



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #317

Earned Income Tax Credit Reestimates (General Fund Taxes -- Individual and Corporate Income Taxes)

[LFB 2005-07 Budget Summary: Page 174, #4]

CURRENT LAW

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 state EITC is calculated as a percentage of the federal credit. The state, therefore, uses federal definitions and eligibility requirements for purposes of the EITC, except that the state does not provide a credit to individuals without children or advance payments of the credit. Both the federal and state credits are refundable -- if the credit exceeds the amount of tax due, a check is issued for the difference.

The credit is calculated based on family size, filing status, and the amount of earned income (although the credit can also be affected by adjusted gross income). Individuals without earned income are not eligible for the credit.

The income limits and maximum federal credit amounts are adjusted annually for changes in inflation. The maximum federal credit for tax year 2005 is \$2,662 for families with one child and \$4,400 for families with two or more children. The state credit percentages are: 4% for families with one child; 14% for families with two children; and 43% for families with three or more children. Based on the 2005 federal credit parameters and the state credit percentages, the maximum state credits for 2005 are: \$106 for families with one child; \$616 for families with two children; and \$1,892 for families with three or more children. For filers with one child, the credit is phased out for income between \$14,370 and \$31,030 (between \$16,370 and \$33,030 for married couples filing jointly). For filers with more than one child, the income phase-out range is from \$14,370 to \$35,263 (\$16,370 to \$37,263 for married couples filing jointly).

Currently, the EITC is funded with a combination of PR, SEG, and GPR funding. The program revenue is federal temporary assistance for needy families (TANF) funding transferred from the Department of Workforce Development. The SEG funding, which is being used for the EITC for the first time in 2004-05, is revenue from the segregated utility public benefits trust

fund. The PR and SEG amounts are provided through sum-certain appropriations. The GPR portion is provided through a sum-sufficient appropriation and covers the balance of the cost of the credit. Base funding for the EITC is as follows: \$59,532,000 PR; \$236,800 SEG; and \$19,031,200 GPR. However, the GPR portion was reestimated at \$15,731,200 in January, 2005. Therefore, current funding for the EITC for 2004-05 includes \$59,532,000 PR, \$236,800 SEG, and an estimated \$15,731,200 GPR (for a total estimated cost of \$75,500,000).

GOVERNOR

Reduce funding for the EITC as follows: (a) eliminate SEG funding of \$236,800 in each year; and (b) reduce GPR funding by \$4,863,200 in 2005-06 and \$4,263,200 in 2006-07. The net effect would be to decrease funding for the EITC by \$5,100,000 in the first year and by \$4,500,000 in the second year. Under these provisions, funding for the EITC in the 2005-07 biennium would be as follows: (a) \$59,532,000 PR in each year; and (b) \$14,168,000 GPR in 2005-06 and \$14,768,000 GPR in 2006-07. Total funding would be \$73,700,000 in 2005-06 and \$74,300,000 in 2006-07.

MODIFICATION

Reestimate total funding for the EITC at \$79,000,000 in 2005-06 and \$81,000,000 in 2006-07. Under the modification, PR funding would be the same as the amounts proposed by the Governor. However, the modification would increase estimated GPR funding to \$19,468,000 in 2005-06 and \$21,468,000 in 2006-07. The reestimates are \$5,300,000 and \$6,700,000 higher in 2005-06 and 2006-07, respectively, than the estimates under the bill.

Explanation: Based on actual and estimated federal EITC parameters for tax years 2005 and 2006, estimated participation rates by Wisconsin residents, and EITC payments for 2004-05 to-date, it is projected that the total cost of the state EITC will be \$5,300,000 higher in 2005-06 and \$6,700,000 higher in 2006-07 than the estimates included in the bill.

Modification	GPR
2005-07 FUNDING (Change to Bill)	\$12,000,000

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