

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: HB1344**

**Bill Subtitle: TO CREATE THE WORKING FAMILIES OPPORTUNITY ACT.**

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**Basic Change :** Sponsors: Representatives Sabin, Blake, V. Flowers, M. Hodges, Leding, Love, Magie, McElroy, G. McGill, Richey, Tucker

HB1344 creates a "Working Families Opportunity Credit" equal to 1.25% of the federal earned income credit for tax years beginning in 2015, 2.5% for tax years beginning in 2016, and 5% for tax years beginning in 2017 and after. The portion of the credit that exceeds the tax liability minus other credits is to be refunded to taxpayers. DFA must notify taxpayers of their potential eligibility for the income tax credit each year.

**Revenue Impact :**

FY2016 - \$10M reduction to General Revenue

FY2017 - \$20M reduction to General Revenue

FY2018 and after per year - \$40M reduction to General Revenue

**Taxpayer Impact :**

Taxpayers will be allowed to take a refundable credit on their individual tax returns. The credit will be a percentage of what is allowed by federal.

**Resources Required :**

Update computer programs, tax forms, and instructions. DFA will be required to annually notify taxpayers of their potential eligibility for the credit. Depending on how eligible taxpayers must be notified, there could be a substantial annual printing and mailing cost.

There will also be overhead costs associated with this bill. Increased steps must be taken to prevent payment of fraudulent claims under this program.

**Time Required :**

Adequate time is provided.

**Procedural Changes :**

Tax forms and instruction booklets will need to be updated and employees will need to be trained about the new credit for processing returns.

**Other Comments :**

There is a strong potential for an increase in fraudulent claims. It has been reported that 21% - 25% of the Federal Earned Income Tax Credit payments are erroneous. Fraudsters may also file more state paper returns that will not have to go through IRS checks and verification for federal credit.

The bill does not require an apportionment of the credit for non-residents, creating the possibility that non-residents will receive credits that exceed income earned in Arkansas and will create the possibility of non-residents filing to obtain refunds when they have no Arkansas source income.

**Legal Analysis :**

The federal earned income tax credit ("EITC") is a refundable income tax credit for low to moderate income working individuals. The federal credit is based upon a percentage of a taxpayer's earned income as calculated under Internal Revenue Code § 32. This bill establishes a new state income tax credit for Arkansas taxpayers who qualify for the federal EITC. The bill has no emergency clause and will therefore become effective 90 days after adjournment.