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To: Joint Finance Committee
From: Ken Taylor, Executive Director, Wisconsin Council on Children and Families
Re: Budget Paper #312: Earned Income Tax Credit

We believe that the Joint Finance Committee should not cut the Earned Income Tax Credit (EITC). Such a move would increase taxes paid by low-income workers by reducing a tax credit that was signed into law by Governor Thompson in 1989 and has enjoyed broad bipartisan support since then. **For this reason our strong preference is Alternative #5 in LFB Paper #312, which would fully fund the credit.**

If the Committee does make cuts, we urge you to support Alternatives #1 and #4 in LFB Paper #312. It's important that any structural changes made by the Committee sunset at the end of 2012, as described in Alternative #4. Here's why:

- The Recovery Act temporarily expanded the federal EITC, resulting in higher credit amounts and more people qualifying for the federal credit. The state credit is calculated as a percent of the federal credit. As a result, state spending on the credit has been elevated since the Recovery Act went into effect in 2009.
- At the end of 2012, the temporary expansion of the federal EITC is scheduled to expire. After that occurs, state spending on the state credit will decrease significantly in the next biennium.
- By sunseting structural changes to the credit in 2012, the Committee can reduce spending in this biennium while still keeping the level of the state credit roughly the same going forward once the federal credit decreases. As a result, alternative #4 wouldn't add to the structural deficit.

Of the alternatives to cut the EITC, Alternative #1, which is the Governor's recommendation, is the "least bad" in our view. This option combines the policy changes recommended by the Governor with Fiscal Bureau re-estimates of the cost of the credit. This option would still reduce total spending on the credit by \$41 million over the biennium, even as the bill transfers \$74 million of TANF funds into the EITC appropriation.