Iowa Department of REVENUE

Iowa's Earned Income Tax Credit

Tax Credit Program Evaluation Study

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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 assist the Legislature by performing periodic economic studies of tax credit programs. This is the fourth evaluation study completed for this tax 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:

Patrick Callan	Iowa Workforce Development
Peter Fisher	Common Good Iowa
Brenda Hall	Iowa Department Human Services
Dr. Brent Kreider	Iowa State University
Dave Swenson	Iowa State University

The assistance of an advisory panel implies no responsibility for the content and conclusions of the evaluation study.

This report was also reviewed by Robin Anderson. 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 website.

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. For tax year 1991, the Legislature increased the credit rate to 6.5 percent of the federal EITC. For tax year 2007, the credit rate was raised to 7 percent of the federal EITC and was made refundable. The tax credit rate was increased to 14 percent of the federal credit for the 2013 tax year and to 15 percent for tax years beginning on or after January 1, 2014.

The major findings of the study are these:

Earned Income Tax Credit across the United States

- Thirty states, the District of Columbia, New York City, Guam, and Puerto Rico currently offer an EITC. Six states; Delaware, Hawaii, Maryland, Ohio, Oklahoma, and Virginia, offer only a nonrefundable state EITC. Four of Iowa's neighbors, Illinois, Minnesota, Nebraska, and Wisconsin, also offer a refundable EITC.

- Iowa's maximum Earned Income Tax Credit, in tax year 2019, was $984 based on the 15 percent rate, the 16th highest rate among the states offering EITC. Montana offers the smallest state EITC at 3.0 percent of the federal credit, resulting in a maximum credit of $197. South Carolina has the highest rate at 62.5 percent of the federal credit for families with three or more children, resulting in a maximum credit of $4,098.

Analysis of Iowa Earned Income Tax Credit Claims

- In tax year 2019, 207,389 households claimed $68.6 million of EITC, where 48.3 percent of claims offset Iowa tax liability and the other 51.7 percent of claims were in excess of Iowa tax liability.

- In tax year 2019, single filers accounted for 29.1 percent of households claiming the Iowa EITC but made only 10.9 percent ($7.5 million) of total claims. Head of household filers accounted for 48.2 percent of households claiming the EITC and made 63.4 percent of total claims ($43.5 million). Married filers accounted for 22.6 percent of households claiming the EITC and made 25.5 percent of claims ($17.6 million). This differs from the total population of Iowa taxpayers where unmarried Iowa tax filers comprised 56.6 percent of households in tax year 2019, while married filers accounted for 43.4 percent.

- In tax year 2019, households with at least one dependent accounted for 73.1 percent of households claiming the EITC and made 95.3 percent of total claims ($65.4 million).

- The majority of claims were made by households where the taxpayer was between the ages of 21 and 45, both in terms of the number of claims (69.2%) and in terms of the amount of tax credits claimed (76.4%)

- Iowa EITC claimants are concentrated among the lowest income families. In tax year 2019, 61.7 percent of households claiming EITC had Iowa adjusted gross income (AGI) of less than $25,000, which is income reported on the Iowa tax return excluding any federal or Iowa in-kind benefits. In terms of the amount of credits claimed, 63.5 percent ($43.6 million) of the total amount of EITC was claimed by taxpayers with Iowa AGI less than $25,000. Compared to all households filing Iowa tax returns, only 26.7 percent of Iowa households filing income taxes in 2019 had AGI less than $25,000, and 73.3 percent of tax filers had AGI at or above $25,000.

Earned Income Tax Credit and Poverty

- In 2019, 12.6 percent of all Iowa households claimed the Iowa EITC although 22.4 percent of all Iowa households had income below the federal poverty guidelines. The poverty guideline for a household with one person in 2019 was $12,490. That guideline rises by $4,420 for each additional person in the household regardless of whether that person is a spouse or a child. The disparity of EITC claimants and households with income below the poverty guidelines can be attributed to the distribution of these two populations by household size. Just under half of all Iowa households filing tax returns consist of a single individual, with nearly one-third (30.3 percent) of those households reporting income below the poverty guidelines, while EITC claimants only account for 6.6 percent of single individuals due to the nature of the credit favoring households with dependents.

- In tax year 2019, 48.0 percent of EITC claimants reported Iowa AGI below the applicable federal poverty guideline and 26.1 percent reported AGI between 100 and 150 percent of the applicable guideline. After adding federal and Iowa EITC claims to AGI, the share of EITC claimants below the federal poverty guideline falls to 39.4 percent, and the share of claimants between 100 and 150 percent of the guideline rises to 29.1 percent.

Earned Income Tax Credit, Continuance, and the Business Cycle

- Of all households making EITC claims in tax year 2019, 36.1 percent of households claimed the EITC in tax year 2019 but not in 2018, and 16.0 percent claimed the EITC in tax years 2019 and 2018, but not 2017.

- Long-term EITC claimants, taxpayers with claims in ten consecutive tax years, predominatly filed as head of household with one or more dependents. Nearly half of one-year claimants, taxpayers with only one EITC claim in a ten-year tax period, filed single with no dependents.

- Of claimants in tax years 2008-2010, an average of only 4.2 percent had made claims in all of the previous five years. Of claimants in tax years 2012-2019, the average share that had made claims for five consecutive years increases to 6.1 percent. This suggests that there is growing persistence.

- Outside of taxpayers entering or exiting Iowa tax roles, 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 2010 and 2019, an average of 36.8 percent of households was newly eligible for the EITC because of a drop in earned income. Conversely, an average of 44.6 percent of households moved out of EITC eligibility because of an increase in earned income.

I. Introduction

The Earned Income Tax Credit (EITC) 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. The EITC is a tax benefit to low- to moderate-income working people. The U.S. tax code and 30 states, the District of Columbia, Guam, Puerto Rico and some municipalities provide for an EITC. The federal EITC has been in place since 1975, and Rhode Island enacted the first state EITC in 1986. More than 25 million eligible tax filers received almost $63 billion in federal EITC for the 2019 tax year.

In 2007, 2011, and 2016 the Iowa Department of Revenue (IDR) conducted evaluation studies of the Iowa Earned Income Tax Credit. These prior studies 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 studies also compared estimated impacts of various enacted proposals that changed the Iowa EITC and reduced the tax burden on low- and moderate-income families.

Goals and Structure of this Evaluation Study

There are two main goals of this fourth evaluation of the Iowa EITC. The first is to update the data presented in the first three evaluation studies. The second is to examine the effectiveness of the Iowa EITC in aiding low- and moderate-income families with the continued evolution of the EITC since the 2016 study.

The study is structured as follows: 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 2019 tax year, and summarizes other types of assistance administered by other state agencies; Section V addresses the second goal of this evaluation study; it seeks to examine the effectiveness of the Iowa EITC in aiding low- and moderate-income families. It assesses the economic impacts of the EITC, such as the effects of the continuing law changes and how well the EITC reduces poverty; Section VI concludes the study.

II. Earned Income Tax Credits across the United States

A. Earned Income Tax Credits in Other States

In 2019, 30 states (including Iowa), the District of Columbia, New York City, Guam and Puerto Rico offered an EITC (see Table 2). All of the states that allow a state EITC determine the amount of their credit as a percentage of the federal EITC, save California and Minnesota which have created their own credit calculation independent of the federal credit. Delaware, Hawaii, Maryland, Ohio, Oklahoma, and Virginia are the only states that have a nonrefundable[1] EITC. In Maryland, taxpayers can claim either a refundable EITC equal to 45 percent or a nonrefundable EITC equal to 50 percent. Louisiana offers the smallest state EITC at 3.5 percent of the federal credit, resulting in a maximum credit of $229. South Carolina has the highest rate at 62.5 percent of the federal credit with an

[1] A nonrefundable tax credit is a tax credit that can only reduce a taxpayer's liability to zero. Any amount that remains from the credit is automatically forfeited by the taxpayer.

annual increase of 20.83 percent until it reaches 125 percent in TY 2023 resulting in a maximum credit of $8,196 in 2023. Iowa's maximum Earned Income Tax Credit, in tax year 2019, was $984 based on a 15 percent rate which is the 16th highest rate among the states offering EITC.

Four of Iowa's neighboring states offer an EITC: Illinois, Minnesota, Nebraska, and Wisconsin. Nebraska provides a refundable tax credit equal to 10 percent of the federal credit, lower than Iowa. The maximum tax credit was $656 for Nebraska in 2019. Illinois's refundable tax credit is equal to 18 percent of the federal credit with a maximum tax credit of $1,180 in 2019. Wisconsin has a tiered refundable state tax credit equal to 4 percent of the federal credit for a household with only one dependent child. For households with two dependents, the tax credit rate is 11 percent. For taxpayers with three or more children, the tax credit rate is 34 percent of the federal credit. Wisconsin does not offer the credit to households with no qualifying children.

Minnesota's tax credit for families with children used to be structured as a percentage of the federal credit. Since 1998, Minnesota has offered a stand-alone refundable Working Families Credit equal to a percentage of the earnings of low-income households that follows a pattern similar to the federal credit. For households with no qualifying children, the credit equals 3.9 percent of the first $7,150 of earned income. The credit phases out by 2.0 percent until it reaches zero. For households with one child, the credit equals 9.35 percent of the first $11,950 of earned income. The credit phases out by 6.0 percent until it reaches zero. For households with two children, the credit equals 11 percent of the first $19,600 of earned income. The credit phases out by 10.5 until it reaches zero. For households with three or more qualifying children, the credit equals 12.5 percent of the first $20,000 of earned income. The credit phases out by 10.5 until it reaches zero.

III. Literature Review

A. EITC Literature Review Introduction

According to the Urban Institute, in fiscal year 2016, the federal government spent $377 billion on children through programs and refundable tax credits. An additional $108 billion in tax reductions were dedicated to families with children, increasing the total federal expenditures on children to $486 billion (Isaacs, Lou, Hahn, Ovalle, and Steuerle, 2017). Medicaid has been the largest source of federal spending on children, also referenced from the Urban Institute. It is estimated that the federal government spent $89 billion (one-fourth of total Medicaid funds) on Medicaid for children in Fiscal Year 2016. The next three largest federal benefit programs are tax provisions: the earned income tax credit, the child tax credit, and the dependent exemption (Isaacs, Lou, Hahn, Ovalle, and Steuerle, 2017).

The Earned Income Tax Credit (EITC) and Child Tax Credit (CTC) go to millions of low- and middle-income working families each year. A substantial amount of research shows that these two credits provide employment, income, education, and health benefits to its recipients and their children (Bastian and Michelmore, 2018). Recent research suggests the income from these tax credits leads to benefits at nearly every stage of life (Bastian and Michelmore, 2018). Research indicates that children in families receiving either one or both of these tax credits have better results in school, are more likely to attend post-secondary education, and, in some cases, can expect to have more earning potential as adults (Marr, Huang, Shermann, and DeBot, 2015).

B. EITC Encourages Employment

Studies show that working-family tax credits increase work effort. Extensive research has found that when the EITC expanded in the 1990s, the credits contributed as much to the ensuing increases in work among single mothers and female heads of households as concurrent welfare changes (Hoynes and Patel, 2018). Women who received EITC credits during the periods of increases in credit amount also experienced higher wage growth in the subsequent years than otherwise comparable women who did not receive EITC credits (Marr, Huang, Shermann, DeBot, 2015). Finally, by increasing the employment and earnings of working-age women, the EITC increases the amount of the Social Security retirement benefits they will eventually receive (Marr, Huang, Shermann, DeBot, 2015).

Research shows that by increasing the employment of single mothers, the EITC reduces the number of female-headed households receiving cash welfare assistance (Hoynes and Patel, 2018). The Child Tax Credit is not as old as the EITC and has not been as extensively studied as the EITC[2]. However, the CTC shares similar features with the EITC.

Research shows that the EITC and CTC improve working families' poverty standing. This research shows that these two tax credits lifted 9.4 million people out of poverty in 2013, including five million children. In addition, these credits improved 22 million other people's out of poverty standing (Marr, Huang, Shermann, DeBot, 2015). By encouraging work, the EITC and CTC have other anti-poverty outcomes not counted in the reported figures. Recent research on the EITC's effects on single mothers' employment shows that counting the employment increasing effect of the EITC nearly doubles its anti-poverty effect for these families (Marr, Huang, Shermann, DeBot, 2015).

According to Marr, Huang, Shermann, and DeBot (2015), single mothers are the group most likely to be eligible for the EITC because they tend to have low earnings and have qualifying children. Single mothers experienced a noticeable increase in paid employment following the EITC expansions of the early 1990s when compared to married women and single women without children (Marr, Huang, Shermann, and DeBot, 2015). Economic studies that controlled for other policy and economic changes during this period also found that the most significant gains in employment attributable to the EITC occurred among mothers with young children and mothers with low education (Marr, Huang, Shermann, DeBot, 2015).

According to Marr, Huang, Shermann, and DeBot (2015), there is little evidence that when EITC benefits phase out, as a family's income increases above certain levels, workers

[2] The child tax credit was created in 1997 by the Taxpayer Relief Act of 1997 to help ease the financial burden that families incur when they have children. The Tax Reduction Act of 1975 created the Federal Earned Income Tax Credit to offset the Social Security payroll tax for low income workers with children.

substantially reduce their work hours. They find that, instead, the EITC has an influential effect in encouraging workers to enter the labor force and become employed.

C. EITC as a Savings Account

The EITC and other tax credit programs were not created to bolster savings for those without the means to save. However, they can function as makeshift savings tools. For some EITC-eligible workers, the U.S. Treasury effectively serves as a savings account that is accessible once a year at tax time (Edin, Greene, Halpern-Meekin, and Levin, 2015). The one time a year refund (check) gives low-income earners a rare moment of financial easement. However, many EITC recipients still lack emergency savings as the year progresses. When more affluent families experience a surprise income drop or expense, they tap into liquid assets or cut back on nonessential consumption (Edin, Greene, Halpern-Meekin, and Levin, 2015). Edin, Greene, Halpern-Meekin, and Levin (2015) suggest that when low-wage workers lack liquid savings and experience an economic shock, they cut back on essential expenses or take on debt to make financial ends meet. Behavioral science researchers have described this precarious financial situation, little savings and unstable income, as a lack of “financial slack” (Edin, Greene, Halpern-Meekin, and Levin 2015). Low-income households relied heavily on earned income to meet their families’ needs: 80 percent of these households’ monthly income comes from wages. The remaining 20 percent of household income comes from government benefits, help from family members, and child support payments (Edin, Greene, Halpern-Meekin, and Levin, 2015).

Edin, Greene, Halpern-Meekin, and Levin (2015), found that for many families, tax time is an opportunity to pay off debt. Nationally, more than 120 million individuals receive a refund, worth an average of $3,050, each year (Edin, Greene, Halpern-Meekin, and Levin 2015). The average tax refund for lower-income families (counting the EITC, other credits, and any over-withholding) is $4,686, equal to about 20 percent of their annual earned income (Edin, Greene, Halpern-Meekin, and Levin 2018). The EITC provides a relied upon financial benefit to families who are not regularly able to cover their full expenses each month. Edin, Greene, Halpern-Meekin, and Levin (2018), estimated that between one-fourth and one-half of received tax refund dollars go toward the repayment of owed debt. The authors find that even low-income families attempt to save throughout the year, but they face budgetary pressures from regular income and consumption volatility which leaves them short of assets needed for savings. In turn, they rely on tax-time to bolster their savings. The lump sum tax refund is often the largest single payment a low-income household receives in a given year (Edin, Greene, Halpern-Meekin, and Levin, 2018).

D. EITC and Living Arrangements

Although the EITC is not an explicit housing policy, expansions to the EITC are generally linked with improved housing outcomes for single mothers and their children (Pilkauskas and Michelmore, 2019). Pilkauskas and Michelmore (2019) point out that as rents have risen and wages have not kept pace, housing affordability in the United States has declined over the last 15 years, impacting the housing and living arrangements of low-income families. The study defines housing as eviction, homelessness, and affordability; and living arrangements as doubling up families in one house, number of people in the household, and crowding. They find that housing subsidies improve the housing situations of low-income families, but less than one-fourth of eligible families receive a housing subsidy voucher. Pilkauskas' and Michelmore's 2019 study finds evidence that increased income could affect the housing and living arrangements of single mothers. As the largest tax credit benefit program for low-income families in the United States, the EITC has a substantial effect on the housing and living arrangements of these single mothers. This study found weak evidence for a reduction in overall number of household residents, yet the EITC does reduce household crowding.

Following a $1,000 increase in the average EITC, single mothers are statistically significantly less likely to pay more than 30 percent of their pretax earnings toward housing costs (a reduction of 3.9 percentage points off their pretax earnings) and are significantly less likely to pay more than 50 percent of their pretax earnings toward housing costs (a reduction of 5.2 percentage points off their pretax earnings) (Pilkauskas and Michelmore, 2019). Pilkauskas and Michelmore (2019) show that the EITC reduces the financial burden of rent or mortgages and household crowding, which are positive outcomes for these families. However, their results are less clear for living arrangements. The increased likelihood of mothers being named on the lease or mortgage and reduced share of mothers doubling up in someone else's home resulting from EITC expansions largely also represent positive outcomes for mothers and their children. Being named on the lease or mortgage suggests that mothers are experiencing increased economic stability. Similarly, moving out of someone else's home likely translates to additional residential stability.

E. EITC and Child Academic Achievement

The EITC has the potential to affect the long-term outcomes of children through multiple pathways. The EITC leads to large increases in pretax household earnings, with only minor declines in time that mothers spend with their children (Bastian and Michelmore, 2018). Results of research conducted by Bastian and Michelmore (2018) indicate that a policy-induced increase in EITC generosity in childhood has a positive effect on educational attainment and employment in adulthood. They found that these effects are driven by EITC exposure during the teenage years, which is consistent with the previous research by Manoli and Turner (2018), Carneiro et al. (2015), and Cohodes et al. (2016) All found positive educational outcomes for children exposed to additional resources in their teenage years (Bastian and Michelmore, 2018).

Research suggests that supplemental income from credits like the EITC and CTC leads to better school results for young children in low-income households too (Marr, Huang, Shermann, and DeBot, 2015). For each $1,000 increase in annual income over two to five years, children's school performance improves in many ways, including test scores. Receiving a tax credit worth approximately $3,000 during a child's early years may increase their success by the equivalent of about two extra months of schooling (Marr, Huang, Shermann, and DeBot, 2015).

Reduced-form estimates of the impact of EITC exposure on education and employment outcomes suggest that a $1,000 increase in EITC exposure between ages 13 and 18 leads to a 1.3 percent increase in high school graduation rates, a 4.2 percent increase in college graduation rates, and a 1.0 percent increase in employment in adulthood (Bastian and Michelmore, 2018). Conditional on exposure at older ages, they find no significant positive effects of EITC exposure before age 13 on education outcomes. Although, in many cases, estimates are too noisy to draw firm conclusions regarding the relationship between exposure to the EITC in early childhood and subsequent education outcomes (Bastian and Michelmore, 2018). Bastian and Michelmore (2018) found that there is an inverse relationship between the magnitude of the EITC's effect on education and the upper bound on family income. Children from the lowest-income households benefit the most from expansions of the EITC (Bastian and Michelmore, 2018).

The results above indicate that the EITC has a positive impact on educational attainment and employment of individuals exposed to it in childhood. This analysis has shown that the EITC also helps children finish high school and complete college, which supports previous research by Dahl and Lochner in 2012 and 2017 linking the EITC to higher test scores among low-income children. These gains also translate into increases in employment and annual earnings once these individuals reach adulthood. Together, these results provide further evidence that the EITC not only works to lift families out of poverty today but also provides hope of upward mobility for future generations of children growing up in economically disadvantaged households (Bastian and Michelmore, 2018).

Supplemental income in the form of the EITC and CTC has been associated with better school success for elementary and middle-school students (Marr, Huang, Shermann, and DeBot, 2015). Research has found that children in low-income families that receive larger state or federal EITCs tend to score better on reading tests and in math when compared to children from similar families receiving less credit. Research also finds that these students are more likely to finish high school and go on to college (Marr, Huang, Shermann, and DeBot, 2015).

According to Marr, Huang, Shermann, and DeBot (2015), other research also suggests that income increasing policies like the EITC and CTC improve academic performance. This study states that researchers analyzing ten anti-poverty and welfare-to-work experiments found a consistent pattern of better school results for low-income children in programs that provided more income.

IV. Analysis of Iowa Earned Income Tax Credit Claims

A. Historical Earned Income Tax Credit Claims

Trends in EITC credit claims and amount varied over time with jumps as policy for EITC credits changed. The number of EITC claims increased from 60,900 in tax year 1990 to 208,342 in 2009, peaking at 221,944 in 2013, and decreasing to 203,493 in 2018 before increasing again in 2019 to 207,389. The claim amount increased from $1.6 million in 1990 to $28.5 million in 2009, peaking at $71.9 million in 2015 before decreasing to $68.6 million in 2019 (see Table 3, Figures 3 and 4). The most significant increase in the amount of tax credits claimed occurred between tax years 2012 and 2013 when the Iowa EITC rose from seven percent to 14 percent of the federal credit, thus doubling the Iowa credit available to eligible taxpayers. In 2013, with the average credit increasing by 104.8 percent, the total amount of EITC claims increased from $31.0 million to $65.6 million (111.3%). The number of claims increased from 215,091 to 221,944 (3.2%) between 2012 and 2013. The number of credits soared between 2006 and 2007 when the credit was first made refundable (71.6%).

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's Code remains coupled with those changes.[3] Beginning with tax year 2020, Iowa is automatically conformed with the Internal Revenue Code for most tax provisions including the EITC.

Since the tax credit became refundable in tax year 2007, the EITC can still offset the Iowa tax liability of claimants, but if the amount of the tax credit exceeds the Iowa tax liability of a claimant the taxpayer will receive a refund from the State. For example, if a taxpayer has an Iowa tax liability of $75 and is eligible for a $200 EITC, $75 of that credit offsets tax liability while $125 exceeds tax liability and is refunded.

Because a given household can include multiple taxpayers with differing tax credit amounts, the count of households experiencing an offset to Iowa tax liability and receiving a refund exceeds the total count of households with an EITC claim. In 2007, 52.8 percent of claimants experienced an offset in liability while 55.2 percent had credits in excess of liability; 44.0 percent of claims offset liability and 56.0 percent of claims were paid as refunds. In 2014, 62.1 percent of claimants experienced an offset in liability while 56.9 percent had credits in excess of liability; 46.8 percent of claims offset liability and 53.2 percent of claims were paid as refunds. In 2019, 65.7 percent of claimants experienced an offset in liability while 54.3 percent had credits in excess of liability; 48.2 percent of claims offset liability and 51.8 percent of claims were paid as refunds.

B. Earned Income Tax Credit Claimant Characteristics

EITC claims vary filing status of the household. In tax year 2019, the most recent complete tax year, head of household filers made up the largest share of Iowa EITC households (48.2%), followed by single filers (29.1%), married joint filers (15.2%), married filing separately on the same return (7.4%), and qualifying widow(er) filers (0.1%) (see Table 4).[4] Households with unmarried taxpayers (single, head of household, or qualifying widow(er)) comprised 77.4 percent of all Iowa EITC claimants, while married filers accounted for 22.6 percent of EITC households. This differs from the total population of Iowa taxpayers where unmarried Iowa tax filers comprised 56.6 percent of households in tax year 2019, while married filers accounted for 43.4 percent.

Head of household filers also claimed the largest amount share (63.4%), but that share far exceeded their share of the total number of claims (see Table 4). Single filers, who had the second largest share of claims, had only the third largest share in terms of the amount of credits claimed (10.9%), behind married joint filers (18.1%), yet slightly ahead of married separate filers (7.4%). The reason for the difference between the distribution

[3] Coupling, or conformity, refers to the linking of Iowa's tax code to certain changes that occur in the federal tax code. Iowa is automatically conformed with the Internal Revenue Code for most tax provisions including the EITC.

[4] Throughout the analysis, married households filing separately on the same return are counted as one household making one claim even if both spouses reported an EITC on the return.

of households with claims and the distribution of claim amounts is that households without dependents are eligible for smaller credit amounts than households with dependents. This is confirmed by the fact that the average EITC claim for single filers ($124) is significantly lower than the average credit among the other four filing statuses, which range from $333 for married separate filing to $435 for head of household.

EITC claims also differ by the number of dependents in the household. The majority of Iowa EITC claimants had one or two dependents in the household (33.0% and 23.7%); households with no dependents accounted for an additional 26.9 percent of claims (see Table 5). In terms of amount of credits claimed, households with one or two dependents claimed the largest shares of credit dollars (32.4% and 35.6%). Although households with no dependents accounted for slightly more than one-fourth of the number of claims, they claimed only 4.7 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 (e.g., marital status, earned income). As a result, the average credit among claimants with no dependents ($58) is significantly less than all other dependent categories with average credits ranging from $325 to $557. In tax year 2019, 29.9 percent of total Iowa dependents were in households that received the EITC. At the same time, 30.4 percent of households with dependents received the EITC in 2019.

Trends in claims and amounts differ by age group. The majority of claims were made by households where the taxpayer was between the ages of 21 and 40, both in terms of the number of claims (63.4%) and in terms of the amount of tax credits claimed (68.4%) (see Table 6).[5] This is not surprising because taxpayers between those ages are most likely to have children at home. Nearly one-fifth of all claims (19.3%) and dollars claimed (19.3%) were made by households in which the taxpayer was between the ages of 26 and 30. In addition to having children at home, these taxpayers may also be new to the labor force once those children reach school-age and are thus more likely to have lower earnings.

By definition, Iowa EITC filers are concentrated at lower earnings levels. About 58.0 percent of claimants in tax year 2019 had earnings less than $25,000 and 42.2 percent of claimants reported earnings of $25,000 or more (see Table 7). Compared to all households filing Iowa tax returns, only 26.7 percent of Iowa households filing income taxes in 2019 had earnings less than $25,000, and 73.3 percent of tax filers had earnings at or above $25,000. In terms of the amount of tax credits claimed, 69.9 percent of EITC are claimed by taxpayers with income less than $25,000. The pattern of the average EITC claim by income group shows the structure of the EITC as it relates to income. The average credit rises in the phase-in range and then falls in the phase-out range. The $1 to $4,999 income group diverges from this pattern as the average credit for this group was $78 compared to an average credit of $218 in the $0 or less category.

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

Factors other than income, marital status and number of dependents, influence the average credit as well. The reason that taxpayers with Iowa AGI equal to $0 or less can be eligible for an EITC is because AGI includes passive business losses and capital losses that are not included in earned income. Therefore, someone who had positive wages and thus earned income could have a negative AGI due to losses in other revenue streams.

The geographic distribution of claims also varies. The share of households with EITC claims by county in tax year 2019 ranged from a low of 7.6 percent in Dallas County to a high of 20.8 percent in Decatur County (see Figure 5). The statewide claim rate was 13.3 percent of resident households that filed taxes. Of households making EITC claims, Story County had the lowest average claim of $278 while Ringgold County had the highest average claim of $388; recall the statewide average claim was $331 (see Figure 6).

V. The Earned Income Tax Credit and Poverty

With the EITC policy goal of providing support for low income working families, we consider the extent to which the EITC helps to lift households out of poverty. For this analysis, the federal EITC and the Iowa EITC are each considered because the Iowa EITC supplements the federal EITC. However, all other federal and Iowa means-tested benefits are ignored.

The federal poverty guidelines are used by several means-tested programs, such as Head Start, the Supplemental Nutrition Assistance Program (SNAP), the National School Lunch Program, the Low-Income Home Energy Assistance Program, and the Children's Health Insurance Program, to determine eligibility. The guidelines differ only by the number of persons living in the household (see Table 8). The poverty guideline for a household with one person for 2019 is $12,490. That guideline rises by $4,420 for each additional person in the household regardless of whether that person is a spouse or a child. In 2019, 12.6 percent of households filing Iowa tax returns claimed the Iowa EITC although 22.4 percent of all Iowa households had income below the federal poverty guidelines (see Table 9). The disparity of EITC claimants and households with income below the poverty guidelines can be attributed to the distribution of these two populations by household size. Just under half of all Iowa households consist of a single individual, with nearly one-third (30.3 percent) reporting income below the poverty guidelines, while EITC claimants only account for 6.6 percent of single individuals due to the nature of the credit favoring households with dependents.

A. Distribution of EITC Claims and Federal Poverty Guidelines

A helpful analysis for understanding how the EITC can help low income families is to consider the actual picture of Iowa EITC claimants in tax year 2019 relative to the federal poverty guidelines. Of households that claimed the Iowa EITC in 2019, 48.0 percent reported Iowa AGI below the applicable federal poverty guideline, 26.1 percent reported AGI between 100 and 150 percent of the applicable guideline, 17.4 percent reported AGI between 150 and 200 percent, and the remaining 8.5 percent reported AGI above 200 percent or negative AGI (see Figure 7). After adding the actual federal and Iowa EITC claims reported on the tax return to AGI, the distribution changes (see Figure 7). The share below the federal poverty guideline falls to 39.4 percent, 29.1 percent of claimants fell between 100 and 150 percent of the guideline, and 21.7 percent fall between 150 and 200 percent of the guideline with the remaining 9.8 percent in the other category.

This suggests that 8.6 percent of claimants were pushed above the poverty guideline as a result of the resources provided by the federal and Iowa EITC. Nearly 1.5 percent were pushed above 200 percent of the guideline. The distribution of the EITC claim amounts is concentrated among claimants with AGI below 100 percent of the poverty guideline, accounting for 38.0 percent of the credit amount in 2019 (see Figure 8). The share of EITC credits earned by claimants with AGI between 100 and 150 percent of the poverty guidelines is 29.4 percent, while claimants earning between 150 and 200 percent of the guideline account for 22.5 percent of the credits earned. About 10 percent of EITC credits are earned by claimants earning above 200 percent the poverty limit or with negative AGI.

Single, head of household, or qualifying widow claimants received the lion's share of EITC claims. In tax year 2019, 31.7 percent of all EITC households were either single, head of household, or qualifying widow and reported AGI below the federal poverty guideline, but they accounted for only 22.3 percent of the total claim amount (see Table 10). Tax filers who were married and earned less than the poverty guideline accounted for only 6.3 percent of total claimants, while claiming 8.1 percent of the total claim amount, likely pushed up relative to single filers because of the greater likelihood of children in the household. Single, head of household, or qualifying widow households with income between 100 and 150 percent of the poverty guideline account for 21.8 percent of all EITC claimants and claimed 31.9 percent of the total claim amount in tax year 2019.

Claimants of the Earned Income Tax Credit, on average, have earnings that register at 100 percent of the federal poverty threshold. When including the federal Earned Income Credit, these claimants, on average, see their wealth level improve to 111 percent of the federal poverty threshold. As the Iowa Earned Income Tax Credit is included in their wealth calculation, claimants' wealth increases by 1.6 percent to 113 percent of the federal poverty threshold. When distributing claimants into lower quartile, median, and upper quartiles, it is found that claimants in the lower quartile in earnings improved from 61 percent of the federal poverty threshold with earnings only, to 75 percent with both the federal EIC and Iowa EITC. Claimants in the upper quartile in earnings improved from 148 percent of the federal poverty threshold with earnings only, to 162 percent of the federal poverty threshold. The median earnings of Iowa Earned Income Tax Credit claimants were at 100.7 percent of the federal poverty threshold. When including the federal Earned Income Credit, the median wealth level improves to 113.8 percent of the federal poverty threshold. As the Iowa Earned Income Tax Credit is included in their wealth calculation, the medial claimants' wealth increases by 2.0 percent to 115.8 percent of the federal poverty threshold.

B. Earned Income Tax Credit Claimants and State Assistance Programs

While the State offers the EITC to provide support for working 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 (DHS).[6]

Iowa's Family Investment Program (FIP) uses the federal Temporary Assistance to Needy Families (TANF) funds to provide cash assistance to needy families as they become self-supporting so that children may be cared for in their own homes or in the homes of relatives. FIP is available to one-parent and two-parent families and to relatives caring for children whose parents are not in the home. FIP payments are based on the family size and family income.

The Food Assistance Program, Iowa's version of the federal SNAP, helps people with gross income at or below 130 percent of the poverty guideline to buy food for a healthy diet. Households of the same size do not all get the same amount of Food Assistance. The benefit amount depends on both the household's size and income. Only households with very little or no income get the maximum benefit amount.

The State of Iowa also provides Medicaid, a health insurance program for certain eligible groups of people based on income levels who are a resident of Iowa and a U.S. citizen or permanent U.S. resident. The following are some of the eligibility requirements: a child under the age of 19, a parent living with a child under the age of 18, a woman who is pregnant, a woman in need of treatment for breast or cervical cancer, a person who is elderly (age 65 or older), a person who is disabled according to Social Security standards, or an adult between the ages of 19 and 64 and whose income is at or below 133 percent of the Federal Poverty Level (FPL).[7]

C. Continuous Earned Income Tax Credit Claims

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 in one tax 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 the credit. Therefore, EITC claimants were tracked over time to assess their continued claims. The evidence below suggests some increased continuation in EITC usage after the 2007 law changes allowing refundability of the credit. However, slightly over one-third take the EITC for one year after the credit became refundable.

[6] The information can be accessed at http://www.dhs.iowa.gov

[7] Poverty thresholds are used for calculating all official poverty population statistics by the Census Bureau, while the poverty guidelines are a simplified version of the federal poverty thresholds used for administrative purposes by the Department of Health and Human Services. The poverty thresholds are composed of a detailed 48 cell matrix of thresholds that varies by family size, number of children, and age; while the poverty guidelines is based on family size and is detailed in table 8 of this report.

Continuation is defined in two ways in this analysis. First, continuance is defined as the number of consecutive years a household claimed the EITC where the period considered for this measure stretches to claims made between tax years 2000 and 2019 (see Tables 11 and 12). Tables 11 and 12 are both backward facing. In tax year 2019, 74,782 taxpayers (36.1%) claimed the EITC in tax year 2019 but not in 2018 or "One Year", and 33,142 taxpayers (16.0%) claimed the EITC in tax years 2018 and 2019, but not 2017 or "Two Years".

Continuance changed after the Iowa EITC became refundable. Very consistent patterns emerge for tax years 2004 through 2006; between 46.3 percent and 47.2 percent who claimed the EITC had not claimed the credit in the prior tax year (See Table 12). Just under one-fifth had claimed the credit for two consecutive years while another 11 percent to 12 percent had three consecutive years of claims. This pattern changed in tax year 2007; the diagonal of bolded shares indicates the group of taxpayers claiming in 2007. When the EITC changed from nonrefundable to refundable in 2007, the distribution of new claimants increased noticeably with nearly 64 percent of 2007 claims as "One Year", well above any other tax year (See Table 12). This reflects the group of taxpayers with no Iowa tax liability who were previously unable to benefit from the EITC. In tax year 2008, the new claimants share dropped sharply to 37.2 percent, but the share with two years remained high at 36.9 percent. The patterns that emerged for tax years 2010 through 2019 were similar to that seen before the tax credit was refundable except for the "One Year"; between 34.4 percent and 36.7 percent who claimed the EITC had not claimed the credit in the prior tax year (See Table 12). This suggests that there was more jumping in and out of usage before tax year 2007 when taxpayers were required to have Iowa tax liability to benefit. Of claimants in tax years 2008-2010, an average of only 4.2 percent had made claims in all of the previous five years. Of claimants in tax years 2012-2019, the average share that had made claims for five consecutive years increases to 6.1 percent. This suggests that there is growing persistence.

The second way to examine continuance is to compare the characteristics of long-term versus short-term claimants. Households with EITC claims for all ten years between tax year 2010 and 2019, long-term claimants, are compared with households that only claimed the EITC in one tax year, short-term claimants (see Table 13). Single parents with two or three children are much more likely to make repeated EITC claims whereas one-time claimants are more likely to be single taxpayers with no children. While 62.9 percent of the long-term EITC claimants filed head of household, only 24.2 percent of one-year claimants filed head of household. In contrast, 13.9 percent of long-term claimants filed single, while 49.9 percent of one-year claimants filed as single taxpayers. Only 12.3 percent of long-term EITC claimants had no dependent, while 51.5 percent of one-year claimants had no dependent.

Because the EITC requires earned income, the literature has shown that it encourages labor force participation in most cases. The goal is for participants to supplement their income with the EITC as they gain skills and experience in the workforce which could result in income gains that will move those households out of EITC eligibility. Real wage income for the 74,026 households that were on Iowa's tax rolls in tax year 2015 and remaining on Iowa's tax rolls, improved from an average of $33,575 in tax year 2015 to an average of $46,449 in tax year 2019, for an 38.3 percent real wage increase (see Table 15).[8] For the 4,053 tax year 2015 households still claiming the EITC in tax year 2019, their average real wages only increased 41.1 percent from $15,079 to $21,278 in four years (see Table 16). Conversely, for the 1,394 Tax Year 2015 EITC households who remained in the tax rolls for each subsequent year but only claimed the credit in tax year 2015, their wages grew at a much more substantial rate (see Table 17). These taxpayers experienced an average real increase of 142.5 percent, increasing from an average of $18,448 in tax year 2015 to an average of $44,733 in tax year 2019.

D. Earned Income Tax Credit Claim Exit and Entry and the Business Cycle

The previous analysis indicates, while persistence has increased over time, many taxpayers make only sporadic EITC claims. That raises the question as to the reasons why taxpayers stop and start claiming the EITC. This analysis builds on the exit and entry information presented in Jin and Rogers (2011). The major reasons households move in or out of claiming the EITC include changes in marital status, changes in the number of dependents, changes in earned income, and not filing taxes.

This analysis varies from the Jin and Rogers (2011) evaluation in that the populations they considered did not account for tax filers who either did not file a tax return the year prior to the EITC claim or did not file in the year following the claim. Excluding this portion of the EITC population does not account for new residents to the state, people who did not file taxes the year before because they fell below the filing threshold, as well as those who leave the state or leave the workforce and again fall below the filing threshold. 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 after accounting for those moving in or off the tax rolls (see Table 18). Between 2010 and 2019, an average of 36.8 percent of households were newly eligible for the EITC because of a drop in earned income. Conversely, an average of 44.6 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 14.5 percent of households. It is possible that some divorced taxpayers jump in and out of EITC claims as they are only able to claim a dependent every other year for tax purposes. With the "marriage bonus" expanding eligibility for households, a change in marital status explained an average of 17.2 percent of households entering EITC (e.g., marriage) and 15.4 percent leaving (e.g., divorce).

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[8] All earnings and EITC claims presented in the wage growth analysis have been adjusted for inflation and are presented in 2019 dollars.

As pointed out by Jin and Rogers (2011), 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 EITC eligibility.

Using individual income tax records between 2001 and 2019, 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 tax 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 8). 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 fifteen-year period. During the great recession, the net change in eligible households due to changes in income again rose above zero (15,641) in 2009. Although the recession in 2009 resulted in much more unemployment than 2002, the more muted net change likely reflects the change to a refundable EITC between those dates.

During a recession, the unemployment rate generally 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 8) increased steadily from 2007 (18,109) to 2010 (34,768). Following the recession, the net change in households claiming EITC due to changes in income again fell below zero as would be expected. Claimants with unemployment compensation also experienced declines from the 2010 high to 12,321 in 2019. Note that unemployment compensation does not count as earned income for the household.

VI. Conclusion

This evaluation of the EITC provided a picture of who claims the EITC credit and how much has been claimed. In tax year 2019, the most recent complete tax year, $68.6 million in credits were claimed, where 48.3 percent of claims offset Iowa tax liability and the other 51.7 percent of claims were in excess of tax liability. In TY 2019, 29.9 percent of total Iowa dependents were in households that received the EITC. At the same time, 30.4 percent of households with dependents received the EITC in 2019.

A majority of claims were made by households with at least one dependent (73.1 percent of total claims in 2019). Head of household filers accounted for 48.2 percent of total households claiming the EITC and claimed 63.4 percent of total credits. Households earning less than $25,000 accounted for 61.7 percent of households claiming the EITC. In terms of the amount of credits claimed, 63.5 percent of the total amount of EITC ($43.6 million) was claimed by taxpayers with earnings less than $25,000.

Of households that claimed the Iowa EITC in 2019, 48.0 percent reported Iowa AGI below the applicable federal poverty guideline, 26.1 percent reported AGI between 100 and 150 percent of the applicable guideline, 17.4 percent reported AGI between 150 and 200 percent, and the remaining 8.5 percent reported AGI above 200 percent or negative AGI. After adding the actual federal and Iowa EITC claims reported on the tax return to AGI, the distribution changes. The share below the federal poverty guideline falls to 38.0 percent, 29.4 percent of claimants fell between 100 and 150 percent of the guideline, and 22.5 percent fall between 150 and 200 percent of the guideline with the remaining 10.1 percent in the other category.

The major reasons households move in or out of claiming the EITC include not filing taxes, changes in marital status, changes in the number of dependents, and changes in earned income. 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 after accounting for those moving in or off the tax role. Between 2010 and 2019, an average of 36.8 percent of households was newly eligible for the EITC because of a drop in earned income. Conversely, an average of 44.6 percent of households moved out of EITC eligibility because of an increase in earned income.

Between tax years 1990 and 2019, nearly $750 million in EITC has been claimed with over $333 million being paid as refunds to low-income taxpayers since the credit became refundable in tax year 2007.

Tables and Figures

Figure 1. Federal EITC by Earned Income for Single Filers, Tax Year 2019

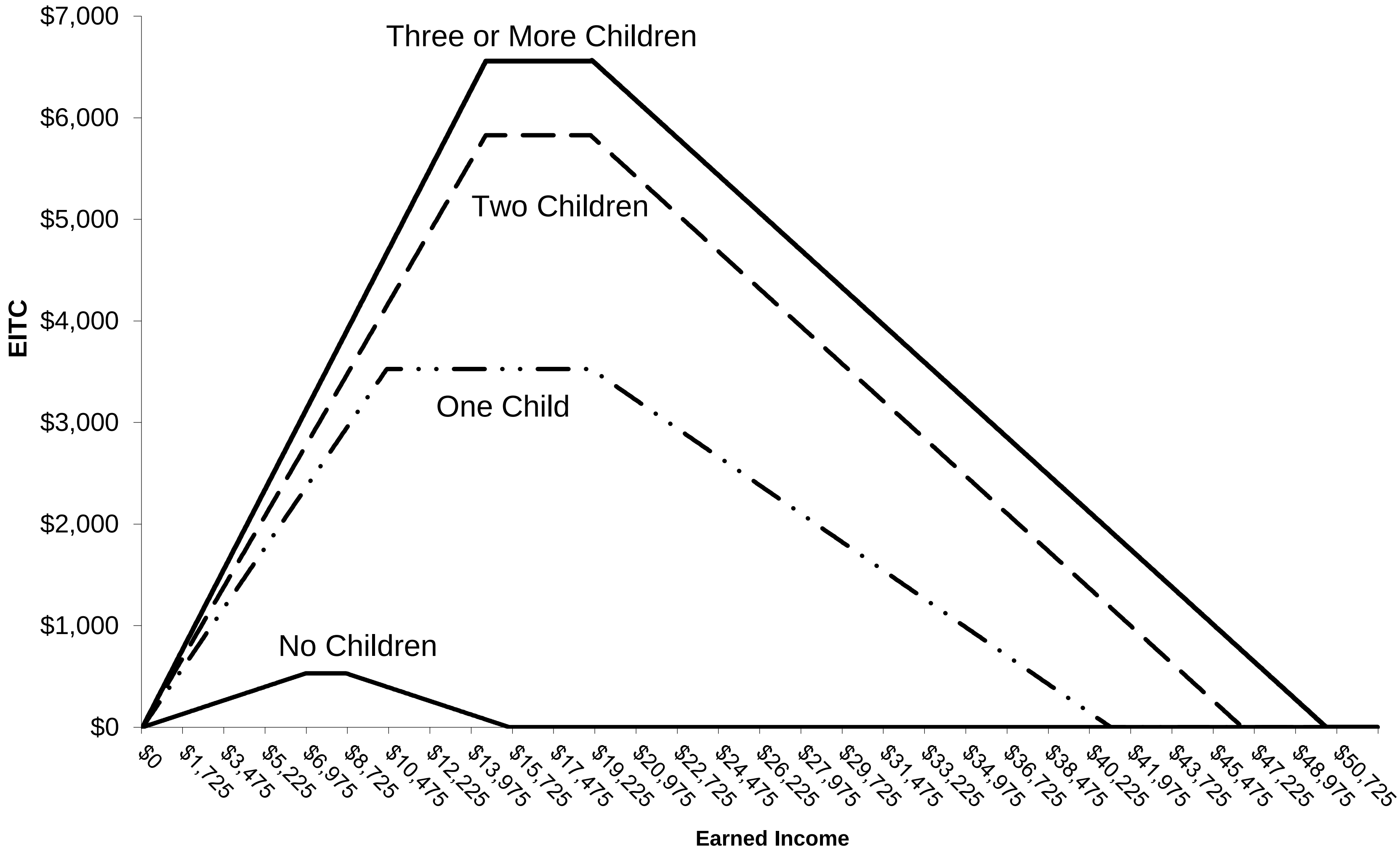


Figure 2. Federal EITC by Earned Income for Married Filers, Tax Year 2019

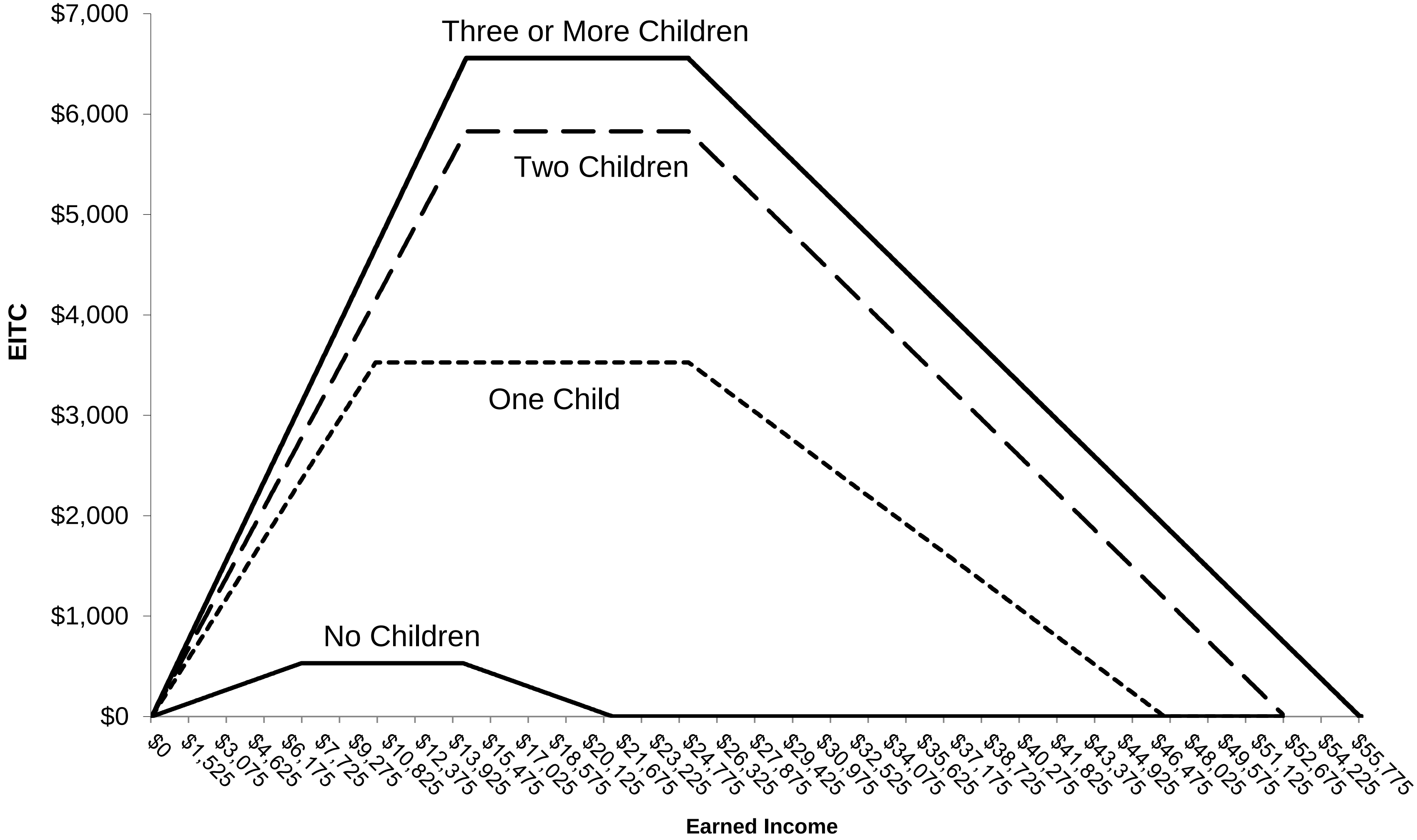


Table 1. Federal and State Parameters for EITC for Tax Year 2019

Single Taxpayers	Phase-in Rate	Phase-in Income Threshold	Maximum Federal Credit	Maximum Iowa Credit	Phase-out Income Start Level	Phase-out Rate	Phase-out Income Threshold
No Children	7.65%	$6,920	$529	$79	$8,650	7.65%	$15,570
One Child	34.00%	$10,370	$3,526	$529	$19,030	15.98%	$41,094
Two Children	40.00%	$14,570	$5,828	$874	$19,030	21.06%	$46,703
Three or More Children	45.00%	$14,570	$6,557	$984	$19,030	21.06%	$50,162

Married Taxpayers	Phase-in Rate	Phase-in Income Threshold	Maximum Federal Credit	Maximum Iowa Credit	Phase-out Income Start Level	Phase-out Rate	Phase-out Income Threshold
No Children	7.65%	$6,920	$529	$79	$14,450	7.65%	$21,370
One Child	34.00%	$10,370	$3,526	$529	$24,820	15.98%	$46,884
Two Children	40.00%	$14,570	$5,828	$874	$24,820	21.06%	$52,493
Three or More Children	45.00%	$14,570	$6,557	$984	$24,820	21.06%	$55,952

Source: Internal Revenue Service

Table 2. Comparison of Enacted State Earned Income Tax Credit Programs Tax Year 2019

State	Percentage of Federal Credit	Refundability	Notes
California	NA	Yes	California uses different income levels and phase out calculations than the federal EITC.
Colorado	10%; 15% beginning 2022	Yes	
Connecticut	23%	Yes	
Delaware	20%	No	
Hawaii	20%	No	
Illinois	18%	Yes	
Indiana	9%	Yes	
Iowa	15%	Yes	
Kansas	17%	Yes	
Louisiana	3.50%	Yes	
Maine	25% for workers w/o dependent children; 12% for all other eligible workers	Yes	
Maryland	45% 50%	Yes No	Maryland has temporarily raised the refundable state EITC to 45% for tax year beginning after December 31, 2019 but before January 1, 2023, at which point it shall revert back to 28%. Maryland also offers a 50% non-refundable EITC. Taxpayers can claim either, but not both.
Massachusetts	30%	Yes	
Michigan	6%	Yes	
Minnesota	25% to 45% (depends on income)	Yes	Minnesota law sets the Working Families Credit based on income. The credit matches the phaseout to the federal earned income credit phaseout for tax years 2013 and following years.
Montana	3%	Yes	
Nebraska	10%	Yes	
New Jersey	40%	Yes	
New Mexico	10%	Yes	
New York	30%	Yes	
Ohio	30%	No	
Oklahoma	5%	No	
Oregon	9% 12% (for families with children under age 3)	Yes	
Rhode Island	15%	Yes	
South Carolina	62.5% in 2020; 125% by 2023	No	South Carolina -125% phased-in in six equal installments of 20.83% each tax year until it is fully phased-in in tax year 2023, with the 62.50% applying in tax year 2020.
Utah	10%	Yes	
Vermont	36%	Yes	
Virginia	20%	No	
Washington	10%	Yes	Washington enacted a refundable credit of 5% of the federal EITC in tax year 2009. It was scheduled to increase to 10% in 2010; however, policymakers have not financed the credit.
Wisconsin	4% (one child) 11% (two children) 34% (three children)	Yes	
District of Columbia	40%	Yes	

Source: National Conference of State Legislatures

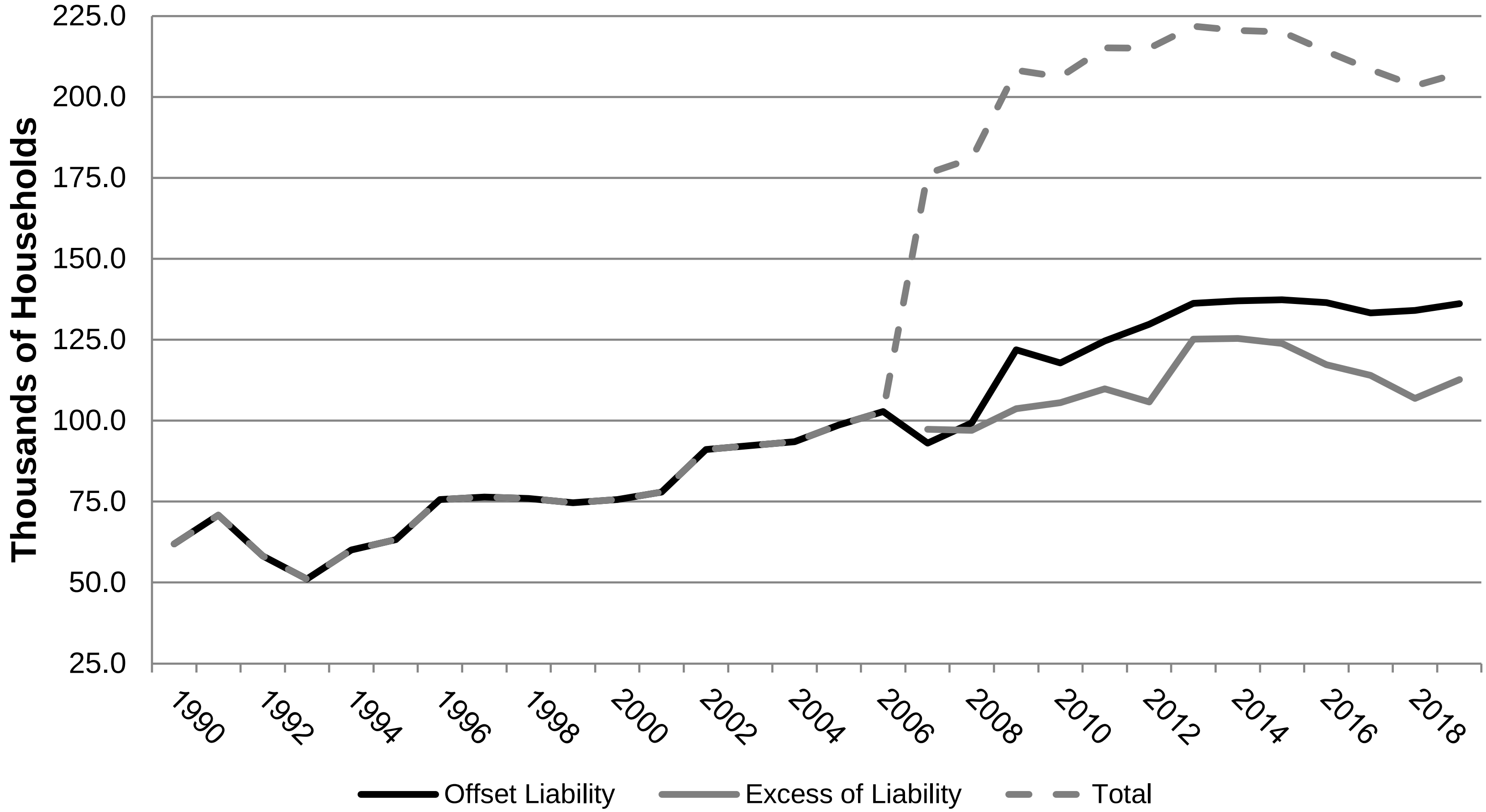
Table 3. Amount of Iowa EITC Claims and Number of Households Claiming, Tax Years 1990 - 2019

Tax Year	Claims Used to Offset Liability (in Million $)	Claims in Excess of Liability (in Million $)	Total EITC Claims (in Million $)	EITC Households	Average Claim
1990	$1.6	-	$1.6	61,900	$26
1991	$3.4	-	$3.4	70,755	$48
1992	$2.6	-	$2.6	58,155	$45
1993	$2.1	-	$2.1	51,075	$41
1994	$3.1	-	$3.1	60,131	$52
1995	$3.9	-	$3.9	63,292	$62
1996	$5.9	-	$5.9	75,725	$78
1997	$6.0	-	$6.0	76,415	$79
1998	$6.0	-	$6.0	75,976	$79
1999	$6.0	-	$6.0	74,656	$80
2000	$6.2	-	$6.2	75,725	$82
2001	$6.5	-	$6.5	77,874	$83
2002	$8.4	-	$8.4	91,099	$92
2003	$8.6	-	$8.6	92,292	$93
2004	$9.0	-	$9.0	93,532	$96
2005	$9.9	-	$9.9	98,667	$100
2006	$10.7	-	$10.7	102,811	$104
2007	$9.9	$12.6	$22.5	176,363	$128
2008	$11.1	$12.9	$24.0	180,970	$133
2009	$14.9	$13.6	$28.5	208,342	$137
2010	$13.8	$13.7	$27.5	206,156	$134
2011	$15.6	$14.7	$30.3	215,200	$141
2012	$16.9	$14.1	$31.0	215,091	$144
2013	$31.0	$34.6	$65.6	221,944	$295
2014	$33.3	$37.8	$71.1	220,518	$322
2015	$33.7	$38.2	$71.9	220,110	$327
2016	$33.5	$36.1	$69.6	214,064	$325
2017	$32.8	$35.8	$68.7	208,493	$329
2018	$33.9	$33.7	$67.6	203,463	$332
2019	$33.1	$35.5	$68.6	207,389	$331
Total	$413.5	$333.3	$746.8	3,998,183	

Source: Iowa individual income tax returns

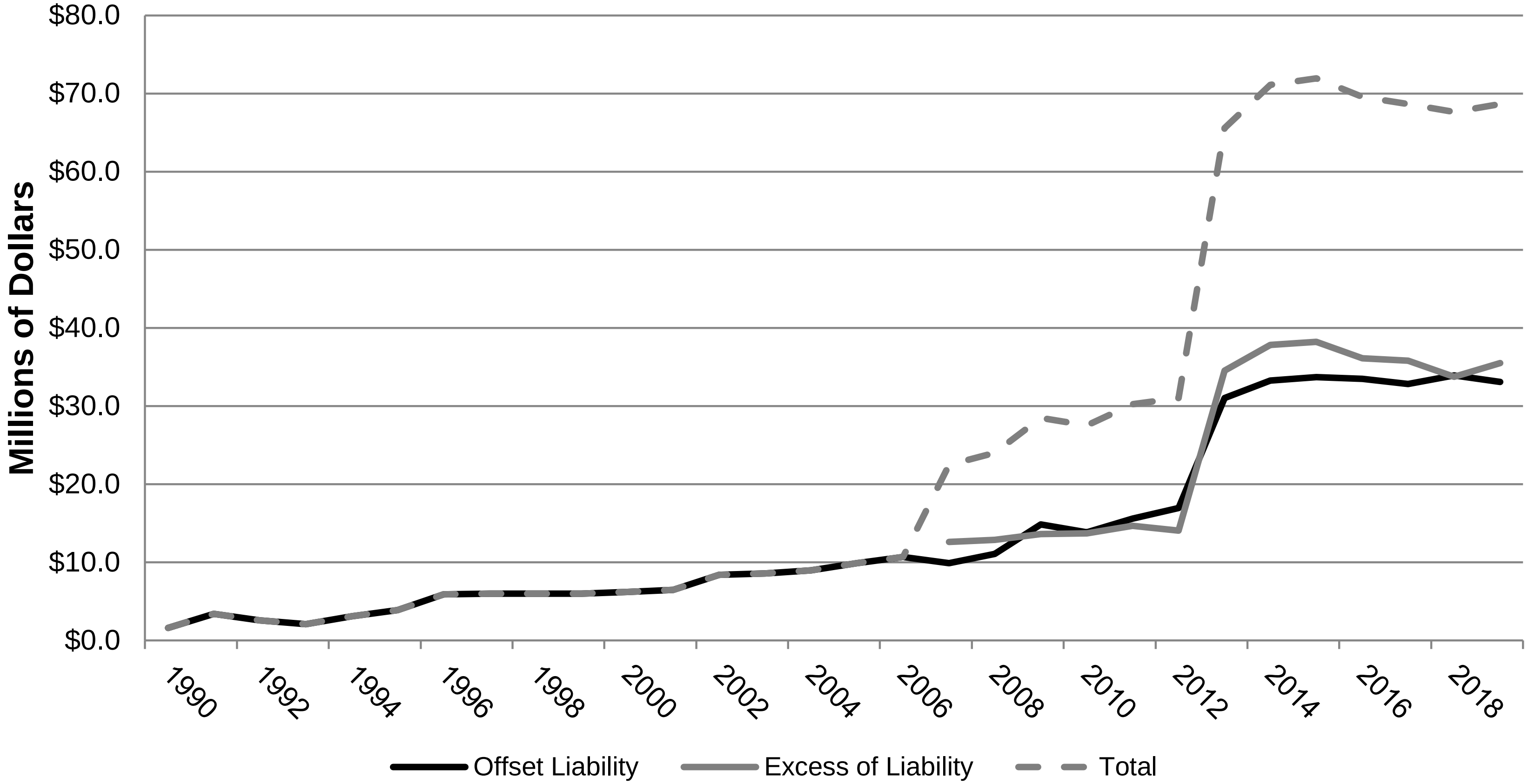
Note: EITC claims used to offset Iowa tax liability is when the amount of taxes owed by an individual is reduced by the EITC. EITC claims in excess of Iowa tax liability is when a taxpayer has an EITC claim amount that exceeds their Iowa tax liability and the taxpayer receives a tax refund.

Figure 3. Number of Households Claiming EITC, Tax Years 1990 - 2019



Source: Iowa individual income tax returns
Note: Within a tax year, the combined count of households where their EITC claim offset Iowa tax liability and the count of households where their EITC claim was in excess of Iowa tax liability will not equal the total count of households with EITC claims because some households have an EITC claim that both offsets tax liability and is in excess of tax liability.

Figure 4. Amount of Iowa EITC Claims, Tax Years 1990 - 2019



Source: Iowa individual income tax returns

Table 4. Iowa EITC Claims by State Filing Status, Tax Year 2019

Filing Status	Number of Households	Distribution of Households	Amount of Offset Liability Claims	Share of Offset Liability Claims	Amount of Excess of Liability Claims	Share of Excess of Liability Claims	Total Amount of Claims	Distribution of Total Claims	Average Claim
Single	60,347	29.1%	$3,169,829	42.3%	$4,321,821	57.7%	$7,491,650	10.9%	$124
Married Joint	31,530	15.2%	$6,671,356	53.6%	$5,780,333	46.4%	$12,451,689	18.1%	$395
Married Separate	15,334	7.4%	$3,613,133	70.7%	$1,498,314	29.3%	$5,111,447	7.4%	$333
Head of Household	99,928	48.2%	$19,618,411	45.1%	$23,869,837	54.9%	$43,488,248	63.4%	$435
Qualifying Widow(er)	250	0.1%	$41,771	44.0%	$53,215	56.0%	$94,986	0.1%	$380
Total	207,389	100.0%	$33,114,500	48.2%	$35,523,520	51.8%	$68,638,020	100.0%	$330.96

Source: Iowa individual income tax returns

Table 5. Iowa EITC Claims by Number of Dependents, Tax Year 2019

Number of Dependents	Number of Households	Distribution of Households	Amount of Offset Liability Claims	Share of Offset Liability Claims	Amount of Excess Liability Claims	Share of Excess Liability Claims	Total Amount of Claims	Distribution of Total Claims	Average Claim
0	55,870	26.9%	$1,199,418	37.1%	$2,037,054	62.9%	$3,236,472	4.7%	$58
1	68,359	33.0%	$10,990,043	49.4%	$11,241,062	50.6%	$22,231,105	32.4%	$325
2	49,051	23.7%	$11,788,467	48.3%	$12,633,771	51.7%	$24,422,238	35.6%	$498
3	24,042	11.6%	$6,446,228	48.1%	$6,955,206	51.9%	$13,401,434	19.5%	$557
4	7,410	3.6%	$1,986,956	50.4%	$1,952,889	49.6%	$3,939,845	5.7%	$532
5	1,909	0.9%	$514,817	51.2%	$489,713	48.8%	$1,004,530	1.5%	$526
6	506	0.2%	$129,344	47.9%	$140,778	52.1%	$270,122	0.4%	$534
7	149	0.1%	$37,274	45.7%	$44,221	54.3%	$81,495	0.1%	$547
8 and over	93	0.0%	$21,953	43.2%	$28,826	56.8%	$50,779	0.1%	$546
Total	207,389	100.0%	$33,114,500	48.2%	$35,523,520	51.8%	$68,638,020	100.0%	$331

Source: Iowa individual income tax returns

Table 6. Iowa EITC Claims by Age, Tax Year 2019

Age	Number of Households	Distribution of Households	Amount of Offset Liability Claims	Share of Offset Liability Claims	Amount of Excess Liability Claims	Share of Excess Liability Claims	Total Amount of Claims	Distribution of Total Claims	Average Claim
20 and under	3,487	1.6%	$321,406	23.5%	$1,046,538	76.5%	$1,367,944	1.9%	$392
21-25	26,088	11.8%	$3,573,704	38.4%	$5,738,772	61.6%	$9,312,476	13.1%	$357
26-30	40,352	18.3%	$5,935,428	45.4%	$7,147,428	54.6%	$13,082,856	18.4%	$324
31-35	35,730	16.2%	$6,532,009	48.8%	$6,841,227	51.2%	$13,373,236	18.8%	$374
36-40	27,972	12.7%	$5,457,588	51.0%	$5,234,313	49.0%	$10,691,901	15.0%	$382
41-45	22,567	10.2%	$4,051,787	51.5%	$3,813,413	48.5%	$7,865,200	11.1%	$349
46-50	17,063	7.7%	$2,661,969	52.6%	$2,401,605	47.4%	$5,063,574	7.1%	$297
51-55	28,455	12.9%	$3,607,994	50.2%	$3,579,608	49.8%	$7,187,602	10.1%	$253
56-60	9,703	4.4%	$814,510	46.0%	$957,664	54.0%	$1,772,174	2.5%	$183
61-65	6,501	2.9%	$275,654	33.4%	$549,939	66.6%	$825,593	1.2%	$127
66 and older	2,237	1.0%	$12,536	2.7%	$445,313	97.3%	$457,849	0.6%	$205
Missing	363	0.2%	$42,079	44.7%	$52,162	55.3%	$94,241	0.1%	$260
Total	220,518	100.0%	$33,286,664	46.8%	$37,807,982	53.2%	$71,094,646	100.0%	$322

Source: Iowa individual income tax returns

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

Table 7. Iowa EITC Claims by Household Adjusted Gross Income, Tax Year 2019

Income Range	Number of Households	Distribution of Households	Amount of Offset Liability Claims	Share of Offset Liability Claims	Amount of Excess Liability Claims	Share of Excess Liability Claims	Total Amount of Claims	Distribution of Total Claims	Average Claim
$0 or less	3,414	1.6%	$21,552	2.9%	$728,007	97.1%	$749,559	1.1%	$220
$1 - $4,999	19,328	9.3%	$565	0.0%	$1,514,350	100.0%	$1,514,915	2.2%	$78
$10,000 - $14,999	34,974	16.9%	$837,661	7.6%	$10,120,876	92.4%	$10,958,537	16.0%	$313
$15,000 - $19,999	21,710	10.5%	$2,698,696	21.0%	$10,158,505	79.0%	$12,857,201	18.7%	$592
$20,000 - $24,999	19,910	9.6%	$6,475,233	54.8%	$5,351,065	45.2%	$11,826,298	17.2%	$594
$25,000 - $29,999	20,686	10.0%	$8,390,034	83.4%	$1,669,800	16.6%	$10,059,834	14.7%	$486
$30,000 - $34,999	20,080	9.7%	$6,902,897	94.8%	$382,251	5.2%	$7,285,148	10.6%	$363
$35,000 - $39,999	17,843	8.6%	$4,247,832	97.9%	$90,049	2.1%	$4,337,881	6.3%	$243
$40,000 - $44,999	10,984	5.3%	$2,157,589	99.0%	$22,778	1.0%	$2,180,367	3.2%	$199
$45,000 - $49,999	6,414	3.1%	$920,664	99.5%	$5,066	0.5%	$925,730	1.3%	$144
$5,000 - $9,999	28,624	13.8%	$202,675	3.6%	$5,479,389	96.4%	$5,682,064	8.3%	$199
$50,000 and over	3,422	1.7%	$259,102	99.5%	$1,384	0.5%	$260,486	0.4%	$76
Total	207,389	100.0%	$33,114,500	48.2%	$35,523,520	51.8%	$68,638,020	100.0%	$331

Source: Iowa individual income tax returns

Figure 5. Percentage of Eligible Households Claiming EITC by County, Tax Year 2019

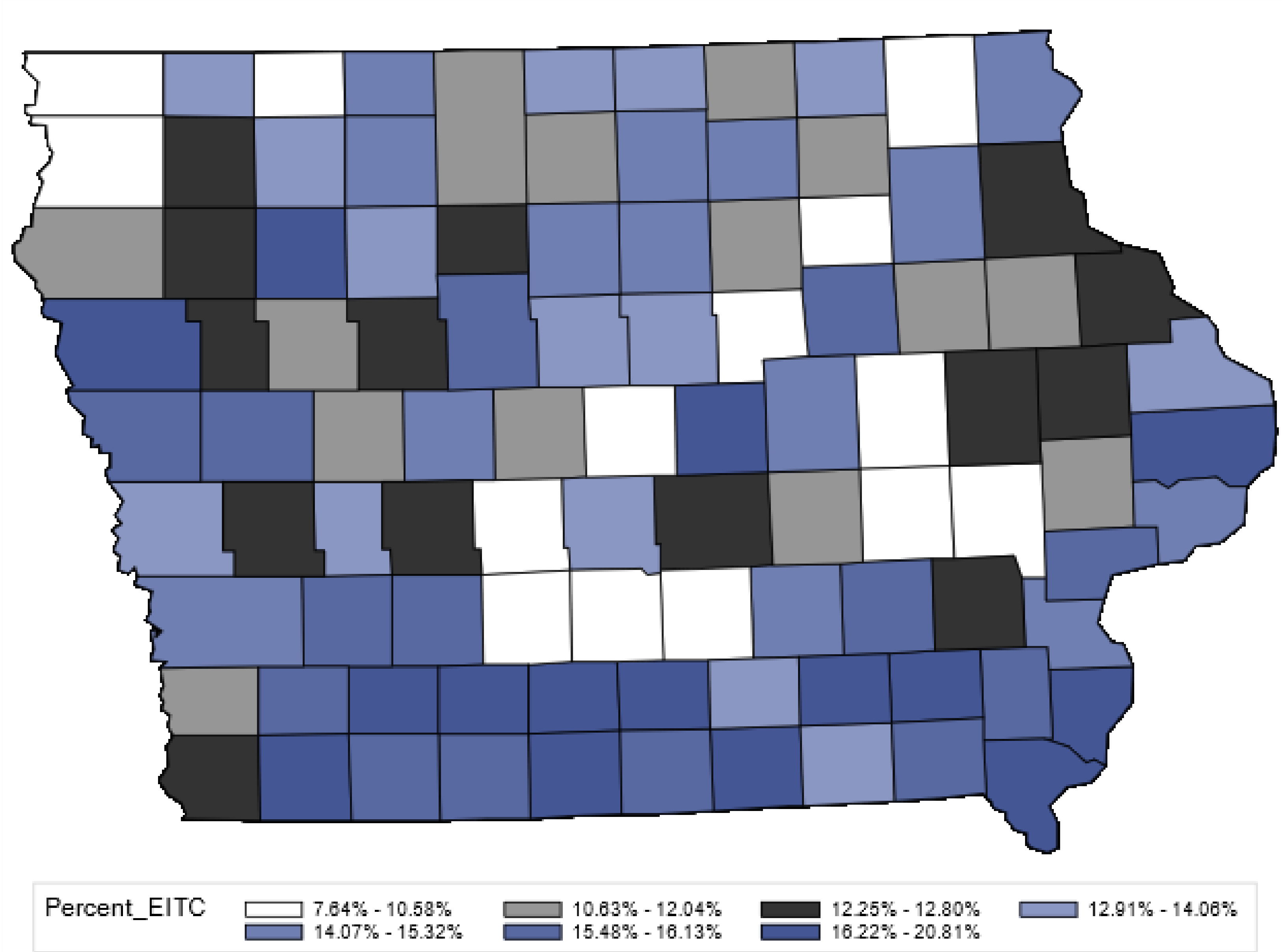


Figure 6. Average Iowa EITC Claim Per Household by County, Tax Year 2019

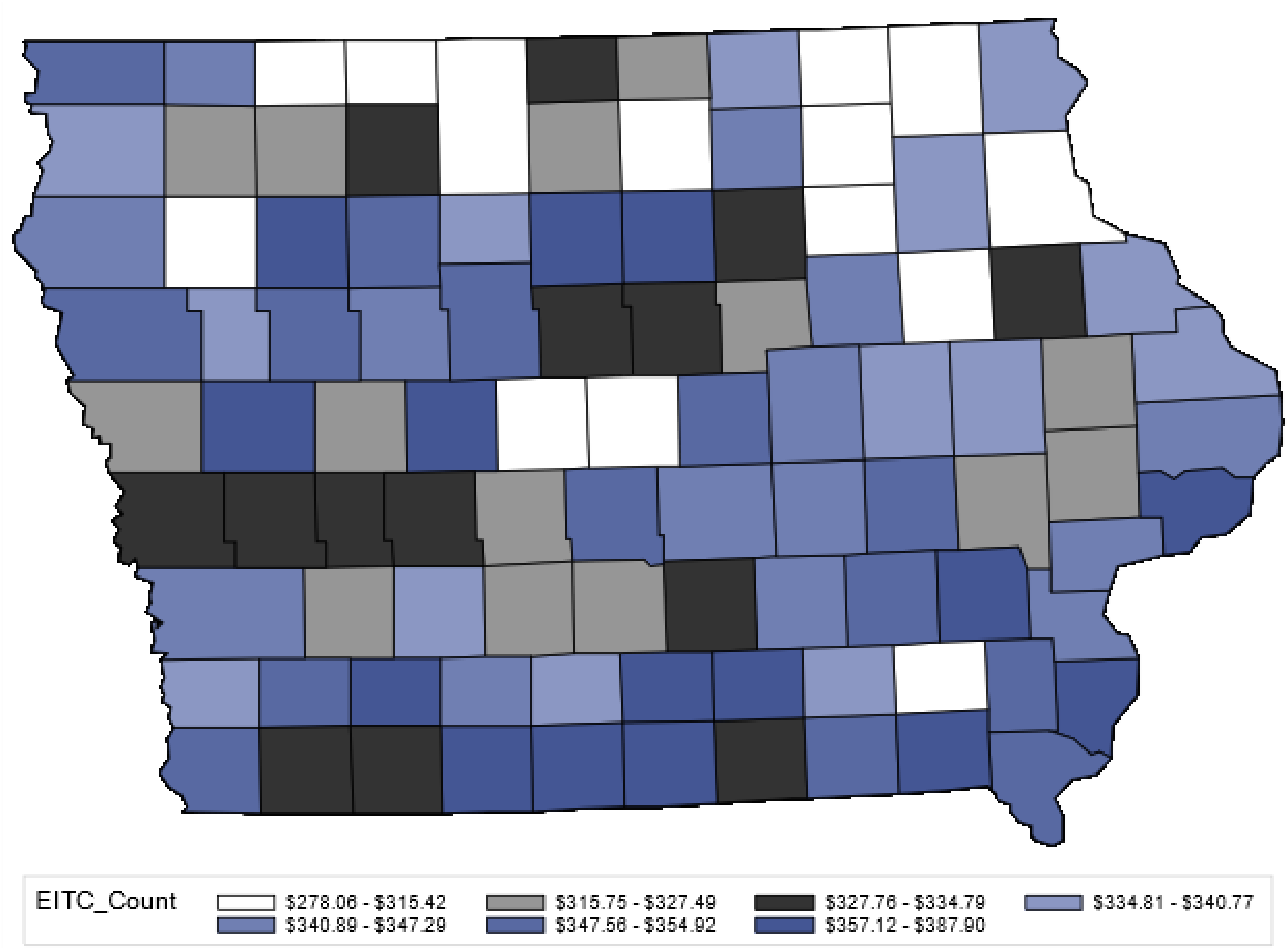


Table 8. Federal Poverty Guidelines for 2019

Number of People in Family/Household*	100% Poverty Guideline	150% Poverty Guideline	200% Poverty Guideline
1	$12,490	$18,735	$24,980
2	$16,910	$25,365	$33,820
3	$21,330	$31,995	$42,660
4	$25,750	$38,625	$51,500
5	$30,170	$45,255	$60,340
6	$34,590	$51,885	$69,180
7	$39,010	$58,515	$78,020
8	$43,430	$65,145	$86,860

*For families/households with more than 8 persons, add $4,420 for each additional person.
Source: US Department of Health & Human Services Office of the Assistant Secretary for Planning and Evaluation

Table 9. Iowa Households with Income Below Federal Poverty Guidelines and Households Claiming EITC for Tax Year 2019

	All		1 Person		2 People		3 People		4 People		5+ People	
Households Filing Tax Returns	Count	Share	Count	Share	Count	Share	Count	Share	Count	Share	Count	Share
All Households	1,643,936	100%	748,265	45.5%	506,521	30.8%	152,434	9.3%	142,655	8.7%	94,061	5.7%
All EITC Claimants	207,389	12.6%	49,577	6.6%	63,847	12.6%	45,724	30.0%	28,412	19.9%	19,829	21.1%
All Households with Income Below Poverty Guidelines	367,527	22.4%	226,894	30.3%	90,607	17.9%	22,852	15.0%	15,252	10.7%	11,922	12.7%

Source: Iowa individual income tax returns

Figure 7. Distribution of Tax Year 2019 Iowa EITC Claimants by AGI Compared to Poverty Guidelines

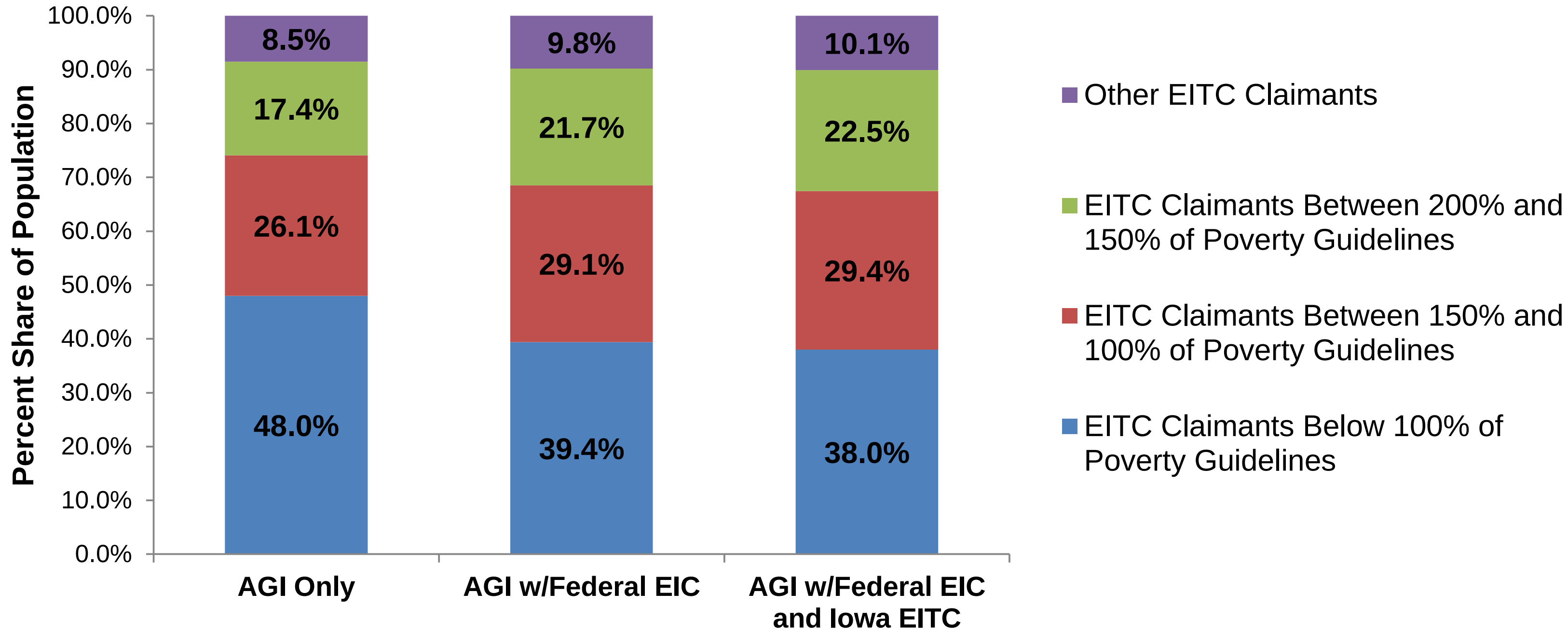


Figure 8. Distribution of 2019 EITC Claim Amount by AGI Only Compared to Poverty Guidelines

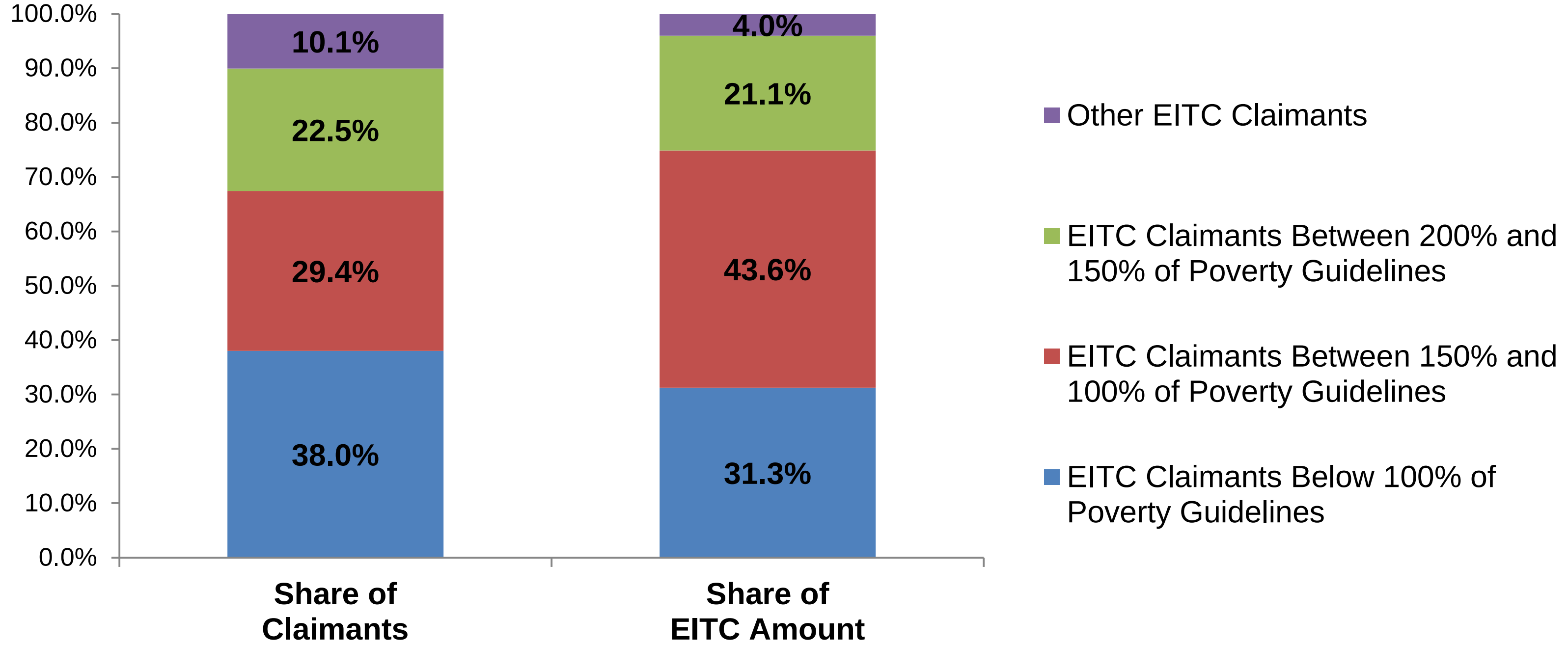


Table 10. Distribution of EITC Claimants and Claims by Poverty Guidelines and Filing Status

	Single/Head of Household/ Qualified Widow(er) with Dependent				Married Joint/Married Separate Combined/ Married Separate			
Poverty Status	Claimants	Share of Claimants	EITC Amount	Share of EITC Amount	Claimants	Share of Claimants	EITC Amount	Share of EITC Amount
EITC Claimants Below 100% of Poverty Guidelines	65,727	31.7%	$15,884,660	23.1%	13,138	6.3%	$5,583,443	8.1%
EITC Claimants Between 150% and 100% of Poverty Guidelines	45,296	21.8%	$21,929,150	31.9%	15,685	7.6%	$8,006,203	11.7%
EITC Claimants Between 200% and 150% of Poverty Guidelines	32,149	15.5%	$11,039,285	16.1%	14,535	7.0%	$3,436,916	5.0%
Other EITC Claimants	17,353	8.4%	$2,221,789	3.2%	3,506	1.7%	$536,574	0.8%

Table 11. Count of Households by Consecutive Years of EITC Claims

	Number of Consecutive Claims by Tax Year															
Consecutive Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
One Year	43,310	46,551	47,985	**119,794**	71,622	79,669	71,976	79,049	75,117	78,414	75,829	76,442	72,124	70,769	69,022	74,782
Two Years	17,972	18,841	20,358	27,303	**71,079**	37,913	39,267	36,883	39,579	38,441	39,003	37,342	36,636	34,035	33,823	33,142
Three Years	11,802	10,587	11,041	13,992	18,767	**51,142**	24,561	25,401	23,679	25,852	24,647	24,969	23,759	22,971	21,219	21,417
Four Years	6,768	7,680	6,845	8,150	10,345	14,363	**38,755**	17,723	17,935	17,180	18,160	17,447	17,584	16,697	15,993	14,973
Five Years	13,680*	4,735	5,329	5,209	6,272	8,276	11,247	**30,582**	13,294	13,679	12,867	13,478	12,999	13,039	12,459	12,008
Six Years		10,273*	3,408	4,070	4,003	5,103	6,533	8,951	**24,629**	10,421	10,538	10,001	10,285	10,042	9,966	9,722
Seven Years			7,845*	2,673	3,180	3,315	4,102	5,247	7,281	**20,279**	8,213	8,255	7,820	8,035	7,872	7,906
Eight Years				6,259*	2,139	2,625	2,684	3,396	4,298	6,030	**16,744**	6,569	6,585	6,192	6,337	6,343
Nine Years					4,991*	1,796	2,146	2,217	2,812	3,556	4,977	**13,974**	5,248	5,175	5,025	5,122
Ten Years						4,140*	4,885*	5,751*	6,467*	7,713*	9,216*	11,633*	**21,024***	21,538	21,747	21,974
Total	93,532	98,667	102,811	187,450	192,398	208,342	206,156	215,200	215,091	221,565	220,194	220,110	214,064	208,493	203,463	207,389

Source: Iowa individual income tax returns

* With data only analyzed going back to TY 2000 for Tax Years 2004 - 2008 and only 10 years back for Tax Years 2009 - 2019, the lowest number in the column reflects that consecutive year plus possible additional years.

Note: Bolded data reflects the Tax Year 2007 law change making the EITC refundable.

Table 12. Share of Households with Consistent EITC Claims by Consecutive Years

	Distribution of Consecutive Claims by Tax Year															
Consecutive Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
One Year	46.3%	47.2%	46.7%	**63.9%**	37.2%	38.2%	34.9%	36.7%	34.9%	35.4%	34.4%	34.7%	33.7%	33.9%	33.9%	36.1%
Two Years	19.2%	19.1%	19.8%	14.6%	**36.9%**	18.2%	19.0%	17.1%	18.4%	17.3%	17.7%	17.0%	17.1%	16.3%	16.6%	16.0%
Three Years	12.6%	10.7%	10.7%	7.5%	9.8%	**24.5%**	11.9%	11.8%	11.0%	11.7%	11.2%	11.3%	11.1%	11.0%	10.4%	10.3%
Four Years	7.2%	7.8%	6.7%	4.3%	5.4%	6.9%	**18.8%**	8.2%	8.3%	7.8%	8.2%	7.9%	8.2%	8.0%	7.9%	7.2%
Five Years	14.6%*	4.8%	5.2%	2.8%	3.3%	4.0%	5.5%	**14.2%**	6.2%	6.2%	5.8%	6.1%	6.1%	6.3%	6.1%	5.8%
Six Years		10.4%*	3.3%	2.2%	2.1%	2.4%	3.2%	4.2%	**11.5%**	4.7%	4.8%	4.5%	4.8%	4.8%	4.9%	4.7%
Seven Years			7.6%*	1.4%	1.7%	1.6%	2.0%	2.4%	3.4%	**9.2%**	3.7%	3.8%	3.7%	3.9%	3.9%	3.8%
Eight Years				3.3%*	1.1%	1.3%	1.3%	1.6%	2.0%	2.7%	**7.6%**	3.0%	3.1%	3.0%	3.1%	3.1%
Nine Years					2.6%*	0.9%	1.0%	1.0%	1.3%	1.6%	2.3%	**6.3%**	2.5%	2.5%	2.5%	2.5%
Ten Years						2.0%*	2.4%*	2.7%*	3.0%*	3.5%*	4.2%*	5.3%*	**9.8%***	10.3%*	10.7%*	10.6%*
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Source: Iowa individual income tax returns

* With data only analyzed going back to TY 2000 for Tax Years 2004 - 2008 and only 10 years back for Tax Years 2009 - 2019, the lowest number in the column reflects that consecutive year plus possible additional years.

Note: Bolded data reflects the Tax Year 2007 law change making the EITC refundable.

Table 13. Comparison between One-Year and Long-Term EITC Claimants by Filing Status and Number of Dependents, Tax Years 2010-2019

	One-Year Claimants		Long-Term Claimants	
	Only One EITC Claim Between 2010-2019		Claim EITC for 10 Years Between 2010-2019	
Iowa Filing Status	Number of Households	Percent of Households	Number of Households	Percent of Households
Married	25,072	25.7%	5,081	23.1%
Single	48,595	49.9%	3,062	13.9%
Head of Household	23,598	24.2%	13,814	62.9%
Qualifying Widow(er)	127	0.1%	17	0.1%
Total	97,392	100.0%	21,974	100.0%
	Only One EITC Claim Between 2010-2019		Claim EITC for 10 Years Between 2010-2019	
Number of Dependents	Number of Households	Percent of Households	Number of Households	Percent of Households
0	50,115	51.5%	2,704	12.3%
1	27,100	27.8%	7,026	32.0%
2	12,983	13.3%	6,677	30.4%
3+	7,194	7.4%	5,567	25.3%
Total	97,392	100.0%	21,974	100.0%

Source: Iowa individual income tax returns

Table 15. Average Real Wage Growth for All Iowa Taxpayers from Tax Year 2015 through Tax Year 2019

All (74,026 Taxpayers per Tax Year)			
Tax Year	Average Real Wages	Real Wage Growth Since 2015	Real Average EITC Claim
2015	$33,575	-	$317
2016	$39,067	16.4%	$391
2017	$41,782	24.4%	$388
2018	$44,116	31.4%	$383
2019	$46,449	38.3%	$355

Source: Iowa individual income tax returns
Note: All wages and EITC values were adjusted to 2019 dollars

Table 16. Average Real Wage Growth for EITC Claimants Still Claiming EITC from Tax Year 2015 through Tax Year 2019

Still Claim (4,053 Taxpayers per Tax Year)			
Tax Year	Average Real Wages	Real Wage Growth Since 2015	Real Average EITC Claim
2015	$15,079	-	$439
2016	$19,116	26.8%	$503
2017	$19,840	31.6%	$497
2018	$20,538	36.2%	$485
2019	$21,278	41.1%	$457

Source: Iowa individual income tax returns
Note: All wages and EITC values were adjusted to 2019 dollars

Table 17. Average Real Wage Growth for EITC Claimants Only Claiming EITC in 2015 from Tax Year 2019 through Tax Year 2019

Only Claimed 2015 (1,394 Claims per Tax Year)			
Tax Year	Average Real Wages	Real Wage Growth Since 2015	Real Average EITC Claim
2015	$18,448	-	$154
2016	$36,223	96.4%	-
2017	$40,289	118.4%	-
2018	$42,937	132.8%	-
2019	$44,733	142.5%	-

Source: Iowa individual income tax returns
Note: All wages and EITC values were adjusted to 2019 dollars

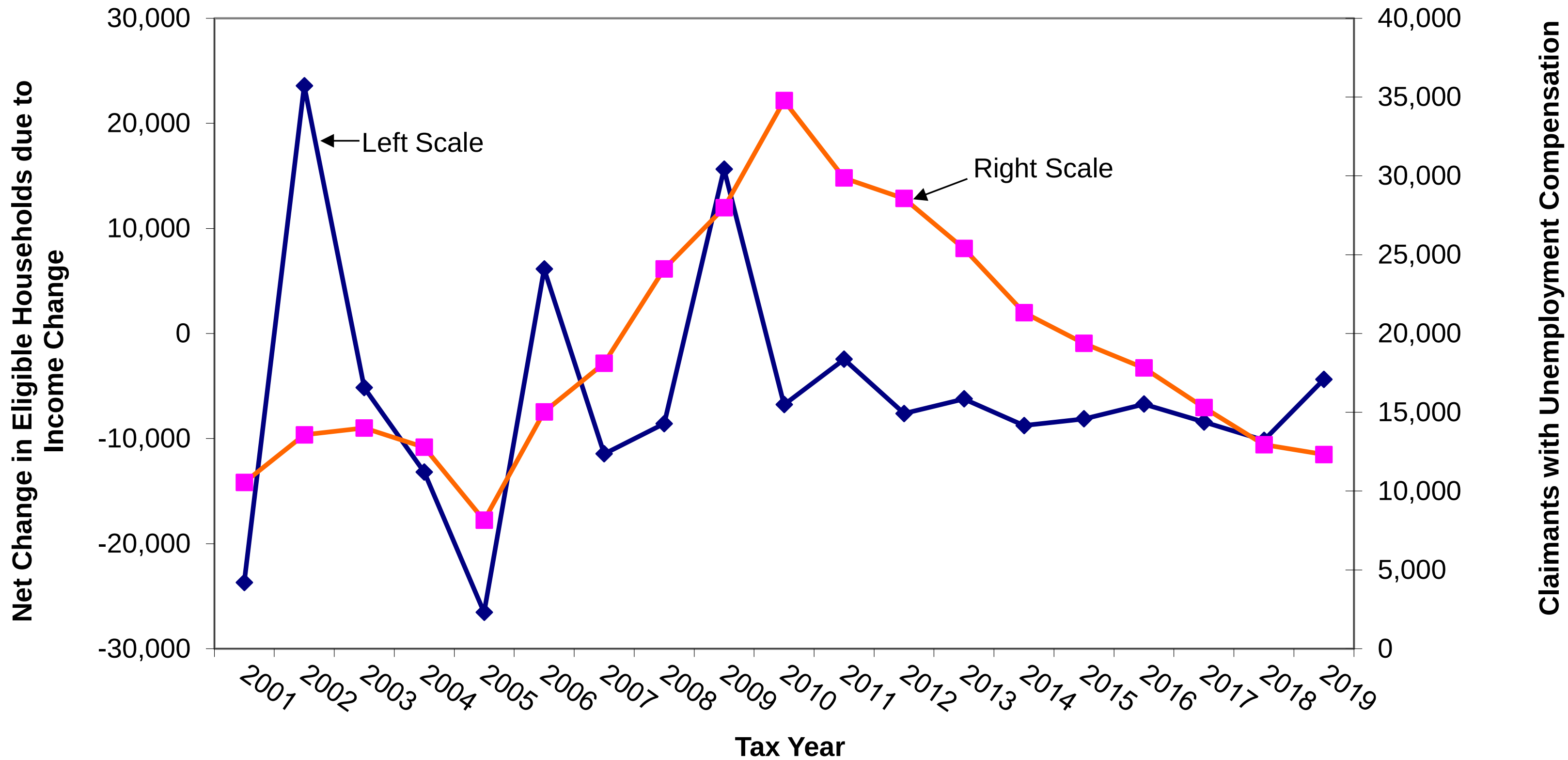
Table 18. Major Reasons for Taxpayers Moving in and Out of EITC Eligibility

Major Reasons for Entering EITC	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
No Tax Return Filed Previous Year	47.9%	45.0%	48.1%	48.3%	50.0%	49.3%	47.6%	48.6%	48.2%	47.3%	48.0%
Earned Income Drops	36.8%	39.4%	36.1%	35.5%	35.1%	35.4%	37.9%	36.9%	37.0%	38.0%	36.8%
Change in Marital Status	17.5%	16.9%	17.2%	16.8%	16.4%	17.1%	16.9%	17.0%	16.9%	19.4%	17.2%
Add Dependents	16.3%	15.8%	16.3%	15.8%	14.5%	14.5%	12.9%	12.4%	12.5%	13.9%	14.5%

Major Reasons for Leaving EITC	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
No Tax Return Filed Following Year	44.8%	48.0%	46.2%	47.4%	45.8%	45.6%	47.3%	45.8%	42.4%	44.7%	45.8%
Earned Income Increases	43.4%	40.8%	43.6%	44.1%	45.3%	45.8%	43.6%	45.3%	48.3%	46.3%	44.6%
Change in Marital Status	15.3%	15.0%	15.5%	15.0%	15.2%	15.1%	14.9%	14.9%	18.0%	15.1%	15.4%
Fewer Dependents	11.5%	12.1%	12.1%	11.9%	13.3%	8.0%	11.5%	11.7%	13.0%	11.9%	11.7%

Source: Iowa Individual 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

Appendix

A. The Federal Earned Income Tax Credit

The Tax Reduction Act of 1975 created the Federal Earned Income Tax Credit to offset the Social Security payroll tax for low income workers with children. In 1975, the credit was equal to 10 percent of *earned income*, up to $4,000. Therefore, the maximum tax 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 Deficit Reduction Act of 1984 increased the maximum tax credit again to $550. 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.

Between 1991 and 1996, the phase-in tax 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 the 2002 tax year, 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 this "marriage bonus" to $5,000, indexed for inflation, 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, extended another five years in 2013 and made permanent in 2015.

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 tax 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 2019, the maximum credit for eligible households with one child was $3,526 and was $6,557 for households with three or more children (see Table 1). The phase-in rates are the same for single and married filers. However, starting in 2002 the income levels at which the credit begins to phase out were different. The "marriage bonus" makes married filers eligible for credits at higher income.

In order to qualify for the federal EITC, a taxpayer must meet certain conditions[9]. Most importantly, 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.[10] Taxpayers cannot have investment income above $3,600 in tax year 2019. The taxpayer,

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[9] Including completing the U.S. Schedule EIC in the taxpayer's federal return

[10] Adjusted gross income (AGI) equals earned income plus investment income and selected adjustments. The taxpayer receives the smaller of the credit computed using earned income or AGI.

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 have a qualifying child or meet three conditions to claim the credit. If a taxpayer does not have a qualifying child, then, along with the requirements above, 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 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; 2) 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; and 3) Living with the taxpayer in the U.S. for more than half of the tax year.

In tax year 2019, the federal EITC tax credit rates were 7.65 percent for earnings up to $6,920 for households with no dependents, 34 percent for earnings up to $10,370 for taxpayers with one dependent, 40 percent for earnings up to $14,570 for taxpayers with two dependents, and 45 percent for earnings up to $14,570 for taxpayers with three or more children (see Table 1).[11] The phase-out range began at $8,650 of earned income for singles with no dependents, and $19,030 of earned income for singles with one or more dependents. With a phase-out rate of 7.65 percent, the credit was completely phased out once earned income rose to $15,570 for single filers with no children.

The phase-out range for married couples started at an income $5,800 higher than single filers. Head of household filers with one child face a phase-out rate of 15.98 percent, with the credit phasing-out at earned income of $46,884. Head of household filers with two or more children face a phase out rate of 21.06 percent, with the tax credit phased out at $52,493 of earned income for head of household filers with two children, and $55,952 of earned income for head of household filers with three or more children.

B. The Iowa Earned Income Tax Credit

During the 1989 Legislative session, the Iowa Legislature created Iowa's Earned Income Tax Credit. When first enacted, the tax credit rate was 5.0 percent of the federal EITC for which the taxpayer was eligible. The Iowa EITC was also nonrefundable, which means the tax credit claimed could not exceed the remaining income tax liability of the taxpayer after the personal exemption credits. During the 1990 Legislative session, the amount of the tax credit was increased to 6.5 percent of the federal EITC in an effort to further help the working poor in Iowa, but the credit remained nonrefundable for the 1991 through 2006 tax years. Effective January 1, 2007, the amount of the tax credit increased to 7.0 percent and became *refundable*, as a result of the law change which was passed in the

[11] Tax year 2019 is the most recent tax year with complete data available for analysis.

2007 Legislative session. With the change to a refundable tax credit, taxpayers with no Iowa tax liability were now eligible to receive a refund from the State equal to their EITC. In the 2013 session, the tax credit rate was increased to 14 percent of the federal credit for the 2013 tax year and to 15 percent for tax years beginning on or after January 1, 2014. Increases in the federal EITC for married households and households with three or more children were made permanent in 2015 for tax years 2018 and later. During the 2018 legislative session, the Iowa EITC was coupled with those federal changes.

The Iowa EITC is claimed through the completion of one line on the IA 1040. Nonresidents are eligible to claim the EITC, but the claim must be prorated based on the share of the taxpayers' Iowa-source income. For example, a taxpayer living in Omaha and working two part-time jobs, one in Omaha and one in Council Bluffs, has 50 percent Iowa-source income. If that taxpayer is eligible for the federal EITC, the taxpayer can make a claim to 50 percent of the Iowa EITC.

In addition to the direct financial benefit to low income working Iowans, the State's refundable EITC plays a role in helping Iowa meet its responsibilities under the Federal Temporary Assistance for Needy Families (TANF) block grant. Under TANF, states are required to expend a minimum amount of state funds for services that meet TANF purposes. 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 as an MOE expenditure as 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. Note that only the refunded portion of the tax credit (the amount that exceeds tax liability) claimed by households with at least one dependent counts as MOE.[12]

C. Changes to the Federal EIC Included in The American Rescue Plan Act

The maximum federal EITC credit nearly tripled for more childless households for TY 2021 only. The maximum EITC credit for households with no dependents is $1,502, up from $538 in TY 2020. The EITC is now available for and can be claimed by eligible workers who are at least 19 years of age with an AGI below $27,380. However, if a full-time student who is under the age of 24 and is employed, they do not qualify for the federal EITC. Previously, the federal EITC was only available to people ages 25 to 64 if they had reported no dependents.

For TY 2021 only, the federal EITC allows filers to choose to figure their EITC claim amount using either their 2019 income or their 2020 income, as long as the 2019 income amount was higher than their 2020 income.

[12] Any amount of an EITC refund that is offset by other debts of the taxpayer to the State or federal government must be excluded from what the State can claim as MOE under TANF.

Taxpayers filing as single or married (joint or separate) who have Social Security numbers can claim the credit, even if their children do not have assigned SSNs. These taxpayers would qualify for a smaller credit than that available to taxpayers without reported dependents. Previous to TY 2021, these taxpayers did not qualify for the EITC credit at all. In Tax Year 2021, the limit on investment income is also increased to $10,000 from $3,650. After Tax Year 2021, the $10,000 investment limit is indexed for inflation.

Married spouses who are separated can choose to be treated as not married for EITC purposes. To qualify, the spouse claiming the credit cannot file jointly with the other spouse, cannot have the same principal residence as the other spouse for at least six months out of the year and must have a qualifying child living with them for more than half the year.