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Joint Committee on Finance

Paper #215

TANF Funding for the Earned Income Tax Credit (Children and Families -- Economic Support and Child Care)

[LFB 2015-17 Budget Summary: Page 97, #1; and Page 173, #1]

CURRENT LAW

Under current law, funds from the federal temporary assistance for needy families (TANF) block grant and child care development block grant (CCDBG) are used for a variety of programs to assist low-income families.

The earned income tax credit (EITC) is offered at both the federal and state levels as a means of providing assistance to lower-income workers. The credit provides a supplement to the wages and self-employment income of such families and is intended to offset the impact of the social security tax and other taxes and increase the incentive to work. Both the federal and Wisconsin credit are refundable so individuals with little or no income tax liability may still receive the credit.

The state EITC is currently paid from two sources: (a) a sum sufficient GPR appropriation; and (b) the federal TANF block grant. Under federal law, TANF funds may be used to support a portion of the cost of the EITC. According to federal TANF regulations, TANF funds may be used to cover the share of the EITC that is refunded to the claimant (rather than used to reduce the claimant's income tax liability). Base TANF funding for the EITC is \$62,500,000 annually.

GOVERNOR

Total funding for the EITC under the bill would decrease to \$106,280,000 in 2015-16 and increase to \$109,030,000, compared to base funding of \$106,600,000. Base level GPR funding of \$44,100,000 would decrease to \$43,780,000 in 2015-16 and increase to \$46,530,000 in 2016-17. TANF funding of \$62.5 million would be provided in each year.

DISCUSSION POINTS

1. Under federal law, the refundable portion of a state's EITC is an allowable TANF expenditure. The refundable portion is the amount that exceeds a family's state income tax liability prior to application of the EITC. As a result, federal TANF funding may be substituted for GPR funding for the EITC (and vice versa). Based on federal requirements and on past experience with refundable credits, and allowing for amounts paid to legal immigrants (which TANF funds may not be used for), the portion of EITC costs that can be paid with TANF funds is approximately 65%.

2. Since 2003-04, the amount of TANF funding used for the EITC has ranged from \$6.7 million (6.8%) in 2008-09 to the current level of \$62.5 million (60.2% in 2013-14). The amount of TANF budgeted for the EITC has varied depending upon the availability of excess TANF funding and Legislative priorities for its use.

3. As will be discussed in a subsequent issue paper, based upon more recent tax collections data, the reestimated funding for the EITC is \$104,000,000 in 2015-16 and \$107,300,000 in 2016-17.

4. As discussed in a separate paper, Wisconsin Works (W-2) and TANF-related programs show an estimated balance of \$45.5 million at the end of the 2015-17 biennium, but an annual structural deficit of \$57.6 million going into the 2017-19 biennium. Projected over the 2017-19 biennium, the structural deficit would be \$115.2 million. As a result, the estimated TANF closing balance of \$45.5 million likely would not be sufficient to cover TANF-related expenditures in the 2017-19 biennium without reductions in program spending.

5. In order to partially address this structural deficit or provide additional funding for other TANF programs in the 2015-17 biennium, the Committee may wish to reduce the level of TANF funding for the EITC (Alternative 2). Additional GPR, in the same amount by which the level of TANF funding for the EITC is reduced, would be needed to fully fund the EITC.

6. Alternatively, the Committee may decide that the estimated closing TANF balance of \$45.5 million is more than sufficient to fund TANF-related programs during the 2015-17 biennium. The Committee may therefore wish to increase the level of TANF funding for the EITC and make available additional GPR for other programs (Alternative 3). For example, additional GPR could be used to address the increase in projected aids expenditures by the Bureau of Milwaukee Child Welfare, which is discussed in LFB Issue Paper #202.

7. Assuming 65% of the EITC could be supported with TANF funding, the maximum level of TANF that could fund the EITC is approximately \$67.6 million in 2015-16 and \$69.7 million in 2016-17. Compared to the bill, up to \$12.3 million in additional TANF funding could be provided for the EITC over the 2015-17 biennium.

8. It must be noted, however, that any additional increases in TANF funding for the EITC would exacerbate the problems associated with the structural TANF deficit, as discussed above. Further, the closing balance may be needed to cover shortfalls and unexpected expenses in TANF-related programs in the 2015-17 biennium. For example, DCF indicates that recent changes in

federal law from the reauthorization of the CCDBG may require the state to incur additional costs in child care administration in order to comply with updated federal regulations. The bill does not include funding for such costs, which DCF expects will exceed \$10 million. Also, as discussed in other papers, the state may face penalties from the federal government for failing to meet work participation targets in the W-2 program. Such penalties could exceed 5% of the funding from the TANF block grant (\$15.7 million). For these reasons, the Committee may wish to approve the Governor's recommended level of TANF funding for the EITC (Alternative 1).

ALTERNATIVES

1. Approve the Governor's proposed level of TANF funding for the EITC (\$62.5 million annually).
2. Modify the Governor's proposed level of TANF funding for the EITC to provide a lower level chosen by the Committee in order to increase the TANF ending balance going into the next biennium and address the projected TANF structural deficit. TANF funding would be reduced by this amount, and GPR funding would increase by a corresponding amount.
3. Modify the Governor's proposed level of TANF funding for the EITC to provide a higher level chosen by the Committee up to an overall maximum amount of \$12,300,000 compared to the bill. Any increase in TANF funding would be offset by a corresponding reduction in GPR. The following options show examples of the total TANF funding that could be provided in the 2015-17 biennium. The Committee has the option providing TANF funding in one of or both years up to the total amounts shown below.

ALT 3		Change to Bill	
	GPR	FED	Total
a.	- \$2,000,000	\$2,000,000	\$0
b.	-6,000,000	6,000,000	0
c.	-12,300,000	12,300,000	0

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