

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1344

As Engrossed: 3/20/2015

Bill Subtitle: TO CREATE THE WORKING FAMILIES OPPORTUNITY ACT.

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

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.

Amendment No. 2 will change the tax years beginning as follows:

- 1.25% of the federal earned income credit for tax years beginning in 2016 (amended from tax year 2015)
- 2.50% of the federal earned income credit for tax years beginning in 2017 (amended from tax year 2016)
- 5.00% of the federal earned income credit for tax years beginning in 2018 and after (amended from tax year 2017 and after)

Revenue Impact :

FY2016 - \$0

FY2017 - \$10M reduction to General Revenue

FY2018 - \$20M reduction to General Revenue

FY2019 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.

Resources Required :

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.

Time Required :

Adequate time is provided.

Procedural Changes :

Tax forms and instruction booklets will need to be updated.

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.

Legal Analysis :

The amendment delays the effective date of the bill for one year.