



chair **John Chiang**
member **Betty T. Yee**
member **Ana J. Matosantos**

State of California
Franchise Tax Board

02.01.10

Roland Boucher
United Californians for Tax Reform
11 Deerspring
Irvine, CA 92604

Dear Mr. Boucher,

Thank you for your proposal submitted for the Taxpayers' Bill of Rights Hearing that was held on December 3, 2009. I am responding to your proposal to raise the California standard deduction to the federal level in order to increase the universe of taxpayers eligible to file their tax return using the Form 540 2EZ.

Based on California personal income tax returns filed for tax year 2006, nearly 800,000 taxpayers (approximately 6% of all personal income tax filers) filed returns claiming itemized deduction amounts that fall between the CA and Federal standard deduction amount. Raising the CA standard deduction amount to the federal standard deduction amount will reduce the burden to file by allowing these taxpayers to use the same standard deduction for both CA and Federal purposes. Simply raising the California standard deduction to the federal amount still may not allow all of these taxpayers to file 540 2EZ. There are a number of other criteria that must be met in order for a taxpayer to qualify for filing 540 2EZ such as filing status, number of dependents, amount of income, sources of income, federal/state adjustments, type of withholdings, tax credits, and other taxes.

This proposal also recommends elimination of the 1% tax bracket in order to make the proposed increase to the standard deduction revenue neutral. Based on the proposed change to the standard deduction and elimination of the 1% tax bracket, the net revenue projections show a 3-year revenue impact of \$1.33 billion (Fiscal 09/10 = \$500M; Fiscal 10/11 = \$390M; Fiscal 11/12 = \$440M).

This proposal results in a significant tax increase compared to the relatively small percentage of taxpayers who would be able to benefit from a move to the simpler 540 2EZ. Many taxpayers in the lower tax brackets who already claim the standard deduction will see a tax increase with no corresponding reduction in their burden to file. Likewise, the majority of taxpayers who report itemized deductions already itemize on both their CA and Federal tax returns. These taxpayers will also have an increased tax liability, due to the increased tax rate, with no reduction in their burden to file.

For taxpayers who have itemized deductions, there are many free e-file options available, including FTB's "CalFile." These applications help taxpayers to easily compute itemized deductions and e-file their return for free. Using e-file is fast, secure, and saves paper.

As a result of the above discussion, we are unable to recommend an FTB sponsored legislative proposal to increase the CA standard deduction to an amount equal to the Federal standard deduction and elimination of the 1.0 percent tax rate.

Sincerely,

Steve Sims, EA
Taxpayers' Rights Advocate

cc: Hon. John Chiang, Chair
Hon. Betty T. Yee, Member
Hon. Ana J. Matosantos, Member