STATE OF CONNECTICUT

QUI TRANSTULIT SUSTINET

Senate

General Assembly **File No. 28**

January Session, 2007 Senate Bill No. 146

Senate, March 13, 2007

The Committee on Human Services reported through SEN. HARRIS of the 5th Dist., Chairperson of the Committee on the part of the Senate, that the 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:

Section 1. (NEW) (*Effective from passage and applicable to taxable years commencing on or after January 1, 2007*) Any person who qualifies for and claims the earned income credit allowable under Section 32 of the Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as from time to time amended, for any taxable year shall be entitled to a credit in determining the amount of tax liability under chapter 229 of the general statutes for such taxable year. The credit allowed under this section shall equal twenty per cent of the credit allowed under Section 32 of said Internal Revenue Code for the taxable year. If the amount of the credit allowed under this section exceeds the taxpayer's liability, the Commissioner of Revenue Services shall treat such excess as an overpayment and shall pay the taxpayer the amount of such excess, without interest.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*from passage and applicable to taxable years commencing on or after January 1, 2007*	New section

HS *Joint Favorable*

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 chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 08 $	FY 09 $
Department of Revenue Services	GF - Revenue Loss	55,300,000	60,700,000
Department of Revenue Services	GF - Cost	475,000	265,000

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill results in an estimated annual revenue loss of $55.3 million (increase in refunds) beginning with FY 08 and $60.7 million in FY 09. Approximately 180,000 Connecticut residents will receive a federal earned income tax credit for income year 2007 (approximately $320,000,000). These estimates assume 1) a 2% annual growth in claimants, 2) a 4% growth in amount claimed, and 3) an assumption that only 90% of the federal EITC claimants will claim the state credit in FY 08 and only 95% in FY 09.[1]

The Department of Revenue Services would also incur costs of approximately $475,000 in FY 08 and $265,000 in FY 09 for postage, check issuance, and systems development to administer the credit.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

[1] These estimates are based on historical data published by the IRS on the amount of credits claimed by CT residents.

OLR Bill Analysis
SB 146

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 refundable credit against their state income tax liability equal to 20% of their federal credit for the same income year.

If the credit amount exceeds the taxpayer's state income tax liability for the year, the bill requires the revenue services commissioner to refund the difference to the taxpayer. Credit refunds must be treated 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, 2007.

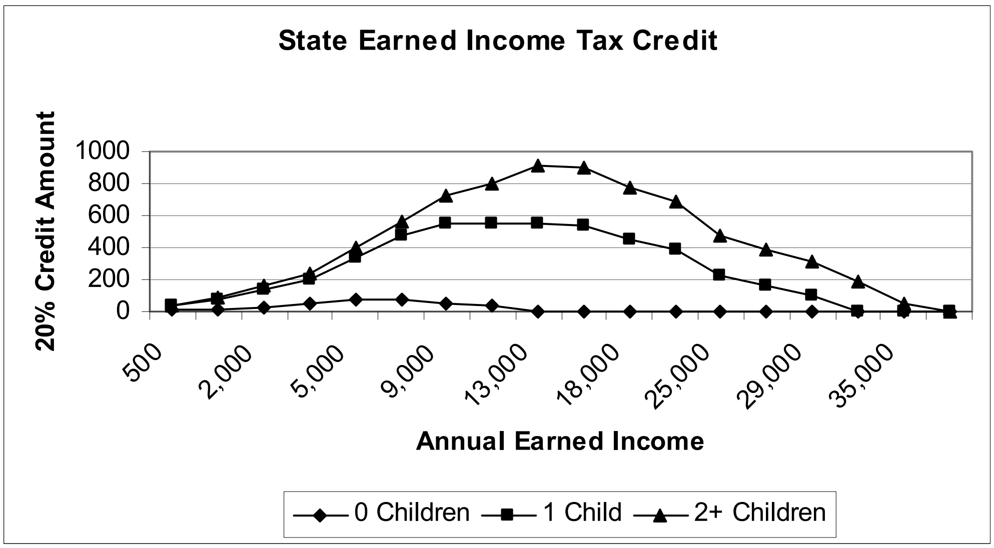
EARNED INCOME TAX CREDIT QUALIFICATIONS

Under federal law and this bill, people who work and earn incomes below certain levels qualify for income tax 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 2006 income year, taxpayers receive a credit if they have (1) no children and their incomes are less than $12,120 ($14,120 for joint filers); (2) one child, and an income under $32,001 ($34,001 for joint filers); and (3) two or more children, and an income under $36,348 ($38,348 for joint filers). A taxpayer must have no more than $2,800 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 a taxpayer would receive under the bill at selected income levels for the 2006 income year. If a 20% credit applied for 2006, the maximum state credit would be $82 for a taxpayer with no children and an annual earned income of $5,350 to $6,750 ($8,750 for joint filers); $549 for a taxpayer with one child and an earned income of $8,050 to $14,850 ($16,850 for joint filers); and $907 for a taxpayer with two or more children and an earned income of $11,300 to $14,850 ($16,850 for joint filers).



BACKGROUND

Related Bill

HB 6649, also reported favorably by the Human Services Committee, is identical to this bill.

COMMITTEE ACTION

Human Services Committee

Joint Favorable
Yea 13 Nay 6 (03/01/2007)