Senate

General Assembly

File No. 655

February Session, 2008

Substitute Senate Bill No. 657

Senate, April 17, 2008

The Committee on Finance, Revenue and Bonding reported through SEN. DAILY of the 33rd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING A TAXPAYER RELIEF PLAN.

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

Section 1. (*Effective July 1, 2008, and applicable to taxable years commencing on and after January 1, 2008*) Any resident of this state, as defined in section 12-701 of the 2008 supplement to the general statutes, 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 a taxable year commencing on or after January 1, 2008, 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 ten per cent of the credit allowed under Section 32 of said Internal Revenue Code for such taxable year. If the amount of the credit allowed under this section exceeds the resident's liability, the Commissioner of Revenue Services shall treat such excess as an overpayment and shall pay the resident the amount of such excess, without interest.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2008, and applicable to taxable years commencing on and after January 1, 2008*	New section

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 chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 09 $	FY 10 $
Department of Revenue Services	GF - Revenue Loss	29.4 million	32.4 million
Department of Revenue Services	GF - Cost	475,000	275,000

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill gives Connecticut residents who qualify for, and claim, the federal earned income tax credit (EITC) a refundable credit against their state income tax liability equal to 10% of their federal EITC for the same year. This is estimated to result in a loss to the General Fund from the Personal Income Tax of approximately $29.4 million in FY 09 and $32.4 million in FY 10. This estimate is based on 165,000 returns claiming the credit in FY 09 and 177,700 returns claiming the credit in FY 10.

Enacting the credit is also expected to result in the following administrative costs to the Department of Revenue Services:

- A one-time cost of approximately $200,000 for systems development and computer programming in FY 09.

- An ongoing cost of approximately $275,000 per year beginning in FY 09 to process EITC claims.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation and number of credits given.

OLR Bill Analysis
sSB 657

AN ACT CONCERNING A TAXPAYER RELIEF PLAN.

SUMMARY:

This bill gives Connecticut residents who qualify for, and claim, the federal earned income tax credit (EITC) a refundable credit against their state income tax liability equal to 10% of their federal EITC for the same year.

The maximum federal credits for 2008 are: (1) $438 with no children, (2) $2,917 with one child, and (3) $4,824 with two or more children. Thus, the maximum 2008 state credits under the bill are: (1) $44 with no children, (2) $292 with one child, and (3) $482 with two or more children.

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. State EITC refunds must be treated like other income tax refunds, except that they are not subject to the 0.66% monthly interest payable on late tax refunds.

EFFECTIVE DATE: July 1, 2008 and applicable to tax years starting on or after January 1, 2008.

EARNED INCOME TAX CREDIT QUALIFICATIONS

Connecticut Resident

The bill requires that a person qualify as a Connecticut resident for income tax purposes in order to be eligible for a state EITC. In general, a resident is a natural person whose permanent legal residence (domicile) is in Connecticut. A person is not considered a resident for state income tax purposes if he or she has:

1. a permanent legal residence in Connecticut and a permanent residence elsewhere and spends no more than 30 days in the state,

2. a permanent residence in Connecticut and a permanent legal residence elsewhere and lives here for 183 days or less during the tax year, or

3. a permanent legal residence elsewhere and is stationed here as a member of the armed forces.

In addition, a person is not considered a Connecticut resident if, during any 548 consecutive day period (one and one-half years), he or she (1) lives in a foreign country for at least 450 consecutive days, (2) is present in Connecticut for less than 90 days, and (3) meets certain related criteria.

Federal EITC Requirements

To be eligible for the state EITC, the bill requires a resident to apply and qualify for the federal EITC.

The federal EITC is available to a person who earns wages and whose federal adjusted gross income (AGI) falls below certain limits. Federal credit amounts vary according to a taxpayer's income and the number of children he or she has. Federal income limits and EITC amounts are adjusted annually for inflation.

For 2008, a person qualifies for a federal EITC if he or she has at least $1 of earned income, investment income of $2,950 or less, and a maximum AGI and maximum earned income of:

1. $12,880 ($15,880 for married filing jointly) with no children,

2. $33,995 ($36,995 for married filing jointly) with one child, and

3. $38,646 ($41,646 for married filing jointly) with two or more children.

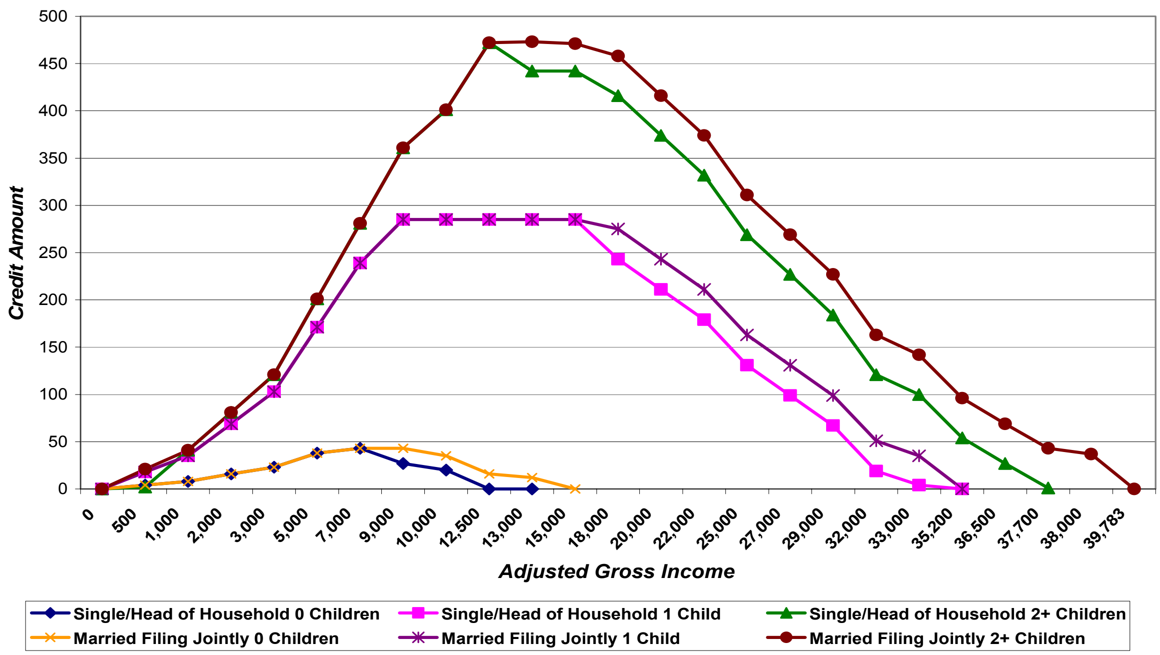
A taxpayer must file a federal income tax return and his or her filing status must be married filing jointly, head of household, or single.

BACKGROUND

State EITC Income Distribution

Because, under the bill, the state EITC is based on the federal credit, the income distribution of the state credits would follow the same bell curve. Credits are lowest for those with the lowest and highest eligible incomes and highest for those in the middle of the qualifying income range. Although the credits start as equal for single/head of household and joint filers at lower incomes, because the credit phases out at a higher income level for joint filers, amounts diverge according to filing status as they phase down from the maximums. Chart I shows the 10% state credit distribution based on 2007 federal credit amounts.

Chart I: State Earned Income Tax Credit Distribution



COMMITTEE ACTION

Finance, Revenue and Bonding Committee

Joint Favorable Substitute
Yea 40 Nay 13 (04/01/2008)