

**NONREFUNDABLE
EARNED INCOME TAX CREDIT
EQUAL TO 20% OF THE
FEDERAL EARNED INCOME TAX CREDIT**

Background and Revenue Analysis

Virginia Department of Taxation
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Nonrefundable Earned Income Tax Credit Equal to 20% of the Federal Earned Income Tax Credit

Question: What would be the impact on General Fund revenues of substituting a nonrefundable Virginia earned income tax credit equal to 20% of the federal earned income tax credit for the current Virginia nonrefundable income tax credit for a family with Virginia adjusted gross income not exceeding 100% of the federal poverty guidelines?

Background

- Low income Individuals and married persons whose family Virginia adjusted gross income does not exceed 100% of the federal poverty guidelines are currently eligible to claim a \$300 nonrefundable Virginia income tax credit for each personal and dependent exemption claimed.
- The federal earned income tax credit is intended to provide relief to certain low income working individuals.
- The credit is based upon an individual's earned income and is phased out as income increases.
- The federal earned income tax credit is a refundable credit (refunded to an individual to the extent it exceeds the tax liability).
- In addition to the federal earned income tax credit, individuals qualifying for the federal tax credit are eligible for a "supplemental" child tax credit that is being increased incrementally through 2010.
- The supplemental child tax credit is currently equal to \$600 for each qualifying child and will increase incrementally to \$1,000 in 2010.

Fiscal Impact of a Nonrefundable Virginia Earned Income Tax Credit

- The estimated cost of a nonrefundable Virginia earned income tax credit equal to 20% of the federal earned income tax credit effective for taxable years beginning on or after January 1, 2003 is as follows:

<i>Fiscal Year</i>		
2004	2005	2006
(\$23.3 million)	(\$24.2 million)	(\$25.1 million)

- The estimated cost assumes a credit equal to 20% of the federal earned income tax credit for individuals who qualify for the federal earned income tax credit.
- The estimated cost also assumes the credit would be based on the standard federal earned income tax credit amount and not the supplemental child tax credit amount.

- This estimate accounts for the revenue savings from repealing the current Virginia income tax credit for low-income taxpayers.
- Taxpayers currently eligible for Virginia's low income tax credit who have no earned income would lose all tax credit benefit under the proposed substitution.