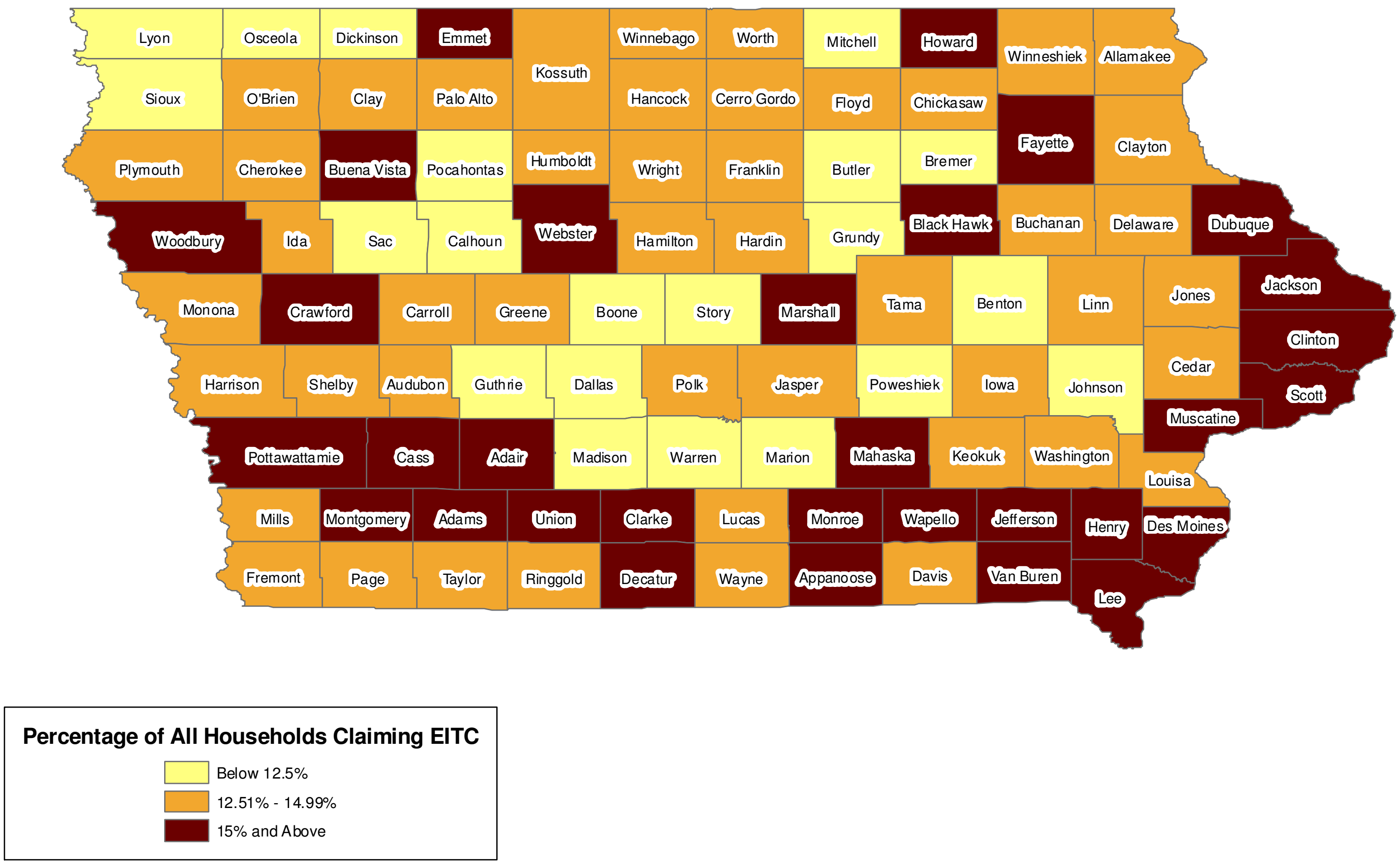
Table 5. EITC Claims by Age, 2009

Age	Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
20 and under	4,733	2.3%	$776,905	2.7%	$164.15
21-25	26,342	12.6%	$4,043,743	14.2%	$153.51
26-30	40,808	19.6%	$5,626,902	19.7%	$137.89
31-35	31,414	15.1%	$4,954,139	17.4%	$157.70
36-40	27,495	13.2%	$4,341,727	15.2%	$157.91
41-45	23,494	11.3%	$3,352,740	11.8%	$142.71
46-50	20,891	10.0%	$2,580,629	9.1%	$123.53
51-55	13,690	6.6%	$1,415,078	5.0%	$103.37
56-60	8,667	4.2%	$672,028	2.4%	$77.54
61-65	5,764	2.8%	$317,855	1.1%	$55.14
66 and older	2,190	1.1%	$192,602	0.7%	$87.95
Missing	2,854	1.4%	$221,924	0.8%	$77.76
Total	208,342	100.0%	$28,496,272	100.0%	$136.78

Source: Iowa individual income tax returns

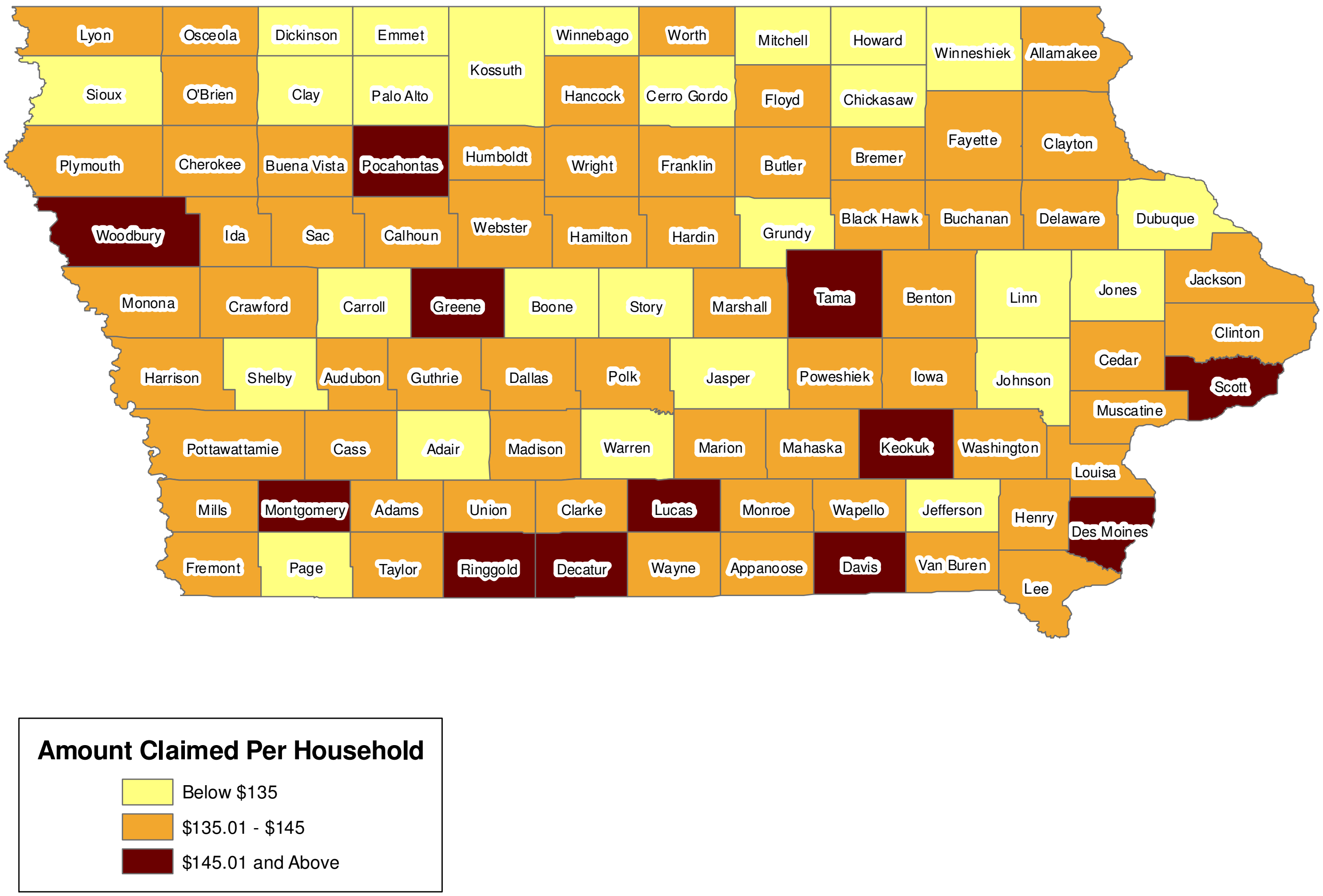
Note: In married households, taxpayer age was based on the spouse indicated as the primary taxpayer.

Figure 5. Percentage of Households Claiming the EITC by County, 2009



Source: Iowa individual income tax returns

Figure 6. Average EITC Claim Per Household by County, 2009



Source: Iowa individual income tax returns

Table 6. EITC Claims by Income Groups, 2009

Iowa Adjusted Gross Income	Number of Households	Distribution of Households	Amount Claimed	istribution c Claims	Average Claim
$ 0 or less	3,662	1.8%	$295,615	1.0%	$80.73
$ 1 - $ 4,999	22,166	10.6%	$1,033,314	3.6%	$46.62
$ 5,000 - $ 9,999	35,854	17.2%	$3,705,385	13.0%	$103.35
$ 10,000 - $ 14,999	36,024	17.3%	$5,754,158	20.2%	$159.73
$ 15,000 - $ 19,999	25,772	12.4%	$6,086,998	21.4%	$236.19
$ 20,000 - $ 24,999	25,218	12.1%	$5,149,205	18.1%	$204.19
$ 25,000 - $ 29,999	23,413	11.2%	$3,548,156	12.5%	$151.55
$ 30,000 - $ 34,999	19,783	9.5%	$1,924,918	6.8%	$97.30
$ 35,000 - $ 39,999	12,120	5.8%	$822,451	2.9%	$67.86
$ 40,000 and over	4,330	2.1%	$176,072	0.6%	$40.66
Total	208,342	100.0%	$28,496,272	100.0%	$136.78

Source: Iowa individual income tax returns

Table 7. Family Credit Claims by Income Groups, 2009

Iowa Adjusted Gross Income	Earned Income Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim	Tuition and Textbook Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
$0 or less	3,662	1.8%	$295,615	1.0%	$80.73	115	0.1%	$21,761	0.1%	$189.23
$1 - $4,999	22,166	10.6%	$1,033,314	3.6%	$46.62	22	0.0%	$2,570	0.0%	$116.82
$5,000 - $9,999	35,854	17.2%	$3,705,385	13.0%	$103.35	54	0.0%	$4,739	0.0%	$87.76
$10,000 - $14,999	36,024	17.3%	$5,754,158	20.2%	$159.73	257	0.2%	$17,477	0.1%	$68.00
$15,000 - $19,999	25,772	12.4%	$6,086,998	21.4%	$236.19	1,738	1.4%	$111,661	0.7%	$64.25
$20,000 - $24,999	25,218	12.1%	$5,149,205	18.1%	$204.19	4,509	3.7%	$330,086	2.2%	$73.21
$25,000 - $29,999	23,413	11.2%	$3,548,156	12.5%	$151.55	5,471	4.5%	$476,482	3.1%	$87.09
$30,000 - $34,999	19,783	9.5%	$1,924,918	6.8%	$97.30	5,855	4.8%	$544,204	3.6%	$92.95
$35,000 - $39,999	12,120	5.8%	$822,451	2.9%	$67.86	5,958	4.9%	$582,541	3.8%	$97.77
$40,000 and over	4,330	2.1%	$176,072	0.6%	$40.66	97,467	80.3%	$13,098,782	86.2%	$134.39
Total	208,342	100.0%	$28,496,272	100.0%	$136.78	121,446	100.0%	$15,190,303	100.0%	$125.08

Iowa Adjusted Gross Income	Child and Dependent Care Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim	Early Childhood Development Tax Credit: Number of Households	Distribution of Households	Amount of Claims	Distribution of Claims	Average Claim
$0 or less	103	0.4%	$50,363	0.6%	$488.96	25	0.7%	$4,745	0.9%	$189.80
$1 - $4,999	550	1.9%	$156,191	2.0%	$283.98	105	3.0%	$14,434	2.6%	$137.47
$5,000 - $9,999	1,459	5.2%	$506,590	6.4%	$347.22	233	6.7%	$31,946	5.8%	$137.11
$10,000 - $14,999	2,509	8.9%	$863,382	10.9%	$344.11	347	10.0%	$50,565	9.1%	$145.72
$15,000 - $19,999	3,707	13.1%	$1,306,082	16.5%	$352.33	401	11.5%	$61,026	11.0%	$152.18
$20,000 - $24,999	4,476	15.8%	$1,442,645	18.2%	$322.31	441	12.7%	$70,266	12.7%	$159.33
$25,000 - $29,999	4,310	15.2%	$1,311,804	16.5%	$304.36	433	12.4%	$71,777	13.0%	$165.77
$30,000 - $34,999	3,972	14.0%	$1,097,639	13.8%	$276.34	471	13.5%	$76,519	13.8%	$162.46
$35,000 - $39,999	3,721	13.1%	$729,939	9.2%	$196.17	473	13.6%	$81,601	14.7%	$172.52
$40,000 and over	3,517	12.4%	$470,283	5.9%	$133.72	550	15.8%	$90,654	16.4%	$164.83
Total	28,324	100.0%	$7,934,918	100.0%	$280.15	3,479	100.0%	$553,533	100.0%	$159.11

Source: Iowa individual income tax returns

Table 8. Iowa Income Tax Liability Thresholds for Tax Year 2009

Iowa Filing Status and Familiy Size	Iowa Income Tax Liability Threshold without EITC	Iowa EITC	Iowa Income Tax Liability Threshold with EITC	Federal Poverty Threshold
Single	$9,001	$24	$9,025	$10,830
Head of Household (One Child)	$14,842	$205	$17,125	$14,570
Married Joint (Zero Children)	$14,397	$11	$14,519	$14,570
Head of Household (Two Children)	$15,288	$317	$18,818	$18,310
Married Joint (One Child)	$14,842	$213	$17,214	$18,310
Head of Household (Three Children)	$15,733	$311	$19,196	$22,050
Married Joint (Two Children)	$15,288	$352	$19,208	$22,050
Head of Household (Four Children)	$16,179	$305	$19,575	$25,790
Married Joint (Three Children)	$15,733	$350	$19,638	$25,790
Married Joint (Four Children)	$16,179	$344	$20,066	$29,530

Note: Tax liability was estimated for households assuming only wage income with no net federal income tax deduction, a standard deduction, the Iowa personal and dependent exemption credits, and the Iowa EITC. The shaded area indicates households where the Iowa income tax threshold with the EITC falls below the federal poverty threshold.

Source: 2009 Iowa individual income tax instructions and micro model and Department of Health and Human Service

Table 9. Impact of the Iowa EITC on Final Iowa Tax Liability by AGI, 2009

Iowa Adjusted Gross Income	Total Number of Claimants	Total Amount of Claims	Households with Nonrefundable EITC		Households Removed From Tax Roles by EITC		Households with Fully Refundable EITC	
			Number of Claimants	Amount of EITC	Number of Claimants	Amount of EITC	Number of Claimants	Amount of EITC
$0 or less	2,968	$264,388	50	$4,293	16	$3,376	2,902	$256,719
$1 - $4,999	22,375	$1,048,365	99	$4,667	40	$2,491	22,236	$1,041,207
$5,000 - $9,999	36,958	$3,800,014	4,760	$111,643	1,093	$158,248	31,105	$3,530,123
$10,000 - $14,999	36,628	$5,883,475	11,847	$316,904	2,980	$708,690	21,801	$4,857,881
$15,000 - $19,999	25,503	$6,125,706	9,824	$1,931,782	10,636	$2,999,969	5,043	$1,193,955
$20,000 - $24,999	24,789	$5,096,573	20,672	$4,161,626	2,240	$545,963	1,877	$388,984
$25,000 - $29,999	23,080	$3,468,004	21,425	$3,183,619	679	$134,201	976	$150,184
$30,000 - $34,999	19,914	$1,892,536	19,131	$1,807,917	203	$29,277	580	$55,342
$35,000 - $39,999	12,222	$782,653	11,903	$760,363	72	$7,773	247	$14,517
$40,000 and over	3,905	$134,558	3,841	$130,784	10	$942	54	$2,832
Total	208,342	$28,496,272	103,552	$12,413,598	17,969	$4,590,930	86,821	$11,491,744

Iowa Adjusted Gross Income	Total Number of Claimants	Total Amount of Claims	Households with Nonrefundable EITC		Households Removed From Tax Roles by EITC		Households with Fully Refundable EITC	
			Percent of Claimants	Percent of EITC	Percent of Claimants	Percent of EITC	Percent of Claimants	Percent of EITC
$0 or less	2,968	$264,388	1.7%	1.6%	0.5%	1.3%	97.8%	97.1%
$1 - $4,999	22,375	$1,048,365	0.4%	0.4%	0.2%	0.2%	99.4%	99.3%
$5,000 - $9,999	36,958	$3,800,014	12.9%	2.9%	3.0%	4.2%	84.2%	92.9%
$10,000 - $14,999	36,628	$5,883,475	32.3%	5.4%	8.1%	12.0%	59.5%	82.6%
$15,000 - $19,999	25,503	$6,125,706	38.5%	31.5%	41.7%	49.0%	19.8%	19.5%
$20,000 - $24,999	24,789	$5,096,573	83.4%	81.7%	9.0%	10.7%	7.6%	7.6%
$25,000 - $29,999	23,080	$3,468,004	92.8%	91.8%	2.9%	3.9%	4.2%	4.3%
$30,000 - $34,999	19,914	$1,892,536	96.1%	95.5%	1.0%	1.5%	2.9%	2.9%
$35,000 - $39,999	12,222	$782,653	97.4%	97.2%	0.6%	1.0%	2.0%	1.9%
$40,000 and over	3,905	$134,558	98.4%	97.2%	0.3%	0.7%	1.4%	2.1%
Total	208,342	$28,496,272	49.7%	43.6%	8.6%	16.1%	41.7%	40.3%

Table 10. Impact of EITC on Final Iowa Tax Liability by Filing Status and Dependents, 2009

				Households with Nonrefundable EITC		Households Removed From Tax Roles by EITC		Households with Fully Refundable EITC	
Filing Status	Number of Dependents	Total Number of Claimants	Total Amount of Claims	Number of Claimants	Amount of EITC	Number of Claimants	Amount of EITC	Number of Claimants	Amount of EITC
Single	0	41,532	$861,649	15,063	$243,137	603	$40,053	25,866	$578,459
Married	0	36,248	$5,800,566	17,463	$2,666,243	3,023	$843,407	15,762	$2,290,916
Married	1	41,571	$6,406,420	22,304	$3,108,057	18,521	$3,186,282	746	$112,081
Married	2	44,386	$7,144,890	24,755	$3,647,643	3,739	$1,051,667	15,892	$2,445,580
Married	3+	41,898	$6,821,235	22,467	$3,374,682	3,649	$1,023,779	15,782	$2,422,774
Head of Household	1	48,849	$6,859,037	25,336	$2,799,739	4,269	$873,179	19,244	$3,186,119
Head of Household	2	30,147	$6,434,627	14,502	$2,467,151	4,064	$1,223,642	11,581	$2,743,834
Head of Household	3+	12,767	$2,853,318	6,224	$1,093,200	1,693	$517,520	4,850	$1,242,598

				Households with Nonrefundable EITC		Households Removed From Tax Roles by EITC		Households with Fully Refundable EITC	
Filing Status	Number of Dependents	Total Number of Claimants	Total Amount of Claims	Percent of Claimants	Percent of EITC	Percent of Claimants	Percent of EITC	Percent of Claimants	Percent of EITC
Single	0	41,532	$861,649	36.3%	28.2%	1.5%	4.6%	62.3%	67.1%
Married	0	36,248	$5,800,566	48.2%	46.0%	8.3%	14.5%	43.5%	39.5%
Married	1	41,571	$6,406,420	53.7%	48.5%	44.6%	49.7%	1.8%	1.7%
Married	2	44,386	$7,144,890	55.8%	51.1%	8.4%	14.7%	35.8%	34.2%
Married	3+	41,898	$6,821,235	53.6%	49.5%	8.7%	15.0%	37.7%	35.5%
Head of Household	1	48,849	$6,859,037	51.9%	40.8%	8.7%	12.7%	39.4%	46.5%
Head of Household	2	30,147	$6,434,627	48.1%	38.3%	13.5%	19.0%	38.4%	42.6%
Head of Household	3+	12,767	$2,853,318	48.8%	38.3%	13.3%	18.1%	38.0%	43.5%

Source: Iowa individual income tax returns

Table 11. Iowa Tax Liability of EITC Claimants and Social Security Recipients, 2009

Iowa Adjusted Gross Income	Earned Income Tax Credit Claimants			Social Security Recipients	
	Number of Households	Average Iowa Tax Pre-Credit	Average Iowa Tax Post-Credit	Number of Households	Average Tax
$0 or less	3,662	-$34.04	-$114.77	26,677	-$9.86
$1 - $4,999	22,166	-$8.06	-$54.68	12,091	-$5.35
$5,000 - $9,999	35,854	-$1.19	-$104.54	18,342	$3.57
$10,000 - $14,999	36,024	$57.37	-$102.36	25,469	$17.64
$15,000 - $19,999	25,772	$151.65	-$84.54	24,667	$78.83
$20,000 - $24,999	25,218	$445.20	$241.01	19,832	$250.97
$25,000 - $29,999	23,413	$699.71	$548.17	16,714	$445.18
$30,000 - $34,999	19,783	$925.36	$828.06	14,440	$645.32
$35,000 - $39,999	12,120	$1,129.24	$1,061.38	12,492	$869.51
$40,000 and over	4,330	$1,284.17	$1,243.51	109,497	$2,465.18
Total	208,342	$339.78	$203.01	280,221	$1,087.21

Source: Iowa individual income tax returns

Table 12. EITC Claims and Other State Assistance Programs by County, 2009

COUNTY	Number of Households in County	Percent in Poverty	Percent Receiving Iowa EITC	Percent Receiving Medicaid	Percent Receiving Food Assistance	Percent Receiving Iowa Care	Percent Receiving FIP	Percent Receiving hawk-i	Difference Between Percent Claiming EITC and Percent In Poverty
ADAIR	3,805	10.7%	17.4%	14.3%	8.9%	0.9%	0.7%	1.1%	6.7%
ADAMS	2,121	12.4%	17.4%	17.5%	8.2%	0.4%	1.1%	1.2%	5.0%
ALLAMAKEE	7,720	14.1%	13.3%	13.4%	9.9%	0.9%	2.2%	1.5%	-0.8%
APPANOOSE	6,756	19.3%	18.2%	25.6%	18.8%	2.4%	1.8%	1.2%	-1.1%
AUDUBON	3,001	10.0%	13.4%	13.0%	6.6%	0.7%	0.4%	1.5%	3.4%
BENTON	11,039	7.9%	12.4%	13.0%	9.3%	2.7%	0.8%	1.2%	4.5%
BLACK HAWK	55,115	17.3%	16.7%	20.3%	17.5%	2.1%	2.1%	1.2%	-0.6%
BOONE	11,741	8.2%	12.3%	17.3%	11.7%	1.4%	1.1%	0.7%	4.1%
BREMER	10,203	7.5%	10.0%	10.6%	5.8%	0.8%	0.5%	1.1%	2.5%
BUCHANAN	9,178	10.9%	12.7%	14.8%	8.5%	2.0%	0.7%	1.1%	1.8%
BUENA VISTA	8,209	15.2%	22.1%	17.0%	13.2%	0.6%	1.6%	1.5%	6.9%
BUTLER	6,910	10.3%	12.0%	14.0%	7.8%	1.1%	0.9%	1.3%	1.7%
CALHOUN	5,194	11.2%	11.8%	13.7%	7.6%	0.9%	0.8%	1.0%	0.6%
CARROLL	9,361	9.8%	13.2%	15.2%	8.2%	0.7%	0.6%	1.3%	3.4%
CASS	6,732	13.1%	17.1%	19.8%	12.4%	0.7%	1.2%	1.4%	4.0%
CEDAR	8,121	7.9%	12.5%	10.0%	7.0%	2.5%	0.6%	1.0%	4.6%
CERRO GORDO	21,946	10.6%	14.6%	17.7%	15.2%	1.7%	1.0%	1.0%	4.0%
CHEROKEE	5,912	9.7%	13.2%	15.6%	6.4%	3.4%	0.5%	1.0%	3.5%
CHICKASAW	5,762	9.3%	13.1%	13.3%	6.6%	1.3%	0.9%	1.3%	3.8%
CLARKE	4,167	12.0%	18.9%	19.0%	16.7%	2.8%	1.2%	1.4%	6.9%
CLAY	8,125	9.0%	15.0%	16.3%	11.3%	1.1%	1.4%	1.8%	6.0%
CLAYTON	8,999	11.3%	14.2%	12.5%	6.5%	1.3%	0.5%	1.1%	2.9%
CLINTON	22,340	11.9%	16.7%	20.5%	19.5%	3.6%	1.9%	1.1%	4.8%
CRAWFORD	7,110	12.3%	17.8%	22.1%	11.9%	0.6%	1.9%	1.3%	5.5%
DALLAS	24,287	6.0%	10.7%	10.2%	7.5%	0.9%	0.7%	0.9%	4.7%
DAVIS	3,660	14.9%	14.9%	14.5%	9.5%	1.7%	1.0%	1.3%	0.0%
DECATUR	3,872	21.1%	17.1%	22.2%	20.4%	2.2%	1.4%	1.8%	-4.0%
DELAWARE	7,958	9.3%	13.9%	13.2%	9.6%	1.1%	1.0%	1.2%	4.6%
DES MOINES	18,914	12.8%	19.1%	20.1%	20.4%	3.2%	2.2%	1.1%	6.3%
DICKINSON	13,196	8.4%	7.8%	7.0%	4.6%	0.6%	0.4%	0.8%	-0.6%
DUBUQUE	39,298	9.5%	15.5%	15.4%	12.8%	2.0%	1.7%	1.0%	6.0%
EMMET	4,966	11.3%	15.4%	17.1%	9.7%	0.3%	1.2%	1.3%	4.1%
FAYETTE	9,725	12.9%	15.7%	18.7%	13.1%	2.4%	1.5%	1.3%	2.8%

Table 12 (continued). EITC Claims and Other State Assistance Programs by County, 2009

COUNTY	Number of Households in County	Percent in Poverty	Percent Receiving Iowa EITC	Percent Receiving Medicaid	Percent Receiving Food Assistance	Percent Receiving Iowa Care	Percent Receiving FIP	Percent Receiving hawk-i	Difference Between Percent Claiming EITC and Percent In Poverty
FLOYD	7,451	12.6%	14.8%	18.4%	11.5%	2.0%	1.2%	1.1%	2.2%
FRANKLIN	4,764	10.2%	14.2%	17.1%	8.5%	1.0%	0.8%	1.4%	4.0%
FREMONT	3,595	10.4%	14.3%	18.3%	11.9%	0.6%	1.2%	1.0%	3.9%
GREENE	4,691	11.3%	14.8%	16.8%	9.3%	1.2%	0.8%	1.0%	3.5%
GRUNDY	5,696	6.3%	9.0%	8.2%	4.3%	1.0%	0.5%	0.8%	2.7%
GUTHRIE	5,828	9.2%	11.2%	12.5%	6.4%	1.0%	0.5%	1.0%	2.0%
HAMILTON	7,338	9.2%	13.9%	13.9%	9.6%	1.7%	0.9%	1.1%	4.7%
HANCOCK	5,322	9.2%	13.4%	12.0%	6.9%	1.0%	0.5%	1.1%	4.2%
HARDIN	8,408	9.8%	13.4%	16.8%	10.1%	1.8%	1.0%	1.0%	3.6%
HARRISON	7,002	10.6%	13.1%	19.4%	11.3%	0.4%	1.1%	1.5%	2.5%
HENRY	8,591	15.8%	16.8%	18.7%	15.7%	5.8%	1.5%	1.4%	1.0%
HOWARD	4,454	11.6%	16.4%	15.3%	8.9%	1.1%	1.1%	1.5%	4.8%
HUMBOLDT	4,807	10.1%	12.6%	16.2%	9.8%	1.1%	0.8%	1.3%	2.5%
IDA	3,552	11.2%	13.4%	13.4%	7.4%	0.6%	0.4%	1.7%	2.2%
IOWA	6,841	7.6%	13.2%	12.0%	7.6%	2.7%	0.6%	1.0%	5.6%
JACKSON	9,412	10.6%	15.1%	16.5%	11.3%	2.3%	1.1%	1.2%	4.5%
JASPER	16,286	10.0%	14.3%	13.7%	13.2%	2.3%	1.5%	0.9%	4.3%
JEFFERSON	7,674	15.4%	16.8%	18.0%	18.1%	5.5%	1.5%	1.6%	1.4%
JOHNSON	56,207	16.6%	11.0%	9.5%	11.0%	3.1%	0.8%	0.6%	-5.6%
JONES	8,440	9.5%	13.9%	13.5%	9.9%	2.4%	0.9%	1.1%	4.4%
KEOKUK	5,034	12.1%	14.7%	16.6%	12.2%	2.9%	1.1%	1.3%	2.6%
KOSSUTH	7,636	10.1%	12.6%	13.9%	7.2%	0.9%	1.1%	1.3%	2.5%
LEE	16,705	14.9%	18.0%	20.3%	17.7%	3.3%	2.1%	1.0%	3.1%
LINN	93,392	9.5%	13.3%	14.9%	14.8%	2.5%	1.1%	1.0%	3.8%
LOUISA	5,281	10.9%	14.9%	17.2%	11.2%	3.3%	1.2%	1.0%	4.0%
LUCAS	4,277	16.7%	14.9%	21.9%	14.1%	2.3%	1.3%	1.0%	-1.8%
LYON	4,959	8.0%	11.6%	10.0%	4.9%	0.3%	0.4%	1.3%	3.6%
MADISON	6,593	8.5%	11.9%	12.5%	8.4%	1.1%	0.8%	1.2%	3.4%
MAHASKA	9,818	13.0%	15.3%	19.6%	18.6%	2.7%	2.0%	1.1%	2.3%
MARION	14,006	9.2%	12.3%	13.6%	9.7%	2.5%	1.0%	1.0%	3.1%
MARSHALL	17,141	12.6%	18.4%	23.7%	18.6%	2.4%	1.8%	1.0%	5.8%
MILLS	5,936	9.1%	12.9%	22.5%	10.2%	0.5%	1.2%	1.1%	3.8%

Table 12 (continued). EITC Claims and Other State Assistance Programs by County, 2009

COUNTY	Number of Households in County	Percent in Poverty	Percent Receiving Iowa EITC	Percent Receiving Medicaid	Percent Receiving Food Assistance	Percent Receiving Iowa Care	Percent Receiving FIP	Percent Receiving hawk-i	Difference Between Percent Claiming EITC and Percent In Poverty
MITCHELL	4,709	9.0%	12.0%	11.7%	5.1%	0.6%	0.2%	1.4%	3.0%
MONONA	4,789	12.2%	14.6%	20.3%	11.2%	0.5%	0.6%	1.8%	2.4%
MONROE	3,649	12.9%	15.1%	20.4%	13.1%	2.5%	1.3%	0.9%	2.2%
MONTGOMERY	5,399	14.5%	16.3%	20.5%	15.3%	1.2%	1.7%	1.2%	1.8%
MUSCATINE	18,041	12.0%	19.0%	20.0%	16.9%	3.6%	1.8%	1.0%	7.0%
OBRIEN	6,703	9.4%	13.7%	15.7%	7.7%	0.6%	0.9%	1.5%	4.3%
OSCEOLA	3,002	9.2%	12.4%	10.3%	5.1%	0.3%	0.4%	1.5%	3.2%
PAGE	7,341	15.1%	14.5%	22.7%	14.3%	2.0%	1.4%	1.0%	-0.6%
PALO ALTO	4,746	11.0%	12.7%	14.3%	7.7%	0.7%	0.8%	1.7%	1.7%
PLYMOUTH	10,610	7.2%	12.9%	12.4%	5.5%	0.2%	0.5%	1.0%	5.7%
POCAHONTAS	3,988	10.5%	11.6%	14.3%	9.0%	1.1%	1.0%	0.9%	1.1%
POLK	186,510	10.9%	14.6%	14.7%	16.6%	6.4%	1.6%	1.1%	3.7%
POTTAWATTAMIE	39,991	13.1%	17.3%	19.9%	17.7%	0.6%	2.2%	1.3%	4.2%
POWESHIEK	9,126	12.6%	11.9%	12.5%	8.9%	2.4%	1.2%	1.0%	-0.7%
RINGGOLD	2,875	15.6%	12.7%	16.1%	8.7%	1.1%	0.8%	1.0%	-2.9%
SAC	5,580	11.8%	12.2%	12.8%	6.0%	0.7%	0.6%	1.0%	0.4%
SCOTT	71,562	12.5%	17.0%	18.4%	21.0%	2.8%	2.2%	0.8%	4.5%
SHELBY	5,505	9.1%	13.2%	15.5%	10.4%	0.9%	0.7%	1.7%	4.1%
SIOUX	12,110	7.1%	11.9%	12.1%	4.1%	0.2%	0.6%	1.5%	4.8%
STORY	34,833	17.3%	10.4%	9.5%	10.2%	0.9%	0.7%	0.6%	-6.9%
TAMA	7,855	10.5%	13.9%	13.1%	10.0%	1.7%	0.9%	1.3%	3.4%
TAYLOR	3,231	14.2%	13.8%	16.8%	8.8%	0.9%	1.0%	1.3%	-0.4%
UNION	5,775	14.2%	17.9%	21.0%	16.5%	1.4%	1.4%	1.3%	3.7%
VAN BUREN	3,663	17.8%	15.3%	17.0%	10.9%	2.6%	1.1%	1.5%	-2.5%
WAPELLO	16,467	16.7%	20.1%	27.9%	24.5%	4.4%	2.6%	1.3%	3.4%
WARREN	17,630	7.2%	11.7%	12.1%	8.8%	1.0%	0.9%	1.2%	4.5%
WASHINGTON	8,971	10.9%	14.8%	16.1%	12.0%	3.8%	1.4%	1.3%	3.9%
WAYNE	3,391	16.6%	13.7%	16.9%	11.4%	1.0%	1.3%	1.5%	-2.9%
WEBSTER	17,259	15.0%	16.0%	22.2%	16.5%	1.6%	1.8%	1.1%	1.0%
WINNEBAGO	5,190	10.7%	14.7%	13.0%	9.6%	1.0%	0.8%	1.0%	4.0%
WINNESHIEK	8,772	10.0%	13.1%	12.3%	7.1%	1.3%	0.6%	1.2%	3.1%
WOODBURY	42,087	14.7%	22.0%	23.2%	18.1%	0.5%	1.6%	1.5%	7.3%
WORTH	3,557	9.2%	14.6%	11.4%	7.3%	1.3%	0.6%	1.0%	5.4%
WRIGHT	6,583	10.2%	14.3%	16.8%	9.9%	1.2%	1.3%	1.2%	4.1%
STATE TOTAL	1,344,080	11.8%	14.7%	16.1%	13.6%	2.5%	1.4%	1.1%	2.9%
URBAN COUNTIES	618,995	13.5%	15.0%	15.9%	16.0%	3.3%	1.6%	1.0%	1.5%
RURAL COUNTIES	725,085	11.3%	14.4%	16.3%	11.6%	1.8%	1.2%	1.2%	3.1%

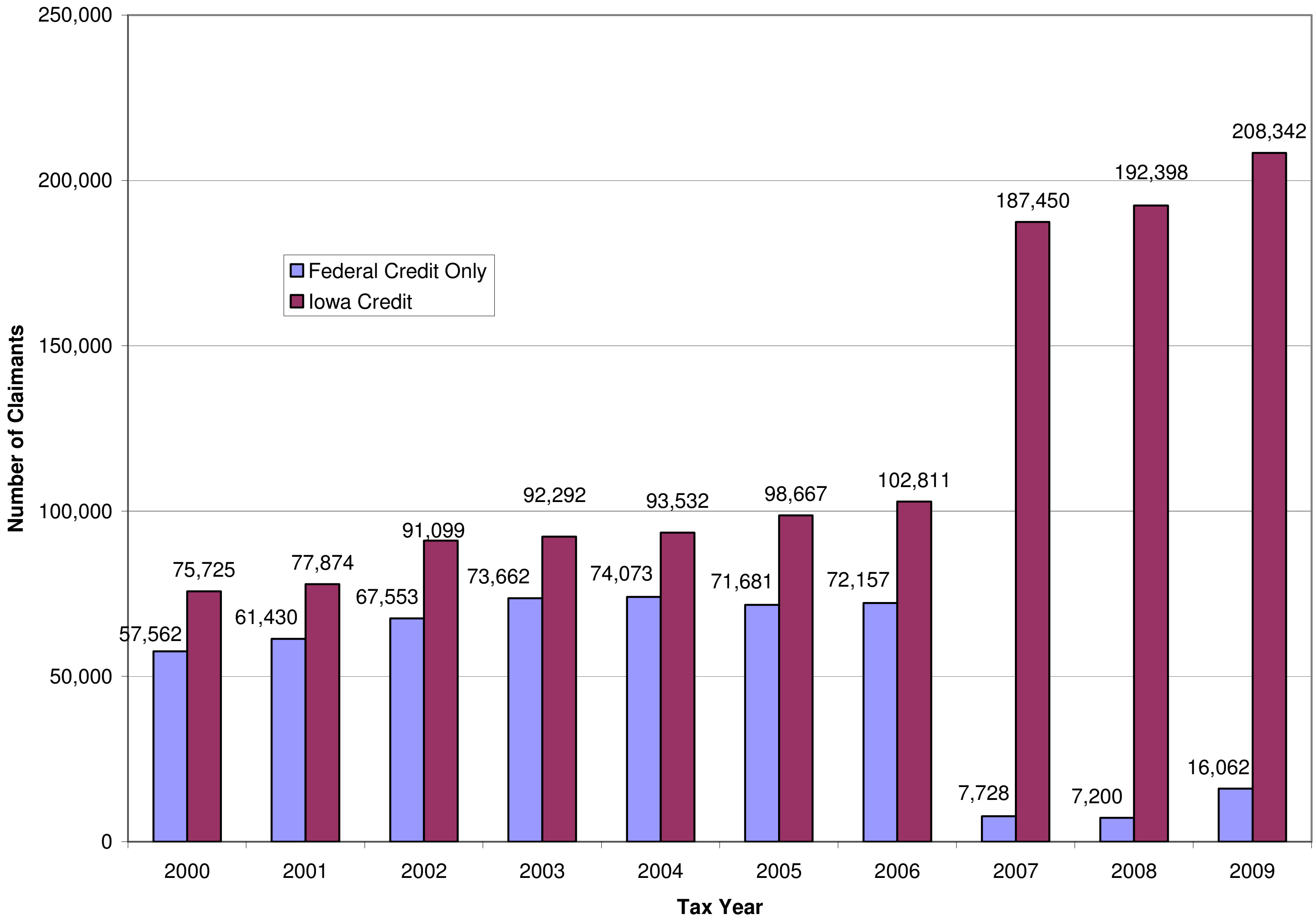
Source: Iowa individual income tax returns, Iowa Department of Human Service

Table 13. Iowa EITC Eligible Taxpayers with No Iowa EITC Claim in Tax Year 2009

	Claimed Neither Federal Nor Iowa EITC			Claimed Federal EITC But Not Iowa EITC		
Iowa Filing Status	Number of Taxpayers	Distribution of Taxpayers	Average Iowa EITC That Could Have Been Claimed	Number of Taxpayers	Distribution of Taxpayers	Average Iowa EITC That Could Have Been Claimed
Single	9,399	39.8%	$8	1,920	39.2%	$32
Head of Household	6,548	27.7%	$164	777	15.9%	$160
Married	7,690	32.5%	$154	2,200	44.9%	$106
Number of Dependents						
0	4,669	19.8%	$18	2,082	42.5%	$17
1	9,325	39.5%	$68	898	18.3%	$111
2	4,422	18.7%	$152	1,027	21.0%	$126
3+	5,221	22.1%	$181	890	18.2%	$173
Total	23,637	100.0%	$99	4,897	100.0%	$86

Source: Iowa individual income tax returns

Figure 7. Iowa Taxpayers with Only Federal EITC Claims Versus Iowa and Federal Claims, 2000-2009



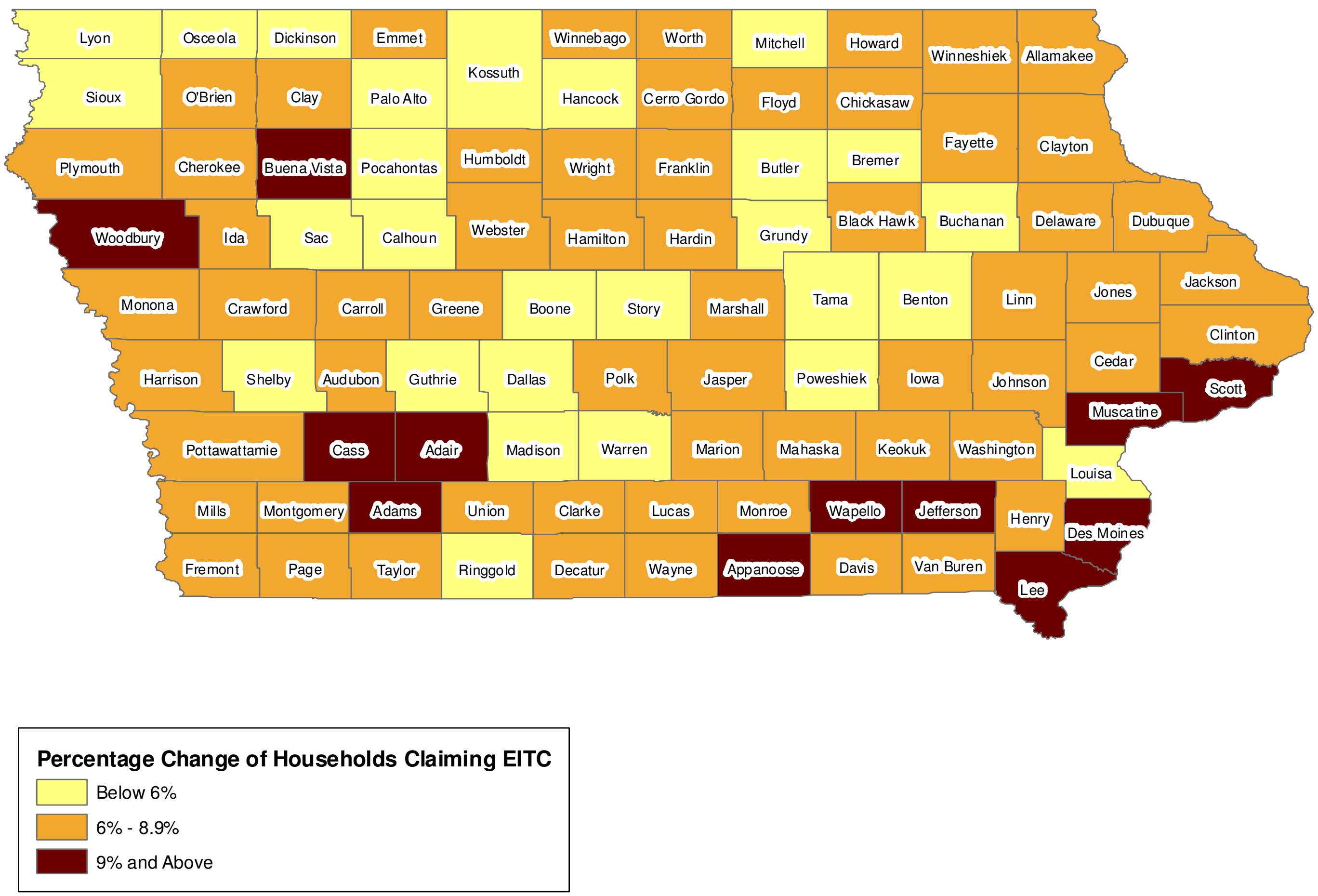
Source: Iowa and Federal individual income tax returns

Table 14. Impact of 2007 Law Change in Tax Year 2009

Iowa Adjusted Gross Income	2009 Actual Amount Claimed	2009 Estimated Claims Under 6.5% and Nonrefundable	Increase in Claims Under Full 2007 Law Change	Increase in Claims Under Rate Increase	Percent Increase in Claims Under Rate Increase	Increase in Claims Under Refundability	Percent Increase in Claims Under Refundability
$0 or less	$295,615	$3,530	$292,085	$189	5.4%	$291,896	8269.0%
$1 - $4,999	$1,033,314	$11,627	$1,021,687	$670	5.8%	$1,021,017	8781.4%
$5,000 - $9,999	$3,705,385	$203,301	$3,502,084	$8,157	4.0%	$3,493,927	1718.6%
$10,000 - $14,999	$5,754,158	$807,845	$4,946,313	$30,449	3.8%	$4,915,864	608.5%
$15,000 - $19,999	$6,086,998	$3,573,486	$2,513,512	$166,529	4.7%	$2,346,983	65.7%
$20,000 - $24,999	$5,149,205	$4,194,088	$955,117	$312,304	7.4%	$642,813	15.3%
$25,000 - $29,999	$3,548,156	$2,890,830	$657,326	$219,674	7.6%	$437,652	15.1%
$30,000 - $34,999	$1,924,918	$1,540,612	$384,306	$117,663	7.6%	$266,643	17.3%
$35,000 - $39,999	$822,451	$571,066	$251,385	$43,757	7.7%	$207,628	36.4%
$40,000 and over	$176,072	$72,182	$103,890	$5,522	7.7%	$98,368	136.3%
Total	$28,496,272	$13,868,567	$14,627,705	$904,914	6.5%	$13,722,791	98.9%

Source: Iowa individual income tax returns

Figure 8. Percentage Change of Households Claiming EITC by County, 2006 vs. 2009



Source: Iowa individual income tax returns

Table 15. EITC Claims and Poverty Rates by County, 2006 vs. 2009

	Tax Year 2006				Tax Year 2009			
COUNTY	Number of Households in County	Percent of Households Claiming EITC	Percent of Households in Poverty	Percent Claiming EITC Less Percent in Poverty	Number of Households in County	Percent of Households Claiming EITC	Percent of Households in Poverty	Percent Claiming EITC Less Percent in Poverty
ADAIR	3,808	13.3%	10.3%	3.0%	3,805	18.7%	10.7%	8.0%
ADAMS	2,119	14.0%	12.7%	1.3%	2,121	18.6%	12.4%	6.2%
ALLAMAKEE	7,611	11.8%	11.4%	0.4%	7,720	14.7%	14.1%	0.6%
APPANOOSE	6,758	15.5%	15.0%	0.5%	6,756	19.0%	19.3%	-0.3%
AUDUBON	3,012	12.0%	10.1%	1.9%	3,001	14.6%	10.0%	4.6%
BENTON	10,992	11.1%	7.6%	3.5%	11,039	13.2%	7.9%	5.3%
BLACK HAWK	54,427	14.8%	14.0%	0.8%	55,115	17.5%	17.3%	0.2%
BOONE	11,564	10.4%	9.3%	1.1%	11,741	12.9%	8.2%	4.7%
BREMER	10,049	9.0%	6.8%	2.2%	10,203	10.9%	7.5%	3.4%
BUCHANAN	9,145	11.8%	9.9%	1.9%	9,178	13.7%	10.9%	2.8%
BUENA VISTA	8,202	18.1%	10.5%	7.6%	8,209	23.7%	15.2%	8.5%
BUTLER	6,665	11.4%	9.1%	2.3%	6,910	12.9%	10.3%	2.6%
CALHOUN	5,200	11.8%	10.6%	1.2%	5,194	12.9%	11.2%	1.7%
CARROLL	9,281	11.4%	8.3%	3.1%	9,361	14.3%	9.8%	4.5%
CASS	6,726	13.9%	12.2%	1.7%	6,732	18.3%	13.1%	5.2%
CEDAR	8,006	10.1%	7.3%	2.8%	8,121	13.3%	7.9%	5.4%
CERRO GORDO	21,842	12.4%	10.4%	2.0%	21,946	15.4%	10.6%	4.8%
CHEROKEE	5,919	10.6%	8.9%	1.7%	5,912	14.0%	9.7%	4.3%
CHICKASAW	5,754	10.7%	8.4%	2.3%	5,762	14.3%	9.3%	5.0%
CLARKE	4,153	16.4%	11.8%	4.6%	4,167	20.0%	12.0%	8.0%
CLAY	8,084	13.1%	9.3%	3.8%	8,125	15.8%	9.0%	6.8%
CLAYTON	8,913	12.2%	10.4%	1.8%	8,999	15.3%	11.3%	4.0%
CLINTON	22,249	14.7%	11.3%	3.4%	22,340	17.5%	11.9%	5.6%
CRAWFORD	7,082	15.1%	11.7%	3.4%	7,110	19.1%	12.3%	6.8%
DALLAS	22,258	8.6%	6.1%	2.5%	24,287	11.5%	6.0%	5.5%
DAVIS	3,664	13.3%	12.0%	1.3%	3,660	16.5%	14.9%	1.6%
DECATUR	3,881	15.8%	17.3%	-1.5%	3,872	18.7%	21.1%	-2.4%
DELAWARE	7,940	12.7%	9.7%	3.0%	7,958	15.3%	9.3%	6.0%
DES MOINES	18,940	16.5%	13.8%	2.7%	18,914	20.1%	12.8%	7.3%
DICKINSON	12,828	6.8%	7.4%	-0.6%	13,196	8.2%	8.4%	-0.2%
DUBUQUE	38,564	13.1%	10.3%	2.8%	39,298	16.5%	9.5%	7.0%
EMMET	4,946	13.5%	10.1%	3.4%	4,966	16.5%	11.3%	5.2%
FAYETTE	9,693	13.4%	14.4%	-1.0%	9,725	16.8%	12.9%	3.9%

Table 15 (continued). EITC Claims and Poverty Rates by County, 2006 vs. 2009

	Tax Year 2006				Tax Year 2009			
COUNTY	Number of Households in County	Percent of Households Claiming EITC	Percent of Households in Poverty	Percent Claiming EITC Less Percent in Poverty	Number of Households in County	Percent of Households Claiming EITC	Percent of Households in Poverty	Percent Claiming EITC Less Percent in Poverty
FLOYD	7,448	13.5%	11.7%	1.8%	7,451	15.7%	12.6%	3.1%
FRANKLIN	4,784	12.6%	9.9%	2.7%	4,764	15.6%	10.2%	5.4%
FREMONT	3,577	12.4%	10.7%	1.7%	3,595	15.4%	10.4%	5.0%
GREENE	4,684	12.7%	10.1%	2.6%	4,691	15.9%	11.3%	4.6%
GRUNDY	5,626	8.0%	6.5%	1.5%	5,696	9.6%	6.3%	3.3%
GUTHRIE	5,737	9.7%	8.6%	1.1%	5,828	12.2%	9.2%	3.0%
HAMILTON	7,307	11.2%	8.8%	2.4%	7,338	14.9%	9.2%	5.7%
HANCOCK	5,308	11.9%	8.0%	3.9%	5,322	14.8%	9.2%	5.6%
HARDIN	8,448	11.8%	12.1%	-0.3%	8,408	14.3%	9.8%	4.5%
HARRISON	6,963	11.5%	10.9%	0.6%	7,002	14.4%	10.6%	3.8%
HENRY	8,514	14.5%	9.9%	4.6%	8,591	17.9%	15.8%	2.1%
HOWARD	4,439	13.0%	10.2%	2.8%	4,454	17.6%	11.6%	6.0%
HUMBOLDT	4,791	11.9%	9.6%	2.3%	4,807	13.5%	10.1%	3.4%
IDA	3,554	12.1%	9.8%	2.3%	3,552	14.4%	11.2%	3.2%
IOWA	6,832	11.2%	6.9%	4.3%	6,841	14.1%	7.6%	6.5%
JACKSON	9,324	13.2%	12.8%	0.4%	9,412	15.9%	10.6%	5.3%
JASPER	16,217	11.3%	10.2%	1.1%	16,286	15.1%	10.0%	5.1%
JEFFERSON	7,633	13.5%	14.9%	-1.4%	7,674	17.9%	15.4%	2.5%
JOHNSON	53,848	8.7%	16.2%	-7.5%	56,207	11.7%	16.6%	-4.9%
JONES	8,402	12.2%	10.5%	1.7%	8,440	14.6%	9.5%	5.1%
KEOKUK	5,072	12.9%	11.1%	1.8%	5,034	15.8%	12.1%	3.7%
KOSSUTH	7,634	11.2%	9.6%	1.6%	7,636	13.6%	10.1%	3.5%
LEE	16,764	15.3%	12.4%	2.9%	16,705	19.0%	14.9%	4.1%
LINN	90,862	11.4%	9.7%	1.7%	93,392	14.0%	9.5%	4.5%
LOUISA	5,225	14.8%	11.8%	3.0%	5,281	16.2%	10.9%	5.3%
LUCAS	4,295	13.9%	14.4%	-0.5%	4,277	15.9%	16.7%	-0.8%
LYON	4,864	9.8%	6.8%	3.0%	4,959	12.6%	8.0%	4.6%
MADISON	6,396	10.6%	7.9%	2.7%	6,593	12.9%	8.5%	4.4%
MAHASKA	9,819	12.9%	10.8%	2.1%	9,818	16.4%	13.0%	3.4%
MARION	13,785	10.1%	8.0%	2.1%	14,006	13.3%	9.2%	4.1%
MARSHALL	17,011	16.5%	11.4%	5.1%	17,141	19.6%	12.6%	7.0%
MILLS	5,902	10.3%	10.1%	0.2%	5,936	13.7%	9.1%	4.6%

Table 15 (continued). EITC Claims and Poverty Rates by County, 2006 vs. 2009

COUNTY	Tax Year 2006 Number of Households in County	Tax Year 2006 Percent of Households Claiming EITC	Tax Year 2006 Percent of Households in Poverty	Tax Year 2006 Percent Claiming EITC Less Percent in Poverty	Tax Year 2009 Number of Households in County	Tax Year 2009 Percent of Households Claiming EITC	Tax Year 2009 Percent of Households in Poverty	Tax Year 2009 Percent Claiming EITC Less Percent in Poverty
MITCHELL	4,677	10.6%	9.3%	1.3%	4,709	12.8%	9.0%	3.8%
MONONA	4,787	14.0%	11.8%	2.2%	4,789	15.7%	12.2%	3.5%
MONROE	3,634	12.9%	11.8%	1.1%	3,649	16.3%	12.9%	3.4%
MONTGOMERY	5,410	13.8%	12.7%	1.1%	5,399	17.3%	14.5%	2.8%
MUSCATINE	17,770	16.0%	11.3%	4.7%	18,041	20.1%	12.0%	8.1%
OBRIEN	6,670	10.9%	9.3%	1.6%	6,703	14.7%	9.4%	5.3%
OSCEOLA	3,010	12.5%	8.6%	3.9%	3,002	13.9%	9.2%	4.7%
PAGE	7,324	12.8%	12.1%	0.7%	7,341	15.7%	15.1%	0.6%
PALO ALTO	4,735	11.4%	12.1%	-0.7%	4,746	13.5%	11.0%	2.5%
PLYMOUTH	10,457	11.1%	7.2%	3.9%	10,610	13.8%	7.2%	6.6%
POCAHONTAS	4,021	11.3%	10.1%	1.2%	3,988	12.3%	10.5%	1.8%
POLK	179,823	12.1%	9.7%	2.4%	186,510	15.4%	10.9%	4.5%
POTTAWATTAMIE	39,202	14.6%	11.0%	3.6%	39,991	18.3%	13.1%	5.2%
POWESHIEK	9,061	10.5%	11.4%	-0.9%	9,126	12.8%	12.6%	0.2%
RINGGOLD	2,895	11.7%	15.2%	-3.5%	2,875	13.4%	15.6%	-2.2%
SAC	5,562	10.9%	10.9%	0.0%	5,580	13.0%	11.8%	1.2%
SCOTT	69,810	14.1%	12.8%	1.3%	71,562	17.9%	12.5%	5.4%
SHELBY	5,478	12.8%	8.9%	3.9%	5,505	14.2%	9.1%	5.1%
SIOUX	11,870	10.0%	7.2%	2.8%	12,110	13.4%	7.1%	6.3%
STORY	33,895	8.1%	16.3%	-8.2%	34,833	11.1%	17.3%	-6.2%
TAMA	7,837	12.9%	10.4%	2.5%	7,855	15.0%	10.5%	4.5%
TAYLOR	3,247	12.6%	12.0%	0.6%	3,231	14.6%	14.2%	0.4%
UNION	5,788	16.1%	14.3%	1.8%	5,775	19.0%	14.2%	4.8%
VAN BUREN	3,675	13.7%	13.9%	-0.2%	3,663	16.4%	17.8%	-1.4%
WAPELLO	16,358	17.1%	14.8%	2.3%	16,467	21.2%	16.7%	4.5%
WARREN	16,942	10.1%	6.3%	3.8%	17,630	12.5%	7.2%	5.3%
WASHINGTON	8,889	12.4%	9.9%	2.5%	8,971	15.9%	10.9%	5.0%
WAYNE	3,410	12.1%	14.8%	-2.7%	3,391	14.6%	16.6%	-2.0%
WEBSTER	17,291	13.5%	13.1%	0.4%	17,259	16.8%	15.0%	1.8%
WINNEBAGO	5,191	12.2%	9.9%	2.3%	5,190	15.6%	10.7%	4.9%
WINNESHIEK	8,636	10.9%	9.0%	1.9%	8,772	14.1%	10.0%	4.1%
WOODBURY	42,001	18.4%	13.7%	4.7%	42,087	23.2%	14.7%	8.5%
WORTH	3,573	11.9%	8.6%	3.3%	3,557	15.4%	9.2%	6.2%
WRIGHT	6,602	12.2%	9.9%	2.3%	6,583	15.5%	10.2%	5.3%
STATE TOTAL	1,320,871	12.5%	11.0%	1.5%	1,344,080	15.6%	11.8%	3.8%
URBAN COUNTIES	602,432	11.5%	12.6%	-1.2%	618,995	15.7%	13.5%	2.2%
RURAL COUNTIES	718,439	13.4%	10.5%	2.9%	725,085	15.6%	11.3%	4.3%

Source: Iowa individual income tax returns

Table 16. Earned Income Tax Credits Claimed by Households in Poverty by Income, 2009

Federal Adjusted Gross Income	Number of Households in Poverty	Number of Households Eligible for EITC	Average Poverty Level	Average Gross Income	Average Amount Below Poverty	Average Federal EITC	Average Iowa EITC	Total of Average EITC credits	Average Remaining Amount Below Poverty	Percent Remaining in Poverty	Percent Removed from Poverty
$ 0 or less	18,918	2,569	$15,487	-$35,652	$51,139	$982	$62	$1,044	$50,095	99.9%	0.1%
$ 1 - $ 4,999	84,478	22,211	$13,730	$3,246	$10,484	$603	$44	$647	$9,837	99.9%	0.1%
$ 5,000 - $ 9,999	106,990	36,093	$14,213	$7,881	$6,332	$1,436	$99	$1,535	$4,797	98.5%	1.5%
$ 10,000 - $ 14,999	42,987	26,112	$17,182	$12,491	$4,691	$2,955	$198	$3,153	$1,538	64.8%	35.2%
$ 15,000 - $ 19,999	11,992	11,459	$21,610	$17,408	$4,202	$4,085	$269	$4,354	-$152	37.5%	62.5%
$ 20,000 - $ 24,999	4,703	4,543	$25,649	$22,194	$3,455	$3,839	$232	$4,071	-$616	35.1%	64.9%
$ 25,000 - $ 29,999	1,413	1,370	$30,606	$27,086	$3,520	$2,998	$166	$3,164	$356	45.6%	54.4%
$ 30,000 - $ 34,999	334	319	$36,201	$32,143	$4,058	$2,040	$105	$2,145	$1,913	61.8%	38.2%
$ 35,000 - $ 39,999	101	96	$40,244	$37,065	$3,179	$1,285	$60	$1,345	$1,834	65.6%	34.4%
$ 40,000 and over	40	15	$46,485	$41,928	$4,557	$978	$19	$997	$3,560	80.0%	20.0%
Total	271,956	104,787	$16,496	$8,999	$7,497	$2,043	$136	$2,179	$5,318	80.2%	19.8%

Source: Iowa individual income tax returns, U.S. Department of Health and Human Services

Table 17. Earned Income Tax Credits Claimed by Households in Poverty by Filing Status and Dependents, 2009

Filing Status	Number of Dependents	Number of Households in Poverty	Number of Households Eligible for EITC	Average Poverty Level	Average Gross Income	Average Amount Below Poverty	Average Federal EITC	Average Iowa EITC	Total of Average EITC	Average Remaining Amount Below Poverty	Percent Remaining in Poverty	Percent Removed from Poverty
Single	0	169,874	31,400	$10,830	$5,425	$5,405	$287	$19	$306	$5,099	97.2%	2.8%
Married	0	26,265	5,420	$14,570	$4,337	$10,233	$330	$21	$351	$9,882	96.7%	3.3%
Married	1	5,510	4,384	$18,310	$8,614	$9,696	$2,248	$155	$2,403	$7,293	77.1%	22.9%
Married	2	6,998	5,951	$22,050	$10,915	$11,135	$3,652	$253	$3,905	$7,230	65.5%	34.5%
Married	3+	9,242	8,016	$28,783	$16,883	$11,900	$3,743	$224	$3,967	$7,933	72.6%	27.4%
Head of Household	1	17,688	16,893	$14,570	$8,776	$5,794	$2,318	$159	$2,478	$3,316	70.4%	29.6%
Head of Household	2	13,988	13,628	$18,310	$11,418	$6,892	$3,588	$246	$3,834	$3,057	60.3%	39.7%
Head of Household	3+	8,499	8,354	$23,526	$14,320	$9,206	$3,720	$240	$3,960	$5,246	72.2%	27.8%

Source: Iowa individual income tax returns

Table 18. Earned Income Tax Credits Claimed by Households Not in Poverty by Filing Status and Dependents, 2009

Filing Status	Number of Dependents	Number of Households Eligible for EITC	Average Poverty Level	Average Gross Income	Average Amount Above Poverty	Average Federal EITC	Average Iowa EITC	Total of Average EITC	Average Amounts Above Poverty After EITC
Single	0	9,523	$10,830	$12,271	$1,441	$115	$8	$123	$1,564
Married	0	1,451	$14,570	$16,019	$1,449	$211	$9	$220	$1,669
Married	1	11,456	$18,310	$29,365	$11,055	$1,533	$93	$1,626	$12,681
Married	2	14,828	$22,050	$33,867	$11,817	$2,163	$130	$2,293	$14,110
Married	3+	9,971	$27,159	$35,674	$8,516	$2,262	$109	$2,371	$10,887
Head of Household	1	32,913	$14,570	$24,233	$9,663	$1,734	$120	$1,853	$11,517
Head of Household	2	16,778	$18,310	$27,139	$8,829	$2,478	$171	$2,649	$11,477
Head of Household	3+	1,196	$26,697	$32,152	$5,456	$1,608	$89	$1,697	$7,152

Source: Iowa individual income tax returns

Table 19. Consecutive Years of EITC Claims in Tax Years 2004 through 2009

Consecutive Years	Number of Consecutive Claims by Tax Year 2004	2005	2006	2007	2008	2009
One Year	43,310	46,551	47,985	119,794	71,622	79,669
Two Years	17,972	18,841	20,358	27,303	71,079	37,913
Three Years	11,802	10,587	11,041	13,992	18,767	51,142
Four Years	6,768	7,680	6,845	8,150	10,345	14,363
Five Years	13,680	4,735	5,329	5,209	6,272	8,276
Six Years		10,273	3,408	4,070	4,003	5,103
Seven Years			7,845	2,673	3,180	3,315
Eight Years				6,259	2,139	2,625
Nine Years					4,991	1,796
Ten Years						4,140
Total	93,532	98,667	102,811	187,450	192,398	208,342

Consecutive Years	Distribution of Consecutive Claims by Tax Year 2004	2005	2006	2007	2008	2009
One Year	46.3%	47.2%	46.7%	63.9%	37.2%	38.2%
Two Years	19.2%	19.1%	19.8%	14.6%	36.9%	18.2%
Three Years	12.6%	10.7%	10.7%	7.5%	9.8%	24.5%
Four Years	7.2%	7.8%	6.7%	4.3%	5.4%	6.9%
Five Years	14.6%	4.8%	5.2%	2.8%	3.3%	4.0%
Six Years		10.4%	3.3%	2.2%	2.1%	2.4%
Seven Years			7.6%	1.4%	1.7%	1.6%
Eight Years				3.3%	1.1%	1.3%
Nine Years					2.6%	0.9%
Ten Years						2.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Iowa individual income tax returns

Table 20. Comparison between One-Year and Long-Term EITC Claimants, 2000-2009

	One-Year Claimants		Long-Term Claimants	
	Only Claim EITC in 2008		Claim EITC for 10 Years	
Iowa Filing Status	Number	Percent	Number	Percent
Married	5,719	43.5%	1,109	26.8%
Single	6,288	47.8%	123	3.0%
Head of Household	1,124	8.6%	2,906	70.2%
Qualifying Widow(er)	12	0.1%	2	0.0%
	Only Claim EITC in 2008		Claim EITC for 10 Years	
Number of Dependents	Number	Percent	Number	Percent
0	8,169	62.2%	162	3.9%
1	2,411	18.3%	1,747	42.2%
2	1,607	12.2%	1,378	33.3%
3+	956	7.3%	853	20.6%
Total	13,143	100.0%	4,140	100.0%

Source: Iowa individual income tax returns

Table 21. Total Years of EITC Claims Between Tax Years 2000 and 2009 for Tax Year 2009

Number of Years	Number of Households	Distribution
1	53,664	25.8%
2	40,147	19.3%
3	44,777	21.5%
4	21,807	10.5%
5	14,696	7.1%
6	10,569	5.1%
7	8,016	3.8%
8	6,047	2.9%
9	4,479	2.1%
10	4,140	2.0%
Total	208,342	100.0%

Source: Iowa individual income tax returns

Table 22. Major Reasons for Taxpayers Moving In and Out of EITC Eligibility

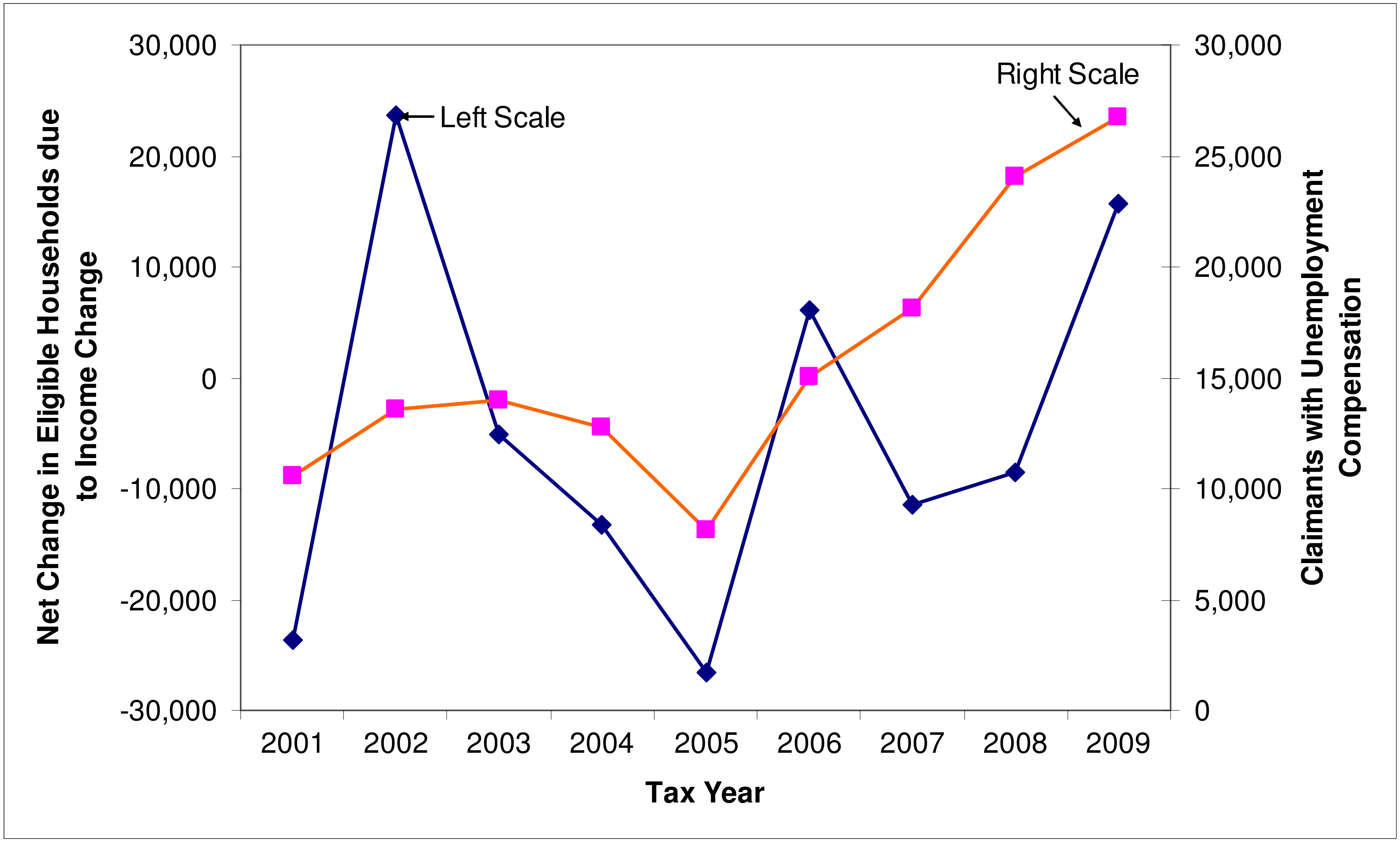
Major Reasons for Entering EITC	2007	2008	2009	Average
Earned Income Drops	64.4%	65.0%	71.7%	67.1%
Add Dependents	28.4%	29.3%	26.1%	27.9%
Change in Marital Status	23.4%	23.7%	21.5%	22.9%
Investment Income Drops	5.4%	7.3%	5.8%	6.2%
Enter Workforce	2.3%	2.3%	2.1%	2.2%

Major Reasons for Leaving EITC	2007	2008	2009	Average
Earned Income Increases	80.0%	78.9%	70.0%	76.3%
Change in Marital Status	17.8%	18.1%	21.3%	19.1%
Investment Income Increases	6.1%	4.5%	4.1%	4.9%
Exit Workforce	2.8%	3.2%	7.5%	4.5%
Fewer Dependents	0.6%	0.8%	0.9%	0.8%

Source: Iowa ndividual income tax returns

Note: Shares of different reasons are not mutually exclusive.

Figure 9. Interaction of the Business Cycle and EITC Eligible Households



Source: Iowa individual income tax returns