

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

REVENUE BILL ANALYSIS

95TH GENERAL ASSEMBLY

BILL NO: **HB 0556** February 9, 2007

SPONSOR (S): Currie – Lindner, et al.

TYPE: Income Tax: Individual Credit: EITC Modification

CHAPTER REF: 35 ILCS 5/212

FISCAL IMPACT: HB 0556 would eliminate the provision that states that refunds to the taxpayer as a result of the Earned Income Tax Credit are subject to the availability of funds from the federal TANF Block Grant and the State’s ability to meet its required Maintenance of Effort.

Eliminating this refund limitation could result in an increase in individual income tax refunds, which would reduce the amount of available funds in the Illinois Income Tax Refund Fund. While this would have no immediate impact on State revenues, it could potentially cause the individual income tax refund fund percentage to be raised, which would limit the amount of State revenues available in future years.

SUBJECT MATTER: HB 0556 amends the Illinois Income Tax by deleting the provision that refunds, resulting from the earned income tax credit, are subject to the availability of funds from the federal Temporary Assistance for Needy Families Block Grant and the State’s ability to meet its required Maintenance of Effort.

HB 0556 would be effective upon becoming law.

FISCAL IMPACT: HB 0556 would eliminate the provision that states that refunds to the taxpayer as a result of the Earned Income Tax Credit are subject to the availability of funds from the federal TANF Block Grant and the State’s ability to meet its required Maintenance of Effort.

Eliminating this refund limitation could result in an increase in individual income tax refunds, which would reduce the amount of available funds in the Illinois Income Tax Refund Fund. While this would have no immediate impact on State revenues, it could potentially cause the individual income tax refund fund percentage to be raised, which would limit the amount of State revenues available in future years.

COMMENT: According to the Department of Revenue, the current Earned Income Tax Credit cost the State \$65.7 million in FY 2004, \$70.9 million in FY 2005, and \$75.3 million in FY 2006.

Under current law, if there are no funds available from the federal TANF Block Grant and the State's ability to meet its required Maintenance of Effort, then no tax refunds would be granted to those taxpayers whose earned income tax credit reduced their liability to less than zero. In other words, if those funds are available, a taxpayer can receive a tax refund from the earned income tax credit, even if their tax liability is less than zero.

This provision, which has been in place since tax year 2003, has yet to be utilized as funds from the TANF Block Grant have always been available. However, it is possible that these funds would not be available in future years.

Eliminating this refund limitation could result in an increase in individual income tax refunds, which would reduce the amount of available funds in the Illinois Income Tax Refund Fund. While this would have no immediate impact on State revenues, it could potentially cause the individual income tax refund fund percentage to be raised, which would limit the amount of State revenues available in future years.

EN:dkb

LRB095 06362 BDD 26458 b