



Legislative Fiscal Bureau

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June 5, 2001

Joint Committee on Finance

Paper #101

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

[LFB 2001-03 Budget Summary: Page 21, #3; Page 734, #36]

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 and the state 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 and on the amount of earned income (individuals without earned income are not eligible for the credit). Earned income includes wages, salaries and self-employment income; earned income does not include interest earnings, social security and welfare benefits. Individuals with more than a specified amount of disqualified income are not eligible for the credit. Disqualified income is interest (including tax-exempt interest), dividends, nonbusiness rents and royalties, net capital gains and net passive income. For tax year 2001, the disqualified income threshold is \$2,450; this amount is adjusted each year for changes in inflation.

The income limits and maximum federal credit amounts are also adjusted annually for changes in inflation. The maximum federal credit for tax year 2001 is \$2,428 for families with one child and \$4,008 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 2001 federal credit parameters and the state credit percentages, the maximum state credits for 2001 are: \$97 for families with one child; \$561 for families with two children; and \$1,723 for families with three or more children. The credit is not available

when adjusted gross income exceeds \$28,281 for families with one child or \$31,121 for families with two or more children.

Base funding for the EITC is \$13,000,000 GPR and \$54,000,000 PR, for a total of \$67,000,000. The program revenue is federal temporary assistance for needy families (TANF) funding transferred from the Department of Workforce Development to pay the refundable portion of the EITC. The remaining funds are provided through a sum sufficient GPR appropriation. The TANF portion is based on the assumption that approximately 80% of EITC payments will be refunded to TANF-eligible individuals. In January, 2001, total EITC expenditures for 2000-01 were reestimated at \$61,800,000.

GOVERNOR

Reduce EITC funding by the following amounts: (a) \$744,500 GPR and \$2,755,500 PR in 2001-02; and (b) \$165,500 GPR and \$334,500 PR in 2002-03. Total funding would be \$63,500,000 in 2001-02 (\$12,255,500 GPR and \$51,244,500 PR) and \$66,500,000 in 2002-03 (\$12,834,500 GPR and \$53,665,500 PR). TANF funding in DWD would be reduced by \$2,755,500 FED in 2001-02 and \$334,500 FED in 2002-03 to account for reduced costs of the credit.

MODIFICATION TO BILL

Reestimate funding for the EITC under current law for 2002-03 at \$64,700,000 (\$12,500,000 GPR and \$52,200,000 PR). Compared to the bill, the revised estimate reduces funding for the second year by \$334,500 GPR and \$1,465,500 PR, for a total reduction of \$1,800,000. Federal TANF funding in DWD would also be reduced by \$1,465,500.

Explanation: The estimated cost of the state EITC is based on the anticipated inflationary adjustment of the federal credit parameters and historical growth in participation rates by Wisconsin residents. Based on current estimates of these factors, it is projected that the total cost of the state EITC will be \$1,800,000 less in 2002-03 than is provided under the bill.

<u>Modification</u>	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>TOTAL</u>
2001-03 FUNDING (Change to Bill)	- \$334,500	- \$1,465,500	- \$1,465,500	- \$3,265,500

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