

Massachusetts Department of Revenue Revenue Impact Analysis

Bill Number: H.3901 (redrafted)
Name: AN ACT CLARIFYING ELIGIBILITY REQUIREMENTS FOR THE
EARNED INCOME TAX CREDIT
Sponsor(s): Rep. Lori A. Ehrlich (Marblehead)
Effective date: Not indicated. Assumed to be January 1, 2017

CURRENT LAW:

The federal Earned Income Tax Credit (“EITC”), allowed under Internal Revenue Code § 32 is a refundable credit available to certain low-income individuals who have earned income, meet adjusted gross income requirements, and do not have investment income exceeding certain thresholds.¹

The Massachusetts EITC, allowed under M.G.L. c. 62 § 6(h), provides that taxpayers who qualify for and claim a federal EITC² may also claim a credit against Massachusetts personal income tax. The credit is limited to 23% of the federal credit received by the taxpayer for the taxable year. For taxpayers that are non-residents for all or part of the taxable year, the Massachusetts EITC is limited to 23% of the federal EITC multiplied by a fraction, the numerator of which is the taxpayer’s income from Massachusetts sources, and the denominator of which is the taxpayer’s total income from all sources.

PROPOSED CHANGE(S):

This bill would change how the Massachusetts EITC is calculated for part-year residents by multiplying the federal EITC by the percentage of days in the taxable year during which the taxpayer was a resident of the Commonwealth. Taxpayers who are nonresidents for the entire taxable year would not be eligible for the credit.

REVENUE IMPACT ESTIMATION:

According to DOR tax return data, non-residents claimed \$5.5 million of Massachusetts EITC for tax year 2013 and \$5.6 million for tax year 2014. After adjusting for the Massachusetts rate increase from 15% to 23% of federal EITC, effective January 1, 2016, and applying an average annual growth rate of 2.26% (based on historical annual growth rates), DOR estimates in the

¹ Investment income includes, among other things, capital gain net income, net passive income, interest, dividends, tax exempt interest and non-business rents and royalties. See Internal Revenue Code (“IRC”) § 32(i).

² As allowed under the provisions of IRC § 32 as amended and in effect for the taxable year.

Massachusetts Department of Revenue Revenue Impact Analysis

table below the revenue gain to the Commonwealth for fiscal year 2017-2021³ if non-residents were no longer eligible for the state EITC. The “Mid” column in the table shows the middle-point estimates; the “Low” and “High” columns show the lower and upper bounds estimates, which are 10% less or more than the middle-point estimates. Lower and upper bounds estimates are included to address possible estimation uncertainty. Please note that the effective date is not specified in the bill, and DOR assumes that the new rule would take effect on January 1, 2017.

Fiscal Year	Low	Mid	High
2017	-	-	-
2018	8.3	9.2	10.1
2019	8.5	9.4	10.3
2020	8.6	9.6	10.6
2021	8.8	9.8	10.8

Part-year residents currently claim Massachusetts EITC of about \$1.2 million annually. The change in the allowable amount of Massachusetts EITC, as a result of the switch from using the ratio of Massachusetts income over total income to using the ratio of days living in Massachusetts over total number of days in the taxable year, is insignificant.

DOR takes no position with respect to the proposal.

³ EITC for a tax year is often claimed in the next fiscal year.