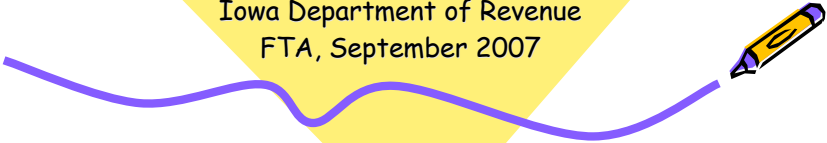





Helping Families Through The Tax Code: A Case Study in Iowa

Angela Gullickson and Amy Rehder Harris
Iowa Department of Revenue
FTA, September 2007



Outline

- Tax credits of interest
 - How much and who?
 - Claim spells/Persistent vs. One-time
 - Reasons for entries and exits
 - Estimates of benefits from recent expansion & proposed redistribution
- 



Iowa Tax Credits For Families with Children

- Dependent Credit
- Earned Income Tax Credit
- Child and Dependent Care Tax Credit
- Early Childhood Development Tax Credit
- Tuition and Textbook Tax Credit



Dependent Credit

- In lieu of personal exemption
- \$40 per dependent
- Nonrefundable
- No income limit
- Helps all taxpayers with children, but low-income the least



Earned Income Tax Credit

- Through 2006:
 - 6.5 percent of federal EITC
 - Nonrefundable
- Starting 2007:
 - 7 percent of federal EITC
 - Refundable
- Helps low-income taxpayers with children the most



Child and Dependent Care Tax Credit

- Declining percentage of federal credit
- Requires expenditures on child care
- Refundable (federal is not)
- \$45,000 income limit
- No tax liability required to benefit



Early Childhood Development Tax Credit

- New for tax year 2006
 - 25% of up to \$1,000
- Requires expenditures on pre-school or learning materials
- Refundable
- \$45,000 income limit
- Alternative to CDC claim

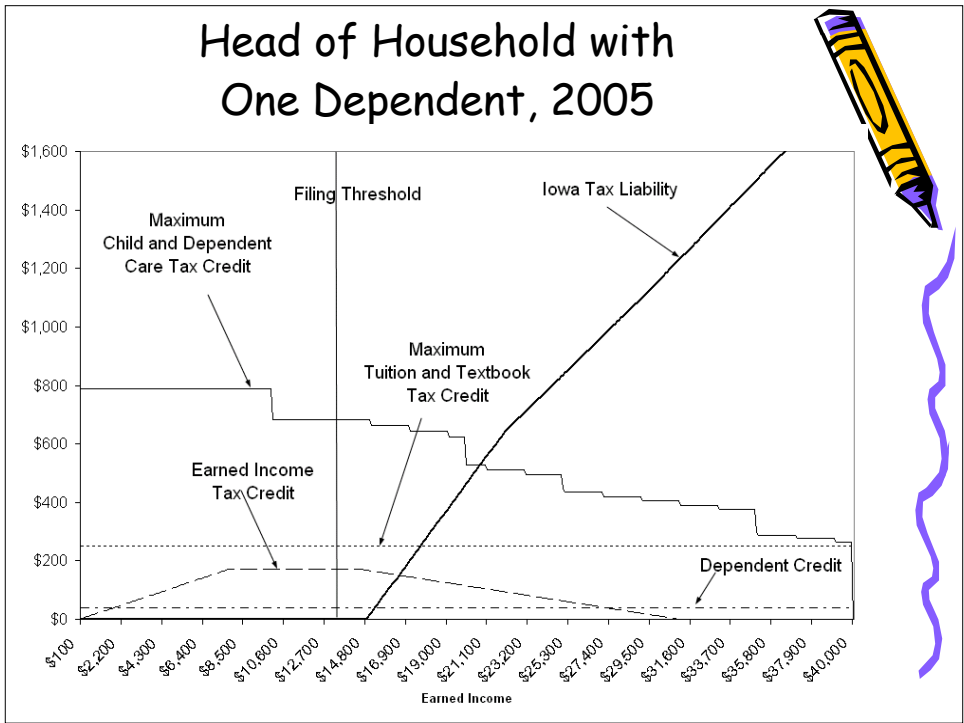


Tuition and Textbook Tax Credit

- Requires expenditures on elementary or secondary tuition, textbooks or extracurricular activities at Iowa school
- 25% of up to \$1,000
- Nonrefundable
- No income limit
- Most helpful to higher-income families




Head of Household with One Dependent, 2005




Total Iowa Credit Claims

Tax Year	DC	EITC	CDC	TTC
1996	\$34.4	\$5.4	\$8.1	\$2.7
1997	\$34.3	\$5.5	\$7.6	\$3.0
1998	\$34.6	\$5.5	\$7.0	\$8.9
1999	\$34.5	\$5.5	\$6.7	\$10.3
2000	\$34.4	\$5.8	\$6.4	\$11.5
2001	\$34.4	\$6.1	\$6.2	\$12.4
2002	\$34.4	\$7.9	\$6.2	\$13.1
2003	\$34.5	\$8.1	\$8.4	\$13.8
2004	\$34.9	\$8.4	\$8.1	\$14.3
2005	\$35.3	\$9.4	\$8.2	\$15.2


Iowa Credit Claimants




	DC	EITC	CDC	TTC
Avg. Age	40	36	32	42
Pct. Married	73%	42%	44%	87%
# Depts.	1.9	1.8	1.7	2.2
Avg. Earnings	\$47,000	\$20,000	\$23,000	\$61,000
Share DC	100%	100%	100%	100%
Share EITC	16%	100%	44%	11%
Share CDC	7%	18%	100%	5%
Share TTC	19%	13%	13%	100%
Avg. Credits	\$128	\$222	\$338	\$231
Avg. Tax	\$2,215	\$576	\$750	\$2,972
Credit Pct.	6%	39%	45%	8%



Iowa Credit Spells



Spell Length	EITC	CDC	TTC
1	53%	53%	43%
2	20%	21%	19%
3	10%	11%	11%
4	6%	6%	7%
5+	12%	9%	19%
Avg. Length	2.2	2.1	2.8
Multiple Spells	32%	21%	30%



Persistent vs. One-Time

- **EITC Persistent**
 - Less likely married with more dependents
 - Higher earnings
- **CDC Persistent**
 - Less likely married
 - Lower earnings with EITC claims
- **TTC Persistent**
 - More likely married with more dependents
 - Higher earnings and higher average claims



EITC Entries

- 2002
 - 1st or 2nd dependent: 19%
 - Federal expansion: 2%
 - Spouse exits labor force: 7%
 - Earned income drop: 21%
 - New positive tax liability: 23%
 - Unexplained: 15%



EITC Exits

- 2003
 - New marriage: 4%
 - Spouse enters labor force: 10%
 - Earned income increase: 39%
 - Drop 1st or 2nd dependent: 4%
 - New zero tax liability: 23%
 - Unexplained: 15%



CDC Entries

- 2002
 - Add dependent: 25%
 - End of marriage: 10%
 - Earned income drop: 18%
 - Unexplained: 38%



CDC Exits

- 2003
 - New marriage: 5%
 - Earned income increase: 40%
 - Drop dependent: 9%
 - Spouse exits labor force: 5%
 - Unexplained: 38%



TTC Entries & Exits

- 2002 Entries
 - Add dependent: 15%
 - New positive tax liability: 4%
 - Unexplained: 78%
- 2003 Exits
 - Drop dependent: 16%
 - New zero tax liability: 4%
 - Unexplained: 73%



Distribution of Credits: 2007

AGI	DC	EITC	CDC	TTC
\$0 or less	0%	1%	0%	0%
\$1 to \$10K	0%	18%	8%	0%
\$10 to 20K	5%	45%	24%	0%
\$20 to 30K	11%	30%	35%	4%
\$30 to 40K	11%	6%	26%	6%
\$40 to 50K	11%	0%	7%	9%
\$50 +	62%	0%	0%	81%
Total	\$28.3 m	\$20.0 m	\$8.9 m	\$15.3 m



Impact of 2007 EITC Expansion

AGI	Old law	Refund	6.5 to 7	New law
\$0 or less	0%	2%	1%	1%
\$1 to \$10K	1%	37%	18%	18%
\$10 to 20K	32%	58%	45%	45%
\$20 to 30K	55%	3%	30%	30%
\$30 to 40K	12%	0%	6%	6%
Non-filers		??	??	??
Total	\$9.7 m	\$9.0 m	\$1.4 m	\$20.0 m



Proposed Credit Changes to Help Low-Income Families

- \$45,000 limit on TTC cuts \$13.0 m
- Options to redistribute
 - 100% CDC costs \$8.5 m
 - 82% to \$40K or lower
 - \$52 refundable DC costs \$13.0 m
 - 48% to \$40K or lower
 - 11.5% refundable EITC costs \$13.0 m
 - 100% to \$40K or lower



Iowa Tax Credits For Families with Children

- Estimated \$72.5 m in 2007
- 52% targeted to families below \$40K
- EITC is best able to reach these families
- Iowa EITC expansion in 2007 shows commitment to do more

