

**EARNED INCOME TAX CREDIT**

2006 GENERAL SESSION

STATE OF UTAH

**Chief Sponsor: Jackie Biskupski**

Senate Sponsor: \_\_\_\_\_

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**LONG TITLE**

**General Description:**

This bill amends the Individual Income Tax Act to provide for an earned income tax credit.

**Highlighted Provisions:**

This bill:

- ▶ provides for a refundable state earned income tax credit that is a certain percentage of the federal earned income tax credit;
- ▶ requires the State Tax Commission to increase or decrease for inflation or deflation federal adjusted gross income amounts used in determining the tax credit; and
- ▶ grants rulemaking authority to the State Tax Commission to provide procedures for issuing refunds under certain circumstances to a resident or nonresident individual claiming the tax credit.

**Monies Appropriated in this Bill:**

None

**Other Special Clauses:**

None

**Utah Code Sections Affected:**

ENACTS:

**59-10-134.3**, Utah Code Annotated 1953

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*Be it enacted by the Legislature of the state of Utah:*

Section 1. Section **59-10-134.3** is enacted to read:

**59-10-134.3. Definitions -- State earned income tax credit.**

(1) As used in this section:

(a) "federal adjusted gross income" is as defined in Section 62, Internal Revenue Code;

(b) "federal earned income tax credit" means the amount of the federal earned income tax credit an individual is allowed for the taxable year in accordance with Section 32, Internal Revenue Code; and

(c) notwithstanding Section 59-10-103, "nonresident individual" means an individual who:

(i) is not a resident of this state; and

(ii) has federal adjusted gross income derived from Utah sources as calculated under Section 59-10-117.

(2) For taxable years beginning on or after January 1, 2007, a resident individual may claim as provided in this section a refundable earned income tax credit as follows:

(a) the tax credit is equal to 10% of the federal earned income tax credit if:

(i) the federal adjusted gross income of the following is less than or equal to \$5,000:

(A) a husband and wife filing a single tax return jointly; or

(B) a head of household; or

(ii) the federal adjusted gross income of a resident individual other than the following is less than or equal to \$2,500:

(A) a husband and wife filing a single tax return jointly; or

(B) a head of household;

(b) the tax credit is equal to 7% of the federal earned income tax credit if:

(i) the federal adjusted gross income of the following is greater than \$5,000 but less than or equal to \$15,000:

(A) a husband and wife filing a single tax return jointly; or

(B) a head of household; or

(ii) the federal adjusted gross income of a resident individual other than the following is greater than \$2,500 but less than or equal to \$7,500:

(A) a husband and wife filing a single tax return jointly; or

59           (B) a head of household; or  
60           (c) the tax credit is equal to 4% of the federal earned income tax credit if:  
61           (i) the federal adjusted gross income of the following is greater than \$15,000 but less  
62 than or equal to \$25,000:  
63           (A) a husband and wife filing a single tax return jointly; or  
64           (B) a head of household; or  
65           (ii) the federal adjusted gross income of a resident individual other than the following  
66 is greater than \$7,500 but less than or equal to \$12,500:  
67           (A) a husband and wife filing a single tax return jointly; or  
68           (B) a head of household.  
69           (3) A nonresident individual may claim a refundable earned income tax credit as  
70 provided in this section in an amount equal to the product of:  
71           (a) the tax credit that the nonresident individual would have been allowed under  
72 Subsection (2) had the nonresident individual been a resident individual; and  
73           (b) a percentage calculated by dividing the nonresident individual's federal adjusted  
74 gross income derived from Utah sources for the taxable year, as calculated under Section  
75 59-10-117, by the nonresident individual's total federal adjusted gross income for that same  
76 taxable year.  
77           (4) (a) For taxable years beginning on or after January 1, 2008, the commission shall  
78 increase or decrease the federal adjusted gross income amounts provided for in Subsection (2)  
79 by a percentage equal to the percentage difference between the consumer price index for the  
80 preceding calendar year and the consumer price index for calendar year 2006.  
81           (b) For purposes of Subsection (4)(a), the commission shall calculate the consumer  
82 price index in accordance with Sections 1(f)(4) and 1(f)(5), Internal Revenue Code.  
83           (5) A resident or nonresident individual may not claim a tax credit under this section if  
84 the resident or nonresident individual's federal adjusted gross income is greater than the  
85 greatest amount of federal adjusted gross income for which a tax credit is allowed under  
86 Subsection (2)(c).  
87           (6) A resident or nonresident individual may not carry forward or carry back a tax  
88 credit provided for under this section.  
89           (7) In accordance with Title 63, Chapter 46a, Utah Administrative Rulemaking Act, the

90 commission may make rules providing procedures for issuing a refund to a resident or  
91 nonresident individual for a tax credit provided for under this section if the tax credit exceeds  
92 the resident or nonresident individual's tax liability under this chapter for the taxable year for  
93 which the resident or nonresident individual claims the tax credit.

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**Legislative Review Note**  
**as of 1-4-06 12:40 PM**

Based on a limited legal review, this legislation has not been determined to have a high probability of being held unconstitutional.

**Office of Legislative Research and General Counsel**

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**Fiscal Note**  
**Bill Number HB0277**

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**Earned Income Tax Credit***23-Jan-06**4:58 PM*

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**State Impact**

Passage of this bill could decrease the Uniform School Fund by \$20,400,000 in FY 2008.

	<u>FY 2007</u> <u>Approp.</u>	<u>FY 2008</u> <u>Approp.</u>	<u>FY 2007</u> <u>Revenue</u>	<u>FY 2008</u> <u>Revenue</u>
Uniform School Fund	\$0	\$0	\$0	(\$20,400,000)
<b>TOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$20,400,000)</b>

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**Individual and Business Impact**

Eligible individuals could see a tax reduction of as much as \$111.

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**Office of the Legislative Fiscal Analyst**