

Department of Finance and Administration

Legislative Impact Statement

Bill: SB10

Bill Subtitle: TO CREATE THE WORKING TAXPAYER RELIEF ACT.

Basic Change :

Sponsor: Sen. Wallace

SB10 creates a refundable earned income tax credit (EITC) for Arkansas taxpayers in an amount equal to 10% of the credit allowed to a taxpayer under the federal EITC, effective for tax years beginning January 1, 2021. The federal EITC is a refundable income tax credit for low to moderate income working individuals and families, based on the taxpayer's income level and number of qualifying children, as calculated under Internal Revenue Code § 32. SB10 would also require the Department of Finance and Administration (DFA) to notify taxpayers annually of their potential eligibility for the tax credit.

Revenue Impact :

FY2022 - \$77.3 Million Reduction in State General Revenue.

Taxpayer Impact :

Approximately 289,000 taxpayers that receive the federal EITC will receive a reduction in tax and/or refundable credit effective tax year 2021.

Resources Required :

Creating a state EITC will require updating computer programs, tax forms, and instructions. An additional four auditors and one audit supervisor would be required to process changes from the IRS on auditing and screening returns claiming the credit for identity theft with an annual cost of approximately \$350,000 per year.

Time Required :

Adequate time is provided for implementation.

Procedural Changes :

An update of computer programs, tax forms and instructions will be required. DFA 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 IRS estimates 25.3 percent (\$17.4 billion) of the total EITC payments of \$68.7 billion made in Fiscal Year 2019 were improper. Taxpayers fraudulently claiming the credit may also file more Arkansas state paper returns that will not have to go through IRS checks and verification for the federal credit.

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Legal Analysis :

Because the bill requires DFA to rely on federal determinations of EITC eligibility, DFA would have a limited ability to administer the credit.

The bill does not require an apportionment of the credit for non-residents, which creates the possibility that a non-resident could receive credits that exceed income earned in Arkansas. This could have the unintended effect of incentivizing a non-resident to file an Arkansas income tax return to obtain a refund even though the non-resident does not have any Arkansas source income.

The requirement that DFA must notify taxpayers annually of their potential eligibility for the credit could increase the administrative complexity and cost for DFA. It is unclear whether DFA would have to notify all Arkansas taxpayers of their potential eligibility for the credit or only those Arkansas taxpayers who qualified for the federal EITC.