

ECONOMIC DISPARITY & POVERTY

Position Statement

NASW, Iowa Chapter, affirms the need to ensure that all Iowans are able to support themselves and their families, through wages and social economic programs.

Discussion

- *Iowans living in Poverty*

U.S. Census Bureau (2014) estimated that 12.4 percent of Iowans – about 380,000 people – were living in poverty in 2013.

- *Family Investment Program (FIP)*

Iowa's Family Investment Program (FIP) is Iowa's Temporary Assistance to Needy Families. FIP provides a monthly cash grant to low-income families with children to help meet basic needs such as shelter, utilities, and clothing. FIP also provides services to help families become self-sufficient. There is a five-year lifetime limit with exceptions for hardship cases.

The FIP grant does not cover the cost of living in Iowa. To be eligible for the FIP grant, families must meet asset and income requirements. A family of four must have income, after deductions, below \$426 per month or \$5,112 annually to qualify (Iowa Department of Human Services [IDHS], September 2014). The family members must be residents of Iowa or legally qualified non-citizens, such as refugees. The average annual benefit per FIP recipient is \$1,568 or about \$130 per month. Iowa's FIP grant has not been adjusted since 1990 – more than 24 years. Fisher and French (2014b) estimated that it costs \$3,990 per month in 2013 for a single parent with two children to meet the family's basic needs such as food, housing, clothing, health care, child care, and transportation. The average monthly benefit for a family of three in November, 2014 was \$323 (IDHS, 2014). The average cost of living is over twelve times what the FIP basic grant provides.

- *Child care costs and eligibility ceiling*

One of the greatest costs to working families is the expense of child care. Iowa households with one child spend about 15% of their budget on child care, which increases to 19% for two children. Child care costs for a 2 or 3 year-old rose 13% statewide from 2011 to 2013, while the costs for a 6 year-old rose 16% (Fisher & French, 2014b).

Iowa's Child Care Assistance (CCA) program subsidies completely terminate when a recipient has a very little increase in income, resulting in a cliff effect for benefits. Research by Fisher and French (2014b) reported that a single parent with two children earning \$13.65 an hour or \$28,696 annually would lose the CCA benefit due to reaching the 145% of the federal poverty level. The family's net resources would decrease by almost \$5,000 annually due to the loss of the child care benefit.

- *Tax Equity*

Tax equity is described as the collection of taxes based on the ability of a person to pay. Taxes can be regressive, progressive, or proportional. Regressive taxes are taxes that make middle and low-income families pay a larger share of their income in taxes than those with high incomes. Examples of regressive taxes include sales and excise taxes. A 6% sales tax has a much larger

impact on the budget of a family earning \$20,000 per year than it does on a family earning \$200,000 per year.

Although items such as groceries are exempt, low income families still spend a greater portion of their income on items subject to the tax. The Institute on Taxation and Economic Policy (2014) reported that low-income families spend three-quarters of their income on things subject to taxation, including sales tax, gasoline tax and property tax. For people making less than \$21,000 a year this translates to 6.4% of their income in contrast to the top 1 percent spending 0.9% of their income on such taxes.

According to the Institute on Taxation and Economic Policy (2014), the middle 20% of Iowans (income of \$38,000-\$57,000) pay taxes at a rate of 10.1% and the bottom 20% (income below \$21,000) pay 10.9% while families making \$144,000 and higher pay only 6 to 7% of their income toward Iowa taxes. Iowa is one of only a few states who tax the working poor who are living at or below the federal poverty level .

- *Earned Income Tax Credit*

Iowa's Earned Income Tax Credit targets low to moderate income individuals and families who are working but remain close to or below the poverty line. It serves as an incentive to work because for each dollar earned the tax credit increases, making it worth an individual's time and effort to stay employed even though their monthly wage may be too low to meet basic needs.

Iowa enacted a nonrefundable state EITC with the 1989 Iowa Acts, chapter 268, at a rate of 5% of the federal credit. In 2007, the credit was made refundable and increased to 7% and as of 2014 the credit became equal to the federal EITC at 15% (Legislative Services Agency, 2014). The Iowa Department of Revenue (2014) estimates a total of 221,071 of Iowa households claimed \$65.4 million in EITC for the year of 2013.

Taxpaying families use refunded monies as supplements to their income to support basic needs such as food, housing, and transportation. According to the Iowa Fiscal Partnership (2013), if the EITC at the state level increased from 15% to 20% a family with two dependent children and two persons making minimum wage would still "be \$15,900 short of the \$50,300 in disposable income needed to meet basic needs."

Improvements made to the Federal EITC are set to expire in 2017. The American Taxpayer Relief Act of 2013 extended two significant changes made by the 2009 Recovery Act. Firstly, it added a third tier which extended the refund to families with three or more children. Secondly, it reduced the financial penalty for married couples with children.

One filing status subgroup that has been seriously overlooked is childless workers. The amount offered to this subgroup is "too small even to fully offset federal taxes for workers at the poverty line" (Center on Budget and Policy Priorities, 2014). Without relief of the EITC, childless 40 hours a week workers making minimum wage are being taxed into poverty by the federal and state governments.

- *Minimum Wage*

For seven years, the minimum wage in Iowa has remained at \$7.25 an hour, although the costs of living have increased considerably. Raising the minimum wage to the proposed \$10.10 an hour would have a positive impact on 306,000 Iowans (Iowa Policy Project, 2014), although a single parent with two dependent children must make an hourly wage of \$28.07, or \$47,875 annually to cover the family's basic needs. Due to the discrepancy between income and the cost of basic essentials, Iowans are unable to provide the necessities for their families. They are left to depend more heavily on subsidized programs in order to cover the basic cost of living. Increasing the minimum wage to a level that would support basic costs of living would reduce the amount Iowans rely on government programs saving the state millions of tax dollars. Additionally, the increase will stimulate the state's economy by putting money in the hands of lower-income Iowans as they utilize their increased income to meet their family's basic needs.

Research indicates that although the proposed minimum wage remains well below the cost of living; it would nevertheless have a positive impact on the state. Of the 306,000 current minimum wage earners that would be impacted, 78% are adults over the age of 20 and 43% are already working full-time (Iowa Policy Project, 2014). Furthermore, raising the minimum wage would boost Iowa's economy by \$272,443,000 (Chu, 2014).

Recommendations

- Increase the FIP grant over a three year period, beginning in SFY 2016 to more closely align with the cost of living, including an automatic cost of living increase.
- Revise eligibility for child care and other subsidy programs to gradually reduce benefits as income increases.
- Any changes in the tax code should be designed to benefit low and moderate income families.
- Increase the Earned Income Tax Credit to 20% of the federal EITC for all families, including those without children.
- Adopt a livable minimum wage that increases with the rate of inflation.

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