

Department of Finance and Administration

Legislative Impact Statement

Bill: SB10 **Amendment Number: S1**
Bill Subtitle: TO CREATE THE WORKING TAXPAYER RELIEF ACT.

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.

Legal Analysis :

Senate Amendment No. 1 --- SB10-S1 (engrossed 04/06/21) reduces the amount of the refundable EITC from 10% to 3% of the credit allowed to a taxpayer under the federal EITC.

Original Bill --- 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.