

ANALYSIS OF AMENDED BILL

Author: Caballero & Bonta Analyst: Davi Milam Bill Number: AB 225
Related Bills: Refer to prior Telephone: 845-2551 Amended Date: March 6, 2017
version Attorney: Bruce Langston Sponsor: _____

SUBJECT: Earned Income Refundable Credit/Increase Income Thresholds

SUMMARY

This bill would, under the Personal Income Tax Law (PITL), modify the California Earned Income Tax Credit (California EITC).

RECOMMENDATION – NO POSITION**Summary of Amendments**

The March 6, 2017, amendments added a coauthor, modified the earned income and phaseout amounts, revised the indexing provision, and made other technical changes. As a result, the amendments resolved the technical considerations discussed in the department's analysis of the bill as introduced January 26, 2017.

Except for the "Effective/Operative Date," "This Bill," "Economic Impact," and "Technical Considerations" sections, the department's analysis of the bill as introduced on January 4, 2017, still applies. The "Fiscal Impact" section has been restated below for convenience.

EFFECTIVE/OPERATIVE DATE

This bill would be effective January 1, 2018, and specifically operative for taxable years beginning on or after January 1, 2017. This bill would retain the existing cap and indexing for investment income.

THIS BILL

For taxable years beginning on or after January 1, 2017, this bill would, under the PITL, modify the California EITC by replacing the earned income amount and phaseout amount table with separate tables for each of the six taxable years 2017 through 2022, thereby increasing the maximum adjusted gross income (AGI) phaseout amounts.

For an eligible individual with two or more qualifying children, the maximum AGI phaseout amount would approximate the full-time minimum wage based on the scheduled annual increase in the minimum wage from January 1, 2017, to January 1, 2022.¹ Corresponding increases would be made to the maximum AGI phaseout amounts for eligible individuals with “No qualifying children” and “One qualifying child.”

For taxable years 2017 through 2022, under the terms of this bill, the California EITC would be available to households with AGI of less than:

In the case of an eligible individual with	Tax Year 2017	Tax Year 2018	Tax Year 2019	Tax Year 2020	Tax Year 2021	Tax Year 2022
No qualifying children	\$10,362 ²	\$10,854	\$11,842	\$12,828	\$13,814	\$14,802
1 qualifying child	\$15,558 ³	\$16,298	\$17,780	\$19,262	\$20,744	\$22,224
2 or more qualifying children	\$21,840 ⁴	\$22,880	\$24,960	\$27,040	\$29,120	\$31,200

This bill would also:

- Require that the earned income and phaseout amounts be adjusted annually for inflation for taxable years beginning on or after January 1, 2023.⁵
- Retain the existing cap on investment income and the existing requirement that the investment income amount be adjusted annually for inflation for taxable years beginning on or after January 1, 2016.

¹ Fact Sheet: *Boosting California’s Minimum Wage to \$15/Hr.* (Column 1)
https://www.gov.ca.gov/docs/Fact_Sheet_Boosting_Californias_Minimum_Wage.pdf

² The California EITC would phaseout between AGI of \$5,181 and \$10,362.

³ The California EITC would phaseout between AGI of \$7,779 and \$15,558.

⁴ The California EITC would phaseout between AGI of \$10,920 and \$21,840, which is the approximate full-time, minimum wage as of January 1, 2017 (\$10.50 per hour at 40 hours per week).

⁵ For taxable years beginning on or after January 1, 2023, the inflation adjustment would be applied to the earned income and phaseout amounts as of 2022.

FISCAL IMPACT

The department's costs to implement this bill have yet to be determined. As the bill moves through the legislative process, costs will be identified and an appropriation will be requested, if necessary.

ECONOMIC IMPACT

Revenue Estimate

This bill would result in the following revenue loss:

Estimated Revenue Impact of AB 225 As Amended March 6, 2017 Assumed Enactment After June 30, 2017 (\$ in Millions)		
2017-18	2018-19	2019-20
- \$400	- \$440	- \$500

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

Revenue Discussion:

Utilizing 2014 taxable year data from California returns, taxpayer California EITC eligibility and amounts are calculated based on filing status, income, and number of dependents claimed. The estimate of California EITC is based on current law parameters for phase-ins, phaseouts, earned income, investment income, and federal AGI which were adjusted back to 2014 for changes in the California Consumer Price Index (CCPI) and is then compared to proposed law results which includes the expansion of California EITC income and phaseout parameters beginning in 2017 as specified in this bill. The 2017 parameters were adjusted back to 2014 for changes in CCPI.

The difference in the two calculations is the net impact of the California EITC income and phaseout expansion. Results were then adjusted to reflect changes in the economy over time, including the growth in minimum wage rates after 2017. The 2017 revenue loss from the expansion of the California EITC is estimated to be \$400 million.

The tax year estimates are converted to fiscal year estimates, and then rounded and reflected in the above table.

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