

SUMMARY OF PROPOSAL #12
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: Implementation of an Earned Income Tax Credit of Ten Percent (10%) of the Federal Earned Income Tax Credit with Distribution on a Quarterly, Semi-Annual, or Annual Basis

Summary of Proposal for Consideration

To create a refundable Earned Income Tax Credit (EITC) that would be distributed on either a quarterly, semi-annual, or annual basis, effective for tax years beginning January 1, 2019.

Fiscal Analysis

According to the Department of Finance and Administration, based on the previous five (5) years of federal earned income tax credit (EITC) data, the estimated revenue impact for an EITC at ten percent (10%) of the federal EITC would be \$77,680,000. This estimate represents an average \$261 credit for the estimated 297,000 Arkansas filers.

Legal Analysis

Background

Arkansas does not currently have an EITC. The federal EITC is a refundable credit that varies in amount based on the taxpayer’s income level and number of qualifying children. The federal credit is available only to taxpayers who have earned income and an adjusted gross income below a certain level. “Earned income” includes wages, salaries, tips, other employee compensation, and earnings from self-employment, but it does not include interest and dividends, welfare benefits, veterans’ benefits, pensions and annuities, alimony, Social Security, workers’ compensation, unemployment compensation, taxable scholarships and fellowships, and similar income. Members of the Armed Forces may elect to have combat pay treated as earned income for purposes of the credit. The following is the table to be used in determining the federal EITC for tax year 2018:

	Number of Qualifying Children			
	Zero	One	Two	Three or More
Earned Income Amount	\$6,780	\$10,180	\$14,290	\$14,290
Maximum Amount of Credit	\$519	\$3,461	\$5,716	\$6,431
Threshold Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$8,490	\$18,660	\$18,660	\$18,660
Completed Phaseout Amount (Single, Surviving Spouse, or Head of Household)	\$15,270	\$40,320	\$45,802	\$49,194
Threshold Phaseout Amount (Married Filing Jointly)	\$14,170	\$24,350	\$24,350	\$24,350
Completed Phaseout Amount (Married Filing Jointly)	\$20,950	\$46,010	\$51,492	\$54,884

The federal credit is available to taxpayers who have a valid Social Security number, have a filing status other than married filing separately, are a US citizen or resident alien, have no foreign income, and do not have investment income above \$3,500 for 2018.

Potential Legal Issues

None.

Other States

- Iowa: Refundable credit equal to fifteen percent (15%) of federal EITC. (IA St. § 422)
- Louisiana: Refundable credit equal to three and one-half percent (3.5%) of federal EITC. (LA St. § 47:297)
- Mississippi: No EITC.
- Missouri: No EITC.
- Oklahoma: Non-refundable credit equal to five percent (5%) of federal EITC. (OK St. 68 § 2357)
- Tennessee: No EITC.
- Texas: No EITC.