

**SUMMARY ANALYSIS OF AMENDED BILL**

Author:  Jones  Analyst:  Nicole Kwon  Bill Number:  AB 21   
 Related Bills:  See Prior Analysis  Telephone:  845-7800  Amended Date:  January 16, 2008   
 Attorney:  Patrick Kusiak  Sponsor: \_\_\_\_\_

**SUBJECT:** Earned Income Non-Refundable Credit

- DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as amended January 7, 2008.
- AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- \_\_\_\_\_ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.
- \_\_\_\_\_ FURTHER AMENDMENTS NECESSARY.
- \_\_\_\_\_ DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.
- REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED January 7, 2008, STILL APPLIES.
- \_\_\_\_\_ OTHER – See comments below.

**SUMMARY**

This bill would allow a non-refundable Earned Income Credit (EIC) in modified conformity to the federal EIC.

**SUMMARY OF AMENDMENTS**

The January 16, 2008, amendments deleted provisions specifying the earned income and phaseout amounts and instead added provisions relating to credit percentage and phaseout percentage.

As a result of the amendments, the "This Bill" and "Economic Impact" discussions have been revised and are provided below. Except for the revisions discussed above, the department's previous analysis of the bill as amended January 7, 2008, continues to apply.

**POSITION**

Pending.

Board Position:	Legislative Director	Date
<input type="checkbox"/> S <input type="checkbox"/> NA <input type="checkbox"/> NP <input type="checkbox"/> SA <input type="checkbox"/> O <input type="checkbox"/> NAR <input type="checkbox"/> N <input type="checkbox"/> OUA <input checked="" type="checkbox"/> PENDING	Brian Putler	1/25/08

**ANALYSIS**

THIS BILL

This bill would provide a non-refundable state EIC to a qualified taxpayer for taxable years beginning on or after January 1, 2008. Specifically, this bill would do the following:

- Provide a credit against personal income tax (PIT) for earned income above the taxability threshold. For incomes above this threshold, but less than the threshold plus \$5,000, the credit is equal to 4% of that income amount up to \$5,000. For income above this amount but less than the threshold plus \$9,900, the amount of credit is fixed at \$200. For income above this latter amount, the amount of credit will phase out at the rate of 5%.
- The taxability threshold is determined by filing status and number of children, up to a maximum of two.
- For the 2008 taxable year only, the credit claimed on the tax return would be determined as the calculated credit multiplied by 90% (0.9).

This bill would specify that only one EIC would be allowed for two eligible individuals filing a joint return.

This bill would define the term “eligible individual” to mean any individual who has at least one qualifying child and properly files either a joint return or as a head of household.

This bill would specify that “earned income” is limited to the amount of earned income attributable to employment or self-employment in this state that is in excess of the threshold amount.

This bill would require the Franchise Tax Board to provide the tables that would prescribe the amount of the credit allowed under the state EIC.

**ECONOMIC IMPACT**

Revenue Estimate

Estimated Revenue Impact of AB 21 Enactment Assumed After June 30, 2008 (\$ in Millions)			
	2007-08	2008-09	2009-10
EIC	-\$0	-\$5.3	-\$5.3

This estimate does not account for changes in employment, personal income, or gross state product that could result from this bill.

### Revenue Discussion

A microsimulation analysis has been utilized to estimate the impact of the proposed EIC on state revenues. The estimates are based on the Franchise Tax Board's 2005 PIT Sample. The estimated impact of the 2008 credit (with the 10% reduction) at 2005 income and population levels is \$4.7 million. This amount is grown to \$5.1 million for 2008 using Department of Finance 2007 May Revise projections. The estimated impact of the 2009 and beyond credits (without the 10% reduction that is applied to the 2008 credit) at 2005 levels is \$5.1 million. This amount is grown to \$5.3 million for 2009 using Department of Finance 2007 May Revise projections. These amounts are fiscalized for the table presented above.

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