

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1418

Bill Subtitle: TO CREATE THE WORKING FAMILIES TAX RELIEF ACT.

Basic Change :

Sponsor: Rep. McCullough

HB1418 creates the "Working Families Tax Relief Act," which establishes an income tax credit equal to 10% of the federal earned income credit (EITC) for tax years beginning in 2019 and following tax years. The portion of the credit that exceeds the tax liability is to be refunded to the taxpayer. The Arkansas Department of Finance and Administration (DFA) must notify taxpayers annually of their potential eligibility for the income tax credit each year. HB1418 is effective for tax years beginning on or after January 1, 2019.

Revenue Impact :

FY2020 - \$76.7M reduction to State General Revenue

[Revenue impact is based on IRS statistics from tax year 2017. 287,000 Arkansas taxpayers received the federal EITC in 2017.]

Taxpayer Impact :

Taxpayers will be allowed to take a refundable credit on their individual income tax return.

Resources Required :

An update of computer programs, tax forms and instructions will be 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.

Additional audit staff may be required to review returns and process changes submitted by the IRS to DFA due to fraudulent claims from the EITC.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

Tax forms and instruction booklets will need to be updated. Employees will need to be educated as well as the tax community.

Other Comments :

There is a potential for an increase in fraudulent claims. The Treasury Inspector General for Tax Administration estimated on April 27, 2016 that 23% - 27% of the federal EITC payments are issued improperly. This percentage translates into \$12.3 to \$17.7 billion federal payments that were issued improperly. Taxpayers fraudulently claiming the credit may also file more Arkansas state paper returns

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that will not have to go through IRS checks and verification for the 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 :

HB1418 would enact an income tax credit for Arkansas taxpayers based on 10% of the federal EITC. The federal 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.

DFA would be limited in its ability to administer the EITC and would be required to rely upon federal determinations of eligibility and information including the error rate for the federal EITC. 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.

The requirement for DFA to notify potentially eligible recipients could increase the administrative complexity and cost for the Department.