

# GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

## Legislative Fiscal Note

**BILL NUMBER:** House Bill 93 (First Edition)

**SHORT TITLE:** Modify Refundability of EITC.

**SPONSOR(S):** Representatives Brubaker, Howard, Starnes, and Setzer

<b>FISCAL IMPACT</b>					
	<b>Yes (x)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2011-12</u></b>	<b><u>FY 2012-13</u></b>	<b><u>FY 2013-14</u></b>	<b><u>FY 2014-15</u></b>	<b><u>FY 2015-16</u></b>
<b>REVENUES:</b> (\$Millions)	52.5	52.5			
<b>EXPENDITURES:</b>					
<b>POSITIONS</b> (cumulative):					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue, Department of Health and Human Services					
<b>EFFECTIVE DATE:</b> Taxable years beginning on or after January 1, 2011					

**BILL SUMMARY:** G.S. 105-151.31 provides for an earned income tax credit equal to 5% of the federal credit. Under current law, North Carolina's earned income tax credit is refundable. This means that if the credit exceeds the amount of income tax due, the Department of Revenue must refund the excess to the taxpayer. House Bill 93 would eliminate the refundable provision of the earned income tax credit for the 2011 and 2012 tax years. In its place, the proposal provides that the credit cannot exceed the amount of income tax due.

**ASSUMPTIONS AND METHODOLOGY:** Based on data obtained from the Department of Revenue, the total amount of earned income tax credits claimed for the 2009 tax year was \$99,671,084. The refundable portion was \$52,469,157. This represents the estimated savings to the General Fund per year.

The N.C. Department of Health and Human Services receives an annual allocation of federal Temporary Assistance for Needy Families (TANF) block grant funds. TANF block grant funds

are used to provide financial assistance and services, including the Work First program, child care, and after-school programs etc., to low-income families with children. For the current fiscal year, the State's basic TANF block grant allocation is \$359,440,083. In addition, North Carolina received \$63,964,835 in TANF Emergency Contingency funds as part of the federal assistance provided by American Recovery and Reinvestment Act (ARRA) in 2009. In order to receive the additional TANF contingency funds provided under ARRA, the State had to meet maintenance of effort (MOE), matching, and other spending requirements. This was accomplished through the identification of additional sources of State expenditures which could qualify as eligible spending to meet the TANF MOE and match required in FY2009-10 and FY2010-11. One such source is a portion of the State's EITC payments to income-eligible residents who have a dependent child in the home. NC Department of Revenue data indicates that 70 percent of the State's EITC payments may be counted toward the MOE requirement for the TANF emergency contingency funds. The federal ARRA TANF Emergency Contingency grant was a single allocation effective for State fiscal years 2009-10 and 2010-11 only. The State's EITC tax refund payments in calendar years 2010 and 2011 qualify as eligible MOE and match expenditures for the 2009 ARRA TANF allocation. In 2010, \$29.9 million in State EITC tax refund payments were counted as eligible MOE spending for the ARRA TANF emergency contingency funds.

Because the proposed bill would eliminate future EITC tax refund payments beginning in calendar year 2012, it would have no impact on the State MOE and match requirements for the ARRA TANF Emergency Contingency funds received in 2009. The proposal could potentially have an impact should the federal government provide TANF emergency contingency funding in the future with similar MOE and match requirements. At that time, the State would have to identify alternatives to the EITC refund payments as sources for meeting the MOE and match requirements. Failure to do so could result in the loss of such funds to the State.

**SOURCES OF DATA:** NC Department of Revenue; NC Department of Health and Human Services

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Jonathan Tart, Denise Thomas

**APPROVED BY:**

Marilyn Chism, Director  
**Fiscal Research Division**

**For Director Chism**



**DATE:** 3/9/11

**Signed Copy Located in the NCGA Principal Clerk's Offices**