



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #317

Earned Income Tax Credit -- Current Law Sum Sufficient Reestimate (General Fund Taxes -- Income and Franchise Taxes)

[LFB 2019-21 Budget Summary: Page 137, #6]

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. 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 state EITC is funded with a combination of GPR and federal temporary assistance for needy families (TANF) funding transferred from the Department of Children and Families. The GPR portion is provided through a sum sufficient appropriation and covers the balance of the cost of the credit.

Base funding for the credit is \$100,600,000 (\$30,900,000 GPR and \$69,700,000 TANF).

GOVERNOR

Decrease the estimated cost of the program by \$1,600,000 in 2019-20 and \$200,000 in 2020-21. The cost of the credit under current law is reestimated at \$99,000,000 in 2019-20 and \$100,400,000 in 2020-21.

MODIFICATION

Reestimate the total amount of credit payments at \$95,700,000 in 2019-20 and \$97,400,000 in 2020-21, decreases of \$4,900,000 in 2019-20 and \$3,200,000 in 2020-21, relative to the base level. Relative to the amounts in the bill, the reestimates reflect reductions of \$3,300,000 in 2019-20 and \$3,000,000 in 2020-21. These decreases equate to GPR expenditure reductions. Estimate the amount of the GPR appropriation at \$26,000,000 in 2019-20 and \$27,700,000 in 2020-21 to reflect this reestimate. The TANF funding for the credit would remain unchanged relative to base level funding at \$69,700,000 annually.

Explanation: The modification reflects a reduction in the estimated total cost of the credit compared to the bill, based on more recent claims data for the current year. The total cost of the credit in 2018-19 is now estimated at \$95,200,000, compared to the base level of \$100,600,000 and the November reestimate of \$98,700,000. On a year-to-year basis, the reestimates reflect estimated increases in total credit funding of 0.5% in 2019-20 and 1.8% in 2020-21.

| | Change to | |
|-----|---------------|---------------|
| | Base | Bill |
| GPR | - \$8,100,000 | - \$6,300,000 |

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