

DEPARTMENT OF TAXATION

2014 Fiscal Impact Statement

1. **Patron** Walter A. Stosch

3. **Committee** Senate Finance

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

2. **Bill Number** SB 288

House of Origin:

 Introduced

 X **Substitute**

 Engrossed

Second House:

 In Committee

 Substitute

 Enrolled

5. **Summary/Purpose:**

The Department of Taxation ("the Department") understands that the Patron will offer a substitute for this bill. This fiscal impact statement is drafted based on the substitute version.

This bill would extend Virginia's conformity to the federal enhanced Earned Income Tax Credit ("EITC") to taxable years ending before January 1, 2018.

Because some taxpayers will be preparing their Virginia returns while the General Assembly is in session, **this bill contains an emergency clause** that states that it would be in force from its passage.

6. **Budget amendment necessary:** No.

7. **No Fiscal Impact** (See Line 8.)

8. **Fiscal implications:**

Administrative Costs

The Department considers implementation of this bill as routine, and is not requesting additional funding.

Revenue Impact

This bill would have no General Fund revenue impact because extension of the enhanced EITC benefit is assumed in the official revenue forecast.

9. **Specific agency or political subdivisions affected:**

Department of Taxation

10. **Technical amendment necessary:** No.

11. Other comments:

Current Law

Virginia allows an individual to claim either the Tax Credit for Low-Income Individuals, equal to \$300 per taxpayer and dependent claimed on a Virginia income tax return that has a family adjusted gross income below a threshold amount, or a Virginia income tax credit equal to 20 percent of the federal EITC claimed for the taxable year. A taxpayer may not claim both credits for the same taxable year.

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 adjusted gross income and earned income.

In 2009, the American Recovery and Reinvestment Act ("ARRA") temporarily increased the credit percentage for individuals with three or more qualifying children from 40 percent to 45 percent and reduced the EITC marriage penalty by increasing the phaseout amount for married couples.

The expanded calculation of the EITC was scheduled to sunset on December 31, 2010, reverting back to the calculation as it existed prior to Taxable Year 2009. However, the enhanced earned income tax provisions were extended through Taxable Year 2012 by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. On January 2, 2013, Congress enacted the American Taxpayer Relief Act of 2012, which further extended the enhanced EITC provisions through Taxable Year 2017.

In 2010, the General Assembly elected to conform to the enhanced federal EITC provisions for Taxable Year 2009 only. During the 2011, 2012, and 2013 sessions, the General Assembly elected to advance the date of conformity to these provisions one year at a time, to Taxable Years 2010, 2011, and 2012. As a result, Virginia currently conforms to the enhanced federal EITC through Taxable Year 2012 only.

Proposed Legislation

This bill would extend Virginia's conformity to the federal enhanced EITC to taxable years ending before January 1, 2018. This would prevent low-income taxpayers from needing to make complex adjustments on their Virginia income tax returns in order to claim the Virginia tax credit that is based on the federal EITC.

Because some taxpayers will be preparing their Virginia returns while the General Assembly is in session, this bill contains an emergency clause that states that it would be in force from its passage.

Similar Bills

House Bill 1085 is identical to this bill.

Senate Bill 559 would advance Virginia's date of conformity from January 2, 2013 to December 31, 2013, and would conform to the federal enhanced EITC for Taxable Year 2013.

cc : Secretary of Finance

Date: 1/12/2014 MTH
SB288F161