

Fiscal Services Division
Legislative Services Agency
Fiscal Note

HF 293 - State Earned Income Tax Credit Refundable (LSB 2247 HH)
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Fiscal Note Version - New

Description

House File 293 makes the current Iowa Earned Income Tax Credit refundable, effective January 1, 2007.

Background

The current Iowa Earned Income Tax Credit is equal to 6.5% of the taxpayer's federal credit amount. The current credit is not refundable, so the benefit to the taxpayer is limited to their Iowa tax liability.

Making the Earned Income Tax Credit refundable will move the calculation of the credit from its current location on the Iowa tax return from before calculation of the local option income surtax for schools to after the surtax calculation. The surtax currently yields an amount equal to 3.08% of net Iowa income tax revenue, so making the Earned Income Tax Credit refundable will increase local option income surtax approximately \$260,000 per year and reduce net General Fund revenue by that amount. This impact is in addition to the tax model projections calculated by the Department of Revenue.

Assumptions

The Department of Revenue micro-simulation model was used to estimate the impact of HF 293. The model is based on a near-universe of Iowa tax returns for tax year 2004, including relevant information from each taxpayer's federal income tax return. The model is adjusted for assumed future trends in population and income growth.

Fiscal Impact

Converting Iowa's current Earned Income Tax Credit to a refundable credit is projected to reduce net General Fund income by the following amounts:

FY 2008 - \$8.7 million
FY 2009 - \$8.6 million
FY 2010 - \$8.3 million
FY 2011 - \$7.9 million

The Department of Revenue model results were adjusted for the local-option-income-surtax-for-schools issue noted in the background section above.

Making the tax credit refundable may cause additional lower income Iowans to file tax returns than would otherwise be the case. Should this occur, the net General Fund impact could be marginally higher than projected.

Source

Department of Revenue

/s/ Holly M. Lyons

March 5, 2007

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.
