DEPARTMENT OF TAXATION
2018 Fiscal Impact Statement

1. **Patron** Kenneth R. Plum

2. **Bill Number** HB 716
House of Origin:
X **Introduced**
_____ **Substitute**
_____ **Engrossed**

Second House:
_____ **In Committee**
_____ **Substitute**
_____ **Enrolled**

3. **Committee** House Finance

4. **Title** Low-Income taxpayers; refundable income tax credit.

5. **Summary/Purpose:**

This bill would allow any individual or married couple to claim a refundable individual income tax credit equal to 20 percent of the federal earned income tax credit ("EITC") claimed by such individual or married couple for the same taxable year.

This bill would be effective for taxable years beginning on or after January 1, 2018.

6. **Budget amendment necessary:** Yes.
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7. **Fiscal Impact Estimates are:** Preliminary. (See Line 8.)
7b. Revenue Impact:

Fiscal Year	***Dollars***	***Fund***
2017-18	$0	GF
2018-19	$260.3 million	GF
2019-20	$187.9 million	GF
2020-21	$198.9 million	GF
2021-22	$209.7 million	GF
2022-23	$220.4 million	GF
2023-24	$230.7 million	GF

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation ("the Department") has not assigned any administrative costs to this bill because the changes required by a single bill such as this can be implemented as part of the annual changes to our systems and forms. As stand-alone legislation, the Department considers implementation of this bill as "routine," and does not require additional funding.

The Department will provide specific administrative costs on any legislation that is not "routine." Additionally, the Department will review all state tax legislation likely to be enacted prior to the passage by each house. If the aggregate number of routine bills likely to pass either house is unusually large, it is possible that additional resources will be required. If so, the Department will identify the costs at that time.

Revenue Impact

This bill would have a negative impact General Fund revenue impact of $260.3 million in Fiscal Year 2019, $187.9 million in Fiscal Year 2020, $198.9 million in Fiscal Year 2021, $209.7 million in Fiscal Year 2022, $220.4 million in Fiscal Year 2023, and $230.7 million. Under current law, taxpayers may claim either the Tax Credit for Low-Income Individuals or a credit equal to 20 percent of the federal EITC, neither of which are refundable. This revenue estimate represents the impact of allowing low-income individuals to claim a refundable credit equal to 20 percent of the federal EITC in lieu of the two existing nonrefundable low-income tax credits.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Virginia Low-Income Tax Credits

Virginia allows an individual to claim either the Tax Credit for Low-Income Individuals or a credit equal to 20 percent of the federal EITC that was claimed for the taxable year.

- The Tax Credit for Low-Income Individuals is a nonrefundable individual income tax credit equal to $300 each for the individual, the individual's spouse, and any person claimed as a dependent on such individual's or married person's income tax return for the taxable year.

- Virginia also allows a nonrefundable individual income tax credit equal to 20 percent of the federal EITC claimed by an individual for the taxable year. The credit is for any individual or married persons that are eligible for the federal EITC for the taxable year and claimed such a credit.

No household may claim both credits in the same taxable year. For purposes of these credits, "household" means an individual or married persons, regardless of whether such married persons file joint or separate Virginia individual income tax returns.

Federal Earned Income Tax Credit

The federal EITC is a refundable tax credit for eligible individuals who have earned income in a taxable year that is below certain threshold amounts. The amount of the federal EITC is based on the presence and number of qualifying children in the worker's family, as well as the amount of the worker's federal adjusted gross income ("AGI") and earned income. For purposes of the federal EITC, earned income includes any wages, salaries, tips, and other employee compensation includible in an individual's gross income, plus the individual's net earnings from self-employment without regard to the federal deduction for self-employment taxes. To qualify for the federal EITC, an individual's AGI and earned income must be less than:

- $49,298 ($54,998 for married filing jointly) if they have three or more qualifying children;
- $45,898 ($51,598 for married filing jointly) if they have two qualifying children;
- $40,402 ($46,102 for married filing jointly) if they have one qualifying child; or
- $15,310 (21,000 for married filing jointly) if they do not have a qualifying child

The maximum federal EITC for Taxable Year 2018 is $6,444 for an individual with three or more qualifying children, $5,728 for an individual with two qualifying children, $3,468 for an individual with one qualifying child, and $520 for an individual with no qualifying children.

Department of Social Services Reporting Requirement

DSS is required to provide notice regarding the availability of the federal EITC and Virginia's nonrefundable individual income tax credit equal to 20 percent of the federal EITC to certain individuals. Such individuals include all recipients of Temporary Assistance for Needy Families ("TANF"), food stamps, or medical assistance who had earned income in the prior taxable year based on information available through the Virginia Employment Commission, and according to information made available by the Department, either did not file federal or state income taxes or filed taxes but did not claim the federal or state EITC.

Other States

Twenty-eight states and the District of Columbia, allow individuals to claim an EITC equal to a certain percentage of the federal EITC. There are also several localities (such as New York City, Montgomery County, Maryland, and San Francisco) that have credit programs based on EITC. Twenty-two states (California, Colorado, Connecticut, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, New Jersey, New Mexico, New York, Oregon, Rhode Island, Vermont and Wisconsin) and the District of Columbia allow such credits to be refundable. Six states (Delaware, Hawaii, Ohio, Oklahoma, South Carolina and Virginia) do not allow such credit to be refunded.

Refundable Tax Credits

For Taxable Year 2018, Virginia allows 32 income tax credits. Of these credits, three are refundable:

- Agricultural Best Management Practices Tax Credit for individuals;
- Motion Picture Production Tax Credit; and
- Research and Development Expenses Tax Credit.

Proposed Legislation

This bill would allow any individual or married couple to claim a refundable individual income tax credit equal to 20 percent of the federal EITC claimed by such individual or married couple for the same taxable year.

This bill would require DSS to provide notice regarding the availability of the new refundable credit to certain recipients of TANF, food stamps, or medical assistance as part of its existing notification requirement.

This bill would be effective for taxable years beginning on or after January 1, 2018.

Similar Legislation

Senate Bill 390 would make numerous changes to Virginia's tax structure, including making both portions of Virginia's low-income tax credit refundable.

cc : Secretary of Finance

Date: 1/28/2018 RWC
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