

Task Force #1 HJR 60 (2002)

State Income Tax Issue

7. Increase the earned income tax credit for low-income taxpayers and make it refundable.

Section 58.1-339.8 of the Code of Virginia provides a \$300 income tax credit for each individual, spouse and dependent whose individual or family Virginia adjusted gross income is not more than 100% of the federal poverty threshold for the relevant family size.

The Morris Commission recommended that the current low-income tax credit be altered to resemble the federal earned income tax credit (EITC). Specifically, the commission proposed a state credit equal to 20% of the federal EITC. In addition, the credit would be refundable like the federal credit, with any portion of the credit not needed to offset the tax liability being refunded to the low income individual or family.

Attached is an explanation of how the EITC currently works and the fiscal impact of the proposed 20% credit prepared by the Department of Taxation.