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# TAX CREDIT EXPRESS PILOT PROJECT

1997 UPDATE

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**Department of Human Services  
and  
Department of Revenue**

## TAX CREDIT EXPRESS PILOT PROJECT - 1997 UPDATE

The Minnesota Departments of Revenue and Human Services hereby submit this report to the Minnesota Senate and House of Representatives on the pilot program for the early refund of refundable tax credits (i.e. the Tax Credit Express pilot program).

The Laws of Minnesota 1995, Chapter 178, Article 3, Section 3 [PILOT PROGRAM: EARLY REFUND OF REFUNDABLE TAX CREDITS] states "Notwithstanding any law to the contrary, the commissioner of revenue may implement a pilot program to run for one calendar year beginning in the first quarter of calendar year 1996,..."

To date, the pilot Tax Credit Express (TCE) program has not been implemented. In January 1996 the Departments of Revenue and Human Services submitted a report (see Attachment) to the legislature on the plan to implement the pilot program. In the report, the Departments notified the legislature that they were putting the pilot on temporary hold, pending authorization by congress and the federal government to allow the Department of Revenue to distribute federal Advanced Earned Income Tax Credit (AEITC) funds.

The Departments and a number of potential program participants, who participated in a series of TCE program focus groups in the summer of 1995, believe for the program to be successful in reaching its goals the AEITC would need to be included in the TCE monthly payments. Without the AEITC, monthly TCE payments to clients, in most cases, would be too small to make significant improvements such as a better home, child care or transportation to and from a job. To date, Minnesota does not have the necessary authority to distribute the AEITC funds through the TCE program.

The attached January 1996 report contains information for implementing the TCE pilot that remains valid. In order to implement the pilot, we recommend three things.

1. We continue to believe for the program to be successful in reaching its goals, the AEITC must be included in the monthly payment. Authorization from congress and the federal government should be secured before the pilot is implemented. Therefore, a provision for this change in law would need to be introduced in congress and passed before the AEITC can be included in the TCE program.
2. The authority to implement the TCE pilot was for calendar year 1996 and the appropriation from the general fund to implement the pilot was for the biennium ending June 30, 1996. A revision to the statute allowing for pilot implementation in 1997 or 1998 and an appropriation of \$200,000 for the biennium ending June 30, 1998 is necessary for the Departments to implement the pilot.
3. The pilot should be broadened to allow some participants who are not receiving public assistance. Since the vision for the TCE program is to eventually include eligible low income working families who are not on public assistance, we would like to include a number of them in the pilot program.

# Pilot Program: Early Refund of Refundable Tax Credits The TaxCredit Express

## Executive Summary

The TaxCredit Express is the pilot project included in 1995 welfare reform legislation that provides low-income people the option of receiving their income tax credits and property tax refund in monthly installments rather than a lump sum. The monthly payment option is a means of encouraging and rewarding work as an alternative to welfare. We then hope to measure the success of that program in getting people into jobs and a tax situation that will keep them off welfare.

As part of our pilot planning process, we conducted several focus groups with potential recipients of credit pre-payments in Minnesota. These citizens believed that the monthly credit payments would have to be \$200 to \$250 dollars to make such a system worthwhile and allow them to make significant improvements such as a better apartment, child care, or transportation to and from a job.

To reach that level of monthly payments through the TaxCredit Express, it is essential that the federal Advance Earned Income Credit (AEIC) be included as a part of the package. Without federal approval to include the AEIC, we do not believe that the TaxCredit Express pilot can be successful in reaching its goals. As of yet no authority allowing Minnesota to incorporate the AEIC payments is included in bills currently before Congress, although we do have indications it is likely to be considered early in 1996.

In light of the feedback from taxpayers, as well as the uncertainty over when authority to include the AEIC in Tax Credit Express will be forthcoming, we have committed to begin the TaxCredit Express pilot approximately three months after the passage of federal enabling legislation (and within the time frame that we expect will be required for the federal government to act on the state requests once the legislation is passed). This will assure that when we do begin our pilot program it will be headed for success.

While we wait for federal legislation to be enacted, we will continue to lay the groundwork for the pilot program as well as the general policy goals that lie behind it. We will develop Minnesota's application so it is ready to go when federal law is changed to permit it. We will promote wider general use of the federal AEIC through employer payrolls via partnership efforts between the Department of Revenue and employers, building on the successful existing outreach with low-income populations on tax issues. We will continue to plan and offer training to county human services workers and other local program staff to enable them to better educate their clients about the AEIC program and how to take advantage of it and other income tax credits.

Under current law, the TaxCredit Express pilot is allowed only to workers on public assistance and must be started in the first quarter of 1996. In order to take the most advantage of the pilot and to learn as much as we can about all prospective users of the pre-payment program, we also plan to ask the 1996 legislature for a broader pilot perspective (including some non-AFDC recipients), but within current funding levels, and the leeway to start the program only after the federal approval for inclusion of the AEIC is received.