DEPARTMENT OF TAXATION
2006 Fiscal Impact Statement

1. Patron A. Donald McEachin

2. Bill Number HB 753

House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. Committee House Finance

4. Title Income Tax Credit for Low-Income Taxpayers

5. Summary/Purpose:

The bill would replace the current income tax credit for low-income taxpayers with a refundable credit equal to 10% of the federal earned income tax credit, effective for taxable years beginning on or after January 1, 2006.

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

6b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2005-06	$0	GF
2006-07	($155 million)	GF
2007-08	($85 million)	GF
2008-09	($90 million)	GF
2009-10	($95 million)	GF
2010-11	($101 million)	GF
2011-12	($107 million)	GF

7. Budget amendment necessary: Yes.
Page 1 revenue estimates.

8. Fiscal implications:

This bill would have a negative revenue impact of $155 million for FY 2007, $85 million for FY 2008, $90 million for FY 2009, $95 million for FY 2010, $101 million for FY 2011, and $107 million for FY 2012.

In 2003, $38 billion in federal earned income credits (EIC) were claimed nationally, and $857 million was claimed by Virginia residents. EIC credits are growing about 8% annually. Considering the annual growth, fiscal year adjustments, and the offsetting revenue gain from eliminating the current Virginia low income credit, the fiscal impact of this bill is as follows:

FY	End Current Credit	Add 10% Federal	HB 753 Impact
2007	$33.98	($113.76)	**($154.75)**
2008	$38.52	($123.32)	**($84.80)**
2009	$43.68	($133.69)	**($90.01)**
2010	$49.52	($144.93)	**($95.41)**
2011	$56.14	($157.11)	**($100.97)**
2012	$63.66	($170.32)	**($106.66)**

TAX has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, TAX considers implementation of this bill as "routine," and does not require additional funding.

TAX will provide specific administrative costs on any legislation that is not "routine." Additionally, TAX will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, TAX will identify the costs at that time.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: None.

11. Other comments:

Current Law

Currently, taxpayers whose family Virginia adjusted gross income does not exceed the poverty guidelines have a choice between two different income tax credits. The first option is equal to $300 each for the individual, the individual's spouse and any person claimed as a dependent on the individual's or married persons' income tax returns. The second option is an amount equal to 20 percent of the credit claimed by an individual or married persons for federal individual income taxes pursuant to § 32 of the Internal Revenue Code.

Proposal

This bill would eliminate the existing program in its entirety and replace it with a refundable credit for individual income tax in an amount equal to 10% of the federal earned income credit claimed a resident individual on his federal tax return. Nonresidents would be allowed the same credit, but it would not be refundable. Part year residents whose credit exceeds their tax liability would receive a partial refund based on the portion of their income earned while a resident of Virginia.

This bill would be effective for taxable years beginning on or after January 1, 2006.

Taxpayers whose family income exceeds the poverty guidelines ($18,850 for a family of four in 2004) would have their tax reduced by this proposal because they would receive a credit of 10% of the federal earned income credit. In 2004, a married couple with two children with as much as $34,457 of income could receive the federal earned income credit.

Taxpayers whose family income is below the poverty guidelines would lose the current Virginia low income credit ($300 per dependent or 20% of the federal earned income credit) while receiving 10% of the federal EIC under this bill. Thus, for families below the poverty guidelines the credit under this bill would be lower than the credit under current law.

cc : Secretary of Finance

Date: 01/31/2006 PTR
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