

BILL ANALYSIS

Department, Board, Or Commission	Author	Bill Number
Franchise Tax Board	Stone, et al.	AB 1847

SUBJECT

Refundable Earned Income Tax Credit (EITC) Notification Requirements

SUMMARY

Under the Administration of Franchise and Income Tax Laws (AFITL), this bill would amend *The Earned Income Tax Credit Information Act*.

REASON FOR THE BILL

The reason for the bill is to ensure eligible Californians are aware of both the federal and California EITC.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2017, and specifically operative for notices that are furnished on or after that date.

FEDERAL/STATE LAW

Federal Law

Existing federal law (IRC section 32) allows eligible individuals a refundable EITC. A refundable credit allows for the excess of the credit over the taxpayer's tax liability to be refunded to the taxpayer. The EITC is a percentage of the taxpayer's earned income and is phased out as income increases. The percentage varies, based on whether the taxpayer has qualifying children.

State Law

Beginning with the calendar year 2015 tax year, state law provides a refundable California EITC that is generally determined in accordance with IRC section 32 as applicable for federal income tax purposes for the taxable year, except as modified.¹

¹ Revenue and Taxation Code (R&TC) section 17052. The California EITC is only operative for taxable years the annual Budget Act specifies an adjustment factor and authorizes resources for the Franchise Tax Board (FTB) to oversee and audit returns associated with the California EITC. For additional details on the California EITC, refer to www.ftb.ca.gov.

State law, known as *The EITC Information Act*, requires California employers, state departments, and certain agencies to provide formal notification to their employees of possible eligibility for the federal EITC.²

THIS BILL

This bill would, under the AFITL, amend *The EITC Information Act* to require that California employers, state departments, and certain agencies also provide formal notification to their employees of possible eligibility for the new California EITC.

In addition, this bill would accomplish the following:

- Remove the reference to the federal Form W-5 as this advanced payment option was eliminated under federal law starting with taxable year 2011;
- Remove the reference to the Managed Risk Medical Insurance Board as that board was eliminated and the Healthy Families program was transitioned to the Department of Health Care Services; and
- Update the sample notice in R&TC section 19854 to remove obsolete federal information and add information on the new California EITC. The new sample paragraph on the California EITC would read as follows:

YOU MAY ALSO BE ELIGIBLE TO RECEIVE THE CALIFORNIA EARNED INCOME TAX CREDIT (CALIFORNIA EITC) STARTING WITH THE CALENDAR YEAR 2015 TAX YEAR. THE CALIFORNIA EITC IS A REFUNDABLE STATE INCOME TAX CREDIT FOR LOW-INCOME WORKING INDIVIDUALS AND FAMILIES. THE CALIFORNIA EITC IS TREATED IN THE SAME MANNER AS THE FEDERAL EITC AND GENERALLY WILL NOT BE USED TO DETERMINE ELIGIBILITY FOR WELFARE BENEFITS UNDER CALIFORNIA LAW. TO CLAIM THE CALIFORNIA EITC, EVEN IF YOU DO NOT OWE CALIFORNIA TAXES, YOU MUST FILE A CALIFORNIA INCOME TAX RETURN AND COMPLETE AND ATTACH THE CALIFORNIA EITC FORM (FTB 3514). FOR INFORMATION ON THE AVAILABILITY OF THE CREDIT, ELIGIBILITY REQUIREMENTS, AND HOW TO OBTAIN THE NECESSARY CALIFORNIA FORMS AND GET HELP FILING, CONTACT THE FRANCHISE TAX BOARD AT 1-800-852-5711 OR THROUGH THE WEBSITE AT WWW.FTB.CA.GOV.

LEGISLATIVE HISTORY

AB 1929 (Brough, 2015/2016) would modify the FTB annual report to the Legislature on the California EITC. This bill is pending before the Assembly Revenue and Taxation Committee.

AB 2807 (Steinorth and Lackey, 2015/2016) would expand the California EITC to allow some self-employed individuals to claim the credit. This bill is pending before the Assembly Revenue and Taxation Committee.

² R&TC sections 19850 through 19854.

SB 80 (Committee on Budget and Fiscal Review, Chapter 21, Statutes of 2015) created the refundable California EITC for taxable years beginning on or after January 1, 2015.

AB 509 (Skinner, Chapter 452, Statutes of 2011) amended *The EITC Information Act* by requiring specified state departments and agencies to notify benefit recipients that they may be eligible for the federal EITC.

AB 650 (Lieu and Jones, Chapter 606, Statutes of 2007) enacted *The EITC Information Act* that requires employers to notify their employees that they may be eligible for the federal EITC.

OTHER STATES' INFORMATION

Because this bill only modifies an EITC notice requirement, a review of other states' tax information would not be relevant.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

APPOINTMENTS

None.

SUPPORT/OPPOSITION³

Support: Abrazar, Inc.; California Asset Building Association; California Association of Public Authorities; California Catholic Conference; California Family Resource Association; California Tax Reform Association; California Welfare Directors Association; Children's Defense Fund; Common Sense Kids Action; County Welfare Directors Association of California; First 5 Association of California; Good Hands Foundation; Inland Empire United Way; National Association of Social Workers, California Chapter; Small Business California; United Ways of California; United Ways of the Bay Area, Fresno and Madera Counties, Monterey County, Orange County, San Diego County, and Stanislaus County.

Opposition: None noted.

³ As noted in the Senate Governance and Finance Committee analysis dated June 17, 2016.

VOTES

	Date	Yes	No
Assembly Floor	05/31/16	79	0
Senate Floor	08/16/16	38	0

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