



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #334

Earned Income Tax Credit Reestimate (General Fund Taxes – Refundable Credits and Other Payments)

[LFB 2021-23 Budget Summary: Page 224, #2]

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, such that 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 the claimant's 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) block grant funding transferred from the Department of Children and Families (DCF). TANF regulations allow states to use TANF funds to support the refundable portion of the state EITC. 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 in 2020-21 is \$95.9 million (\$26.2 million GPR and \$69.7 million PR from TANF). Under LFB Paper #102, total funding for the current law credit was estimated at \$98.2 million in 2021-22 and \$98.6 million in 2022-23.

MODIFICATION

Reestimate the total amount of credit payments at \$86,000,000 in 2021-22 and \$90,000,000 in

2022-23, which represent decreases of \$12,200,000 in 2021-22 and \$8,600,000 in 2022-23 relative to the base level, as modified by prior actions of the Committee. Estimate the amount of the GPR appropriation at \$22,400,000 in 2021-22 and \$23,400,000 in 2022-23 to reflect this reestimate. Set the amount of federal TANF funds transferred by DCF to \$63,600,000 in 2021-22 and \$66,600,000 in 2022-23 to reflect this reestimate.

Explanation: The modification reflects the change to base level funding as modified by sum sufficient appropriation estimates adopted under earlier actions of the Committee, and reflects estimated decreases in total credit funding relative to these estimates of 12.4% in 2021-22 and 8.7% in 2022-23. The modification would reduce the cost of the credit by \$6,100,000 GPR and \$6,100,000 PR in 2021-22 and \$5,500,000 GPR and \$3,100,000 PR in 2022-23. The modification is based on more recent claims data for tax year 2020. The TANF appropriation amounts are based on historical data regarding the percentage of EITC claims that is refunded to the claimant (74% in recent fiscal years).

Change to Base	
GPR	-\$11,600,000
PR	<u>-9,200,000</u>
Total	-\$20,800,000

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