TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL NOTE

SB 1813 - HB 2942

February 19, 2024

SUMMARY OF BILL: Establishes a state and local sales and use tax refund to be known as the "Working Families' Tax Credit" (WFTC) for individuals meeting certain requirements for taxes paid on or after January 1, 2024. Sets the refund amount at $300 for individuals with no children; $600 for individuals with one child; $900 for individuals with 2 children; and $1,200 for individuals with 3 or more children. Requires the refund amount to be reduced based on the federal phased-out income for the prior federal tax year until the refund amount reaches a minimum amount of $50 for eligible individuals. Requires the refund amounts for calendar year beginning January 1, 2026 to be adjusted for inflation, and rounded to the nearest $5.00, based on changes in the Consumer Price Index (CPI) and every subsequent calendar year. Requires the application for a refund to be filed in the year following the year the federal tax return was filed. Clarifies refunds will not be provided for tax periods before January 1, 2024. Authorizes individuals to apply for a refund for which they were eligible for but did not claim up to three calendar years following the end of the calendar year the federal income tax return for that tax year was legally due, any federal extensions do not apply.

Requires the Department of Revenue (DOR) to calculate the refund amount based on the individual's federal tax filing for the tax year which a refund is requested. Requires the refund to be paid from the state General Fund without reducing the amount of sales and use tax payable to local governments. Requires DOR to implement a public campaign informing potentially eligible persons of the new refund and associated requirements. Requires DOR to coordinate with the Internal Revenue Service (IRS) to automate refunds as soon as capable.

FISCAL IMPACT:

Increase State Expenditures –
Exceeds $33,778,300/FY24-25
Exceeds $32,964,400/FY25-26 and Subsequent Years

Assumptions:

- To be eligible for the WFTC, individuals must qualify for the Earned Income Tax Credit (EITC) and have properly filed a federal income tax return for the prior federal tax year, with certain exceptions outlined in the legislation.
- The proposed legislation outlines the maximum refund depending on an individual's income and number of qualifying children as follows:
    - $300 for eligible persons with no qualifying children;

    - $600 for eligible persons with one qualifying child;
    - $900 for eligible persons with two qualifying children; or
    - $1,200 for eligible persons with three or more qualifying children.
- If the refund for an eligible person is equal to $0.01 or more but less than $50, the minimum refund amount is $50, regardless of the number of qualifying children.
- The credit amounts are reduced, rounded to the nearest dollar as follows,
    - For eligible persons with no qualifying children, beginning at $2,500 of income below the federal phase out income for the prior federal tax year, by 18 percent, or $54 ($300 x 18%), per additional dollar of income until the minimum refund amount of $50 is reached;
    - For eligible persons with one qualifying child, beginning at $5,000 of income below the federal phase out income for the prior federal tax year, by 12 percent, or $72 ($600 x 12%), per additional dollar of income until the minimum refund amount of $50 is reached;
    - For eligible persons with two qualifying children, beginning at $5,000 of income below the federal phase out income for the prior federal tax year, by 15 percent, or $135 ($900 x 15%), per additional dollar of income until the minimum refund amount of $50 is reached; or
    - For eligible persons with three qualifying children, beginning at $5,000 of income below the federal phase out income for the prior federal tax year, by 18 percent, or $216 ($1,200 x 18%), per additional dollar of income until the minimum refund amount of $50 is reached.
- The federal phase out income for EITC is as follows per qualifying child claimed:

Children claimed	**Filing single, head of household, or widowed**	**Filing as married filing jointly**
0	$17,640	$24,210
1	$46,560	$53,120
2	$52,918	$59,478
3	$56,838	$63,398

- Pursuant to the proposed legislation, DOR will be required to calculate an individual's refund based on that individual's federal income tax return.
- According to the U.S. Department of Internal Revenue Services, 3,250,462 Tennessee income tax returns were filed in TY22.
- Further, 538,000 Tennesseans claimed EITCs for the income tax in TY22. This number is assumed to stay constant into perpetuity.
- According to the U.S. Census Bureau, 46.40 percent of the population is single. It can therefore be reasonably assumed that of the 538,000 of Tennesseans who claimed EITC, 249,632 (538,000 x 46.40%) were single and 288,368 (538,000 x 53.60%) are married. These numbers are assumed to stay constant into perpetuity.

- Based on data collected by the U.S. Census bureau, it is estimated how much each individual will receive in WFTC (note, number of individuals does not add up to the total above due to rounding):

Single				
Claimed children	Refund amount	Taxpayers	Will receive full amount	Will receive at least $50
0	$300	147,183	2,353	144,830
1	$600	46,681	3,385	43,296
2	$900	31,329	619	30,710
3	$1,200	24,439	532	23,907

Married				
Claimed children	Refund amount	Taxpayers	Will receive full amount	Will receive at least $50
0	$300	184,209	2,070	182,139
1	$600	41,583	1,042	40,541
2	$900	35,181	265	34,916
3	$1,200	27,424	241	27,183

TOTAL				
Claimed children	Refund amount	Taxpayers	Will receive full amount	Will receive at least $50
0	$300	331,392	4,423	326,969
1	$600	88,264	4,427	83,837
2	$900	66,510	884	65,626
3	$1,200	51,863	773	51,090
TOTAL EXPENDITURE			**$5,706,300**	**$26,376,100**

- Therefore, the recurring increase in state expenditures exceeds $32,082,400 ($5,706,300 + $26,376,100) in FY24-25 and subsequent years.
- Effective upon becoming law, DOR will be required to coordinate with the IRS to automate the administration of credits. Because Tennessee does not have an income tax, there is no such existing tax system. Furthermore, most recipients of the proposed credits are individuals who are not currently registered in DOR’s TNTAP. Therefore, DOR will need to add new registrants and construct a system in accordance with the proposed legislation.
- The legislation will require DOR establish a data exchange with the IRS which will require most, if not all, DOR employees to be approved for Federally Transmitted Information (FTI) access. To gain access to FTI, an employee will undergo a background check, any and all remote access of FTI will be monitored ensuring maximum data protection, and the employee’s computer will be scanned by the Strategic Technology Solutions Division.
- Based on information provided by DOR, DOR will require seven additional positions (3 Tax Auditor positions, 3 Customer Service Representative positions, and 1 Disclosure Officer position) beginning in FY24-25.

- The total recurring increase in state expenditures is as follows:

Title	Salary	Benefits	Operations	# Positions	Total
Tax Auditor	$74,604	$19,985	$6,030	3	$301,856
Customer Service Representative 2	$42,300	$14,626	$6,030	3	$188,867
Disclosure Officer	$66,600	$18,657	$6,030	1	$91,287
				Total:	$582,010

- There will be a total one-time increase in state expenditures in FY24-25 of $113,850 for expenses for these positions.
- Precise systems costs are unknown due to unknown IRS data requirements; however, based on information provided by DOR, the required system changes will have an estimated one-time expenditure of at least $1,000,000 and a recurring expenditure of at least $300,000 beginning in FY24-25.
- The one time increase in state expenditures is estimated to exceed $33,778,260 ($582,010 positions + $113,850 operational + $1,000,000 system + $32,082,400 refunds) in FY24-25.
- The recurring increase in state expenditures of DOR is estimated to exceed $32,964,410 ($582,010 positions + $300,000 system + $32,082,400 refunds) in FY25-26 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Krista Lee Carsner

Krista Lee Carsner, Executive Director

/eb