

# GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 2642 (First Edition)

**SHORT TITLE:** Increase Earned Income Tax Credit Percentage.

**SPONSOR(S):** Representatives Luebke, Wainwright, Weiss, and Ross

	<b>FISCAL IMPACT</b>				
	<b>Yes ( )</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>
<b>REVENUES</b> <b>( \$ million):</b>	<b>(20.6)</b>	<b>(20.8)</b>	<b>(20.9)</b>	<b>(21.2)</b>	<b>(21.4)</b>
<b>EXPENDITURES:</b>					
<b>POSITIONS</b> <b>(cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue					
<b>EFFECTIVE DATE:</b> January 1, 2008					

### **BILL SUMMARY:**

This bill amends GS 105-151.31(a) by increasing the earned income tax credit from 3.5% to 5%. Effective for taxable years beginning on or after January 1, 2008.

HB1473 (SL 2007-323) established a refundable State earned income tax credit. It is effective for taxable years beginning on or after January 1, 2008, and expires for taxable years beginning on or after January 1, 2013.

The Internal Revenue Code provides an earned income tax credit for individuals who report earned income and the adjusted gross income does not exceed a specified amount. The amount of the credit may exceed the amount of tax owed by the taxpayer. If the credit allowed exceeds the amount of tax imposed, the excess is refundable to the taxpayer.

To be eligible for the credit, an individual must meet the following requirements:

- Have a valid social security number.
- Have earned income from employment or self-employment.

- Be a U.S. citizen, a resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return.
- Is not a qualifying child of another person.
- Have a qualifying child OR meet the following requirements:
  - Age 25 but under age 65 at the end of the year.
  - Live in the U.S. for more than half the year.

The amount of the federal credit varies depending upon whether the taxpayer has children and the amount of earned income the taxpayer reports. The credit is phased out as the taxpayer's earned income rises.

This bill makes no other changes to the State's EITC other than to increase the amount of the credit from 3.5% to 5.0%.

**ASSUMPTIONS AND METHODOLOGY:** It is estimated that in fiscal year 2008-2009, raising the tax credit from 3.5% to 5% would reduce general fund revenues by \$20.6 million. The federal EITC and the State's EITC relationship is straight forward since the State is merely a percentage of the federal. Who it affects and whether it is refundable depends on the earned income amount, filing status, and number of children. Based on 2005 IRS data, most returns claiming the EITC received a refund, and 40 percent had adjusted gross income below \$10,000.

Using data provided by the Internal Revenue Service and the Congressional Budget Office, projections of North Carolina taxpayer participation in the federal program were developed. In 2005, the most recent year of available data, North Carolina taxpayers received 3.52 percent of the total federal EITC credits. Based on this relationship and estimated future federal EITC claims, an estimate of the amount of credits received by North Carolinians was calculated. An estimated 765,000 North Carolina tax returns will claim a federal EITC in the 2008 tax year. Five percent of federal claims would equal nearly \$70 million. Taxpayer participation rates in state programs are variable based on data compiled by the Center for Budget and Policy Priorities and rates between 81 and 93 percent. Fiscal Research estimates assume the State's participation rate will be 90 percent.

Future fiscal year estimates are based on the growth projections of the total EITC program as announced by the federal Joint Committee on Taxation.

**SOURCES OF DATA:** Internal Revenue Service, Congressional Budget Office, Joint Committee on Taxation, Center for Budget and Policy Priorities

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION: (919) 733-4910**

**PREPARED BY:** Barry Boardman, Fiscal Analyst

**APPROVED BY:** Lynn Muchmore, Director

**DATE:** May 28, 2008



**Signed Copy Located in the NCGA Principal Clerk's Offices**