

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 02/20)

Fiscal Year 2021-22	Business Unit 7730	Department Franchise Tax Board	Priority No. 5
Budget Request Name 7730-006-BCP-2021-GB		Program 6280	Subprogram 6280025

Budget Request Description
 AB 1876 – Earned Income Tax Credit/ITINs

Budget Request Summary

The Franchise Tax Board (FTB) is requesting \$2 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2021-22 and \$1.7 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2022-23 and ongoing to implement and administer provisions of Assembly Bill (AB) 1876 (Chapter 87, Statutes 2020) that was recently chaptered. These resources are critical in order to successfully implement the California Earned Income Tax Credit (CalEITC) – Individual Tax Identification Number (ITIN) Expansion.

Requires Legislation <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO John Sulenta	Date 12/22/2020

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), and the approval date.

Project No. _____ **Project Approval Document:** _____
Approval Date: _____

If proposal affects another department, does other department concur with proposal? Yes No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Maisha Coleman	Date 12/22/2020	Reviewed By Tiphonie Weiss	Date 12/22/2020
Department Director Selvi Stanislaus	Date 12/23/2020	Agency Secretary	Date

Pending Board Approval

Department of Finance Use Only

Additional Review: Capital Outlay ITCU FSCU OSAE CALSTARS Dept. of Technology

PPBA	Date submitted to the Legislature
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Analysis of Problem

A. Budget Request Summary

The Franchise Tax Board (FTB) is requesting funding of \$2 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2021-22 and \$1.7 million General Fund and 17 permanent and 1.0 permanent-intermittent positions in 2022-23 and ongoing to implement and administer provisions of Assembly Bill (AB) 1876 (Chapter 87, Statutes 2020) that was recently chaptered. These resources are critical in order to successfully implement the California Earned Income Tax Credit (CalEITC) – Individual Tax Identification Number (ITIN) Expansion.

B. Background/History

The federal Earned Income Tax Credit (EITC) is the largest tax benefit for families with children and is the third largest social welfare program in the United States, behind Medicaid and food stamps. California along with 24 other states and the District of Columbia offer an EITC. Most state EITCs are refundable and are based on a percentage of the federal EITC amount.

To help the poorest working families in California, the 2015 Budget enacted the state's first-ever EITC. Per the 2015 Budget Act, the taxpayer and/or a qualifying child was required to have a Social Security number (SSN) to claim the CalEITC. However, ITINs are commonly used by undocumented taxpayers who have a tax filing requirement. As a general rule, a taxpayer filing with an ITIN has been able to claim the same exemptions, deductions, and credits as a taxpayer filing with a SSN. A major exception to this rule is the CalEITC.

The 2020 Budget Act expanded CalEITC, for taxable years beginning on or after January 1, 2020, allowing the credit to an eligible individual who has, or whose spouse has, a qualifying child younger than 6 years old and if the eligible individual, including their spouse and/or qualifying child has an ITIN. AB 1876 further expands the CalEITC credit to all eligible individuals who have an ITIN, including their spouse and/or qualifying children, significantly expanding eligibility for the credit.

This bill is new and a Workload History is not available. The requested resources in this proposal are for sections within the Filing, Administrative Services, Technology Services and Finance and Executive Service Divisions. See Attachment I for the Resource History and Attachment II for the Projected Workload Measures.

C. State Level Consideration

This proposal supports FTB's mission to help taxpayers file tax returns timely, accurately and pay the correct amount to fund services important to Californians and the strategic plan goals for Taxpayer Centric Service, Effective Enforcement, Strong Organization and Operational Excellence.

D. Justification

The CalEITC is a key component of the Administration and the Legislature's commitment to assist California families living below the poverty level. Because of the larger number of recipients and the complex nature of the new recipients' tax returns, expanding eligibility to include ITINs would add new and substantial workloads.

An estimated 200,000 families with ITINs will qualify for this CalEITC expansion. These potential CalEITC recipients do not generate the same types of data that FTB usually uses

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to calculate and validate CalEITC amounts. People using ITINs cannot receive a federal EITC, meaning FTB cannot use claimant data from the IRS when checking on the credit amount someone is claiming. Nor can they use their ITINs to receive a W-2, as such, FTB cannot use W-2 data to match information they report on their tax returns.

In order to ensure returns are processed and refunds are issued timely as well as ensuring improper payments of this refundable credit are minimized, FTB is requesting the following resources:

Filing Division

Fraud and Discovery (12 permanent positions)

FTB's Fraud Unit detects and prevents improper payments related to refundable credits, identity theft, and preparer driven issues due to questionable deductions and claims of nonrefundable credits. These additional resources will address an increased volume associated with improper payments attributed to the CalEITC ITIN expansion. The IRS has historically experienced a high rate of improper payments with their refundable EITC. The improper payments can stem from honest mistakes, however, many are related to fraudulent type behavior and identity theft.

The additional resources will prevent improper payments, saves the state from losing revenue and discourages bad actor efforts to conduct fraudulent type activities. In turn, this will ensure the safety and confidence of taxpayers in the tax system and in FTB's administration of the income tax laws.

Contact Center (1 permanent position)

The position within the contact center will respond to increased telephone calls and live chats from new and existing taxpayers. FTB provides customer service to achieve public confidence and trust in state government as well as address taxpayer needs to ensure that they:

- Receive immediate answers to their tax questions and issues at the first point of contact.
- File their tax returns correctly in support of the voluntary compliance nature of our tax system.

Return Processing (1 permanent and 1 permanent-intermittent positions)

CalEITC paper and electronic returns go through the same processing as other returns. This includes the traditional processes of receiving, scanning and keying information. It is anticipated that 20 percent of CalEITC claims will be filed on paper returns. Resources are necessary for handling the increased volume of returns, keying the added data elements, and handling the additional fallout.

FTB is not able to redirect resources to address this workload. FTB positions, including vacancies, have a body of work associated to it. Redirecting a position would leave FTB without the needed resources to perform mission critical work.

Administrative Services Division

Privacy, Security and Disclosure Bureau (1 permanent position)

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The Privacy, Security and Disclosure Bureau's (PSDB) Internal Security Audit Unit (ISAU) and Fraud and Discovery Section (FADS) work closely and share leads. FADS works fraudulent returns and holds/cancels refunds. ISAU monitors online activity and is responsible for identity proofing. When FADS identifies fraud or questionable returns, they send that information to ISAU as a referral so the online accounts can be tracked and deactivated. ISAU monitors these accounts to ensure additional fraudulent behavior is not attempted in the future.

In addition, ISAU often identifies other fraudulent accounts and activity based on the FADS leads. One lead can result in multiple accounts being monitored and deactivated.

Finance and Executive Services Division

Economic and Statistical Research Bureau (1 permanent position)

The Economic and Statistical Research bureau (ESRB) manages the income tax data used by FTB's program areas, policy makers, public customers and private stakeholders. The data is used to assess the historical and current impact of established tax laws and policies.

With the EITC-ITIN Expansion, ESRB will incur an increase in questions and reporting the bureau normally receives. To manage this additional workload a model will be built to analyze the new ITIN data. The requested position will design and build reports that can be published and issued to various FTB customers.

The ESRB is a small bureau and the amount of work required by this change is too large and cannot be absorbed. The bureau does not have the bandwidth or the staff knowledge to meet the needs of this bill and still meet other requirements.

This proposal addresses and includes appropriate facility needs in the total funding requested.

Technology Services Division

Enterprise Analysis and Training Support Section (1 permanent position)

The Enterprise Analysis and Training Support Section will be responsible for maintaining and testing systems and functionalities needed to fully execute the EITC/ITIN provisions. All returns that FTB processes must go through return analysis (RA) and changes must be analyzed for impacts across many analysis rule sets. The requested position is necessary for proper system maintenance and updates. As more functionalities are added to the RA system, the additional functionalities will need to be tested in their new environments. The new specialist will be responsible for maintaining and updating requirements for new EITC/ITIN functionalities and performing user integration tests on the RA functionality. The Enterprise Analysis and Training Support Section has absorbed the ongoing maintenance and required updates with recent new legislation and prior EITC expansions. However, with this most recent expansion, the team can no longer absorb additional ongoing maintenance and updates. This resource will be critical to the section's ability to continue to support recent expansions and new functionality ongoing.

E. Outcomes and Accountability

It is the responsibility of FTB to implement the provisions of AB 1876. The changes and upgrades to the CalEITC fraud program as well as the modification and processing of tax

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forms will be handled under the direction of the Filing Division Chief. The changes to existing computer systems will be handled under the direction of the Chief Information Officer (CIO). Fiscal oversight is the responsibility of the Chief Financial Officer (CFO).

F. Analysis of All Feasible Alternatives

Alternative #1: Approve \$2 million General Fund and 17.0 permanent and 1.0 permanent-intermittent in 2021-22 and \$1.7 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2022-23 and ongoing.

This alternative provides the resources necessary to implement AB 1876,

Alternative #2: Do nothing.

Failure to receive the funding and resources will result in unnecessary and significant risks in implementing AB 1876. In addition it will affect FTB's ability to timely process tax returns and payments and could cause taxpayers to have their refunds delayed.

G. Implementation Plan

- June 2021 – All documents to establish the permanent positions are prepared and approved by the FTB Budget Officer and forwarded to Department of Finance.
- June 2021 – Department of Finance notifies FTB of positions approval.
- July 2021 – Permanent positions are established and FTB begins hiring.

H. Supplemental Information

None

I. Recommendation

FTB recommends **Alternative #1: Approve \$2 million General Fund and 17.0 permanent and 1.0 permanent-intermittent positions in 2021-22 and \$1.7 million General Fund and 17 permanent and 1.0 permanent-intermittent positions in 2022-23 and ongoing.**

This will ensure the Administration and the Legislature adheres to the commitment of assisting California's families living below the poverty level.

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BCP Fiscal Detail Sheet

BCP Title:

BR Name:

Budget Request Summary

Personal Services