

DEPARTMENT OF TAXATION

2017 Fiscal Impact Statement

1. **Patron** Kenneth R. Plum

3. **Committee** House Finance

4. **Title** Individual Income Tax; Refundability of Low-Income Tax Credits

2. **Bill Number** HB 1772

House of Origin:

 X **Introduced**

 Substitute

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would allow any individual or married couple to claim a refundable credit equal to 20 percent of the federal earned income tax credit ("EITC") claimed by such individual or married couple for the taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2017.

6. **Budget amendment necessary:** Yes.

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

7b. **Revenue Impact:**

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2016-17	\$0	GF
2017-18	(\$267.9 million)	GF
2018-19	(\$191.6 million)	GF
2019-20	(\$203.6 million)	GF
2020-21	(\$217.1 million)	GF
2021-22	(\$231.1 million)	GF
2022-23	(\$245.5 million)	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") and Department of Social Services ("DSS") consider implementation of this bill as routine, and do not require additional funding.

Revenue Impact

This bill would have a negative General Fund revenue impact of \$267.9 million in Fiscal Year 2018, \$191.6 million in Fiscal Year 2019, \$203.6 million in Fiscal Year 2020, \$217.1

million in Fiscal Year 2021, \$231.1 million in Fiscal Year 2022, and \$245.5 million in Fiscal Year 2023. Under current law, taxpayers may claim either the Tax Credit for Low-Income Individuals or the credit equal to 20 percent of the federal EITC, neither of which are refundable. This revenue estimate represents the impact of allowing low-income individuals to claim a refundable credit equal to 20 percent of the federal EITC in lieu of the two existing nonrefundable low-income tax credits.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of Social Services

10. Technical amendment necessary: No.

11. Other comments:

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either the Tax Credit for Low-Income Individuals or a credit equal to 20 percent of the federal EITC that was claimed for the taxable year:

- The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to \$300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married person's income tax return for the taxable year.
- Virginia also allows a nonrefundable individual income tax credit equal to 20 percent of the federal EITC claimed by an individual for the taxable year. The credit is for any individual or married persons that are eligible for the federal earned income tax credit for the taxable year and claimed such credit.

No household may claim both credits in the same taxable year. For purposes of these credits, "household" means an individual or married persons, regardless of whether such married persons file joint or separate Virginia individual income tax returns.

Federal Earned Income Tax Credit

The federal EITC is a refundable tax credit for eligible individuals who have earned income in a taxable year that is below certain threshold amounts. The amount of the federal EITC is based on the presence and number of qualifying children in the worker's family, as well as the amount of federal adjusted gross income ("AGI") and earned income. For purposes of the federal EITC, earned income includes any wages, salaries, tips, and other employee compensation includible in an individual's gross income, plus the individual's net earnings from self-employment without regard to the federal deduction for self-employment taxes. To qualify for the federal EITC, an individual's AGI and earned income must be less than:

- \$48,340 (\$53,930 for married filing jointly) if they have three or more qualifying children;

- \$45,007 (\$50,597 for married filing jointly) if they have two qualifying children;
- \$39,617 (\$45,207 for married filing jointly) if they have one qualifying child; or
- \$15,010 (\$20,600 for married filing jointly) if they do not have a qualifying child.

The maximum federal EITC for Taxable Year 2017 is \$6,318 for an individual with three or more qualifying children, \$5,616 for an individual with two qualifying children, \$3,400 for an individual with one qualifying child, and \$510 for an individual with no qualifying children.

Virginia Department of Social Services Reporting Requirement

DSS is required to provide notice regarding the availability of the federal earned income tax credit and Virginia's nonrefundable individual income tax credit equal to 20 percent of the federal EITC to certain individuals. Such individuals include all recipients of TANF, food stamps, or medical assistance who had earned income in the prior taxable year based on information available through the Virginia Employment Commission and, according to information made available by the Department, either did not file federal or state income taxes or filed taxes and did not claim the federal or state earned income tax credits.

Other States

Twenty-five states, the District of Columbia, New York City, and Montgomery County, Maryland allow individuals to claim an EITC equal to a certain percentage of the federal EITC. Twenty-one states (California, Colorado, Connecticut, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont, and Wisconsin), the District of Columbia, New York City, and Montgomery County, Maryland allow such credits to be refundable. In 2016, Oklahoma enacted legislation that made its earned income tax credit nonrefundable. Therefore, four states (Delaware, Ohio, Oklahoma, and Virginia) do not allow such credits to be refundable.

Refundable Tax Credits

For Taxable Year 2017, Virginia allows 33 income tax credits. Of these credits, four are refundable:

- Agricultural Best Management Practices Tax Credit for individuals;
- Virginia Coal Employment and Production Incentive Tax Credit;
- Motion Picture Production Tax Credit; and
- Research and Development Expenses Tax Credit.

Proposed Legislation

This bill would allow any individual or married couple to claim a refundable credit equal to 20 percent of the federal EITC claimed by such individual or married couple for the taxable year.

This bill would require DSS to provide notice regarding the availability of the new refundable credit to certain recipients of TANF, food stamps, or medical assistance as part of its existing notification requirement.

This bill would be effective for taxable years beginning on or after January 1, 2017.

cc : Secretary of Finance

Date: 1/19/2017 MTH
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