Fiscal Note

Fiscal Services Division

SF 2104 – Earned Income Tax Credit (LSB5725XS)
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Fiscal Note Version – New

Description

Senate File 2104 increases the State Earned Income Tax Credit (EITC), currently equal to 15.0% of the federal credit amount for all taxpayers, to 20.0% for taxpayers with no dependents, and to 25.0% for taxpayers with one or more dependents. The change applies retroactively to tax year (TY) 2022.

Background

The Iowa EITC is a refundable credit based on the federal EITC. If a taxpayer qualifies for the federal credit, the taxpayer also qualifies for the Iowa credit. At the current 15.0% calculation, a taxpayer who qualifies for a $500 federal EITC would qualify for a $75 Iowa EITC. As a refundable credit, the EITC does not impact the calculation of the local option income surtax for schools, if applicable to the taxpayer.

Assumptions

The tax reduction estimate was completed by the Department of Revenue using the individual income tax micromodel developed by the Department. The micromodel is based on income tax returns filed for TY 2020 and is time-adjusted for previously enacted State and federal law changes, as well as personal income and population changes that are projected to occur after the 2020 base tax year.

The micromodel produces tax year results. Since the change is retroactive to the beginning of TY 2022, it is estimated that 15.0% of the TY 2022 impact will occur in FY 2022 and 85.0% will occur in FY 2023. Tax reductions for TY 2023 and after are assumed to occur 40.0% in the fiscal year in which the tax year starts and 60.0% in the following fiscal year.

Fiscal Impact

The increase in the EITC is projected to reduce net individual income tax liability and State General Fund revenue by $6.5 million for FY 2022, $55.6 million for FY 2023, and $47.0 million for FY 2024. For fiscal years beyond FY 2024, the projected net tax liability and State General Fund revenue reductions are expected to increase at the rate of growth in Iowa personal income.

Source

Department of Revenue

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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