

Department of Finance and Administration

Legislative Impact Statement

Bill: HB1161

Bill Subtitle: TO CREATE THE WORKING FAMILIES OPPORTUNITY ACT.

Basic Change :

Sponsors: Representative Sabin, Senator Files

HB1161 creates a "Working Families Opportunity Credit" equal to 5% of the federal earned income credit for tax years beginning in 2017 and after. The portion of the credit that exceeds the tax liability minus other credits is to be refunded to taxpayers. The Arkansas Department of Finance and Administration (DFA) must notify taxpayers annually of their potential eligibility for the income tax credit each year.

Revenue Impact :

FY2018 - \$40M reduction to General Revenue

Taxpayer Impact :

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

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.

Time Required :

Adequate time is provided.

Procedural Changes :

Tax forms and instruction booklets will need to be updated.

Other Comments :

There is a strong 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 Earned Income Tax Credit (EITC) payments are issued improperly. This percentage translates into \$12.3 to \$17.7 billion federal payments that were issued improperly. Fraudsters may also file more state paper returns that will not have to go through IRS checks and verification for 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.

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Legal Analysis :

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. This bill establishes a new state income tax credit for Arkansas taxpayers who qualify for the federal EITC. The Arkansas credit will be 5% of a taxpayer's federal EITC and is refundable, which could make a portion of the state credit a subsidy to some Arkansas taxpayers.