

DEPARTMENT OF TAXATION

2001 Fiscal Impact Statement

1. **Patron** Moran

2. **Bill Number** HB 2684

3. **Committee** House Finance

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

4. **Title** Individual Income Tax: Earned-Income
Credit

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would repeal the current income tax credit for low-income taxpayers and replace it with a refundable Virginia earned income credit ("EIC"). The credit would equal 10% of the federal EIC for individuals who qualify for the federal EIC provided a joint Virginia income tax return is filed. If a husband and wife file separate Virginia income tax returns, the credit may only be allowed for one of the returns.

This bill would be effective for taxable years beginning on or after January 1, 2002.

6. **Fiscal Impact Estimates are:** Tentative (See Line 8.)

6a. **Expenditure Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|-------------------------------|-----------------------|--------------------|
| 2000-01 | \$0 | GF |
| 2001-02 | \$0 | GF |
| 2002-03* | \$54,884 | GF |

6b. **Revenue Impact:**

| <i>Fiscal Year</i> | <i>Dollars</i> | <i>Fund</i> |
|-------------------------------|-----------------------|--------------------|
| 2000-01 | \$0 | GF |
| 2001-02 | \$0 | GF |
| 2002-03 | <\$48.3 million> | GF |

***Does not include systems cost. See Line 8.**

7. **Budget amendment necessary:** No.

8. Fiscal implications:

Administrative Costs

While this bill does have costs associated with systems development, these cannot be ascertained at this time. The cost for implementing a **single** piece of legislation cannot be calculated precisely due to economies of scale. The actual cost to implement **all** legislation enacted during a given session will more than likely be less than the sum of the costs attributed to individual bills. Further, the ability to accurately predict costs is complicated because TAX is replacing its current database system. As a result, legislative changes may need to be made to both the current and the future system, depending on the effective date. Therefore, TAX is not providing specific systems costs for this bill, but will calculate the total for all tax bills once they have been acted upon favorably in both houses and prior to the conference committee report. TAX will incur other administrative costs with respect to this legislation of \$54,884 in FY 03 and years thereafter for forms development and additional customer service requests.

Revenue Impact

The refundable tax credit provided by this bill would decrease General Fund revenues by an estimated \$48.3 million in Fiscal Year 2003 and \$50.1 million in Fiscal Year 2004. This estimate accounts for the revenue savings from repealing the current income tax credit for low-income taxpayers.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Federal Earned Income Credit

The federal EIC is intended to provide relief to certain low income working individuals. The credit is based upon an individual's earned income and is phased out as income increases. The credit is generally available to individuals (other than married taxpayers filing separate returns) whose earned income is within certain limitations and who have a qualifying child. Beginning in taxable year 1994, however, an individual without a qualifying child could also be eligible for the credit.

The federal EIC is a refundable credit (refunded to an individual to the extent it exceeds the tax liability). The credit is applied first against the taxpayer's tax liability. However, if a taxpayer has no withholding tax from wages and is not otherwise required to file a

return, he may benefit by filing an income tax return since the EIC will be refunded as a tax overpayment.

Effective for taxable years beginning on and after January 1, 1998, federal law provides a supplemental child tax credit in addition to the federal EIC. The credit amount is \$500 for each qualifying child, and is phased out as the taxpayer's income increases. The supplemental child tax credit is refundable to the extent it exceeds the taxpayer's federal tax liability.

VA Earned Income Tax Credit for Low-Income Families with Children

The 2000 General Assembly enacted legislation that provided a \$300 nonrefundable income tax credit for each personal and dependent exemption for individuals or married persons filing a joint return whose family Virginia adjusted gross income ("VAGI") does not exceed 100% of the federal poverty guideline amount.

Proposed Virginia Earned Income Credit (VEIC)

This bill would repeal the VEIC enacted by the 2000 General Assembly and would replace it with a VEIC for individuals equal to 10% of the federal EIC for married persons filing a joint return provided they otherwise qualify for the federal EIC. The credit would be based on the standard federal EIC amount and not the supplemental child tax credit amount.

Temporary Assistance to Needy Families

The Temporary Assistance to Needy Families ("TANF") program was created to replace certain welfare programs. Federal TANF funds are distributed to states in the form of block grants. In order to qualify for its share of such grants, each state must demonstrate that it is spending at least as much on anti-poverty programs in the current year as it spent in 1994 (i.e., the state's maintenance of effort ("MOE") requirement).

The existing income tax credit for low-income taxpayers does not count towards MOE in the TANF program. A portion of the refundable portion of the credit proposed by this bill would likely count towards the Commonwealth's MOE requirement.

Other Legislation

Senate Bill 1346 is identical to this bill.

cc: Secretary of Finance

Date: 1/26/01/NMS
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