Legislative Fiscal Bureau

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April 24, 2017

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 239: Young Adult Employment Assistance Tax Credit

Assembly Bill 239 was introduced on April 13, 2017, and was referred to the Assembly Committee on Public Benefit Reform. The provisions of the bill are identical to sections 481, 1045, 1052, 1053, and 9338(17) of the 2017-19 biennial budget bill (LFB budget summary: page 96, #7 and page 177, #3).

CURRENT LAW

Under state law, a child can remain in an out-of-home care placement in the child welfare system until he or she is 18 years of age, or, if the youth is expected to graduate from high school or its equivalent, 19 years of age (or 21 if an individualized education plan is in effect). After this time, the youth "ages out" of out-of-home care and is expected to begin to live independently and, unless the youth pursues higher education, to enter the workforce.

The supplemental security income (SSI) program provides federal and state benefits to guarantee a minimum income level for qualifying disabled, elderly, and blind individuals. In 2017, an individual may receive a monthly federal benefit of up to $735, with the payment decreasing as a recipient's income increases, and a flat monthly state supplemental payment of approximately $84. Some SSI recipients may receive additional benefits if they qualify for an exceptional expense supplement or a caretaker supplement.

An adult can qualify for SSI due to a disability if he or she has certain disabling conditions, or cannot engage in "substantial gainful activity" because of a physical or mental condition expected to last for over a year, or result in death. A child can qualify due to a disability if he or she has a physical or mental condition that results in severe functional limitations, and that is expected to last for over a year or result in death. When a child turns 18 (or age 19 for a full-time student in secondary school), eligibility for SSI is redetermined using the criteria for adults. The list of impairments differs for adults and children. Further, the adult eligibility standard reviews for ability to engage in substantial gainful activity, whereas the standard for a child does not. As a result, a child could lose eligibility for SSI benefits simply by reaching the age of 18. For example, a child could qualify for SSI benefits because of a mental disorder which would not impair an adult's ability to engage in substantial gainful activity.

SUMMARY OF BILL

The bill would create a refundable tax credit under the state individual income tax called the young adult employment assistance credit, beginning in tax year 2018. The credit would be equal to 125% of the federal earned income tax credit (EITC) for claimants with no qualifying children, without regard to the age limits under federal law. Under federal law, the EITC is not available to childless individuals under the age of 25.

The federal EITC is calculated as a percentage of earned income. The credit gradually increases until earned income reaches a threshold amount, known as maximum credit income, at which point the claimant receives the maximum allowable credit. The maximum credit is extended to claimants with earned income over this first income threshold and under a second income threshold. After the second income threshold, the credit is gradually reduced until it is eliminated for individuals with earned income over a third income threshold, or maximum income level. Since 2002, the two income thresholds used to calculate the credit's phaseout have been higher for married claimants than for unmarried claimants, while the credit percentage and the maximum credit income have been the same for both types of claimants. The income thresholds used in the calculations are indexed for inflation based on the change in the 12-month average of the consumer price index through August of the year preceding the tax year. Consequently, the 2018 EITC parameters will not be known until later this year. Table 1 displays the estimated parameters for the 2018 federal EITC for individuals with no children.

TABLE 1

Estimated Parameters for Calculating the 2018 Federal EITC for Single and Married Claimants With No Children

	Single	Married
Credit Percentage	7.65%	7.65%
Maximum Credit Income	$6,820	$6,820
Maximum Credit	522	522
Phase-Out Income	8,540	14,260
Phase-Out Rate	7.65%	7.65%
Maximum Income	15,360	21,080

Based on the parameters in Table 1, Table 2 displays the estimated 2018 credit amounts for childless individuals by income level under federal law and under AB 239.

TABLE 2

Estimated 2018 Federal and Proposed State Tax Credit Amounts By Income Level for Married and Unmarried Claimants

	Federal EITC		Proposed State Credit	
Earned Income	Single	Married	Single	Married
$1,000	$77	$77	$96	$96
2,000	153	153	191	191
3,000	230	230	287	287
4.000	306	306	383	383
5,000	383	383	478	478
6,000	459	459	574	574
7,000	522	522	652	652
8,000	522	522	652	652
9,000	487	522	608	652
10,000	410	522	513	652
11,000	334	522	417	652
12,000	257	522	321	652
13,000	181	522	226	652
14,000	104	522	130	652
15,000	28	465	34	581
16,000	0	389	0	486
17,000	0	312	0	390
18,000	0	236	0	295
19,000	0	159	0	199
20,000	0	83	0	103
21,000	0	6	0	8
22,000	0	0	0	0

An individual could claim the credit if the claimant is a young adult defined as: (a) an individual who has aged out of out-of-home care without achieving permanency in either of the two tax years prior to the tax year to which the claim relates, or who did so in the tax year to which the claim relates; or (b) an individual who was previously designated as disabled under the SSI program as a minor, but who, in either of the two tax years prior to the year to which the claim relates, or in the tax year to which the claim relates, lost his or her disability status due to a disability redetermination using the adult disability rules when he or she reaches 18 years of age.

"Aged out" would mean being discharged from out-of-home care due to one of the following instances: (a) termination of a dispositional order made before the individual becomes 18 years old, that places or continues the placement of the individual in out-of-home care, except as provided under the statutes regarding continuation of child welfare and juvenile justice dispositional orders; (b) termination of a voluntary transition-to-independent-living agreement; or (c) termination of a voluntary agreement for placement of a child in a foster home or group home.

In order to meet the definition of "aged out," the discharge would have to occur on the date of any of the following: (1) the date that the individual becomes 18 years old; (2) the date that the individual is granted a high school or high school equivalency diploma, or the date on which the individual becomes 19 years old, whichever occurs first, if the individual is a full-time student at a secondary school or its vocational or technical equivalent and is reasonably expected to complete the program before becoming 19 years old; (3) the date on which the individual is granted a high school or high school equivalency diploma or the date on which the individual becomes 21 years old, whichever occurs first, if the individual is a full-time student at a secondary school or its vocational equivalent and if an individualized education program is in effect for the individual; (4) the date that an individual who is 18 years old or older makes a decision to leave out-of-home care and the child welfare or juvenile justice order listed above is dismissed, the voluntary transition to independent living agreement is terminated, or the voluntary placement agreement is terminated; or (5) the date of termination of a child welfare or juvenile justice dispositional order that provides for the termination one year or less after the date on which the order was entered.

Individuals claiming the credit could not be a part-year resident or nonresident of the state. No credit would be allowed unless it is claimed within four years of the tax year to which the claim relates and no credit would be allowed for a tax year covering a period of less than 12 months, except in the event of a claimant's death.

As noted, the credit would be refundable. Therefore, if the amount of credit exceeded the claimant's income tax liability, the state would issue a check for the excess amount of credit. Refundable credits are treated as expenditures, rather than offsets against tax revenue, in the state's accounting system. The bill would create a sum sufficient GPR appropriation to pay claims of the credit.

The Department of Children and Families (DCF) and the Department of Health Services (DHS) would be required to work together to verify claims for the credit, and the Department of Revenue's (DOR) administrative authority under the state EITC would be extended to the young adult employment assistance credit. As noted above, AB 239 is similar to provisions proposed by the Governor in the biennial budget bill. Relative to that proposal, the Department of Administration has recommended that the biennial budget bill be modified to require DCF and DHS to verify individuals who may be eligible for the credit and to notify DOR of the potential eligibility by January 15 of each year.

FISCAL EFFECT

Based on data from DCF and the Social Security Administration, DOR reports that an estimated 296 young adults age out of the foster care system each year and an estimated 1,470 young adults receive a disability redetermination due to their age. Because individuals may claim the credit for the year the individual ages out of foster care or the individual receives a disability redetermination or for either of the two subsequent years, an estimated 5,300 individuals could claim the credit each year. However, DOR estimates that only about half of those individuals would claim the credit, due to factors such low labor force participation rates or failure of eligible individuals to file claims. Based on data for childless Wisconsin claimants of the federal EITC, DOR estimates an average tax credit under the proposal of $273. Assuming 2,653 individuals receive an average credit of $273, DOR estimates total credits of $724,400 in 2018-19. As noted, the tax credit would be funded from a sum sufficient GPR appropriation.

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