<u>Testimony on HB 1290</u>

House Committee on Ways & Means

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- Thank you, Chair Thompson and members of the Committee.

- My name is Andy Nielsen, and I am a senior policy analyst at the Indiana Community Action Poverty Institute.

- We are a program of the Indiana Community Action Association, which is a statewide organization representing the 22 Community Action Agencies that work tirelessly to address community needs and fight poverty in all 92 Indiana counties.

- Thank you for the opportunity to testify in support of House Bill (HB) 1290.

- We appreciate this bipartisan approach to build upon a very effective tool in our tax code that combats poverty by encouraging work and providing much-needed financial support to Hoosier families who need it the most.

- As has been discussed, this bill would increase the state Earned Income Tax Credit (EITC) from 10% to 15% of the federal credit as it was calculated before 2009.

- Like its federal counterpart, the state EITC is fully refundable, requires a Social Security Number to claim, and is a function of the taxpayer or household’s income and number of qualifying children.

- However, again, the state credit is a function of the federal credit pre-2009, meaning it is currently “decoupled” from the federal EITC.

- We recommend that the state credit be “recoupled” to the federal EITC. And we use “recouple” as opposed to “couple” because the state credit had historically been coupled to the federal EITC, but that was changed in 2011 budget.

- While the state credit adjusts for inflation, we recommend recoupling the credit for four primary reasons:

    1) The state credit is capped for families with two or more children versus three or more children with the federal credit.

2) The state credit maintains a "marriage penalty" where a couple would receive a larger effective credit if they were not married as opposed to the credit they receive if they were married. Phasing out benefits over higher income thresholds or tying the credit to each worker's earnings would remedy this issue.

3) The state credit also requires a higher residency standard for foster children, requiring that the child live with the taxpayer for the entire year versus at least half of the year for the federal credit.

4) Finally, similar to the federal credit, there are instances where a child satisfies the tests of a qualifying child for more than one person. However, the state EITC does not follow the same tiebreaker rules as its federal counterpart and has a serious consequence.

    - As an example, a six-year-old girl, let's call her Sarah, lives with her father and her grandmother all year. The father earned $15,000 and the grandmother earned $20,000, and they both otherwise qualify for the state EITC. Sarah meets the relationship (daughter and granddaughter), residency (lived with both all year), and age (under age 19) tests to be the qualifying child of both her father and her grandmother.

    - Unlike the federal credit where tiebreaker rules apply if the taxpayers cannot agree (generally parents then higher earners), the grandmother is the only person who can claim Sarah for state EITC because she has a higher income. The father could then claim the state EITC for childless workers, but cannot claim Sarah even if the grandmother cannot claim her.

    - This situation may make sense because the family, collectively, is likely better off with the higher-income worker claiming Sarah and then receiving a larger tax credit. This issue becomes problematic when more than one person can claim the child, but one taxpayer has earned too much and is ineligible for the credit altogether.

    - Revising the previous example, assume the grandmother earns $45,000. Under the income limits for both the federal and state credit, the grandmother cannot claim either credit. However, the father could still claim the federal credit, but could not claim the state EITC because the credit is attached to the taxpayer with the higher income—regardless if they cannot claim it.

- Recoupling the state credit to the federal EITC would remedy all of these issues.

- We appreciate the opportunity to testify on this bill today, and for your efforts to strengthen our state tax code.