



Senate

General Assembly

File No. 522

February Session, 2002

Substitute Senate Bill No. 498

Senate, April 16, 2002

The Committee on Finance, Revenue and Bonding reported through SEN. LOONEY of the 11th Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CREATING AN EARNED INCOME CREDIT AGAINST THE PERSONAL INCOME TAX.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. (NEW) (*Effective from passage and applicable to taxable years*
2 *commencing on or after January 1, 2003*) Any person who qualifies for and
3 claims the earned income credit allowable under Section 32 of the
4 Internal Revenue Code of 1986, or any subsequent corresponding
5 internal revenue code of the United States, as from time to time
6 amended, for any taxable year shall be entitled to a credit in determining
7 the amount of tax liability under chapter 229 of the general statutes for
8 such taxable year. The credit allowed under this section shall equal ten
9 per cent of the credit allowed under Section 32 of said Internal Revenue
10 Code for the taxable year. If the amount of the credit allowed under this
11 section exceeds the taxpayer's liability, the Commissioner of Revenue
12 Services shall treat such excess as an overpayment and shall pay the
13 taxpayer the amount of such excess, without interest.

This act shall take effect as follows:	
Section 1	<i>from passage and applicable to taxable years commencing on or after January 1, 2003</i>

FIN *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Fund-Type	Agency Affected	FY 04 \$
GF - Revenue Loss	Department of Revenue Services	\$24.0 Million
GF - Cost	Department of Revenue Services	\$150,000

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill results in an estimated annual revenue loss of \$24 million (increase in refunds) beginning with FY 04. Based on 1999 federal income tax return data, it is estimated that approximately 150,000 Connecticut residents will receive a federal earned income tax credit for income year 2003 (approximately \$240 million).

The Department of Revenue Services would also incur costs of approximately \$150,000 for postage, check issuance, and systems development to administer the credit.

OLR Bill Analysis

sSB 498

AN ACT CREATING AN EARNED INCOME CREDIT AGAINST THE PERSONAL INCOME TAX**SUMMARY:**

This bill gives people who qualify for, and claim, the federal earned income tax credit a credit against their state income tax liability equal to 10% of their federal credit for the same income year. If the state credit exceeds the taxpayer's state income tax liability, the bill requires the revenue services commissioner to refund the difference to the taxpayer. Refunds must be treated the same as other income tax refunds, except that they are not subject to the 0.66% monthly interest payable on late tax refunds.

EFFECTIVE DATE: Upon passage and applicable to taxable years beginning on or after January 1, 2003.

EARNED INCOME TAX CREDIT QUALIFICATIONS

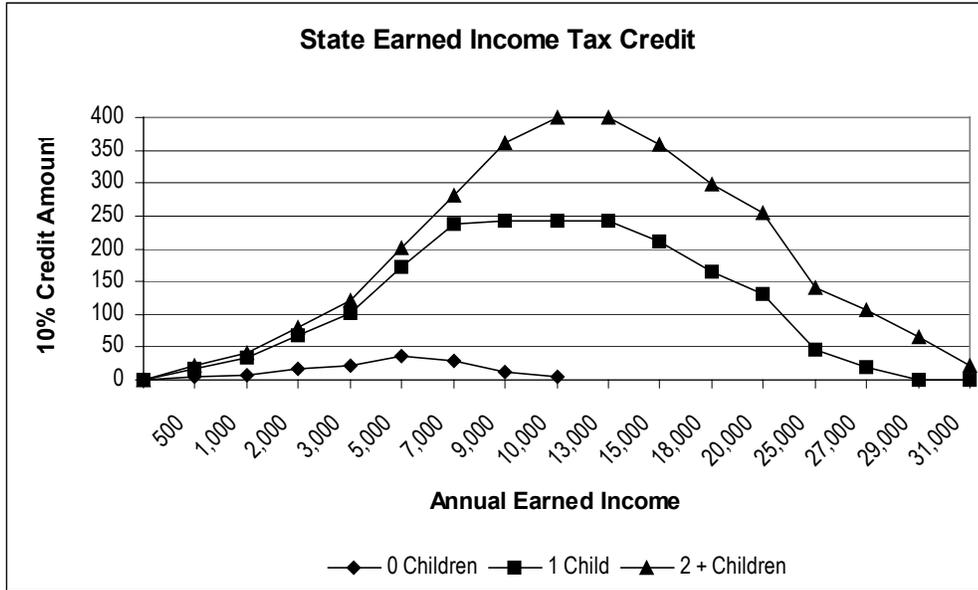
Under federal law and this bill, people who work and earn incomes below certain levels qualify for credits. Credit amounts vary according to a taxpayer's income and the number of children he has. Income limits and credit amounts are adjusted annually for inflation (26 USCA § 32).

For the 2001 income year, taxpayers receive a credit if they have (1) no children and their incomes are less than \$10,710; (2) one child, and an income under \$28,281; and (3) two or more children, and an income under \$32,121. A taxpayer must have no more than \$2,450 in investment income and his filing status must be married filing jointly, head of household, qualifying widow(er), or single.

STATE CREDIT AMOUNTS

The graph below shows the state credit amounts under this bill for selected income levels for the 2001 income year. The maximum state credit would be \$36 for a taxpayer with no children and an annual

earned income of \$4,750 to \$5,950; \$243 for a taxpayer with one child and an earned income of \$7,100 to \$13,100; and \$400 for a taxpayer with two or more children and an earned income of \$10,000 to \$13,100.



COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
 Yea 29 Nay 16