

STATE OF CALIFORNIA

FRANCHISE TAX BOARD

PUBLIC MEETING

Tuesday, March 26, 2024

12:59 P.M.

GERALD GOLDBERG AUDITORIUM

9646 BUTTERFIELD WAY

SACRAMENTO, CALIFORNIA

STENOGRAPHICALLY REPORTED BY:  
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**APPEARANCES**

**BOARD MEMBERS**

MALIA M. COHEN  
State Controller  
(Chairperson of the Board)

SALLY J. LIEBER  
Chairperson  
Board of Equalization

ERICA GONZALES  
Program Budget Manager  
Department of Finance

HASIB EMRAN  
Deputy State Controller, Taxation

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**STAFF**

SELVI STANISLAUS  
Executive Director

CRISTINA RUBALCAVA  
Board Liaison

JOZEL L. BRUNETT  
Chief Counsel

SHANE HOFELING  
Deputy Chief Counsel

Kelly Heckman

Jose Orozco

Jennifer Roussel

Marion Hughes

Jason Hughes

David Hunter

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***APPEARANCES CONTINUED***

**ALSO PRESENT**

TERI OLLE, Economic Security Project

VANESSA OROZCO, Golden State Opportunity (via telephone)

JAFET DIEGO, United Ways of California (via telephone)

ERIN HOGENBOOM, San Diego for Every Child (via telephone)

BART BAER, California Taxpayers Association

(via telephone)

SAM WILKINSON (via telephone)

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SACRAMENTO, CALIFORNIA

Tuesday, March 26, 2024; 12:59 P.M.

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CHAIRPERSON COHEN: Good afternoon. Good afternoon. This is the scheduled time for the meeting of the Franchise Tax Board.

Would the Board Liaison please call the roll and determine if a quorum is present.

MS. RUBALCAVA: Member Lieber.

MEMBER LIEBER: Here.

MS. RUBALCAVA: Member Gonzales.

MEMBER GONZALES: Here.

MS. RUBALCAVA: And Chair--Controller Malia Cohen.

CHAIRPERSON COHEN: Present. Thank you.

At least two members or their designated representatives being personally present, there is a quorum, and the Franchise Tax Board is now in session.

So, ladies and gentlemen, will you please join me by rising and placing your right hand over your heart and join me in saying the Pledge of Allegiance.

(Pledge of Allegiance recited in unison.)

CHAIRPERSON COHEN: All right, friends. Welcome back to the Franchise Tax Board meeting.

The public has a right to comment on each and every agenda item. If there are any members of the

1 public wishing to speak on an item, please come forward  
2 when that item is called, and you'll have three minutes  
3 to address the full Board.

4 For today's meeting, members of the public who  
5 wish to comment via teleconference, I would appreciate  
6 it if you could call (844) 291-6362 and enter the access  
7 code 2689146.

8 Also, just as a reminder, please be aware that  
9 there is a short delay between the web live stream and  
10 the live event.

11 If there are any members of the public wishing to  
12 speak on an item and you're using a translator or  
13 translator service, you will have six minutes to address  
14 this body.

15 All speakers will be asked to identify yourself,  
16 just for purposes of the record.

17 So the first item, Members, is the approval of  
18 the minutes. We have the minutes of December 6 from  
19 2023, the Franchise Tax Board meeting as well as the  
20 Annual Taxpayers' Bill of Rights Hearing.

21 Members, do any of you have any comments or  
22 questions?

23 (No response.)

24 CHAIRPERSON COHEN: All right. Seeing none, is  
25 there a member of the public wishing to speak on this

1 item in person or on the teleconference line?

2 (No response.)

3 CHAIRPERSON COHEN: Okay. I see no one jumping  
4 up to come for public comment.

5 Can we check online?

6 PHONE OPERATOR: Members of the public on the  
7 phone lines, if you would like to place yourself in the  
8 queue for public comment, as a reminder, you may press  
9 1, then 0 at this time.

10 (No response.)

11 No members of the public are queuing up at this  
12 time. Please continue.

13 CHAIRPERSON COHEN: All right. Thank you very  
14 much.

15 May I have a motion for approval of the minutes?

16 MEMBER GONZALES: I'll move to approve.

17 CHAIRPERSON COHEN: All right. Thank you.

18 I'll second that.

19 Board Liaison, if you wouldn't mind, please,  
20 calling the roll.

21 MS. RUBALCAVA: Member Lieber.

22 MEMBER LIEBER: Aye.

23 MS. RUBALCAVA: Member Gonzales.

24 MEMBER GONZALES: Aye.

25 MS. RUBALCAVA: Chair-Controller Malia Cohen.

1 CHAIRPERSON COHEN: Aye.

2 Thank you very much. This motion passes without  
3 an objection.

4 Next, we have Agenda Item Number 2, which is a  
5 presentation regarding FTB's 2023 accomplishments, my  
6 favorite time of the year. I love this.

7 This year's accomplishments will be presented by  
8 Kelly Heckman. And again, folks, this is just an  
9 informational item.

10 Ms. Heckman.

11 MS. HECKMAN: Good afternoon, Madam Chair and  
12 Board Members. I'm Kelly Heckman, an Assistant Director  
13 in the Audit Division.

14 I'm proud to be here today to share FTB's 2023  
15 accomplishments with you. FTB's Missions and Values  
16 were created to promote the values of FTB, to guide and  
17 empower our employees and support a positive work  
18 environment.

19 This year's video highlights our accomplishments  
20 presented through the lens of our five core values,  
21 which are: become experts at what we do, lead with  
22 integrity and inspiration, bring our best, deliver  
23 excellent products and services, and contribute to a  
24 caring community.

25 Today we're happy to present this year's video,



1 which will highlight just some of FTB's many  
2 accomplishments of 2023 and our continued commitment to  
3 faithfully serve the taxpayers of California.

4 Before we play the video, I would like to  
5 highlight just a few of our accomplishments.

6 We continued to provide critical assistance to  
7 serve Californians.

8 In 2023, we increased the number of staff on our  
9 Volunteer Income Tax Assistance Program, who prepared  
10 approximately 4,500 tax returns.

11 We mailed approximately 345,000 Earned Income Tax  
12 Credit, EITC, outreach notices to taxpayers to let them  
13 know that they may qualify for the credit.

14 We also helped our fellow Californians impacted  
15 by winter storms and natural disasters by assisting in  
16 disaster relief efforts. And following the IRS, we  
17 granted extensions both to file and pay taxes to  
18 November 16, 2023.

19 FTB also focused on our most important assets,  
20 our employees, by hosting our first hybrid career event,  
21 where over 780 employees attended to learn about career  
22 opportunities throughout our department.

23 I want to thank our very talented multimedia team  
24 for their hard work in creating this video. Now please  
25 sit back and enjoy our 2023 accomplishments video.

1 (Video played.)

2 MS. HECKMAN: Thank you for allowing us to share  
3 this with you. We hope you enjoyed watching it and  
4 seeing our many accomplishments as they relate to our  
5 five core values.

6 I would be happy to answer any questions that you  
7 may have at this time.

8 CHAIRPERSON COHEN: Thank you. Thank you very  
9 much. That was an excellent video. I love -- it was a  
10 really strong finish. It was powerful, beautiful, and  
11 uplifting. I mean, wow. You really outdid yourself  
12 this year. I can't wait to see what you do next year.

13 That was incredible. Okay. Thank you, Kelly.  
14 Let me see.

15 Colleagues, do you have any comments or anything  
16 that you wanted to share?

17 Ms. Gonzales.

18 MEMBER GONZALES: I'll just say thank you so much  
19 for sharing, and congratulations to all of you on all  
20 the hard work. It was very inspiring.

21 CHAIRPERSON COHEN: Okay. Member Lieber.

22 MEMBER LIEBER: I think it's just so apparent and  
23 really shows in the service that the FTB provides that  
24 FTB is a close work family with respect for everyone and  
25 treasuring the contributions of each team member. So

1 thank you for the beautiful presentation.

2 MS. HECKMAN: Thank you.

3 CHAIRPERSON COHEN: Just a couple comments and  
4 ideas that I wanted just to share as we had a chance to  
5 reflect on 2023.

6 When I took over as Chair of the FTB, it was like  
7 almost no time to rejoice or to celebrate. Because if  
8 you may recall, last year we were dealing with  
9 relentless atmospheric rivers to tropical storms and  
10 flash flooding. Do you guys remember this? And  
11 California faced some of the most severe weathers in the  
12 state history. And it was in that moment that schools  
13 were closed, roads were collapsing, people were losing  
14 their homes, flooding was occurring.

15 It was the FTB's rapid response that required a  
16 full mobilization and, quite frankly, an  
17 all-hands-on-deck approach.

18 And so 2023 was kind of tough. And I'm really  
19 proud of the entire team. You guys rose to the  
20 occasion. And you heard the number of filings that was  
21 accomplished. You know, alongside the FTB leadership,  
22 we just huddled together in the war room, just getting  
23 things done. And I think that's our utmost priority in  
24 difficult and, frankly, unprecedented times.

25 So these accomplishments, they indicate that FTB

1 remains ready to bring its best, ready to provide  
2 complex services. And you know what? It doesn't  
3 matter, come rain or come shine, sunshine, that we are  
4 ready. And so go team FTB. Everyone that's in this  
5 room is a part of this team.

6 I hope that you are receiving this praise,  
7 because I'm really talking to everyone here that's  
8 listening and those members that are on the team that  
9 are not present in this auditorium.

10 Selvi, to you and your Executive Team, my highest  
11 compliments to you. Excellent work. Thank you very  
12 much.

13 I look forward to next year.

14 And so we can move on, Cristina, to Item  
15 Number 3.

16 And so, let's see. This was an informational --  
17 so let's see if there's any public comment or anyone  
18 that would like to speak on this item.

19 Anyone in the chamber?

20 (No response.)

21 CHAIRPERSON COHEN: None? All right. Let's see  
22 if there's anyone online, teleconference line.

23 PHONE OPERATOR: Again, if you would like to put  
24 yourself in the queue to comment, as a reminder, you may  
25 press 1, then 0 at this time.

1 (No response.)

2 PHONE OPERATOR: No members of the public are  
3 queueing up at this time. Please continue.

4 CHAIRPERSON COHEN: All right. Thank you very  
5 much.

6 So we're going to go ahead and call Item 3. And  
7 Item 3 is on the agenda. It's a presentation of the  
8 EDR2 update presented by Jose Orozco and Jennifer  
9 Roussel. This is an informational item.

10 Mr. Orozco, welcome. Good to see you.

11 MR. OROZCO: Thank you. Good afternoon, Madam  
12 Chair and Members of the Board. My name is Jose Orozco,  
13 and I am the EDR2 Technical Director, and with me today  
14 is Jennifer Roussel, the EDR2 Business Director.

15 We will provide you an informational update on  
16 the second phase of our Enterprise Data to Revenue  
17 Project, also known as EDR2.

18 The last update that we provided was March of  
19 2023. Similar to that presentation, I will briefly  
20 touch upon the project's background before providing the  
21 update.

22 The primary focus of EDR2 is moving our aging  
23 Audit, Collections and Filing Enforcement systems onto  
24 the enterprise solution created with EDR1. Replacing  
25 these systems is essential to continuity of our

1 operations, providing excellent customer service, and  
2 insurance -- and ensuring taxpayers meet their tax  
3 obligations.

4           The transition to one enterprise case management  
5 solution will reduce the number of systems that our  
6 staff need to access to complete their work, reduce the  
7 number of antiquated technology products that we must  
8 maintain, enhance our workload management, and automate  
9 manual processes.

10           In addition to the case management solution, EDR2  
11 will also implement new self-services, which we will  
12 touch upon later in the presentation; new modeling  
13 capabilities that will help us improve case selection to  
14 address the tax gap; and data visualizations, which will  
15 expand our current reporting and dashboarding  
16 capabilities.

17           I will turn it over now to Jennifer to discuss  
18 our implementation efforts.

19           MS. ROUSSEL: Thank you, Jose.

20           Before we started implementing functionality in  
21 the areas that Jose described, we implemented several  
22 early initiatives during the first year of the EDR2  
23 projects. These early initiatives allowed us to  
24 introduce new technologies and help bring more taxpayers  
25 into compliance.

1           In 2021 and 2022, we implemented new analytic  
2 models to improve both our Personal Income Tax Audit and  
3 Filing Enforcement case selection.

4           These new and improved models allow us to quickly  
5 identify cases that will result in helping taxpayers  
6 comply and meet their tax obligations. Early  
7 indications show a likely improvement in the percentage  
8 of cases we work that result in an assessment.

9           In addition, their early initiatives helped bring  
10 on new technology in a controlled manner, protecting  
11 against negative impacts to taxpayers and FTB's  
12 operations.

13           We've also introduced new data sources for  
14 collections. This information is reported to FTB by  
15 individuals or businesses that pay taxpayers for  
16 services or report investment income. This data is  
17 associated with taxpayers with past due liabilities.

18           Our collectors can use these new data sources to  
19 help resolve collection cases, especially cases where  
20 the taxpayer is not a wage earner.

21           We also implemented our new PIT Payer File we now  
22 affectionately call the "Manage Assets and Income"  
23 solution. This solution provides our collections  
24 program with more valuable information that can be used  
25 in our automated and manual collections efforts. It

1 also will eventually be used by our Filing Enforcement  
2 program. The solution has more data sources and  
3 improved matching of taxpayers to the data, and this  
4 will increase revenue and staff productivity, and it was  
5 our first step in replacing FTB's aging collections  
6 system.

7         Lastly, we've highlighted a new PIT Audit  
8 Candidate Selection solution. This solution is the  
9 starting point for selecting audit cases. It is also  
10 the starting point for the cases that will be managed in  
11 the new case management system. This was the first step  
12 in implementing the functionality that will be leveraged  
13 for multiple case types.

14         After laying the groundwork with our early  
15 initiatives and pilot program, we introduced the first  
16 compliance workload to the new Enterprise Case  
17 Management Solution.

18         The Personal Income Tax Audit workload started  
19 its transition in January of 2023, and it was expanded  
20 in September and in November of 2023. This transition  
21 is being accomplished through a methodical approach.  
22 For each new workload we transition, we do so in a  
23 manner and a pace that allows us to make improvements  
24 and address unforeseen issues easily and quickly. This  
25 reduces the risk of negative impacts on FTB's operations



1 and taxpayers. We call this our "Crawl, Walk, Run"  
2 approach.

3 In January of 2024, we expanded the new solution  
4 to incorporate the PIT Collections workload. Again, we  
5 are taking a methodical approach to minimize risk.

6 And later this year, we will bring the remaining  
7 audit workloads, pass-through entity and business entity  
8 cases, into the Case Management Solution.

9 And in 2025, BE Collections will transition to  
10 the new collection -- new solution, as well as Legal's  
11 workloads, and we will also start transitioning the  
12 Filing Enforcement workloads starting with PIT FE.

13 Finally, in January of 2026, we will focus on the  
14 remaining FE workloads, specifically business entities.

15 As Jose mentioned, in addition to transitioning  
16 these workloads to the Enterprise Case Management  
17 Solution, each implementation brings new self-services,  
18 modeling capabilities, data visualizations, and the  
19 ability to leverage additional data that we've captured.

20 With regards to the self-services, we are excited  
21 to provide you with an overview of the new or expanded  
22 self-services the project will bring to FTB's customers.  
23 We have already implemented a few of them in the  
24 project's first two-plus years, several of which we  
25 mentioned earlier in the accomplishments video. The

1 majority will be implemented over the next two years.

2           With each new self-service, we are performing  
3 usability testing with external customers to help ensure  
4 we are implementing services they will find easy to use.  
5 We also have a robust external communication process to  
6 announce when each service will be available.

7           The services include enhancing MyFTB to allow  
8 taxpayers, and in many instances tax professionals with  
9 the appropriate authorizations, to be able to view and  
10 protest Notices of Proposed Adjustment for Carryover  
11 Amount, also known as the NPACA.

12           Review -- taxpayers can also view a variety of  
13 new information, including hearings, levies, liens, and  
14 tax computations. They can request and manage payment  
15 plans. And we are also adding a new MyFTB role too  
16 which includes the withholding agents.

17           In addition to these MyFTB enhancements, we  
18 introduced a new notice-based self-service, which allows  
19 customers to respond to both audit or collection notices  
20 online without a MyFTB account. These enhancements will  
21 be expanded to enable employers, financial institutions,  
22 third-party payers to respond to withholding orders  
23 online.

24           We are also introducing several new services that  
25 allow taxpayers to apply for certain programs, most of

1 which that do not require a MyFTB account. However, the  
2 customers get a better user experience with prefilled-in  
3 information when using the new service within MyFTB.

4 Taxpayers, and in many instances their  
5 representatives with a POA, will be able to apply online  
6 for Innocent Joint Filer Relief. They can submit an  
7 Offer in Compromise application for personal income tax  
8 or business entities.

9 Also for business entities, we introduced the  
10 ability to request a Certificate of Revivor or a  
11 Voluntary Administrative Dissolution or apply to be an  
12 Exempt Organization.

13 Withholding agents can file Bulk Sales  
14 Certificates, Form 592 Resident and Nonresident  
15 Withholding Statements, or Withholding Waiver Requests.

16 Outside of MyFTB, escrow and title companies can  
17 request a lien payoff amount and receive the information  
18 immediately if the criteria is met.

19 Taxpayers who need to provide information  
20 regarding their filing history, normally required when  
21 filing for student aid or other government benefits, can  
22 request an Individual Status Letter online or through  
23 MyFTB. Once authenticated in MyFTB, they can still  
24 submit -- I'm sorry -- they can receive one immediately.

25 If they don't have a MyFTB account, they can

1 still submit the request online, although it does  
2 require an FTB staff member to complete the transaction.

3 We are also enhancing our Interactive Voice  
4 Response telephone systems to include automatic speech  
5 recognition and texting capabilities for certain contact  
6 center lines that we have. With this enhancement, a  
7 customer can navigate the IVR with their voice, allowing  
8 for a hands-free experience.

9 These self-services benefit the taxpayer and FTB  
10 in a variety of ways. In many instances, this service  
11 will automatically resolve the issue on the spot without  
12 the need for an FTB staff member to assist.

13 And for the items that need an FTB staff member  
14 to resolve, the service will ensure the request gets  
15 with the right case and business area immediately in our  
16 new case management system. And the service makes sure  
17 that the taxpayer is providing all the information we  
18 need to resolve the issue the first time.

19 This ensures we are getting complete requests and  
20 the request is getting to the right business area to  
21 resolve, all leading to faster service.

22 Next, Jose will close out the presentation with  
23 our current project status.

24 MR. OROZCO: Thank you, Jennifer.

25 As with any project of this size, we have a

1 robust risk and management process. We want to report  
2 that over the first two and a half years of the project,  
3 we have only encountered four major risks, one of which  
4 was escalated to a project issue.

5 We are thankful and happy to report that our  
6 solution partners have been fully engaged and have  
7 worked closely with FTB to mitigate and close these  
8 risks and resolve the project issue without impacting  
9 the overall project cost, schedule, or scope.

10 In December 2023, FTB submitted the first Special  
11 Project Report, also known as an SPR, to the California  
12 Department of Technology and received approval in  
13 January 2024.

14 The SPR considered the actual cost for prior  
15 fiscal years, the cost projections refinement, salary  
16 increases approved in the most recent State employee  
17 contract, and an increase to the total contract amount  
18 with the primary vendor for critical functionality that  
19 must be implemented to support current business  
20 operations.

21 The adjustment in the SPR resulted in an  
22 approximately 1.8 percent increase to the overall total  
23 project cost.

24 We are happy to report that CDT's independent  
25 project oversight consultants state that FTB's EDR2

1 project's overall health is favorable.

2 Thank you to our Board for your continued support  
3 with the EDR2 project. That support has been a big part  
4 of our success.

5 Thank you for your time today. We are -- we  
6 would be happy to answer any questions you may have.

7 CHAIRPERSON COHEN: Great. Thank you very much,  
8 because I have three questions. But let me see if  
9 Member Lieber has any.

10 MEMBER LIEBER: My question is do you have a way  
11 of getting feedback from taxpayers who are using the  
12 system?

13 And I'm imagining if they need to upload  
14 documents, for example, and they feel that they weren't  
15 able to cope with the technology or they didn't get  
16 their filing fully accepted by the system, do they have  
17 a way of flagging their case for someone to follow up?

18 MR. OROZCO: What we had is, before we implement  
19 functionality, there are specific self-services where we  
20 will engage with tax professionals and give them an  
21 opportunity to test the design in our prototype and give  
22 us feedback, and we can then make modifications to make  
23 those self-services easier to use.

24 MEMBER LIEBER: Okay. Thank you.

25 MEMBER GONZALES: One question. Thank you for

1 the presentation.

2 Do you have a revenue estimate associated with  
3 the early initiatives that Jennifer spoke to?

4 MR. OROZCO: With the early initiatives  
5 themselves, we would have to get back to you. We are  
6 tracking the overall revenue we have generated through  
7 the different revenue streams that we have opened up  
8 with the EDR2 project, but I don't have that figure on  
9 hand.

10 MEMBER GONZALES: Great. Thank you. I  
11 appreciate it.

12 CHAIRPERSON COHEN: I was wondering if we were in  
13 line with the timelines for the project.

14 MR. OROZCO: We are.

15 CHAIRPERSON COHEN: Okay. And there are several  
16 self-serve options contained. Are they expected to  
17 affect FTB staffing?

18 MR. OROZCO: No, they're not.

19 CHAIRPERSON COHEN: Okay. And when will you be  
20 sharing with us the next update?

21 MR. OROZCO: We haven't scheduled the next  
22 update, but typically, we've been coming before you  
23 March. So if that holds true, that pattern holds true,  
24 we'll be here March of 2024 [sic].

25 CHAIRPERSON COHEN: Okay. Good. Thank you very

1 much. Appreciate the presentation.

2 Let's open up for public comment. Any member in  
3 the audience would like to take public comment -- or  
4 give public comment?

5 (No response.)

6 CHAIRPERSON COHEN: Seeing none, okay. We'll go  
7 to the teleconference line. Operator.

8 PHONE OPERATOR: Members of the public on the  
9 phone lines, if you would like to place yourself in  
10 queue for public comment, as a reminder, you may press  
11 1, then 0 at this time.

12 (No response.)

13 PHONE OPERATOR: And no members of the public are  
14 queueing up at this time. Please continue.

15 CHAIRPERSON COHEN: All right. Thank you very  
16 much.

17 This is an informational; so no action needs to  
18 be taken on this item.

19 I will call Item 4, which is a presentation on  
20 Artificial Intelligence and FTB. This -- this  
21 presentation is by Marion Hughes, and it's an  
22 informational item.

23 MS. HUGHES: Good afternoon, Chair Cohen and  
24 Members of the Board. My name is Marion Hughes. I  
25 serve as the Chief Technology Officer from the



1 Technology Services Division.

2           Leveraging innovative technology while protecting  
3 the privacy and security of taxpayer data is critical to  
4 our mission. There are many varieties of AI, from the  
5 simpler machine learning to the complex generative AI, a  
6 subset of deep learning we often hear about in the news.

7           Like most organizations, FTB has been leveraging  
8 AI for some time. And in all matters, including AI, we  
9 take a measured and careful approach.

10           In this presentation, I'll share the definition  
11 of AI, along with some key terms, including machine  
12 learning and generative AI. Then I'll share how FTB is  
13 using AI and finally close with some next steps.

14           So what is AI? It's a branch of computer science  
15 that seeks to simulate human intelligence in a machine.  
16 AI mimics problem-solving and decision-making humans do  
17 every day.

18           Alan Turing, a mathematician, introduced many of  
19 the AI concepts used today in a report titled  
20 "Intelligent Machinery." He gave quite possibly the  
21 earliest lecture, in 1947, to mention computer  
22 intelligence, saying, "What we want is a machine that  
23 can learn from experience," and that "the possibility of  
24 letting the machine alter its own instructions provides  
25 the mechanism for this."

1           Now I'll share some key AI terms.

2           First, we have algorithms. These are the  
3 building blocks of AI. An algorithm is a set of  
4 predefined instructions that must be carried out to  
5 perform a certain task. A simple example of an  
6 algorithm is a cupcake recipe, my favorite.

7           FTB's examples include our public-facing web  
8 applications, where taxpayers can make a payment or file  
9 a return, and our IVR and Live Chat applications, where  
10 taxpayers can get assistance. These applications are  
11 specifically programmed to carry out certain tasks.

12           Next, we have machine learning AI. This includes  
13 a set of algorithms, or model, fed quantifiable data to  
14 perform a task without being programmed to do so. These  
15 models can be trained by feeding them mass quantities of  
16 data. The model analyzes and draws conclusions from the  
17 data. The more data the machine learning AI churns  
18 through, the better it can become at performing a task,  
19 making a prediction or decision.

20           An example includes credit card fraud detection.  
21 Credit card companies are aware of a customer's shopping  
22 habits, and if an abnormal purchase is made, the  
23 customer will be contacted to verify the purchase.

24           Then there's deep learning AI, a subset of  
25 machine learning. It involves machine learning

1 algorithms with brain-like logical structures of  
2 algorithms modeled on the human brain called artificial  
3 neural networks. Deep learning AI enables the  
4 processing of structured, or quantifiable, and  
5 unstructured data, such as documents, images, locations,  
6 and audio.

7         Examples include self-driving cars and digital  
8 voice assistants. Voice assistants use natural language  
9 processing, a branch of machine learning that deals with  
10 how machines can understand human language.

11         And last, we have generative AI, a subset of deep  
12 learning AI. It too involves machine learning  
13 algorithms with neural networks. Generative AI's deep  
14 learning models generate content based on the data its  
15 models are trained on and the prompts or words provided.  
16 Examples include poems, lines of software code, or  
17 language translations.

18         I asked a generative AI tool to "create a pithy  
19 quote summarizing AI." Here's what it gave me: "AI,  
20 where innovation meets intelligence, shaping tomorrow's  
21 world today."

22         I like this quote better, from FTB's Enterprise  
23 architect Jason Hallford, that sums it all up:  
24 "Essentially, AI is large-scale pattern recognition."

25         Now here's a visual that depicts the various

1 forms of AI and how they're all related. You'll see  
2 that generative AI is a subset of deep learning, which  
3 is a subset of machine learning. All are considered AI.  
4 Algorithms are the ingredients of AI fueled by data,  
5 powered by computing power, enabling the AI to work.

6         Now here's a chart that shows the similarities  
7 and differences between the various forms of AI. The  
8 main differences are that deep learning and generative  
9 AI models require much more data and time to be trained.  
10 They can learn on their own and make complex predictions  
11 and decisions. Generative AI is the type that generates  
12 content based on the words and prompts.

13         You probably heard about the many successes in  
14 the AI field, including improved customer experiences;  
15 more accurate weather predictions, medical diagnoses,  
16 and treatments.

17         There are also considerations we learned about in  
18 the news related to AI. This includes job losses due to  
19 automation, especially for the more repetitive tasks.

20         Another consideration surrounds deep fakes, where  
21 AI can generate an image or video depicting something  
22 false. This could lead to manipulation of evidence,  
23 beliefs, the spread of misinformation, and unjust  
24 outcomes.

25         AI can also amplify biases that already exist.

1 The AI is as good as the techs who write the code and  
2 the data used to train the models. And unfortunately,  
3 I've yet to meet a perfect human.

4         There are also potential privacy violations.  
5 With so much data being collected and processed, there's  
6 a risk it could fall into the wrong hands, either from  
7 hacking or other security breaches.

8         And AI regulations and governance have not kept  
9 pace with technology advancements, best summed up in  
10 this quote by Isaac Asimov. He says "The saddest aspect  
11 of life right now is that the science gathers knowledge  
12 faster than society gathers wisdom."

13         Private and public sector entities have begun  
14 considering, as they travel further down the AI road,  
15 the impacts and transparency behind the AI models  
16 necessary to help ensure that AI is fair, equitable, and  
17 explainable.

18         Many of FTB's processes are automated and rely on  
19 technology and staff to maintain them. We have our  
20 self-service applications, where taxpayers can get  
21 assistance, make a payment, or file a return.

22         94 percent of our tax returns are e-filed.  
23 80 percent of our personal income tax collection  
24 accounts are resolved through automated collections.  
25 Over 80 percent of dollars collected are electronic.

1 And 34 percent of FTB's audit net assessment revenue is  
2 achieved through automated audits.

3 In addition, there are many examples of how FTB  
4 uses AI.

5 We have a suite of security tools that leverage  
6 machine learning to help secure FTB's technology systems  
7 and data.

8 Our EDR1 project that we implemented in 2015 uses  
9 an AI-based toolset to help build our fraud models that  
10 better detect and stop fraud. Fraud is an ever-changing  
11 field, and we must continue to evolve and stay on top of  
12 the fraudsters. Just recently -- and you saw in that  
13 video -- we saved 1.8 billion in revenue using an  
14 assortment of technology tools and techniques. We also  
15 implemented a machine learning algorithm to consolidate  
16 taxpayer information across our systems.

17 Our EDR2 project that Jennifer and Jose provided  
18 an earlier update on is also leveraging AI to help  
19 develop and deploy our new and enhanced expert machine  
20 learning analytic models for Compliance activities,  
21 including our Audit, Collections, and Filing Enforcement  
22 programs. This will further improve case selection and  
23 help our taxpayers meet their obligations.

24 We've also begun leveraging speech recognition in  
25 our Contact Center Platform and will continue to roll

1 this out within our IVR applications as part of our EDR2  
2 project. This leverages natural language processing to  
3 interpret the customer's voice while optimizing a  
4 critical customer service channel and ensuring our data  
5 remains secure.

6 "Protecting the privacy and security of data  
7 entrusted to us" and "Operating with transparency to  
8 maintain public trust and confidence" are two of FTB's  
9 four foundational principles. We continue to explore  
10 additional use cases of how FTB can further leverage AI  
11 technology to better serve our customers while  
12 maintaining our strict privacy, security, and  
13 transparency policies and upholding our foundational  
14 principles. This includes examining improved  
15 authentication methods.

16 We're continuing to educate yourselves, remain  
17 informed, and monitor federal and State regulations on  
18 the topic, including partnering with our oversight  
19 departments and agencies and vendor community.

20 Thank you for your time. I'm happy to answer any  
21 questions.

22 CHAIRPERSON COHEN: Great. Thank you very much  
23 for that very broad, high-level overview.

24 One of the things that I learned in my briefing  
25 yesterday on this topic was that we, meaning FTB, has

1 been using AI since around 2011. Is that right?

2 MR. HUGHES: Yeah. I later fact-checked with my  
3 architect, and he says more like '12, '13. So --

4 CHAIRPERSON COHEN: '12, '13.

5 MS. HUGHES: -- yes.

6 CHAIRPERSON COHEN: So that's a long time that  
7 it's been a part of our business life. And I don't know  
8 about you, but I didn't know about it.

9 And so I appreciate you fact-checking that and  
10 bringing us into the 21st century. It does make sense  
11 how AI could be very helpful with rooting out fraud.  
12 That's something that I always think we need to be  
13 vigilant.

14 Colleagues, do you have any questions on this  
15 presentation?

16 (No response.)

17 CHAIRPERSON COHEN: No?

18 You don't have one either? Okay.

19 So I do have a question.

20 Federal law and guidance, they have several  
21 requirements, and oftentimes they're disjointed; right?  
22 The federal government may have more lax requirements  
23 than the State. And even local municipalities, the  
24 counties, may have their own set of rules and  
25 requirements for agencies that are implementing AI.



1 I was just wondering if you're aware of the State  
2 regulations affecting FTB's implementation of new  
3 technologies.

4 MS. HUGHES: Yes. I'm excited to see that we --  
5 we, CDT, California Department of Technology -- we're  
6 all in this together -- issued their first technology  
7 letter related to generative AI. And it does fold  
8 nicely into -- it references the White House's Bill of  
9 Rights framework. It references the NIST framework,  
10 which I think is wonderful.

11 So I love that -- I think it was just -- was it  
12 last week? -- that the technology letter was issued.  
13 And I'm pleased to see that there's a common definition  
14 for a statewide definition of AI. So that's step one.  
15 And it does definitely leverage the NIST definition, I  
16 noticed.

17 So we are watching that. We are working with our  
18 procurement partners. In fact, I think Michael set up a  
19 meeting this week or next week to dig into it deeper so  
20 we can fully understand the procurement requirements  
21 specifically related to the recent regulations that  
22 we've seen.

23 CHAIRPERSON COHEN: That's actually good  
24 information to know.

25 I was wondering if you all are considering

1 developing and posting, like, a public roadmap regarding  
2 AI use and, where appropriate, including the schedule  
3 for engaging public input.

4 MS. HUGHES: I think that's a wonderful idea.  
5 You may have heard about our Technology Action Committee  
6 that reports to our Governance Council. We are standing  
7 up and assembling a team to explore further use cases of  
8 artificial intelligence.

9 And I'll make sure that we include that  
10 consideration to help share the transparency, which is  
11 important. The whole transparency is a common theme  
12 that I see in all the regulations of the Federal or  
13 State.

14 CHAIRPERSON COHEN: That's good. Thank you.

15 And did you guys know that? Did you know this  
16 was going on in FTB?

17 They're like, "Yes, of course we knew. Where  
18 have you been, Malia?"

19 Okay. That's good to know.

20 Just real quick, just as a follow-up to my  
21 question, does FTB have to develop AI regulations for  
22 review by the Office of Administrative Law in order to  
23 proceed further with the implementation, or do you fold  
24 into CDT's?

25 MS. HUGHES: We report to CDT.

1 CHAIRPERSON COHEN: Okay.

2 MS. HUGHES: They are responsible for issuing  
3 statewide technology policy. So we would foresee what  
4 they are issuing and we are digging into that and then  
5 get more detail within the framework of how FTB should  
6 operate in order to be adhering to what CDT directs us  
7 to do.

8 And we would want to make sure that AI is safe,  
9 equitable, explainable, transparent, has an audit trail.  
10 And that's all consistent with what CDT is requesting.

11 CHAIRPERSON COHEN: So my last question really  
12 has to do with man or human power; right? Oftentimes it  
13 is presented that AI will replace the role of human  
14 beings. And we see that in driverless cars. We know  
15 that there's legislation pending about driverless trucks  
16 on the road.

17 I'm just wondering if there are any  
18 considerations, starting with the job losses, on how  
19 it's going to -- some of the negative implications, how  
20 they can be modified or even eliminated.

21 MS. HUGHES: That is a great question. I do  
22 think with technology, there's always considerations for  
23 job losses. I mean, we've had KDOs. We used to have  
24 paper tax returns and never digital and never scanning  
25 things. We used to have our KDOs do a lot of key entry

1 to transfer the data from the tax returns into our  
2 systems, and now we have scanners.

3 So it is always a consideration. We work with  
4 our labor partners to make sure there's proper notice  
5 and consideration. Because I too want to make sure that  
6 AI is used in a responsible way and considers all  
7 factors, including job losses. Because humans can do a  
8 better job at many things than I think that technology  
9 can, whether it be AI or newer technology.

10 CHAIRPERSON COHEN: Now, on my last question, I  
11 raised it yesterday on our briefing and I want to raise  
12 it publicly. And it really has to do with the biases.

13 There's been studies written and published about  
14 AI about the biases -- gender bias, racial bias -- that  
15 is naturally inherent in human beings. We would like a  
16 utopian society. We would like to ideally be able to  
17 have AI generating things that is bias-free.

18 But people are creating the algorithms. People  
19 are creating the formulas. And like you said, you've  
20 never met a perfect person, although, Selvi, you come  
21 very close to it.

22 MS. HUGHES: Darn near.

23 CHAIRPERSON COHEN: You come very, very, very  
24 close. Okay. All right.

25 But just acknowledging that none of us are

1 perfect. And how do we eliminate that, that bias that  
2 exists?

3 MS. HUGHES: I wish I had a magic wand. I do --  
4 I do think how we can mitigate that is to always make  
5 sure a human is in the equation to validate that we're  
6 not targeting anybody or any group or any community  
7 based on the protected classes.

8 And thankfully, we do have humans in the mix at  
9 FTB, and we are watching out for that, and we are very  
10 careful.

11 So I do know that is what the literature says on  
12 AI: Make sure there is a human in the equation. Maybe  
13 look out for the hidden layers within AI. Don't -- I  
14 would recommend that FTB not have any hidden layers of  
15 AI in the future, because then you can't explain it.  
16 You don't know what the output is going to be.

17 So always having a human in the equation, even  
18 though we are fallible, but just to do the checks and  
19 balances. I think that is a good way to mitigate it.  
20 And just taking advice from all the private and public  
21 sector great minds who are getting together to tackle  
22 these dilemmas.

23 CHAIRPERSON COHEN: Well, Ms. Hughes, thank you.  
24 I appreciate this overview. I can tell you're excited  
25 and enthusiastic about the topic. It comes across in

1 the presentation.

2 Let me open it up and see if there's anyone that  
3 would like to ask a question. I know your boss is in  
4 here, but don't worry. Nothing punitive will happen.  
5 If you have a question, you can ask. This is a safe  
6 space.

7 (No response.)

8 CHAIRPERSON COHEN: Okay. Seeing that there's no  
9 question in the auditorium, let's go ahead and look  
10 online -- or on the teleconference line.

11 Is there a question, Mr. Operator?

12 PHONE OPERATOR: Once again, members of the  
13 public on the phone lines, if you would like to place  
14 yourself in the queue for public comment, as a reminder,  
15 you may press 1, then 0 at this time.

16 (No response.)

17 PHONE OPERATOR: And no members of the public are  
18 queueing up at this time. Please continue.

19 CHAIRPERSON COHEN: All right. Thank you.  
20 Let's -- this is an informational item also too, folks.  
21 So we're not going to take action on this.

22 Our next item is 5, which is a presentation on  
23 the Management Development Program project, the new  
24 electronic payment options.

25 And so this presentation is by Jason Hughes. No

1 relationship; right?

2 MR. HUGHES: No relation.

3 CHAIRPERSON COHEN: Okay. No relation. And also  
4 David Hunter. And again, this is an informational item.

5 Go ahead.

6 MR. HUGHES: Thank you. And good afternoon,  
7 Chair Cohen and Members of the Board. My name is Jason  
8 Hughes. I'm from the Organizational Development and  
9 Talent Management Bureau of FTB's Administrative  
10 Services Division. And I am joined by my colleague  
11 David Hunter, from the General Tax Bureau of FTB's Legal  
12 Division.

13 David and I were participants in last year's  
14 Management Development Program, or MDP as we call it.  
15 MDP is an annual development program that invests in its  
16 FTB leaders by providing leadership training to around  
17 20 managers and supervisors across the Department. The  
18 program includes a project component that is designed to  
19 address a specific enterprise business opportunity.

20 And over the next few minutes, David and I will  
21 provide information and findings from our project on  
22 researching new electronic payment options for  
23 California's taxpayers.

24 Our project focused on FTB's strategic plan goal  
25 to provide exceptional experience and strive to

1 continuously enhance our customer's experience. These  
2 goals include initiatives to champion an organizational  
3 culture to achieve positive customer experiences and  
4 educate our customers on using services and information  
5 to improve their experience.

6 With these goals in mind, our team set out to  
7 research using viable third-party electronic payment  
8 options for taxpayers and to improve the experience by  
9 increasing payment processing efficiencies.

10 As we present our project details, I would like  
11 you to consider, you in the audience, the last time that  
12 you had to make a payment online. What payment method  
13 did you use? How was your --

14 CHAIRPERSON COHEN: My husband's American  
15 Express, I can tell you that.

16 MR. HUGHES: Perfect. How was that experience?

17 CHAIRPERSON COHEN: It was easy.

18 MR. HUGHES: Was there a fee, and did it matter?

19 CHAIRPERSON COHEN: No, it doesn't matter.  
20 I'm not paying it.

21 MR. HUGHES: So consider that experience and as  
22 it relates to the information we're about to share with  
23 you.

24 Our team began by researching the existing ways  
25 that taxpayers can make an online payment to the



1 Franchise Tax Board. On FTB's website, taxpayers have  
2 two main options for making a payment. The first option  
3 is to use their bank account using our Web Pay platform,  
4 and this option is free to the taxpayer.

5 The second option is to use a credit card, like  
6 the American Express. Today, FTB uses a third-party  
7 vendor to facilitate receiving the payments, and this  
8 does come with a 2.3 percent service fee that is  
9 collected and retained by the vendor.

10 Our team also worked with FTB's e-Program Section  
11 to collect data on the FTB's website. The data showed a  
12 decline in the percentage of people who visited the site  
13 and ultimately followed through with making a payment.  
14 This statistic is called the conversion rate, and it  
15 indicates how many visitors came to the site and  
16 performed the intended action of that site.

17 Focusing now on our Web Pay experience, our team  
18 met with various business areas across FTB to understand  
19 the customer's experience while using this service.

20 When making a payment using Web Pay, taxpayers  
21 are presented with seven different types of payments to  
22 choose from, and this indicates what kind of payment  
23 they are making.

24 Our research showed that some taxpayers select  
25 the wrong payment type when making a payment online.

1 When this happens, it creates additional manual work for  
2 FTB staff that is time-consuming and difficult and  
3 ultimately increasing the time it takes to process that  
4 payment.

5         So with this information, our team now had an  
6 objective. We sought to identify how can FTB increase  
7 the conversion rate and guide taxpayers to select the  
8 correct payment type when making a payment. Our team  
9 reviewed FTB's website from that customer's perspective  
10 to identify solutions that would help guide users to  
11 select the correct payment type and have a better  
12 understanding of the Web Pay feature in general,  
13 ultimately to provide better services and outcomes.

14         Our team noticed on the website the "Help" link  
15 shown here on the screen. It's near the bottom. It  
16 does contain all of the information that the taxpayer  
17 needs to correctly identify what payment type to select.  
18 Since all the information is here, our solution was to  
19 make this information more visible to the user.

20         We considered several options to accomplish this,  
21 and ultimately, our solution was a simple but effective  
22 one: Let's move the "Help" link up to the header and  
23 include a message that "If you are unsure what payment  
24 type to select, click the 'Help' link."

25         This small but significant change proposed by our

1 project team will bring attention to the information  
2 available to taxpayers, and it will help guide them to  
3 select the correct payment type. Ultimately, this is  
4 going to reduce the number of payments containing  
5 incorrect payment types, improve payment processing  
6 time, and provide a better experience to our taxpayers.

7         Our research also showed that more and more  
8 customers are choosing to make payments online. With  
9 this in mind, it's going to be important that we educate  
10 our customers and provide the information that they need  
11 that is available to improve their experience.

12         So another opportunity that our team presented  
13 was to provide tutorial videos for FTB's Web Pay and  
14 other online services. These videos would cover  
15 taxpayers' options, what payment types to select, and  
16 overall navigation of the website. These videos will be  
17 available here on FTB's landing page, and we are happy  
18 to report that production of these videos is currently  
19 underway. And with these new tutorials, taxpayers will  
20 now have clear instructions explaining how to use our  
21 e-payment services.

22         Next up, I'm going to pass it over to my  
23 colleague David Hunter, who is going to share our team's  
24 findings regarding new electronic payment types.

25         MR. HUNTER: Thank you, Jason.

1           During our project, we also focused on  
2 researching new electronic tax payment options for our  
3 customers. We evaluated all of our taxpayers' current  
4 available payment options and explored alternative  
5 electronic payment methods, preferably those with low  
6 fees.

7           As part of our research, we contacted other  
8 California State departments to gauge their efforts in  
9 accepting electronic payments, and we also researched  
10 the other -- the revenue departments of the other  
11 49 remaining states. We catalogued their payment  
12 options and their fee charges. We even went online and  
13 made a one-dollar payment on our own individual MyFTB  
14 account to get the flavor of the FTB payment experience  
15 and to see what it is like for taxpayers to use our  
16 website.

17           We gathered the data. We compiled a report on  
18 the most recent tax payments and general payment trends.  
19 We found that the use of digital wallet payments such as  
20 PayPal, Venmo, and Apple Pay is skyrocketing.

21           A digital wallet is just like the physical one  
22 that you carry. It functions similarly by storing all  
23 of your cards, bank information, IDs, and even a digital  
24 cash balance in a wallet that can be used whenever  
25 needed. By opening in an app or scanning a QR code, you

1 can make a payment quickly, easily, and securely using  
2 any of your stored credit cards, debit cards, or bank  
3 accounts or from the balance in your digital wallet.

4 We also found that over half of the people in the  
5 United States use digital wallets today, and by 2025,  
6 this is expected to increase to over two thirds of the  
7 population. Also, the latest research shows that  
8 digital wallets were used to transact \$9 trillion in  
9 payments worldwide during 2023, with predictions that  
10 digital wallets will be used to transact over 16  
11 trillion in payments annually by 2028.

12 We were energized by finding that electronic  
13 payments are on the rise here at FTB as well. More than  
14 half of tax payments are made electronically, and  
15 despite the 2.3 percent fee, making personal income tax  
16 payments with a credit card is up 77 percent since 2008.

17 Also, as part of our research, we found that the  
18 Internal Revenue Service started accepting PayPal and  
19 Venmo using one of their outside vendors. In the first  
20 year alone, PayPal and Venmo made up 5 percent of all  
21 the electronic payments processed by this vendor for the  
22 Internal Revenue Service. In total, this accounted for  
23 over \$112 million. And it's also important to note that  
24 we currently have a relationship with the same vendor  
25 here at FTB.

1           Based on our findings, it is apparent that  
2 digital wallet usage is increasing, as is the number of  
3 people using these payment options daily. As FTB  
4 continues to explore and evaluate options for electronic  
5 payments, our team has provided data on how we can  
6 provide services to our customers in a manner that they  
7 prefer and are accustomed to using. Plus more  
8 electronic payments means less paper process, and you  
9 know we love that.

10           In summary, FTB is taking steps to improve its  
11 Web Pay platform in ways that will better guide  
12 taxpayers in making their payments online.

13           On behalf of Jason, myself, and our MDP team, it  
14 was a pleasure working on this project and sharing this  
15 information with you. We thank our leadership for all  
16 the support that we received.

17           And lastly, we thank you, the Board Members, for  
18 your time. We're here to answer any questions. Thank  
19 you.

20           CHAIRPERSON COHEN: All right. Thank you.

21           Colleagues, do we have any questions?

22           Ms. Gonzales, any questions?

23           MEMBER GONZALES: Yes, thank you. One question.

24           CHAIRPERSON COHEN: Great.

25           MEMBER GONZALES: Have you -- do you have any

1 data showing that the implementation of the "Help" link  
2 has helped the erroneous payment types?

3 MR. HUGHES: So the "Help" link as well as videos  
4 are currently under production -- or in production, and  
5 the changes are underway.

6 MEMBER GONZALES: Okay. When will that be  
7 implemented?

8 MR. HUGHES: I do not have a time frame on that,  
9 but we'd have to get back to you.

10 MEMBER GONZALES: And then assuming once it is  
11 implemented, you'll track the -- so we could have a  
12 sense of whether it has helped?

13 MR. HUGHES: Yes, absolutely. That would be  
14 great.

15 MEMBER GONZALES: Yeah. Great work. I love the  
16 MDP projects. They're always very helpful in the  
17 customer service arena. So appreciate all your hard  
18 work.

19 MR. HUGHES: Thank you.

20 MEMBER LIEBER: Thank you, Chair.

21 I very much appreciate the work in this  
22 direction, and I think in particular moving towards use  
23 of digital wallets just keeps up where -- with where  
24 people are going to.

25 And I wonder, as you implement the changes to the

1 site, do you have a disability council that you move  
2 such changes through to get input about the usability?

3 MR. HUGHES: Yeah, we do. I don't know the  
4 details, though.

5 I would kick that over to Shane, if you have  
6 additional info.

7 MR. HOFELING: Yeah, we do. So we work closely  
8 with our multimedia staff and our web team to make sure  
9 that every -- all of our web products are accessible.  
10 We go through extensive testing and training to make  
11 sure that all the websites are accessible.

12 MEMBER LIEBER: Fantastic. I think it's a much  
13 easier way of managing collections. So thank you.

14 CHAIRPERSON COHEN: Quick question. Do you see  
15 any increased security risks associated with electronic  
16 payments?

17 MR. HUGHES: Yeah. I think there's risk always.  
18 And that was one of the things our team didn't get to  
19 dive too much into, but when talking with different  
20 vendors, that's something that's on their mind as well.  
21 And all of those details will probably be fleshed out,  
22 like, in the contract when we're working with the  
23 vendors.

24 CHAIRPERSON COHEN: Can you still establish a  
25 payment plan even with electronic payments?



1 MR. HUGHES: That, I do not know. I kick that  
2 over to Shane as well.

3 CHAIRPERSON COHEN: Okay. Just so you know, the  
4 Board is like 2 for 0. We got -- we've stumped you guys  
5 twice. I love that.

6 But no, Shane coming in for the save. Okay.  
7 Come on for the assist. Come on, Counsel. What do you  
8 got for us?

9 MR. HOFELING: Yes, you can.

10 CHAIRPERSON COHEN: Yes, you can. And I love it,  
11 so succinct. He's like, "Yes. Yes."

12 Thank you. There it is. Now we know. Okay.

13 And then question: Will you continue to have  
14 Web Pay and credit card payment options in addition to  
15 e-payments?

16 MR. HUGHES: I would think so, yes. Yes.

17 CHAIRPERSON COHEN: That's good. That's good.  
18 My mother would need that.

19 And speaking of my mother, will there be any  
20 videos on how to initiate electronic payments? You  
21 know, like a how-to.

22 MR. HUGHES: On how to initiate the --

23 CHAIRPERSON COHEN: A video --

24 MR. HUGHES: A video?

25 CHAIRPERSON COHEN: -- on how to make these

1 e-payments.

2 MR. HUGHES: Yes. That's part of those tutorial  
3 videos that would be up there.

4 CHAIRPERSON COHEN: Yeah, okay. That's great. I  
5 love that.

6 Let's see if there's any comment in the audience.  
7 Any members would like to comment on this item?

8 (No response.)

9 CHAIRPERSON COHEN: All right. Seeing none,  
10 let's go to the teleconference line.

11 Mr. Operator, are there any -- anyone queued up  
12 for public comment?

13 PHONE OPERATOR: Members of the public on the  
14 phone lines, if you would like to place yourself in the  
15 queue for public comment, as a reminder, you may press  
16 1, then 0 at this time.

17 (No response.)

18 PHONE OPERATOR: And no members or the public are  
19 queueing up at this time. Please continue.

20 CHAIRPERSON COHEN: All right. Gentlemen, thank  
21 you very much for your presentation.

22 This, again, folks, is an informational item. So  
23 no action will be taken.

24 We are going to continue moving forward. We're  
25 going to have Item 6, which is an Executive Officer's

1 time. And I'll turn it over to Selvi Stanislaus.

2 EXECUTIVE OFFICER STANISLAUS: Thank you, Madam  
3 Chair, and good afternoon, Board Members.

4 First and foremost, on behalf of FTB, I would  
5 like to extend a heartfelt welcome to our newest Board  
6 Member, Sally Lieber from the Board of Equalization.  
7 Welcome.

8 As the member for District 2, Chair Lieber  
9 represents 10 million constituents.

10 Member Lieber, your expertise in leadership,  
11 public service, and advocacy will certainly be  
12 invaluable as we navigate the challenges and  
13 opportunities ahead.

14 Although she's not here today, I also want to  
15 take a moment to express our deepest gratitude to Gayle  
16 Miller for her service as Chief Deputy Director of the  
17 Department of Finance. Gayle's commitment and  
18 leadership has left an indelible mark on our Board. We  
19 wish her all the best in her new role.

20 I also want to congratulate Michelle Perrault,  
21 who is taking over for Gayle as the new Chief Deputy  
22 Director of Finance.

23 I also want to take this opportunity and welcome  
24 Erica Gonzales from Department of Finance, who is  
25 joining us today. We love Erica because she is an FTB

1 alumni.

2 We are very excited to have both Erica and  
3 Michelle, and we look forward to your contributions to  
4 the Board.

5 CHAIRPERSON COHEN: No wonder those questions  
6 were so thoughtful and thought-provoking.

7 EXECUTIVE OFFICER STANISLAUS: As we gather here  
8 today, I am reminded of the invaluable guidance and  
9 leadership provided by the Controller. Your insights,  
10 your wisdom, and your dedication to serving the people  
11 of California are truly commendable. It is through your  
12 vision and strategic direction that FTB continues to  
13 thrive and fulfill its mission.

14 I would be remiss if I did not take this brief  
15 opportunity to express my deepest appreciation to the  
16 hardworking employees of FTB. Your professionalism and  
17 commitment to serving the taxpayers of California are  
18 the driving force behind our collective success.

19 Now I would like to turn the floor over to Roger  
20 Lackey, our Filing Division Chief, to briefly discuss  
21 Direct File.

22 Thank you, Board Members, for your time.

23 MR. LACKEY: Thank you, Selvi.

24 Good afternoon, Madam Chair, and our Board  
25 Members. My name is Roger Lackey. I am the Filing

1 Division Chief here at the Franchise Tax Board, and I'm  
2 here today to share some information about the IRS's new  
3 Direct File pilot.

4           So in late 2023, the IRS announced their Direct  
5 File pilot and invited states to participate. We  
6 happily accepted the invitation, as did 11 other states,  
7 enabling interested and eligible taxpayers in those  
8 states to use the Direct File pilot. Since then -- I'm  
9 sorry. Since then, we have been in collaboration with  
10 the IRS to ensure we are staying in step with their  
11 progress as they moved through their phased approach to  
12 launch.

13           The Direct File pilot allows taxpayers, upon  
14 their determination of eligibility, to input their  
15 information, which creates their federal filed return.  
16 To qualify, a taxpayer must reside in 1 of those 12  
17 states and file a less complicated return and a standard  
18 deduction only.

19           For California, we agreed to partner with the IRS  
20 by having the Direct File tool push all California  
21 taxpayers to our current stand-alone system, known as  
22 CalFile. So when a California taxpayer is directed to  
23 our landing page, they are instructed to log in to their  
24 MyFTB account or easily create their new MyFTB account.  
25 Having the taxpayer authenticate through MyFTB helps us

1 authenticate the individual to protect the taxpayer and  
2 the State of California.

3           On March 8th, the IRS opened the Direct File for  
4 all eligible taxpayers in the 12 participating pilot  
5 states. Since their soft launch in February, they have  
6 had 50,000 taxpayers from across the participating  
7 states engage with Direct File. "Engage" means they've  
8 created an account, they've started their tax return, or  
9 they have completed their tax return.

10           By way of comparison, we, California, Franchise  
11 Tax Board, have had 39,000 taxpayers complete their  
12 state income tax return using our CalFile application.

13           As we continue to collaborate with the IRS, we do  
14 believe it is important to understand what kind of  
15 traffic we are getting from the IRS Direct File pilot.  
16 So we are tracking how many people come to Cal File  
17 using the Direct File link provided by the IRS. To  
18 date, we've had 3,800 referrals that have come.

19           We do not know if those individuals, at this  
20 point in time, have filed their tax return. I just want  
21 to make sure that's clearly noted.

22           We are tracking these visits to determine if  
23 there are -- if there's increases that we see overall  
24 with our CalFile usage and then to be able to share that  
25 information with the IRS, as well as our stakeholders

1 and the Board.

2 We continue to engage with the IRS on the Direct  
3 File pilot as they evaluate its success, its challenges,  
4 and the future of the program. Based on that evaluation  
5 and our own analysis and research, we will be able to  
6 evaluate and identify potential opportunities to improve  
7 the taxpayer experience filing both their federal and  
8 state income tax returns.

9 And so with that, I thank you for the time, and  
10 I'll pass it back to Selvi.

11 CHAIRPERSON COHEN: Thank you very much.

12 Colleagues, do you have any questions regarding  
13 this program, this new program?

14 Ms. Gonzales? No?

15 Sally?

16 MEMBER LIEBER: No. I did read through the  
17 letter that we received about making the use of the  
18 federal tool seamless with our California tool.

19 And I wondered if you had ideas about how that  
20 could be achieved. It sounded like there wasn't a huge  
21 number of people who came across from the federal side.  
22 I think you said around 3,500.

23 MR. LACKEY: Yes. Yes. So yeah, we do have -- I  
24 think the one thing to note on this is, one, it's the  
25 IRS's Direct File pilot. So there are quite a few

1 dependencies there. It was presented really late in the  
2 year. We appreciate them reaching out to us right away  
3 to share the concept. And so as we went through that  
4 part of the process, really kind of trying to understand  
5 what were those major items that would need to be  
6 accomplished to allow such integration.

7 For California, what's a little bit different is  
8 our CalFile service, that product, has been in place for  
9 15 years. It's a very successful product. It's a  
10 little bit more comprehensive in terms of the filings  
11 that are, you know, eligible through that.

12 So we're taking a look at that and what's  
13 available. We're trying to understand the concept that  
14 the IRS is putting together. They were on the fly --  
15 you know, those are kind of their words -- of trying to  
16 put this together and move it quickly.

17 And so as they've worked through that, we have a  
18 better understanding of some of their infrastructure  
19 that they're building. We have a better understanding  
20 of some of the choices that other states are making, in  
21 terms of participating, those that have state income tax  
22 filing requirements.

23 And so that's part of that evaluation that we're  
24 going to be going through end to end, to look at it; to  
25 see how it might work, what opportunities, what



1 different options exist there; to be able to create,  
2 potentially, a more seamless service for taxpayers.

3 I think as you kind of look at all the  
4 presentations that you've seen or heard here today, the  
5 thing that's in the front of Franchise Tax Board always  
6 is how we can improve service, and this is just another  
7 opportunity to look into that. It's just it's in a  
8 compressed time frame.

9 And as well as the one thing that's really  
10 important to note about when we talk about creating new  
11 tax filing processes, that is a large cycle. So it's  
12 really kind of tied to that April 15th date that we love  
13 so much.

14 So, you know, our hope is as we go through this,  
15 the IRS is successful, we learn more in that  
16 partnership, we learn more from the other states, and  
17 we're able to gather that information and bring back  
18 opportunities for us to consider more deeply.

19 MEMBER LIEBER: And if I may continue, how many  
20 returns are done through CalFile?

21 MR. LACKEY: Right now it's between 80- and  
22 90,000, is what we see annually. A lot of repeat  
23 filers.

24 MEMBER LIEBER: Okay. And I wonder, as we go  
25 along, what are the ways of growing that so that people

1 can actually access some of the benefits of filing, even  
2 though they may have not done it in the past?

3 MR. LACKEY: Yeah, I think that's part of that  
4 analysis to go through. And, you know, I think me  
5 personally, I was excited. We've had a lot of  
6 conversations over the years where they have visited  
7 with us to better understand the CalFile program that we  
8 have. And so if you were to look at the inner workings  
9 of the IRS's program, you'll see little pieces that  
10 resemble Cal File.

11 So the success that they may have, that allows us  
12 to engage with what opportunity may exist for  
13 California.

14 MEMBER LIEBER: Okay. Thank you.

15 CHAIRPERSON COHEN: I'm curious. How was  
16 California chosen to participate in this pilot program?

17 MR. LACKEY: Why or --

18 CHAIRPERSON COHEN: How?

19 MR. LACKEY: -- how?

20 The FTA, they actually approached us first -- the  
21 IRS, the Federation of Tax Administrators.

22 So the IRS as well as the Treasurer [sic]  
23 approached the FTA to reach out to the states and invite  
24 that participation. They did what I call a kind of a  
25 focus group to better understand how -- if they built a

1 Direct File program, how that might affect states and  
2 how that relationship might work, what might taxpayers  
3 expect, which, Member Lieber, you kind of just talked  
4 about; right? You know, the ability to have more of a  
5 seamless filing service.

6           So they took that into account as they developed  
7 the concept for that pilot. And then through those  
8 conversations, you know, internally, we stepped back and  
9 said there's only opportunity to participate in  
10 California. California has -- is one of the largest  
11 states -- well, is the largest state in terms of  
12 population. We have over 20 million taxpayers that file  
13 annually. I'm understanding it's upwards of plus  
14 10 million taxpayers that could be eligible for a  
15 successful Direct File pilot.

16           When the limitation of not participating and  
17 actually not allowing Californians to have the ability  
18 to participate, it was -- you know, the right decision  
19 is what we can do in terms of participation is to sign  
20 up, be 1 of the 12 states to enable taxpayers to be able  
21 to receive an invitation from the IRS when they go in  
22 there, go through their questionnaire, fill out the tax  
23 return, and get an offer to actually come to  
24 California -- our CalFile page and complete that  
25 California filing.

1 CHAIRPERSON COHEN: So I think you might have  
2 touched on it a little bit in the presentation and in  
3 that brief remark, but I want to tease it out a little  
4 bit.

5 MR. LACKEY: Sure.

6 CHAIRPERSON COHEN: Just to gain a better  
7 understanding as to how California -- how we are working  
8 collaboratively with other states during this pilot  
9 program.

10 MR. LACKEY: Sure. Thank you for asking.

11 Actually, our Director of our Filing Methods --  
12 she has been in contact with those states that actually  
13 are participating that actually have state income tax  
14 filing requirements. Two states to mention would be  
15 New York and Arizona.

16 So in addition to frequently meeting with the  
17 IRS, we're also frequently meeting with those states to  
18 get a better idea of their experience, of going through  
19 that, understanding -- because, like, as I mentioned,  
20 their methodology or approach is different than ours --  
21 again, trying to gather all information available so  
22 that we can be thoughtful about what opportunities may  
23 exist, if the IRS determines that this program is  
24 something that they will be moving forward with.

25 CHAIRPERSON COHEN: So in the pilot this year,

1 there are -- three other states are fully integrated;  
2 right? Meaning -- well, let me tell you -- meaning that  
3 the taxpayer data is prepopulated directly from the IRS  
4 Direct File tool to the state tax filing tool.

5 MR. LACKEY: Yes, in general.

6 CHAIRPERSON COHEN: And it is in theory that --  
7 well, let me not put the theory out there.

8 Explain to me how our program works.

9 MR. LACKEY: Sure. Thank you for asking.

10 So what would happen for a California taxpayer is  
11 they would use the Direct File service, input their  
12 information. Through that process, they'll be asked  
13 some eligibility questions, you know, basically  
14 identifying them as a California taxpayer. And through  
15 that process, the IRS would let them know, "Hey, you're  
16 eligible to actually use the CalFile product that the  
17 Franchise Tax Board, State of California, provides."

18 And so then they would send them a direct link.  
19 We have a unique link for them to come. So once they  
20 get into the CalFile application, it's all the same, but  
21 at least that way we can track that they're coming from  
22 that, from the IRS. So that's that first step.

23 Now, when they go ahead and they enter our  
24 application, if they already are a taxpayer that's  
25 filing with California and they have a MyFTB account --

1 we'd encourage everybody to get a MYFTB account -- they  
2 would be able to go in. And then what happens is we  
3 actually auto-fill as well.

4           So because we have record if you're an income tax  
5 filer with California, then we'll have that information.  
6 So we're going to provide your name, your address, the  
7 basic information there, and ask the questions.

8           What information do we need from your Federal  
9 income tax return? We only need a very little amount of  
10 your Federal information to get your California tax  
11 return started. It's very minor. I don't have the  
12 specific lines with me but it's very minor, considering  
13 the whole Federal income tax return. That's not what we  
14 ask you to do in CalFile. We're focused on what your  
15 California income tax return is and only those items  
16 that are specific that need to carry over from the  
17 Federal return.

18           CHAIRPERSON COHEN: So earlier I was saying that  
19 in the pilot this year, there are three states that are  
20 fully integrated. But it's been brought to my  
21 understanding that California is partially integrated,  
22 partially integrated meaning that the Direct File users  
23 are directed to CalFile but their tax data isn't  
24 imported from the Federal tool and prepopulated into the  
25 State tool.

1 MR. LACKEY: Uh-huh.

2 CHAIRPERSON COHEN: Is that right?

3 Can you talk to me a little bit about why that is  
4 the case?

5 MR. LACKEY: For us currently, it goes back to  
6 the time -- right now is the time frame in which the IRS  
7 actually marketed out their Direct File pilot.

8 CHAIRPERSON COHEN: Uh-huh.

9 MR. LACKEY: A very, very short time frame. For  
10 us, there was a lot more questions than there were  
11 answers at that time. So that's where we start, from  
12 there.

13 Then it's the next step would be, well, what can  
14 we do? And then that's where we landed on our  
15 methodology or approach to that.

16 CHAIRPERSON COHEN: So do you anticipate, in the  
17 future, us being able to be fully integrated?

18 MR. LACKEY: I don't know. I can't tell you the  
19 answer is yes. What I can tell you is, is that we're  
20 trying to gather all of that information so that we can  
21 provide thorough, completed staff work to look at the  
22 opportunities that exist and provide recommendations.

23 CHAIRPERSON COHEN: So when the federal  
24 government came and said, "Hey, California, do you want  
25 to participate?" we said enthusiastically, "Yes."

1           Did the federal government have, like, a list of  
2 options or a menu of items that we can pick a la carte?

3           MR. LACKEY: No.

4           CHAIRPERSON COHEN: No. So we are doing our best  
5 with what we have.

6           MR. LACKEY: Yeah. The IRS has a pretty  
7 significant challenge in front of them.

8           CHAIRPERSON COHEN: Uh-huh.

9           MR. LACKEY: As they offer this for every income  
10 tax-filing state, they have to figure out what's the  
11 most -- what's the best approach for them. Do they --  
12 you know, are we, each one of them, an individual  
13 specialized client that they have to prepare for, or is  
14 it something less than that?

15           And so those were some of the open questions, you  
16 know, as they kind of initiated this concept with us,  
17 for us to understand. And then when you look  
18 specifically at California and the differences between  
19 Federal income tax filing and California income tax  
20 filing, our complexity is a little bit -- a little bit  
21 more than just basic. So --

22           CHAIRPERSON COHEN: Of course, nobody wants to be  
23 basic.

24           MR. LACKEY: Well, it's -- we're a complicated  
25 state.



1           CHAIRPERSON COHEN: No kidding, yes. 40 million  
2 people, fourth largest economy. Like, I know. The list  
3 goes on.

4           MR. LACKEY: Yes.

5           CHAIRPERSON COHEN: Okay. So there was an  
6 article that came out -- I think it was today; right?  
7 Today is the 26th? Yes -- that came out today talking  
8 about this program. And it was argued in the article by  
9 TurboTax and -- yeah, Intuit created TurboTax, but  
10 TurboTax -- what's the other one?

11           (Board Members speaking sotto voce.)

12           CHAIRPERSON COHEN: Huh? H&R Block. Yes. That  
13 TurboTax and H&R Block have a similar function, and it's  
14 actually free.

15           Now, granted, this was free-ish. Our pilot  
16 program is free-ish, meaning that tax filers aren't  
17 paying a fee, an application fee to apply. But you  
18 could argue that there are tax dollars being spent as we  
19 ramp up to participate in this pilot program but also to  
20 work out the kinks.

21           So my question is how would you answer that  
22 question about is it free, is it not free, or this  
23 service that we are providing tax filers is duplicative  
24 to, you know, a software that's already on the market  
25 and available to them?

1 MR. LACKEY: So I'm going to try to keep my  
2 answer pretty brief, because there was a lot in there.

3 CHAIRPERSON COHEN: Yeah, it was. Yeah.

4 MR. LACKEY: So for our purposes, what's  
5 important to us is to provide options to taxpayers that  
6 enable them to file free. And so if you were to  
7 actually visit Franchise Tax Board website, you'll see  
8 any free filing opportunity that exists, we market that  
9 out. That's our approach to things.

10 And so whether it's, you know, a TurboTax or an  
11 H&R Block or any of the other, you know, tax software  
12 industry companies, if they offered a free service,  
13 that's on there. There's others that, you know, that  
14 are on our site that are provided.

15 So that's something that our team, again, our  
16 Filing Methods area, just pays attention to each year,  
17 is what is -- what are free services that are there, and  
18 we offer those free services.

19 You know, the VITA Program is -- it participates.  
20 You know, they use -- the TaxSlayer is the current  
21 service that's contracted with that.

22 So that's really the answer. It's not FTB's, our  
23 position, in terms of the operation administration of  
24 just the income tax filing to really kind of take a  
25 position ourselves. It really is we want to create

1 opportunity for individuals to file their tax returns.  
2 If there's an opportunity to do that free and it's  
3 marketed, that's for the taxpayer to make that choice.

4 CHAIRPERSON COHEN: How long are we going to be  
5 participating in this pilot program?

6 MR. LACKEY: Well, what I would say right now is,  
7 is that we're just evaluating the program itself. We  
8 have no indication from the IRS that this will continue  
9 on next year, the year after that, or the year after  
10 that. And this kind of goes back to the initial  
11 discussion with, as the concept was approached, there  
12 was a lot of open questions that didn't have answers to.

13 So when we evaluate the investment, I think --  
14 and that's where you're leading towards -- of what do  
15 you do, those are things that normally you would take  
16 into account, as to what can we do with what we have,  
17 before you ask for something more.

18 CHAIRPERSON COHEN: Okay. And just for those of  
19 you that are wondering what article am I referencing, it  
20 was an article that came out in Marketwatch.com, "Early  
21 reviews of the IRS Direct File free tax-prep tool are  
22 in, and here's what taxpayers say so far."

23 And overall, people like it. Now, I don't know  
24 if they interviewed Californians, but that was the  
25 overall tone and tenor of the article. So if you want

1 to check it out, go to Marketwatch.com and you can read  
2 it for yourself.

3 I have no other questions. Let's see if there's  
4 any members of the public that would like to come and  
5 talk or give comments on this.

6 Please, welcome to the podium. Great. I've been  
7 waiting for this all day, public comment. Thank you.

8 Let's get her mic on, please.

9 MS. OLLE: Got it. I got it now. Thank you.

10 Thank you, Chair Cohen, Members of the  
11 Commission. Teri Olle with Economic Security  
12 California. We're an organization that's actually been  
13 working a long time on expanding access to tax credits.

14 And I don't think I'm overstating it by saying  
15 that this is an incredibly pivotal moment right now, and  
16 I really want to commend the Franchise Tax Board for  
17 agreeing to be part of this pilot. For years, we've  
18 been waiting for the IRS to kind of throw open wide its  
19 doors and create an online tool that states could tap  
20 into, since we know that most people start their tax  
21 returns at the top with their federal return and they  
22 don't start at the state. And so starting with the  
23 federal really matters.

24 Just an investment point, and I do have a couple  
25 of impact points as well. But the IRS has calculated

1 that for every dollar that it is spending on creating  
2 Direct File, it is returning \$106 to American taxpayers.  
3 So, you know, we're only the fourth largest economy. So  
4 we can do the math a little bit differently. But I  
5 think it really goes to show how this kind of investment  
6 makes a difference and will be putting money directly  
7 into the pockets of people.

8         And that's actually what I really wanted to talk  
9 a little bit about, since you did such an amazing job, I  
10 think, detailing the process and how the -- how it  
11 works. And just to encourage you really to think about  
12 prioritizing seamless integration with Direct File next  
13 year, if the IRS continues its pilot, which, of course,  
14 we're really hoping it does and will be advocating for.

15         Right now, filing taxes is expensive. It's  
16 difficult. On average, it costs about \$150 and nine  
17 hours of time. Calculations that have been done in  
18 California have suggested that it's in the hundreds of  
19 millions of dollars that taxpayers pay out of pocket to  
20 paid tax preparers in order to file their taxes. And  
21 part of that, of course, is because it's daunting and  
22 confusing and complicated. And so we want to make it  
23 easier, but we also want to make it free.

24         And so, you know, we know even more -- a more  
25 challenging stat is what's around people who are

1 actually our lowest income tax filers in the state,  
2 people who are claiming those really valuable refundable  
3 tax credits, like the California Earned Income Tax  
4 Credit, the Young Child Tax Credit, and the federal --  
5 the federal Child Tax Credit and Earned Income Tax  
6 Credit.

7           We know roughly 60 percent of those filers are  
8 actually paying paid preparers, and that doesn't even  
9 include people who are using paid software. So that's a  
10 lot of money that is not going to people but is instead  
11 going to pay preparers.

12           But this is the moment where it changes and where  
13 we have just a massive opportunity right now to, again,  
14 throw open the door and make tax filing free, make it  
15 simple, and really show that the government can be  
16 responsive and supportive of the needs of California  
17 taxpayers.

18           And with that, I would love to close and just  
19 thank you so much for the collaborative and cooperative  
20 work that your team has been doing. I've been working  
21 with a number of people at the FTB for years around  
22 simplifying access, and I just really want to thank you  
23 for all of the great work that you've been doing and  
24 offer myself to continue to help you as we make this a  
25 successful pilot in California and ideally make it a

1 seamlessly integrated process next year so that it's  
2 available to even more people.

3 Thank you.

4 CHAIRPERSON COHEN: Thank you very much.

5 Appreciate your comment.

6 Next speaker, please.

7 MS. OROZCO: Good afternoon. I'm Vanessa Orozco  
8 with Golden State Opportunity, and I'm here in full  
9 support of the Direct File integration for the 2025 tax  
10 year.

11 The current system makes it too hard for  
12 Californians with low incomes to claim the tax credits  
13 they're eligible for, such as the California Earned  
14 Income Tax Credit and Young Child Tax Credit. The  
15 people who would benefit from these refunds are the same  
16 ones who either do not claim their credits because their  
17 filing taxes is too hard or expensive or they do file  
18 but they have a significant portion of their credits to  
19 a tax prep company middleman.

20 The IRS Direct File is a critical step in making  
21 sure everyone can access the credits they deserve. We  
22 thank you for taking part of the significant step to be  
23 a part of the innovative pilot. We're confident it will  
24 make our tax code more equitable by increasing access to  
25 critical tax credits for low-income households.

1 Thank you.

2 CHAIRPERSON COHEN: Thank you very much for your  
3 comment.

4 Seeing that there are no members in the audience  
5 clamoring to comment, let's go to the teleconference  
6 line.

7 Mr. Operator.

8 PHONE OPERATOR: Members of the public on the  
9 phone lines, if you would like to place yourself in the  
10 queue for public comment, as a reminder, you may press  
11 1, then 0 at this time.

12 We do have a comment from Jafet Diego.

13 Please go ahead.

14 MS. DIEGO: Hello? Can you hear me?

15 CHAIRPERSON COHEN: Yes. Go ahead.

16 MS. DIEGO: Okay. Okay. Perfect.

17 Hi. My name is Jafet Diego, and I am the Free  
18 Tax Prep Assistance Coordinator at United Ways of  
19 California. And I'm joining today's meeting just on  
20 behalf of our organization to thank the Franchise Tax  
21 Board for all the great work that you do and for  
22 agreeing to participate in the IRS Direct File Program.

23 So through our work, we've witnessed the profound  
24 impact of free tax prep and refunds on our communities  
25 by connecting individuals to key tax credits like the



1 California Earned Income Tax Credit, the Young Child Tax  
2 Credit, and the Foster Youth Tax Credit.

3 We're able to help Californians all over the  
4 state get the help that they need. This ranges from  
5 helping them put food on the table or paying overdue  
6 bills or even securing stable housing or even furthering  
7 their education and career. This is really crucial, as  
8 our real cost measure indicates that one in three  
9 families in California struggle to meet basic needs  
10 despite 97 percent of households having at least one  
11 working adult. So we know that they simply lack the job  
12 security and economic security that they need.

13 What we hear from filers almost on a day-to-day  
14 basis is that they're spending way too much filing with  
15 a paid tax preparer, often without guaranteed access to  
16 the tax credits that they are entitled to. And so the  
17 IRS Direct File Program really bridges this gap,  
18 ensuring that more people can file their taxes for free  
19 and keep that hard-earned refund and those hard-earned  
20 tax credits in their pocket.

21 While the Volunteer Income Tax Assistance Program  
22 serves thousands across the state and we're incredibly  
23 proud of what we do with the VITA Program, demand  
24 definitely exceeds capacity. This is why we are  
25 committed to making e-filing easier and more accessible

1 to all Californians. We believe that tax filing should  
2 be free and accessible to everyone and that the IRS  
3 Direct File Program will complement the VITA Program,  
4 not replace it. VITA remains an essential program for  
5 individuals with specific needs, such as those with  
6 disabilities, who have language barriers maybe, or need  
7 a lot more support with applying or renewing an ITIN.

8           And so we really firmly believe that, together,  
9 we can make free filing more accessible and equitable  
10 for all Californians. And again, we thank the Franchise  
11 Tax Board for all your hard work with this issue and  
12 this matter.

13           Thank you.

14           CHAIRPERSON COHEN: Thank you very much.

15           Mr. Operator, is there another caller?

16           PHONE OPERATOR: There is. Next we'll go to Erin  
17 Hogeboom.

18           Please go ahead.

19           MS. HOGEBOOM: Great. Thank you.

20           Hi, good afternoon. My name is Erin Hogeboom,  
21 and I'm director of San Diego for Every Child. I also  
22 want to commend the Franchise Tax Board for  
23 enthusiastically participating in this pilot. I'm  
24 calling in full support of the Direct File integration  
25 for tax year 2025, should the IRS Direct Tax Tool

1 continue.

2 We, as an organization and individuals, care  
3 about cutting the experience of child poverty. And  
4 given that tax credits are one of the biggest tools that  
5 we have to make meaningful strides in that effort,  
6 filing taxes should be easy and available to all.  
7 Taxpayers -- oh. Taxpayers shouldn't have to pay to  
8 fulfill this civic duty. For the families we work with,  
9 every dollar counts.

10 Again, I just want to emphasize the critical  
11 importance of ensuring that CalFile works seamlessly  
12 with the IRS Direct Tax Filing Tool in the future.

13 Thank you so much.

14 CHAIRPERSON COHEN: Thank you for your comment.

15 One last question before we close this item.

16 Is there language access? How do people who  
17 don't speak English access this information in this  
18 filing?

19 MR. LACKEY: For the IRS?

20 CHAIRPERSON COHEN: Yeah. Or not for the IRS.

21 For our State portion.

22 MR. LACKEY: Yeah. So we do have information in  
23 Spanish on our website.

24 CHAIRPERSON COHEN: Okay.

25 MR. LACKEY: There's other -- it's limited with

1 other languages for different, other services. I don't  
2 have all of that information. If that's something that  
3 you would like us to provide afterwards.

4 CHAIRPERSON COHEN: So you have more than  
5 Spanish?

6 MR. LACKEY: On different products. I don't  
7 have --

8 CHAIRPERSON COHEN: Different products.

9 MR. LACKEY: Yeah. I don't have --

10 CHAIRPERSON COHEN: But, like, this specific  
11 product.

12 MR. LACKEY: Just -- I do believe it's just  
13 Spanish.

14 CHAIRPERSON COHEN: Okay. We need to work on  
15 that.

16 All right. That's it. Thank you very much. I  
17 appreciate your presentation. Oh.

18 MEMBER LIEBER: Question. Do we have a sense of  
19 how many filers there are who file a federal return but  
20 then don't file a California return; so they lose out on  
21 our California-specific tax credits?

22 MR. LACKEY: Yes. We actually -- I think some of  
23 the folks that are advocates for that, one of our 2023  
24 accomplishments was actually on that subject. And so  
25 what we actually did is we sent out letters to taxpayers

1 who are nonfilers.

2 We don't know, necessarily, if they've claimed a  
3 federal or an income tax credit, but we could evaluate  
4 the information we had to determine if they may be  
5 eligible for the California Earned Income Tax Credit.  
6 And we sent them a letter saying "Hey, there's this  
7 opportunity there for you to go ahead and file." And we  
8 did have some taxpayers that took advantage of that.

9 We also evaluated taxpayers who did file their  
10 tax return with us and it looked like they may be  
11 eligible. So we, by chance, you know, offered, "Hey,  
12 you know, take a look at this. You may be eligible for  
13 it or not."

14 The response rates on those aren't that high.  
15 That's not uncommon. But it is something that we're  
16 proud of. It's one of our accomplishments from last  
17 year, you know, trying to create opportunity for folks,  
18 you know, that that California Earned Income Tax Credit  
19 may be available to them.

20 MEMBER LIEBER: Okay. Thank you.

21 MR. LACKEY: Sure.

22 CHAIRPERSON COHEN: All right. Thank you very  
23 much.

24 This is an informational item. So there's no  
25 action that will be taken on this item.

1           We're going to move on to the last item of the  
2 day. It's Item 7. It's the Board Members' time.

3           And it's a time where we just -- I don't know  
4 what we do. We just talk. We just talk about things  
5 that are on the forefront of our mind.

6           Would you like to go first? You look ready.

7           MEMBER LIEBER: I'm not ready, but I will  
8 definitely go first.

9           CHAIRPERSON COHEN: Okay.

10          MEMBER LIEBER: And I just want to thank our  
11 State Controller and our other Board Members who are  
12 here and the leadership of the agency. And everyone  
13 that I've had the chance to interface with from the  
14 agency has been so helpful in welcoming me here.

15          And I have my staff member, Doug Winslow, who is  
16 here, who is our chief consultant; John Thiella, who is  
17 known to many folks around the FTB as a longtime hand in  
18 tax matters.

19          And I come to this by being an IRS kid. So it's  
20 been a long haul. And I'm really heartened to hear the  
21 advocacy community that's here today engaging with the  
22 FTB and the excellent staff that we have at the FTB.  
23 For me, it's all about the Californians who have the  
24 least in resources, despite their enormous work in our  
25 state and the work that they do that we all depend on,

1 but they end up with very little in terms of resources.

2           So any information that we can get back about  
3 getting our state-level tax credits out to folks. And I  
4 was really heartened to hear that we have nearly 350,000  
5 outreach notices that go out. But if we can think of  
6 some creative ways to really expand that and to work  
7 with our great advocacy community that we heard from  
8 today, I think it would mean a lot.

9           Within my district -- and thank you, Selvi, for  
10 saying that I represent 10 million people. That shocked  
11 even me when you said that -- but are so many people  
12 where there's a family with five jobs between two  
13 parents and oftentimes having just one room in an  
14 apartment for the family or even sharing one room within  
15 an apartment. And so I think that anything that we can  
16 do to get resources out to people would be so  
17 meaningful.

18           Coming from Michigan, from Detroit, as I do,  
19 California, every day, is still a miracle to me. And I  
20 want to spend my life and my effort increasing that for  
21 the Californians that are in need today and getting  
22 everybody to the next step.

23           So thank you so much to staff for the work that  
24 you're doing on that, and I would really like to engage  
25 with you on it. Thank you.

1           CHAIRPERSON COHEN: Thank you very much.

2           Member Gonzales.

3           MEMBER GONZALES: Thank you, Madam Chair, and the  
4 Board and FTB. I am so honored to be here today. It's  
5 always a privilege to come back to a place that I call  
6 my home. So thank you so much for having me.

7           CHAIRPERSON COHEN: Of course. Thank you very  
8 much.

9           Thank you very much, ladies, for joining us.  
10 This is our inaugural meeting for 2024. I think we're  
11 off to a great start.

12           Selvi and team, you guys are excellent. Great  
13 leadership.

14           I want to just talk a little bit about March.  
15 It's coming to a close. And many of you know March as  
16 Women's History Month. And during this time of the  
17 year, we like to honor extraordinary roles that women  
18 have played in shaping our history, from -- you know, I  
19 think about Harriet Tubman and the midnight journeys on  
20 the Underground Railroad to breaking barriers on the  
21 athletic field to, frankly, the women that are breaking  
22 the glass ceiling in boardrooms today.

23           Women have always shown us that we can achieve  
24 what we -- we can achieve when we refuse to settle for  
25 the world as it is and choose to remake the world as it



1 should be.

2           And these are really profound remarks that I'm  
3 grateful that my Deputy Controller, Hasib, wrote. I  
4 cannot take credit for them. He just knows me well in  
5 terms of the sentiment.

6           But I think collectively, we all know that when  
7 women succeed, I think California succeeds. And the  
8 strength of our economy rests on whether we make it  
9 possible for every citizen to contribute to our growth,  
10 to continue to contribute to our prosperity.

11           And I am a mother of a young three-year-old, and  
12 when I tuck her in at night, I want to make sure that  
13 she's got the same opportunities as her friends in her  
14 classroom, the little boys, that are growing, not just  
15 growing up here in the state of California but across  
16 the entire world.

17           So I instill in her the notion that no obstacle  
18 is too great and no glass ceiling can block her rise,  
19 and I hope that you will share that with the young  
20 people in your life that you surround yourself with,  
21 that this is the dream that our ancestors had. Our  
22 mothers and our grandmothers have fought throughout our  
23 collective shared history, and it's a dream that I  
24 continue to fight to make real as your State Controller.

25           So lastly, I just want to acknowledge that we

1 have a three-day weekend coming up. If you didn't know,  
2 Monday, April 1st, is a holiday. It's observed as Cesar  
3 Chavez Day in the state of California.

4 Many of you already know Cesar Chavez is an  
5 iconic man in the labor and civil rights movement. So  
6 Monday is a day that we honor his legacy of prosperity,  
7 freedom, and equity for all. And unless you're a member  
8 of the legislature, then you have a committee meeting  
9 that day.

10 But I want to wish everyone an amazing holiday  
11 and also acknowledge that April 15th is our tax day.  
12 That is going to be game day for all of us. It will be  
13 all hands on deck. This place is going to be buzzing,  
14 and I'm so excited about that buzz. So I want to just  
15 encourage the team to get out there and finish strong.

16 Thank you. We are adjourned.

17 (Board Members speaking sotto voce.)

18 CHAIRPERSON COHEN: Oh, sorry. What? Public  
19 comment, yes.

20 Before we adjourn, I would like to pivot and open  
21 up to public comment.

22 The floor is yours.

23 MR. BAER: Hi. Bart Baer, California Taxpayers  
24 Association.

25 I echo the very positive comments about the

1 Franchise Tax Board and all of the professional team. I  
2 mean, it's very heartfelt. I've been practicing 35-plus  
3 years, worked with the FTB on many matters, and I would  
4 say the organization is excellent and very professional,  
5 and I definitely echo that.

6 I have some comments that might be in the  
7 category of constructive input.

8 CHAIRPERSON COHEN: We'll take it.

9 MR. BAER: And I know I'm the guy showing up --

10 CHAIRPERSON COHEN: You have three minutes.

11 MR. BAER: -- at the end of a very positive  
12 meeting with some other comments.

13 And if it's possible to have a couple extra  
14 minutes, I would appreciate it.

15 CHAIRPERSON COHEN: Oh, no. That's not a  
16 possibility.

17 MR. BAER: All right. I want to express the  
18 concerns of CalTax regarding the efforts of the FTB to  
19 pursue changes to existing apportionment regulations,  
20 done without the approval of the three-member Franchise  
21 Tax Board and done outside of the transparent regulatory  
22 process that's mandated by the Board.

23 Our concern is with the work and advocacy of  
24 senior FTB staff at the Multistate Tax Commission to  
25 drive revisions to the MTC's model sourcing rules as

1 they relate to the sourcing of interstate trucking  
2 services. Presumably, this is the first step to change  
3 the regulations in California.

4         Currently, we -- California sources these types  
5 of services under Regulation Section 25136-2, 25137-11,  
6 using a so-called mileage ratio method that focuses on  
7 how much of the activity happens in California. This  
8 rule has been in place for more than 30 years.

9         We have become aware, through comments from a  
10 number of members and others, that senior members of the  
11 team have been pushing MTC staff to draft a different  
12 apportionment rule as the MTC model.

13         And I have more comments about the MTC's rule and  
14 the specifics about the actions of the team, but I'll  
15 provide those in written comments later, in the interest  
16 of time.

17         I think the key part is the FTB team has been the  
18 one really driving the process, as opposed to going  
19 along with it. And our concern is that you have  
20 long-standing regulations that have been adopted. You  
21 have a series of processes for changing our regulations,  
22 you know, starting with the three-member Board, in your  
23 role in approving those projects and delegating the time  
24 of the personnel to those projects. And we don't  
25 believe that's been initiated in this case.

1           And I think it's really a matter of degree, at  
2 the end of the day. I think it's --

3           MS. RUBALCAVA: Controller Cohen, time has  
4 expired.

5           CHAIRPERSON COHEN: Oh, thank you.

6           MR. BAER: That was fast.

7           CHAIRPERSON COHEN: Thank you.

8           Can I have another 30 seconds?

9           CHAIRPERSON COHEN: You can have ten. Hurry up.

10          MR. BAER: All right. Well, we'll provide  
11 additional comments. I do think this is the role of the  
12 Board, to authorize what appears to be the initiation of  
13 a regulation project being done, you know, outside of  
14 the transparent process, you know, without your  
15 approval.

16          So I appreciate the extra time, and thank you for  
17 the ability to give constructive input.

18          CHAIRPERSON COHEN: Of course. Thank you. We  
19 welcome constructive criticism. Always looking to  
20 better our best. Thank you.

21          Are there any other members of the public that  
22 would like to speak on any topic?

23          (No response.)

24          CHAIRPERSON COHEN: All right. Let's go to the  
25 teleconference line and see if there's anyone online

1 that would like to comment.

2 PHONE OPERATOR: Members of the public on the  
3 phone, if you would like to place yourself in queue for  
4 public comment, as a reminder, you may press 1, then 0  
5 at this time.

6 We do have someone that has queued up. We will  
7 be going to Sam Wilkinson.

8 Please go ahead.

9 MS. WILKINSON: Hi there. Is it all right to  
10 give comment on Item 6? I wasn't able to earlier.

11 CHAIRPERSON COHEN: I'm sorry. I couldn't hear  
12 you. Say your question again.

13 MS. WILKINSON: Hello. I was wondering if it  
14 would be all right to give public comment on Item 6  
15 still.

16 CHAIRPERSON COHEN: We've already closed that  
17 item. I'm sorry. We can't take public comment on  
18 Item 6.

19 MS. WILKINSON: All right. Thank you so much.

20 CHAIRPERSON COHEN: You could submit your  
21 comments in writing. That way, it will be on the  
22 record.

23 MS. WILKINSON: Absolutely. I'll definitely do  
24 that.

25 And I just want to thank FTB and all of your work

1 this year and in years past. I really appreciate you  
2 all.

3 CHAIRPERSON COHEN: All right. Thank you very  
4 much.

5 Okay. With that --

6 MS. WILKINSON: Thank you.

7 CHAIRPERSON COHEN: -- Mr. Operator, are there  
8 any other speakers?

9 PHONE OPERATOR: There's no one else in the queue  
10 at this time.

11 CHAIRPERSON COHEN: All right. Thank you very  
12 much.

13 Thank you, everyone. We are adjourned.

14 (Proceedings concluded at 2:48 p.m.)

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I, EMILY SAMELSON, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing proceedings were reported, to the best of my ability, in shorthand by me, Emily Samelson, a Certified Shorthand Reporter of the State of California, and thereafter transcribed into typewriting.

IN WITNESS WHEREOF, I have hereunto set my hand this 16th of April, 2024.

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