

FISCAL NOTE

Bill #: SB388

Title: Earned income tax credit

Primary

Sponsor: Jon Ellingson

Status: Introduced

Sponsor signature

Date

Chuck Swysgood, Budget Director

Date

Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Expenditures:		
General Fund	\$20,177	\$0
Federal Special Revenue	637,000	637,000
Revenue:		
General Fund	\$(19,176,000)	\$(19,176,000)
Net Impact on General Fund Balance:	\$(19,196,177)	\$(19,176,000)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

Income Tax Credit – Department of Revenue

1. This bill applies retroactively to tax years beginning after December 31, 2000 (TY2001). There will be a fiscal impact in both fiscal years 2002 and 2003 under this proposal.
2. This bill provides for a *refundable* state earned income credit that is tied to the federal earned income credit. The state credit is allowed only for taxpayers with dependent children. Taxpayers with one dependent are entitled to a state earned income credit equal to 10% of the federal credit; taxpayers with two dependents are entitled to a state earned income credit equal to 20% of the federal credit; taxpayers with three dependents are entitled to a state earned income credit equal to 40% of the federal credit; and taxpayers with four dependents are entitled to a state earned income credit equal to 60% of the federal credit.

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3. Generally, the credit is not allowed to married taxpayers who file separately; but under this proposal the benefit of the earned income credit outweighs the benefit of filing separately for married couples who currently file separately at income levels over which the credit is allowed.
4. The federal earned income tax credit claimed by Montanans totals \$90 million. The federal credit, distributed across taxpayer households with one, two, three, and four or more dependent children is shown in the following table. The table also shows the total amount of state credit (\$19,813,000) that would be claimed under this bill.

# of Dep Children	Federal Credit	SB388	State Credit
		State Percentage	
1	\$32,579,362	10%	\$3,257,936
2	\$37,883,540	20%	\$7,576,708
3	\$13,720,591	40%	\$5,488,236
4+	\$5,816,508	60%	\$3,489,905
	\$90,000,000		\$19,812,785

5. Section 2 of the bill provides that the Department of Public Health and Human Services (DPHHS) is to transfer revenue from the federal temporary assistance to needy families block grant to the state general fund an amount sufficient to cover the cost of the refundable portion of any earned income tax credit received by TANF participants. Based on data provided by DPHHS, it is estimated that this transfer will total \$637,000 annually. This reduces the general fund revenue impact to \$(19,176,000) each year.
6. Administrative expenses increase by \$20,177 in fiscal 2002 to provide for a new line on the income tax form, and for data capture and reporting requirements in the bill.

Department of Public Health and Human Services

1. Based on an average from April, May and June of 2000, 20% of the Temporary Assistance to Needy Families (TANF) cases had earned income. The June caseload was 4,467 cases. Therefore, 893 TANF participants would have earned income. Of the 893 TANF participants, 758 have one or more children and would qualify for the state Earned Income Tax Credit (EITC). The remaining 135 participants receive child only grants and would not qualify for the EITC.
2. Of the 758 participants, 35%, or 311 cases, would have one child; 25%, or 220 cases, would have two children; 14%, or 124 cases, would have 3 children; and 12%, or 103 cases, would have more 4 or more children.
3. Based on the federal EITC, 50% of the state EITC would be head-of-households and 50% would be married.
4. Costs for the refundable EITC are:
 - \$ 143 for head-of-household with 1 dependent,
 - \$ 720 for head-of-household with 2 dependents,
 - \$1,512 for head-of-household with 3 dependents,
 - \$2,280 for head-of-households with 4 or more; and
 - \$ 191 for married with 1 dependent,
 - \$ 752 for married with 2 dependents,
 - \$1,520 for married with 3 dependents,

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\$2,280 for married with 4 or more dependents.

5. TANF funds can only be used for individuals that are eligible for the TANF program. The refundable portion of the EITC that was used for non-TANF eligible persons cannot be funded with TANF.

FISCAL IMPACT:

	FY2002 <u>Difference</u>	FY2003 <u>Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$20,177	\$0
Benefits	<u>637,000</u>	<u>637,000</u>
TOTAL	\$657,177	\$637,000
 <u>Funding:</u>		
General Fund (01)	\$20,177	\$0
Federal Special Revenue (03)	<u>637,000</u>	<u>637,000</u>
TOTAL	\$657,177	\$637,000
 <u>Revenues:</u>		
General Fund (01)	\$(19,176,000)	\$(19,176,000)
 <u>Net Impact to Fund Balance (Revenue minus Expenditure):</u>		
General Fund (01)	\$(19,196,177)	\$(19,176,000)
Federal Special Revenue (03)	(637,000)	(637,000)