

Author:         Jones         Analyst:         Nicole Kwon         Bill Number:         AB 21        

Related Bills:         See Prior analysis         Telephone:         845-7800         Amended Date:         March 5, 2007        

Attorney:         Patrick Kusiak         Sponsor:                                 

**SUBJECT:** Earned Income Refundable Credit

- ANALYSIS NOT REQUIRED of this bill – Not within scope of responsibility of this department.
- TECHNICAL BILL – No program or fiscal changes to existing program.
- BILL AS AMENDED NO LONGER WITHIN SCOPE of responsibility or program of the department.
- TECHNICAL AMENDMENT – No change in previously submitted analysis required. Approved position of prior analysis is \_\_\_\_\_.
- MINOR AMENDMENT – No change in previously submitted analysis required. Approved position of prior analysis is Pending.
- MINOR AMENDMENT – No change in approved position of \_\_\_\_\_.  
See Comments below
- OTHER – See comments below.

**COMMENTS:**

This bill would allow a refundable Earned Income Credit (EIC) equal to 15% of the federal EIC.

The March 5, 2007, amendments added co-authors to the bill and made a minor technical change to a refundable EIC in the Personal Income Tax Law of the Revenue and Taxation Code. The previous revenue estimate discussion still applies and is included below for convenience. The previous revenue estimate table is revised to show the EIC amount that is refunded and not refunded. The remainder of the department’s analysis of the bill as introduced December 4, 2006, still applies.

Board Position:	Franchise Tax Board Staff	Date
<input type="checkbox"/> S <input type="checkbox"/> NA <input type="checkbox"/> NP		
<input type="checkbox"/> SA <input type="checkbox"/> O <input checked="" type="checkbox"/> NAR	Nicole Kwon	3/21/07
<input type="checkbox"/> N <input type="checkbox"/> OUA <input type="checkbox"/> PENDING		

## ECONOMIC IMPACT

### Revenue Estimate

Estimated Revenue Impact of AB 21 Effective On Or After January 1, 2008 Enactment Assumed After June 30, 2007 (\$ in Millions)			
	2008-09	2009-10	2010-11
Reduced Liabilities	-\$15	-\$15	-\$15
Refunds	-\$695	-\$705	-\$715
Total	-\$710	-\$720	-\$730

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

### Revenue Discussion

The revenue impact of this credit would depend on the number of California taxpayers claiming the federal EIC. This amount, in turn, depends on the amount of earned income and adjusted gross income claimed by low-income Californians and whether they currently file a tax return. It is assumed that almost all taxpayers who avail themselves of the federal credit will also avail themselves of the state credit. There is a significant number of taxpayers who are eligible for but do not avail themselves of the federal EIC. It is assumed that the availability of a California EIC would not entice a significant number of taxpayers who already fail to claim the federal EIC to begin claiming the California EIC.

The starting point for this estimate is the amount of federal EIC claimed by California residents in the 2004 tax year, which is approximately \$4.5 billion. This number is then adjusted from the 2004 level to the 2011 level by overall return growth projections.

The amount of the federal EIC for 2008 is estimated to be \$4.7 billion. For each tax year, the estimated federal EIC amount is multiplied by 15%, the proposed state credit rate, to arrive at the total state impact for that year. The estimated revenue impact for 2008 is \$710 million (\$4.7 billion x 15%). IRS statistics show that 15% of federal EIC claimed by Californians is used to offset tax liabilities. Because filing thresholds are higher for California taxes than for federal taxes, this estimate assumes that only 2% of California EIC would be used to offset California tax liabilities, the rest would generate refunds

## LEGISLATIVE STAFF CONTACT

Nicole Kwon  
Franchise Tax Board  
845-7800  
[haeyoung.kwon@ftb.ca.gov](mailto:haeyoung.kwon@ftb.ca.gov)

Brian Putler  
Franchise Tax Board  
845-6333  
[brian.putler@ftb.ca.gov](mailto:brian.putler@ftb.ca.gov)