LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office — Fiscal Notes

Fiscal Note On: **HB 678** HLS 21RS 575
Bill Text Version: **ENGROSSED**
Opp. Chamb. Action: **w/ SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 2, 2021 5:51 PM
Author: DUPLESSIS
Dept./Agy.: Revenue
Subject: Tax Credit For Work-Release and Earned Income Tax Credit
Analyst: Greg Albrecht

TAX CREDITS EG1 -$1,400,000 GF RV See Note
Provides for the Louisiana work opportunity tax credit

Proposed law provides a nonrefundable tax credit for businesses that hire participants in the work-release programs provided in R.S. 15:1711, 1111, 1199.9, and 1199.10. The credit is 5% of the wages paid to a participating re-entrant for employment over 12 consecutive months after release from imprisonment. Credits are limited to $2,500 per re-entrant, and can only be earned once by the employing business. Credits are nonrefundable with a five-year carry-forward for unused credit amounts. Applicable to the employment of eligible re-entrants with a release date occurring on or after January 1, 2021. No credit shall be granted after June 30, 2027.
Proposed law increases the earned income tax credit to 50% of the federal credit amount for tax filers without a child and who are between the ages of 18 and 25 or are at least 60 years old. Effective for the single tax year of 2021.
Proposed law makes permanent the current law 5% earned income tax credit that is scheduled to drop to 3.5% after tax year 2025.

EXPENDITURES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2021-22	2022-23	2023-24	2024-25	2025-26	5 -YEAR TOTAL
State Gen. Fd.	($1,400,000)	DECREASE	DECREASE	DECREASE	DECREASE	**($1,400,000)**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**($1,400,000)**					**($1,400,000)**

EXPENDITURE EXPLANATION
The Department of Revenue indicates that the costs to modify and test tax systems to incorporate an additional tax credit typically ranges from approximately $25,000 - $50,000 of staff time, with costs dependent upon the various conditions of credits that have to be managed for compliance.

REVENUE EXPLANATION
Work-Release Tax Credit: The Dept. of Corrections Briefing Book, July 2020, contains various metrics regarding the state's prison population, including inmates participating in transitional work programs. A Fact Sheet as of June 30, 2020 indicated 1,647 offenders in transitional work programs. This is presumably at least a portion of the inmate population targeted by the bill (the bill extends eligibility to former inmates, and it is unclear if inmates in local programs referenced by the bill are included in the dept. count). Hypothetical one-time state exposure from the bill's credit applied to this inmate count working full-time at minimum wage for 12 months is approximately $1.2 million. Actual exposure from this count is likely to be considerably smaller. The bill contains conditions on eligible jobs and requires 12 consecutive months of participating employment after release from imprisonment (although the per participant credit limit of $2,500 implies more exposure, it also implies an unlikely wage of level $50,000).

It can be noted that the state has offered a variety of tax credits associated with the hiring of targeted segments of the population, including first-time offenders and re-entrants from prison. These credit programs have generally been utilized sparingly and sporadically, if at all. Past programs have differed in eligibility and credit benefits, and past experience can not guarantee future performance of a new program, this history suggests that the ultimate credit cost of the bill may be materially lower than any maximum exposure allowed by the bill.

The bill makes credits available for employment of eligible re-entrants with release dates occurring on or after January 1, 2021. The 12-month consecutive employment requirement makes it most likely that the earliest fiscal year of any credit cost to the state would be FY23.

Childless Earned Income Tax Credit: A relatively small group of state taxpayers between the ages of 60 and 65 (prior to the ARP, over 65 are not eligible for the federal credit) had no dependents but claimed the federal credit. That group claimed $164,000 of state credit at the 5% rate on 2019 returns. This implies $1.6 million of state credit at the 50% rate of this bill, or an increase of $1.4 million for the single tax year of 2021 allowed by the bill. The recently enacted ARP also eliminated the age limitation for federal eligibility. Thus, an unknown additional amount of state credit may be claimed by this population for tax year 2021, as well. Thus, the revenue loss in the table above likely reflects a minimum loss to the state.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}		☐ 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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Childless Earned Income Tax Credit: According to the Dept. of Revenue, prior to the recently enacted federal legislation (American Rescue Plan - ARP), eligibility for the federal childless earned income tax credit required taxpayers to be between the ages of 25 and 65. However, the recently enacted federal American Rescue Plan legislation expanded eligibility to this population. The revenue impact of this bill attributable to that population is indeterminable since the amount of federal earned income credit they might claim is indeterminable. While unknown in amount, this bill's application to this population's federal credit claim amount works to increase the state revenue loss for tax year 2021 (realization in FY22) from what is discussed above. Thus, the revenue loss in the table above likely reflects a minimum loss to the state.

EITC permanent extension beyond tax year 2025: This also makes permanent the current law 5% earned income tax credit, that is currently scheduled to drop to 3.5% after tax year 2025 (realization in FY26). Currently, the 5% credit reduces state net individual income tax receipts by some $68.5 million per year. After tax year 2025, the drop to 3.5% implies a credit cost of about $48 million per year. While outside the fiscal note horizon, this bill will continue the $68.5 million level of credit cost, or an additional $20.5 million per year relative what would otherwise be the case under current law.