

SUMMARY OF PROPOSAL #13
for consideration by the
ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE

TOPIC: To Establish an Earned Income Tax Credit of Five Percent (5%) of the Federal Earned Income Tax Credit

Summary of Proposal for Consideration

To create a refundable earned income tax credit (EITC) in an amount equal to five percent (5%) of the credit allowed to a taxpayer under the federal EITC, effective for tax years beginning January 1, 2019.

Fiscal Analysis

An earned income tax credit (EITC) of five percent (5%) of the federal credit would have resulted in an estimated annual fiscal impact of \$40 million in fiscal year 2018 based on the Department of Finance and Administration’s fiscal analysis of HB1161 during the 2017 session.

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.