



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 8, 2007

Joint Committee on Finance

Paper #319

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

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 157, #7]

#### **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 2007 is \$2,853 for families with one child and \$4,716 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 2007 federal credit parameters and the state credit percentages, the maximum state credits for 2007 are: \$114 for families with one child; \$660 for families with two children; and \$2,028 for families with three or more children. For filers with one child, the credit is phased out for income between \$15,390 and \$33,241 (between \$17,390 and \$35,241 for married couples filing jointly). For filers with more than one child, the income phase-out range is from \$15,390 to \$37,783 (\$17,390 to \$39,783 for married couples filing jointly).

Currently, the EITC is funded with a combination of PR and GPR. The program revenue is federal temporary assistance for needy families (TANF) funding transferred from the Department of Workforce Development. 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 \$82,100,000, consisting of \$55,232,000 PR and \$26,868,000 GPR. However, the GPR portion was reestimated at \$32,468,000 in January, 2007. Therefore, current funding for the EITC for 2006-07 includes \$55,232,000 PR and an estimated \$32,468,000 GPR (for a total estimated cost of \$87,700,000).

**GOVERNOR**

Increase GPR funding for the EITC by \$30,067,300 in 2007-08 and \$38,785,700 in 2008-09. In addition, reduce PR funding by \$24,615,300 in 2007-08 and \$30,227,300 in 2008-09.

Under the bill, total funding for the EITC would be increased to \$87,552,000 in 2007-08 and \$90,658,000 in 2008-09. However, the PR funding would be reduced from a base level of \$55,232,000 to \$30,616,700 in 2007-08 and to \$25,004,300 in 2008-09, while the estimated GPR sum-sufficient portion would be increased to \$56,935,300 in 2007-08 and \$65,653,700 in 2008-09. The net effect would be an increase in total funding for the EITC of \$5,452,000 in the first year and \$8,558,000 in the second year. The net increases reflect the administration's estimates of the total cost of funding the EITC in the 2007-09 biennium.

**JOINT FINANCE**

On May 22, 2007, the Committee adopted an omnibus funding motion regarding TANF that reduced TANF funding for the EITC by \$14,491,300 PR in 2007-08 and \$18,341,100 PR in 2008-09 and increased estimated GPR funding by the same amounts. The Committee's actions did not affect total funding for the EITC under the bill, but reduced the portion from TANF and increased the estimated GPR funds required to cover the cost of the credit.

**MODIFICATION**

Reestimate total funding for the EITC at \$92,100,000 in 2007-08 and \$97,400,000 in 2008-09. Based on the reestimate and the Committee's previous action, total funding for the EITC would be as follows: (a) \$75,974,600 GPR in 2007-08 and \$90,735,800 GPR in 2008-09; and (b) \$16,125,400 PR in 2007-08 and \$6,664,200 PR in 2008-09. Compared to the bill, total funding would be \$4,548,000 more in 2007-08 and \$6,742,000 more in 2008-09. These increases would be funded from the GPR sum sufficient appropriation for the credit.

**Explanation:** Based on actual and estimated federal EITC parameters for tax years 2007 and 2008, estimated participation rates by Wisconsin residents, and EITC payments for 2006-07 to-date, it is projected that the total cost of the state EITC will be \$4,548,000 higher in 2007-08 and \$6,742,000 in 2008-09 than the estimates included in the bill.

	Change to Bill Funding	Change to Base Funding
GPR	\$11,290,000	\$25,300,000

Prepared by: Faith Russell